

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2014

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

Commission File No.	Exact Name of Registrants as Specified in their Charters, Address and Telephone Number	State of Incorporation	I.R.S. Employer Identification Nos.
1-14201	SEMPRA ENERGY 101 Ash Street San Diego, California 92101 (619)696-2000	California	33-0732627
1-03779	SAN DIEGO GAS & ELECTRIC COMPANY 8326 Century Park Court San Diego, California 92123 (619)696-2000	California	95-1184800
1-01402	SOUTHERN CALIFORNIA GAS COMPANY 555 West Fifth Street Los Angeles, California 90013 (213)244-1200	California	95-1240705

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

Title of Each Class	Name of Each Exchange on Which Registered
Sempra Energy Common Stock, without par value	NYSE

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

Southern California Gas Company Preferred Stock, \$25 par value
6% Series A, 6% Series

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

Sempra Energy	Yes	<input checked="" type="checkbox"/>	No	<input type="checkbox"/>
San Diego Gas & Electric Company	Yes	<input type="checkbox"/>	No	<input checked="" type="checkbox"/>
Southern California Gas Company	Yes	<input type="checkbox"/>	No	<input checked="" type="checkbox"/>

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

Sempra Energy	Yes	<input type="checkbox"/>	No	<input checked="" type="checkbox"/>
San Diego Gas & Electric Company	Yes	<input type="checkbox"/>	No	<input checked="" type="checkbox"/>
Southern California Gas Company	Yes	<input type="checkbox"/>	No	<input checked="" type="checkbox"/>

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

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

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

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

INFORMATION REGARDING FORWARD-LOOKING STATEMENTS

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

not guarantees of performance. These forward-looking statements represent our estimates and assumptions only as of the filing date of this report. We assume no obligation to update or revise any forward-looking statement as a result of new information, future events or other factors.

In this report, when we use words such as “believes,” “expects,” “anticipates,” “plans,” “estimates,” “projects,” “forecasts,” “contemplates,” “intends,” “depends,” “should,” “could,” “would,” “will,” “confident,” “may,” “potential,” “target,” “pursue,” “goals,” “outlook,” “maintain,” or similar expressions, or when we discuss our guidance, strategy, plans, goals, opportunities, projections, initiatives, objectives or intentions, we are making forward-looking statements.

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

- § local, regional, national and international economic, competitive, political, legislative and regulatory conditions and developments;
- § actions and the timing of actions, including issuances of permits to construct and licenses for operation, by the California Public Utilities Commission, California State Legislature, U.S. Department of Energy, Federal Energy Regulatory Commission, Nuclear Regulatory Commission, Atomic Safety and Licensing Board, California Energy Commission, U.S. Environmental Protection Agency, California Air Resources Board, and other regulatory, governmental and environmental bodies in the United States and other countries in which we operate;
- § the timing and success of business development efforts and construction, maintenance and capital projects, including risks in obtaining, maintaining or extending permits, licenses, certificates and other authorizations on a timely basis and risks in obtaining adequate and competitive financing for such projects;
- § energy markets, including the timing and extent of changes and volatility in commodity prices, and the impact of any protracted reduction in oil prices from historical averages;
- § the impact on the value of our natural gas storage assets from low natural gas prices, low volatility of natural gas prices and the inability to procure favorable long-term contracts for natural gas storage services;
- § delays in the timing of costs incurred and the timing of the regulatory agency authorization to recover such costs in rates from customers;
- § capital markets conditions, including the availability of credit and the liquidity of our investments;
- § inflation, interest and currency exchange rates;
- § the impact of benchmark interest rates, generally Moody’s A-rated utility bond yields, on our California Utilities’ cost of capital;
- § the availability of electric power, natural gas and liquefied natural gas, and natural gas pipeline and storage capacity, including disruptions caused by failures in the North American transmission grid, pipeline explosions and equipment failures and the decommissioning of San Onofre Nuclear Generating Station (SONGS);
- § cybersecurity threats to the energy grid, natural gas storage and pipeline infrastructure, the information and systems used to operate our businesses and the confidentiality of our proprietary information and the personal information of our customers, terrorist attacks that threaten system operations and critical infrastructure, and wars;
- § the ability to win competitively bid infrastructure projects against a number of strong competitors willing to aggressively bid for these projects;
- § weather conditions, conservation efforts, natural disasters, catastrophic accidents, and other events that may disrupt our operations, damage our facilities and systems, and subject us to third-party liability for property damage or personal injuries;
- § risks that our partners or counterparties will be unable or unwilling to fulfill their contractual commitments;
- § risks posed by decisions and actions of third parties who control the operations of investments in which we do not have a controlling interest;
- § risks inherent with nuclear power facilities and radioactive materials storage, including the catastrophic release of such materials, the disallowance of the recovery of the investment in, or operating costs of, the nuclear facility due to an extended outage and facility closure, and increased regulatory oversight;
- § business, regulatory, environmental and legal decisions and requirements;
- § expropriation of assets by foreign governments and title and other property disputes;
- § the impact on reliability of San Diego Gas & Electric Company’s (SDG&E) electric transmission and distribution system due to increased amount and variability of power supply from renewable energy sources;
- § the impact on competitive customer rates of the growth in distributed and local power generation and the corresponding decrease in demand for power delivered through SDG&E’s electric transmission and distribution system;
- § the inability or determination not to enter into long-term supply and sales agreements or long-term firm capacity agreements due to insufficient market interest, unattractive pricing or other factors;
- § the resolution of litigation; and
- § other uncertainties, all of which are difficult to predict and many of which are beyond our control.

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

PART I

ITEM 1. BUSINESS

DESCRIPTION OF BUSINESS

We provide a description of Sempra Energy and its subsidiaries in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and additional information by reporting segment in Note 16 of the Notes to Consolidated Financial Statements, both in the 2014 Annual Report to Shareholders (Annual Report), which is attached as Exhibit 13.1 to this report and is incorporated herein by reference.

This report includes information for the following separate registrants:

- § Sempra Energy and its consolidated entities
- § San Diego Gas & Electric Company (SDG&E)
- § Southern California Gas Company (SoCalGas)

References in this report to “we,” “our,” “us,” “our company” and “Sempra Energy Consolidated” are to Sempra Energy and its consolidated entities, collectively, unless otherwise indicated by the context. SDG&E and SoCalGas are collectively referred to as the California Utilities. They are subsidiaries of Sempra Energy, and Sempra Energy indirectly owns all of the capital stock of SDG&E and all of the common stock and substantially all of the voting stock of SoCalGas.

Sempra Energy’s principal operating units are

- § SDG&E and SoCalGas, which are separate, reportable segments;
- § Sempra International, which includes our Sempra South American Utilities and Sempra Mexico reportable segments; and
- § Sempra U.S. Gas & Power, which includes our Sempra Renewables and Sempra Natural Gas reportable segments.

All references to “Sempra International,” “Sempra U.S. Gas & Power” and their respective reportable segments are not intended to refer to any legal entity with the same or similar name. Sempra International and Sempra U.S. Gas & Power also own utilities which are not included in our references to the California Utilities. We provide financial information about all of our reportable segments and about the geographic areas in which we do business in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and Note 16 of the Notes to Consolidated Financial Statements in the Annual Report.

COMPANY WEBSITES

Company website addresses are

Sempra Energy – <http://www.sempra.com>

SDG&E – <http://www.sdge.com>

SoCalGas – <http://www.socalgas.com>

We make available free of charge on our website our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and any amendments to those reports as soon as reasonably practicable after such material is electronically filed with or furnished to the Securities and Exchange Commission (SEC). The charters of the audit, compensation and corporate governance committees of Sempra Energy’s board of directors (the board), the board’s corporate governance guidelines, and Sempra Energy’s code of business conduct and ethics for directors and officers are posted on Sempra Energy’s website.

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

Printed copies of all of these materials may be obtained by writing to our Corporate Secretary at Sempra Energy, 101 Ash Street, San Diego, CA 92101-3017. Beginning July 2015, our Corporate Secretary can be reached at Sempra Energy, 488 8th Avenue, San Diego, CA 92101-3017.

The SEC also maintains a website that contains reports, proxy and information statements and other information we file with the SEC at www.sec.gov. Copies of these reports, proxy and information statements and other information may also be obtained, after paying a duplicating fee, by electronic request at certified@sec.gov, or by writing the SEC’s Public Reference Room, 100 F Street, N.E., Washington, D.C. 20549. Information on the operation of the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330.

The information on the websites of Sempra Energy, SDG&E and SoCalGas is not part of this report or any other report that we file with or furnish to the SEC, and is not incorporated herein by reference.

GOVERNMENT REGULATION

California State Utility Regulation

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

The California Public Utilities Commission:

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

The CPUC also oversees and regulates new products and services, including solar and wind energy, bioenergy and other forms of renewable energy. In addition, the CPUC's safety and enforcement role includes inspections, investigations and penalty and citation processes for safety violations.

We provide further discussion in Notes 13 and 14 of the Notes to Consolidated Financial Statements in the Annual Report.

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

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

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

In 2010, the State of California required certain California electric retail sellers, including SDG&E, to deliver 20 percent of their retail energy sales from renewable energy sources. The rules governing this requirement, administered by both the CPUC and the CEC, are generally known as the Renewables Portfolio Standard (RPS) Program. In December 2011, California Senate Bill 2(1X) (33% RPS Program) went into effect, superseding the previous RPS program. The 33% RPS Program requires each electric utility within the state of California to procure 33 percent of its annual electric energy requirements from renewable energy sources by 2020, with an average 20 percent required over the three-year period January 1, 2011 through December 31, 2013; 25 percent by December 31, 2016; and 33 percent by December 31, 2020. We discuss this requirement as it applies to SDG&E in Note 14 of the Notes to Consolidated Financial Statements in the Annual Report.

Certification of a generation project by the CEC as an Eligible Renewable Energy Resource (ERR) allows the purchase of output from such generation facility to be counted towards fulfillment of the RPS Program requirements, if such purchase meets the provisions of California Senate Bill 2(1X). This may affect the demand for output from renewables projects developed by Sempra Renewables and Sempra Mexico, particularly from California utilities. Sempra Renewables' Copper Mountain Solar 1 facility in Nevada is certified as an ERR. Sempra Renewables has 50-percent interests in both the Copper Mountain Solar 2 and Mesquite Solar 1 facilities, both of which have ERR certification. Sempra Renewables has received pre-certification of the Copper Mountain Solar 3 facility and is submitting applications for ERR certification of each phase as it begins operations. In May 2014, Sempra Renewables acquired a 50-percent ownership interest in four, fully operating solar facilities in California, or the California solar partnership. These facilities have ERR certification. We plan to obtain ERR certification for all of our renewable facilities operating in and/or providing power to California as they become operational.

California Assembly Bill (AB) 32, the California Global Warming Solutions Act of 2006, assigns responsibility to CARB for monitoring and establishing policies for reducing greenhouse gas (GHG) emissions. The bill requires CARB to develop and adopt a comprehensive plan for achieving real, quantifiable and cost-effective GHG emission reductions, including a statewide GHG emissions cap, mandatory reporting rules, and regulatory and market mechanisms to achieve reductions of GHG emissions. CARB is a department within the California Environmental Protection Agency, an organization that reports directly to the Governor's Office in the Executive Branch of California State Government. Sempra Natural Gas and Sempra Mexico are also subject to the rules and regulations of CARB. We provide further discussion in Note 1 of the Notes to Consolidated Financial Statements in the Annual Report.

United States Utility Regulation

The California Utilities are also regulated by the Federal Energy Regulatory Commission (FERC), the Nuclear Regulatory Commission (NRC) and the U.S. Department of Transportation (DOT).

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

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

The NRC oversees the licensing, construction, operation and decommissioning of nuclear facilities in the United States, including the San Onofre Nuclear Generating Station (SONGS), in which SDG&E owns a 20-percent interest. NRC regulations require extensive review of the safety, radiological and environmental aspects of these facilities. The majority owner of SONGS, Southern California Edison Company (Edison), made a decision to permanently retire the facility in June 2013. We provide further discussion of current SONGS matters involving the NRC and the closure of the facility in Note 13 of the Notes to Consolidated Financial Statements in the Annual Report.

The DOT has established regulations regarding engineering standards and operating procedures applicable for the California Utilities' natural gas transmission and distribution pipelines. The DOT has certified the CPUC to administer oversight and compliance with these regulations for the entities they regulate in California.

State and Local Regulation Within the U.S.

SoCalGas has natural gas franchises with the 12 counties and the 223 cities in its service territory. These franchises allow SoCalGas to locate, operate and maintain facilities for the transmission and distribution of natural gas. Most of the franchises have indefinite lives with no expiration date. Some franchises have fixed expiration dates, ranging from 2015 to 2062.

SDG&E has

§ electric franchises with the three counties and the 27 cities in or adjoining its electric service territory; and

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

These franchises allow SDG&E to locate, operate and maintain facilities for the transmission and distribution of electricity and/or natural gas. Most of the franchises have indefinite lives with no expiration dates. Some natural gas and some electric franchises have fixed expiration dates that range from 2015 to 2037.

Sempra Renewables has operations, investments or development projects in Arizona, California, Colorado, Hawaii, Indiana, Kansas, Nebraska, Nevada and Pennsylvania. Sempra Natural Gas develops and operates natural gas storage and related pipeline facilities in Alabama, Louisiana and Mississippi, operates its Mesquite Power natural gas generation facility in Arizona and has marketing operations in California.

Sempra Natural Gas operates Mobile Gas Service Corporation (Mobile Gas), a natural gas distribution utility serving southwest Alabama that is regulated by the Alabama Public Service Commission. Mobile Gas has franchise agreements with the two counties and ten cities in its service territory, with fixed expiration dates ranging from 2015 to 2044, which allow it to locate, operate and maintain facilities for the transmission and distribution of natural gas. Sempra Natural Gas also operates Willmut Gas Company (Willmut Gas), a natural gas distribution utility serving Hattiesburg, Mississippi and regulated by the Mississippi Public Service Commission. These entities are subject to state and local laws, and to regulations in the states in which they operate.

Other U.S. Regulation

In the United States, the FERC, with ratemaking authority over sales of wholesale power and the transportation and storage of natural gas in interstate commerce, and siting and permitting authority for liquefied natural gas (LNG) terminals, regulates Sempra Renewables' and Sempra Natural Gas' operations. Sempra Renewables and Sempra Natural Gas operate under the jurisdiction of the North American Electric Reliability Corporation, which is subject to oversight by the FERC. Sempra Natural Gas also owns an interest in the Rockies Express pipeline (REX), a natural gas pipeline that operates in eight states in the United States and is subject to regulation by the FERC. Sempra Natural Gas also has an investment in Cameron LNG Holdings, LLC (Cameron LNG Holdings), located in Louisiana, that is subject to regulations of the U.S. Department of Energy (DOE) regarding the export of LNG. We discuss Sempra Natural Gas' investments further in Note 4 of the Notes to Consolidated Financial Statements in the Annual Report.

The FERC may regulate rates and terms of service based on a cost-of-service approach or, in geographic and product markets determined by the FERC to be sufficiently competitive, rates may be market-based. FERC-regulated rates at the following businesses are

§ Sempra Renewables and Sempra Natural Gas: market-based for wholesale electricity sales

§ Sempra Natural Gas: cost-based and market-based for the transportation and storage of natural gas, respectively

§ Sempra Natural Gas: market-based for the receipt, storage, and vaporization of LNG and liquefaction of natural gas (at the Cameron LNG Holdings joint venture) and the purchase and sale of LNG and natural gas

The California Utilities and Sempra Natural Gas are subject to regulation by the U.S. Commodity Futures Trading Commission. Sempra Natural Gas is also subject to DOT rules and regulations regarding pipeline safety.

Foreign Regulation

Our Sempra Mexico segment owns and operates the following in Mexico:

- § a natural gas-fired power plant and a 50-percent interest in a wind generation facility in Baja California, Mexico
- § natural gas distribution systems in Mexicali, Chihuahua, and the La Laguna-Durango zone in north-central Mexico
- § natural gas pipelines between the U.S. border and Baja California, Mexico and Sonora, Mexico. Sempra Mexico also owns a 50-percent interest in a joint venture with PEMEX (Petróleos Mexicanos, the Mexican state-owned oil company) that operates several natural gas pipelines and propane systems in Mexico
- § the Energía Costa Azul LNG regasification terminal located in Baja California, Mexico

These operations are subject to regulation by the Energy Regulatory Commission (Comisión Reguladora de Energía, or CRE) and by the labor and environmental agencies of city, state and federal governments in Mexico.

Sempra Mexico's operations in Mexico are contained in the Sempra Energy subsidiary Infraestructura Energética Nova, S.A.B. de C.V. (IEnova). In the first quarter of 2013, IEnova completed a private offering in the U.S. and outside of Mexico and concurrent public offering in Mexico of common stock. The issuance of shares was approved and is subject to regulation by the Mexican National Banking and Securities Commission (Comisión Nacional Bancaria y de Valores, or CNBV) for registration of the shares with the Mexican National Securities Registry (Registro Nacional de Valores, or RNV) maintained by the CNBV. IEnova's shares are traded on the Mexican Stock Exchange (La Bolsa Mexicana de Valores, S.A.B. de C.V., or BMV) under the symbol "IENOVA."

Sempra South American Utilities has two utilities in South America that are subject to laws and regulations in the localities and countries in which they operate. Chilquinta Energía S.A. (including its subsidiaries, Chilquinta Energía) is an electric distribution utility serving customers in the cities of Valparaíso and Viña del Mar in central Chile. Luz del Sur S.A.A. (including its subsidiaries, Luz del Sur) is an electric distribution utility in the southern zone of metropolitan Lima, Peru. These utilities serve primarily regulated customers, and their revenues are based on tariffs that are set by the National Energy Commission (Comisión Nacional de Energía, or CNE) in Chile and the Energy and Mining Investment Supervisory Body (Organismo Supervisor de la Inversión en Energía y Minería, or OSINERGMIN) of the National Electricity Office under the Ministry of Energy and Mines in Peru.

Licenses and Permits

The California Utilities obtain numerous permits, authorizations and licenses in connection with the transmission and distribution of natural gas and electricity and the operation and construction of related assets, some of which may require periodic renewal.

Sempra Mexico and Sempra South American Utilities obtain numerous permits, authorizations and licenses for their electric and natural gas distribution and transmission systems from the local governments where the service is provided. The concession to operate from the Ministerio de Energía for both Chilquinta Energía's and Luz del Sur's distribution operations is for an indefinite term, not requiring renewal.

Sempra Mexico and Sempra Natural Gas obtain licenses and permits for the operation and expansion of LNG facilities, and the import and export of LNG and natural gas.

Sempra Renewables obtains a number of permits, authorizations and licenses in connection with the construction and operation of power generation facilities, and in connection with the wholesale distribution of electricity.

Sempra Natural Gas obtains a number of permits, authorizations and licenses in connection with the construction and operation of power generation facilities and natural gas storage facilities and pipelines, and in connection with the wholesale distribution of electricity.

Most of the permits and licenses associated with construction and operations within the Sempra Renewables and Sempra Natural Gas businesses are for periods generally in alignment with the construction cycle or life of the asset and in many cases greater than 20 years.

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

CALIFORNIA NATURAL GAS UTILITY OPERATIONS

SoCalGas and SDG&E sell, distribute and transport natural gas. SoCalGas purchases and stores natural gas for its core customers and SDG&E's core customers on a combined portfolio basis and provides natural gas storage services for others. We discuss the California Utilities' resource planning, natural gas procurement, contractual commitments, and related regulatory matters below. We also provide further discussion in "Management's Discussion and Analysis of Financial Condition and Results of Operations," and in Note 14 of the Notes to Consolidated Financial Statements in the Annual Report.

Customers

At December 31, 2014, SoCalGas had approximately 5.9 million customer meters consisting of approximately:

- § 5,594,100 residential
- § 246,800 commercial
- § 27,000 industrial
- § 50 electric generation and wholesale

At December 31, 2014, SDG&E had approximately 868,000 natural gas customer meters consisting of approximately:

- § 826,000 residential

§ 28,600 commercial

§ 12,900 electric generation and transportation

For regulatory purposes, end-use customers are classified as either core or noncore customers. Core customers are primarily residential and small commercial and industrial customers. Noncore customers at SoCalGas consist primarily of electric generation, wholesale, large commercial and industrial, and enhanced oil recovery customers. SoCalGas' wholesale customers are primarily other investor-owned utilities (IOUs), including SDG&E, or municipally owned natural gas distribution systems. Noncore customers at SDG&E consist primarily of electric generation and large commercial and industrial customers.

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

In 2014, SoCalGas added approximately 26,000 new connected natural gas customer meters and in 2013, it added approximately 23,000 new connected meters, representing an annual growth rate of 0.4 percent in both years. SDG&E's connected natural gas customer meters increased by approximately 3,000 in 2014, representing an annual growth rate of 0.4 percent; in 2013, it added nearly 5,000 new connected meters, representing an annual growth rate of 0.6 percent. Based on forecasts of new housing starts, SoCalGas and SDG&E each expect that their new meter annual growth rates in 2015 will be slightly higher than those achieved in 2014.

Natural Gas Procurement and Transportation

SoCalGas purchases natural gas under short-term and long-term contracts for the California Utilities' core customers. SoCalGas purchases natural gas from Canada, the U.S. Rockies and the southwestern U.S. to meet its and SDG&E's core customer requirements and maintain supply reliability. It also purchases some California natural gas production and additional supplies delivered directly to California for its remaining requirements. Purchases of natural gas are primarily priced based on published monthly bid-week indices.

To ensure the delivery of the natural gas supplies to its distribution system and to meet the seasonal and annual needs of customers, SoCalGas has entered into firm interstate pipeline capacity contracts that require the payment of fixed reservation charges to reserve firm transportation rights. These contracts expire on various dates between 2015 and 2028. Pipeline companies, primarily El Paso Natural Gas Company, Transwestern Pipeline Company, Pacific Gas and Electric Company (PG&E), and Kern River Gas Transmission Company, provide transportation services into SoCalGas' intrastate transmission system for supplies purchased by SoCalGas or its transportation customers from outside of California. The FERC regulates the rates that interstate pipeline companies may charge for natural gas and transportation services.

Natural Gas Storage

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

Demand for Natural Gas

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

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

Natural gas demand for electric generation within Southern California competes with electric power generated throughout the western United States. Natural gas transported for electric generating plant customers may be affected by the growth in renewable generation, the addition of more efficient gas technologies and the extent that regulatory changes and electric transmission infrastructure investment divert electric generation from the California Utilities' respective service areas. The demand may also fluctuate due to volatility in the demand for electricity and the availability of competing supplies of electricity such as hydroelectric generation and other renewable energy sources. We provide additional information regarding the electric industry in Note 14 of the Notes to Consolidated Financial Statements in the Annual Report.

The natural gas distribution business is seasonal, and cash provided from operating activities generally is greater during and immediately following the winter heating months. As is prevalent in the industry, SoCalGas injects natural gas into storage during the summer months (usually April through October), which reduces cash provided from operating activities during this period, for withdrawal from storage during the winter months (usually November through March), which increases cash provided from operating activities, when customer demand is higher.

ELECTRIC UTILITY OPERATIONS

SDG&E

Customers

SDG&E's service area covers 4,100 square miles. At December 31, 2014, SDG&E had 1.4 million electric customer meters consisting of approximately:

- § 1,259,800 residential
- § 149,000 commercial
- § 500 industrial
- § 2,100 street and highway lighting
- § 5,200 direct access

SDG&E's active electric customer meters increased by approximately 8,000 and 7,000 in 2014 and 2013, respectively, representing annual growth rates of 0.6 percent and 0.5 percent, respectively. Based on forecasting of new housing starts, SDG&E expects that its new meter annual growth rate in 2015 will be slightly higher than the growth in 2014.

Resource Planning and Power Procurement

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

Electric Resources

The supply of electric power available to SDG&E for resale is based on CPUC-approved purchased-power contracts currently in place with its various suppliers, its wholly owned generating facilities, and purchases on a spot basis. This supply as of December 31, 2014 is as follows:

SDG&E ELECTRIC RESOURCES

Resource	Number of contracts	Expiration date	Megawatts
PURCHASED-POWER CONTRACTS:			
Contracts with Qualifying Facilities (QFs)(1):			
Cogeneration	4	2015 and thereafter	246
Other contracts with renewable sources:			
Wind	11	2018 - 2033	1,067
Solar PV	14	2033 - 2039	891
Bio-gas/Hydro	16	2015 and thereafter	39
Biomass	2	2017, 2025	60
Total			2,057
Other long-term and tolling contracts(2):			
Natural gas	4	2019 - 2039	800
Hydro/Pump storage	1	2037	40
Demand response/Distributed generation	1	2016	25
Total			865
Total contracted			3,168
OWNED GENERATION, NATURAL GAS:			
Palomar Energy Center			566
Miramar Energy Center			96
Desert Star Energy Center			485
Cuyamaca Peak Energy Plant			47
Total generation			1,194
TOTAL CONTRACTED AND OWNED GENERATION			4,362

(1) A QF is a generating facility which meets the requirements for QF status under the Public Utility Regulatory Policies Act of 1978. It includes cogeneration facilities, which produce electricity and another form of useful thermal energy (such as heat or steam) used for industrial, commercial, residential or institutional purposes.

(2) Tolling contracts are purchased-power agreements under which SDG&E provides the fuel for generation to the energy supplier.

Charges under most of the contracts with QFs are based on SDG&E's avoided cost. Charges under the remaining contracts are for firm and as-generated energy, and are based on the amount of energy received or are tolls based on available capacity. The prices under these contracts are based on the market value at the time the contracts were negotiated.

Natural Gas Supply

SDG&E buys natural gas under short-term contracts for its Palomar, Miramar, Desert Star and Cuyamaca Peak generating facilities and for the Otay Mesa Energy Center LLC, Orange Grove Energy L.P., El Cajon Energy, LLC and Escondido Energy Center, LLC tolling contracts. Purchases are from various southwestern U.S. suppliers and are primarily priced based on published monthly bid-week indices. SDG&E's natural gas is typically delivered from Southern California border receipt points to the SoCal CityGate pool via backbone transmission system rights which expire on September 30, 2017. The natural gas is then delivered to the generating facilities through SoCalGas' and SDG&E's pipeline systems in accordance with a transportation agreement that expires on May 31, 2015. SDG&E has also contracted with SoCalGas for natural gas storage through March 31, 2015.

Power Pool

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

Transmission Arrangements

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

SDG&E's Sunrise Powerlink is a 500-kV transmission line constructed and operated by SDG&E with import capability of 1,000 MW of power. It provides transmission capability into SDG&E's service territory for renewable energy generated at various renewable energy generation facilities located in the Imperial Valley region of Southern California. This transmission line was placed in service in June 2012. We provide further discussion of Sunrise Powerlink in Note 15 of the Notes to Consolidated Financial Statements in the Annual Report.

Mexico's Baja California system is connected to SDG&E's system via two 230-kV interconnections with combined capacity up to 408 MW in the north-to-south direction and 800 MW in the south-to-north direction, although it can be less under certain system conditions.

Edison's transmission is connected to SDG&E's system at SONGS via five 230-kV transmission lines with a total firm capacity up to 2,500 MW into SDG&E's system, although it can be less under certain system conditions.

Transmission Access

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

Chilquinta Energía

Customers

Chilquinta Energía is an electric distribution utility with approximately 657,000 customer meters in the cities of Valparaiso and Viña del Mar in central Chile, with a main service area covering 4,400 square miles. At December 31, 2014, its customer meters consisted of approximately:

- § 606,500 residential
- § 37,800 commercial
- § 1,400 industrial
- § 6,300 street and highway lighting
- § 5,000 agricultural

In Chile, customers are classified as regulated and non-regulated customers based on installed capacity. Regulated customers are those whose installed capacity is less than 500 kilowatts (kW). Non-regulated customers are those whose installed capacity is greater than 2,000 kW. Customers with installed capacity between 500 kW and 2,000 kW may choose to be classified as regulated or non-regulated. Non-regulated customers can buy power from other sources, such as directly from the generator.

In 2014, Chilquinta Energía added approximately 17,000 new customer meters at a growth rate of 2.7 percent. Chilquinta Energía's electric energy sales increased by approximately 88,000 megawatt hours (MWh) and 158,000 MWh in 2014 and 2013, respectively, representing an annual growth rate of 3 percent in 2014 and 6 percent in 2013.

Electric Resources

The supply of electric power available to Chilquinta Energía comes from power purchase contracts currently in place with its various suppliers and its suppliers' generating facilities. This supply as of December 31, 2014 is as follows:

CHILQUINTA ENERGÍA ELECTRIC RESOURCES

Resource	Number of contracts	Expiration date	Megawatts
PURCHASED-POWER CONTRACTS(1)(2):			
Thermal/Hydro/Wind	16	2020 to 2027	484

SMALL GENERATION PLANTS:

TOTAL

495

(1) Contracts with fuel sources that include natural gas, coal or diesel are collectively referred to as thermal.

(2) In 2014, energy contracts in the Central Interconnected System, where Chilquinta Energía operates, were supplied from 52 percent thermal, 45 percent hydro and 3 percent wind sources.

Power Generation System

The Centers for Economic Load Dispatch (Centros de Despacho Económico de Carga, or CDEC) are private organizations in charge of coordinating the operation of the electricity system. Each interconnected system is subject to its own CDEC; there is a CDEC-SIC (Sistema Interconectado Central, Central Interconnected System) and CDEC-SING (Sistema Interconectado del Norte Grande, Northern Interconnected System) for the central and the northern interconnected system, respectively. Chilquinta Energía operates within CDEC-SIC.

Transmission System and Access

Transmission lines in Chile are either part of its main transmission system (sistema de transmisión troncal) or its sub-transmission system (sistema de subtransmisión). In Chile, main transmission lines must be greater than or equal to 220 kV. Chilquinta Energía primarily uses Transelec, a third party, for its main transmission. In general, sub-transmission systems operate at voltage levels greater than 23 kV and lower than or equal to 220 kV. Sub-transmission systems, including those owned by Chilquinta Energía, are comprised of infrastructure that is interconnected to the electricity system to supply non-regulated or regulated end-users located in the distribution service area.

Luz del Sur

Customers

Luz del Sur is an electric distribution utility with approximately 1,029,000 customer meters in the southern zone of metropolitan Lima, Peru, with a main service area covering approximately 1,160 square miles. At December 31, 2014, its customer meters consisted of approximately:

§ 962,800 residential

§ 56,000 commercial

§ 3,900 industrial

§ 5,000 street and highway lighting

§ 1,300 agricultural

In Peru, customers are classified as regulated and non-regulated customers based on capacity demand. Regulated customers are those whose capacity demand is less than 200 kW and their energy supply is considered public service. Non-regulated customers are those whose capacity demand is greater than 2,500 kW. Customers with capacity demand between 200 kW and 2,500 kW may choose to be classified as regulated or non-regulated.

In 2014, Luz del Sur added approximately 33,000 new customer meters at a growth rate of 3.3 percent. Luz del Sur's electric energy sales increased by approximately 303,000 MWh and 316,000 MWh in 2014 and 2013, respectively, representing an annual growth rate of 4 percent in 2014 and 5 percent in 2013.

Electric Resources

The supply of electric power available to Luz del Sur comes from power purchase contracts currently in place with various suppliers, as well as purchases made on an as-needed basis. This supply as of December 31, 2014 is as follows:

LUZ DEL SUR ELECTRIC RESOURCES

Resource	Number of contracts	Expiration date	Megawatts
PURCHASED-POWER CONTRACTS(1):			
Bilateral contracts:			
Hydro	1	2015	25
Auction contracts:			
Hydro	6	2015-2021	264
Thermal	5	2021-2023	674
Hydro/Thermal	3	2021-2023	510
Total			1,448
TOTAL CONTRACTED			1,473

(1) Contracts with fuel sources that include natural gas, coal or diesel are collectively referred to as thermal.

Power Generation System

The Sistema Eléctrico Interconectado Nacional (SEIN) is the Peruvian national interconnected system. Peru also has several isolated regional and smaller systems that provide electricity to specific areas. The OSINERGMIN is an autonomous public regulatory entity that controls and enforces compliance with

legal and technical regulations related to electric activities, sets tariffs and supervises the bidding processes required by distribution companies to purchase energy from generators.

The Committee of Economic Operation of the National Interconnected System (Comité de Operación Económica del Sistema Interconectado Nacional, or COES) coordinates the operation and dispatch of electricity of the SEIN, and manages the short-term market. The COES oversees generation, transmission and distribution companies, as well unregulated customers with a demand higher than 200 kW.

Luz del Sur is in the final stages of construction of Santa Teresa, a 100-MW hydroelectric power plant in Peru's Cusco region. It is scheduled to be completed in the first half of 2015.

Transmission System and Access

Transmission lines in Peru are divided into principal and secondary systems. The principal system lines are accessible by all generators and allow the flow of energy through the national grid. The secondary system lines connect principal transmission with the network of distribution companies or connect directly to certain final customers. The transmission company receives tariff revenues and collects tolls based on a charge per unit of electricity.

Luz del Sur has received regulatory approval for an amended transmission investment plan that includes the development and operation of four substations and their related transmission lines in Lima, Peru. We estimate that the project will be in service in 2016 and 2017 as portions are completed.

RATES AND REGULATION – UTILITIES

We provide information concerning rates and regulation applicable to our utilities in "Management's Discussion and Analysis of Financial Condition and Results of Operations" and in Notes 1, 13 and 14 of the Notes to Consolidated Financial Statements in the Annual Report.

SEMPRA INTERNATIONAL AND SEMPra U.S. GAS & POWER

Sempra International and Sempra U.S. Gas & Power contain most of our subsidiaries that are not subject to California utility regulation. In addition to the discussion of our South American utilities above, we provide descriptions of these operating units' segments and information concerning their operations in "Management's Discussion and Analysis of Financial Condition and Results of Operations" and in Notes 1, 3, 4, 15 and 16 of the Notes to Consolidated Financial Statements in the Annual Report.

Competition

Sempra Energy's non-utility businesses are among many others in the energy industry providing similar services. They are engaged in highly competitive activities that require significant capital investments and highly skilled and experienced personnel. Among these competitors there may be significant variation in financial, personnel and other resources compared to Sempra International and Sempra U.S. Gas & Power.

Generation – Renewables

Sempra Renewables primarily competes for wholesale contracts for the generation and sale of electricity through its development of and investments in wind and solar generation facilities. For sales of non-contracted renewable energy, Sempra Renewables competes with other non-utility generators, regulated utilities, unregulated subsidiaries of regulated utilities, and other energy service companies. The number and type of competitors may vary based on location, generation type and project size. Also, regulatory initiatives designed to enhance energy consumption from renewable resources for regulated utility companies may increase competition from these types of institutions. These utilities may have a lower cost of capital than most independent renewable power producers and often are able to recover fixed costs through rate base mechanisms. This recovery allows them to build, buy and upgrade renewable generation projects without relying exclusively on market clearing prices to recover their investments. Additionally, generation from Sempra Renewables' renewable energy assets is exposed to fluctuations in naturally occurring conditions such as wind, inclement weather and hours of sunlight.

Our renewable energy competitors include, among others:

§ Exelon Energy	§ NextEra Energy Resources
§ Iberdrola Renewables	§ NRG Energy
§ MidAmerican Energy	

Because Sempra Mexico sells the power that it generates at its Energía Sierra Juárez wind project into California, it is also impacted by these competitive factors.

Natural Gas Pipelines and Storage Facilities

Within its market area, Sempra Natural Gas' and Sempra Mexico's pipelines businesses and Sempra Natural Gas' storage facilities businesses compete with other regulated and unregulated storage facilities and pipelines. They compete primarily on the basis of price (in terms of storage and transportation fees), available capacity and interconnections to downstream markets.

Sempra Natural Gas' competitors include, among others:

§ AGL Resources	§ Enterprise Products Partners
§ Boardwalk Pipeline Partners	§ Kinder Morgan
§ Cardinal Gas Storage Partners	§ Macquarie Infrastructure Partners
§ Clean Energy	§ NiSource
§ Duke Energy	§ Plains All American Pipeline
§ Enbridge	§ Spectra Energy

§ Energy Transfer Partners
§ Enstor

§ TransCanada
§ The Williams Companies

Sempra Mexico's natural gas pipeline competitors include, among others:

§ Carso Energy
§ EDF Energy
§ Elecnor
§ Enagas
§ Fermaca
§ GDF SUEZ

§ Kinder Morgan
§ Mitsui
§ PEMEX (MGI)
§ Promigas
§ TransCanada

LNG

Technological advances associated with shale gas and tight oil production have reduced the forecasted need for North American LNG import facilities and increased interest in liquefaction and export opportunities.

At current forward gas prices, U.S. Gulf Coast liquefaction appears to be among the most price competitive potential LNG supply in the world. Brownfield liquefaction is particularly price competitive, resulting from many factors, including:

- § high levels of undeveloped North American unconventional natural gas and tight oil resources relative to domestic consumption levels;
- § increasing gas and oil drilling productivity and decreasing unit costs of gas production;
- § low breakeven prices of marginal North American unconventional gas production;
- § proximity to ample existing gas transmission pipeline and underground gas storage capacity; and
- § existing LNG tankage and berths.

Global LNG competition, primarily from Canada, Russia, East Africa and Australia, may limit U.S. LNG exports, as international liquefaction projects attempt to match U.S. Gulf Coast LNG production costs and customer contractual rights such as volume and destination flexibility. Host governments for international liquefaction projects are altering fiscal and tax regimes in an effort to make projects in their jurisdictions competitive relative to U.S. projects, however sustained low oil prices may cause some of the international projects to become unfeasible due to their LNG price formulas' link to oil prices. It is expected that U.S. LNG exports will increase competition for current and future global natural gas demand, and thereby facilitate development of a global commodity market for natural gas.

On October 1, 2014, Sempra Natural Gas and its joint venture project partners completed the formation of a joint venture for their investment in the development, construction and operation of a natural gas liquefaction export facility. Our 50.2-percent retained equity in the joint venture, Cameron LNG Holdings, was derived from the contribution of our existing Cameron LNG regasification facility in Hackberry, Louisiana to the joint venture. The new liquefaction facility, which began construction in the second half of 2014, will utilize Cameron LNG's existing facilities, including two marine berths, three LNG storage tanks, and vaporization capability of 1.5 billion cubic feet (Bcf) per day. The joint venture has authorization to export LNG to both Free Trade Agreement (FTA) countries and to countries that do not have an FTA with the United States.

Cameron LNG Holdings has 20-year liquefaction and regasification tolling capacity agreements in place with GDF SUEZ S.A. and affiliates of Mitsubishi Corporation and Mitsui & Co., Ltd., that subscribe the full nameplate capacity of the facility. We discuss Cameron LNG Holdings in Notes 3 and 4 of the Notes to Consolidated Financial Statements in the Annual Report. Our joint venture partners, affiliates of GDF SUEZ S.A., Mitsubishi Corporation (through a related company jointly established with Nippon Yusen Kabushiki Kaisha (NYK)), and Mitsui & Co., Ltd., compete globally to market and sell LNG to end users, including gas and electric utilities located in LNG importing countries around the world. By providing liquefaction services, Cameron LNG Holdings will compete indirectly with liquefaction projects currently operating and those under development in the global LNG market. In addition to the U.S., these competitors are located in the Middle East, Southeast Asia, Africa, South America, Australia and Europe.

Sempra Energy is also taking steps to develop additional LNG export facilities at Sempra Natural Gas' Port Arthur, Texas, property and Sempra Mexico's Energía Costa Azul regasification facility. In addition, Cameron LNG Holdings is working on the development of two additional trains. These projects would compete against other global projects.

Our LNG liquefaction business' major domestic and international competitors will include, among others, the following companies and their related LNG affiliates:

§ BG
§ BP
§ Cheniere Energy
§ Chevron
§ ConocoPhillips
§ ExxonMobil

§ Kinder Morgan
§ Petronas
§ Qatar Petroleum
§ Royal Dutch Shell
§ Total
§ Woodside

ENVIRONMENTAL MATTERS

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

Hazardous Substances

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

At December 31, 2014, we had accrued estimated remaining investigation and remediation liabilities of \$7 million at SDG&E and \$24 million at SoCalGas, both related to hazardous waste sites for which the Hazardous Waste Collaborative mechanism applies, as described above. The accruals include costs for numerous locations, most of which had been manufactured-gas plants at SoCalGas. We believe that any costs not ultimately recovered through rates, insurance or other means will not have a material adverse effect on the consolidated results of operations, cash flows or financial condition of Sempra Energy, SDG&E or SoCalGas.

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

Air and Water Quality

The electric and natural gas industries are subject to increasingly stringent air-quality and greenhouse gas standards, such as those established by the United States Environmental Protection Agency (EPA) and the CARB. We discuss these standards in "Government Regulation – California State Utility Regulation" above. The California Utilities generally recover in rates the costs to comply with these standards.

In connection with the issuance of operating permits, SDG&E and the other owners of SONGS have an agreement with the California Coastal Commission (CCC) to mitigate environmental impacts to the marine environment attributed to the cooling-water discharge from SONGS during its operation. SONGS' early retirement, described in Note 13 of the Notes to Consolidated Financial Statements in the Annual Report, does not reduce SDG&E's mitigation obligation. SDG&E's share of the mitigation costs is estimated to be \$63 million, of which \$43 million had been incurred through December 31, 2014, and \$20 million is accrued for the remaining costs through 2050. Artificial kelp reef, fish hatchery and wetlands restoration projects are complete, but continue to be studied until the CCC accepts the projects. The remaining costs are to meet CCC acceptance requirements and maintain the projects through 2050.

EXECUTIVE OFFICERS OF THE REGISTRANTS

EXECUTIVE OFFICERS OF SEMPRA ENERGY

Name	Age(1)	Position(1)
Debra L. Reed	58	Chairman and Chief Executive Officer
Mark A. Snell	58	President
Joseph A. Householder	59	Executive Vice President and Chief Financial Officer
Martha B. Wyrsh	57	Executive Vice President and General Counsel
Trevor I. Mihalik	48	Senior Vice President, Controller and Chief Accounting Officer
G. Joyce Rowland	60	Senior Vice President, Chief Human Resources Officer and Chief Administrative Officer

(1) Ages and positions are as of February 26, 2015.

With the exception of Ms. Wyrsh and Mr. Mihalik, each executive officer has been an officer of Sempra Energy or its subsidiaries for more than the last five years. Before joining Sempra Energy in September 2013, Ms. Wyrsh served as President of Vestas American Wind Systems from 2009 to 2012. Previously, Ms. Wyrsh spent nearly ten years at Duke Energy and its spinoff, Spectra Energy Corporation. She joined Duke Energy in 1999 as Senior Vice President of Legal Affairs and Deputy Counsel and, later, was promoted to Group Vice President and General Counsel. In 2005, she moved to Duke Energy Gas Transmission as its President and Chief Executive Officer. Subsequently, she became the President and Chief Executive Officer of Spectra Energy Transmission.

Before joining Sempra Energy in July 2012, Mr. Mihalik served as Senior Vice President of Finance for the past two years and as Vice President – Controller for the prior four years, in each case at Iberdrola Renewables Holdings, Inc., a diversified renewables and natural gas company.

EXECUTIVE OFFICERS OF SDG&E AND SOCALGAS

Name	Age(1)	Position(1)
San Diego Gas & Electric Company		
J. Walker Martin	53	Chief Executive Officer
Steven D. Davis	59	President and Chief Operating Officer
James P. Avery	58	Senior Vice President – Power Supply
J. Chris Baker	55	Senior Vice President and Chief Information Technology Officer
Lee Schavrien	60	Senior Vice President – Regulatory Affairs and Operations Support
Erbin B. Keith	54	Senior Vice President and General Counsel
Robert M. Schlax	59	Vice President, Controller, Chief Financial Officer, Chief Accounting Officer and Treasurer
Southern California Gas Company		
Dennis V. Arriola	54	President and Chief Executive Officer
J. Bret Lane	55	Chief Operating Officer
J. Chris Baker	55	Senior Vice President and Chief Information Technology Officer
Lee Schavrien	60	Senior Vice President – Regulatory Affairs and Operations Support
Robert M. Schlax	59	Vice President, Controller, Chief Financial Officer, Chief Accounting Officer and Treasurer
Sharon L. Tomkins	49	Vice President and General Counsel

(1) Ages and positions are as of February 26, 2015.

With the exception of Mr. Arriola and Ms. Tomkins, each executive officer of SDG&E and SoCalGas has been an officer or employee of Sempra Energy or its subsidiaries for at least the last five years. Mr. Arriola was a Senior Vice President and the Chief Financial Officer of SDG&E and SoCalGas from September 2006 to November 2008, and held numerous management positions with Sempra Energy or its subsidiaries prior to that period. In November 2008, Mr. Arriola became a Senior Vice President and the Chief Financial Officer of SunPower Corporation. From April 2010 to March 2012, he was the Executive

Vice President and Chief Financial Officer of SunPower Corporation. In August 2012, he joined SoCalGas as President and Chief Operating Officer, and in December 2012, he also joined the SoCalGas board of directors.

Before joining SoCalGas in 2010, Ms. Tomkins was a partner of O'Melveny and Meyers LLP, where she was a founding member of its Energy, Natural Resources and Environmental practice. Ms. Tomkins joined SoCalGas in 2010 as the Regulatory Assistant General Counsel.

OTHER MATTERS

Employees of the Registrants

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

NUMBER OF EMPLOYEES	December 31,	
	2014	2013
Sempra Energy Consolidated(1)	17,046	17,122
SDG&E(1)	4,300	4,603
SoCalGas	8,324	8,196

(1) Excludes employees of variable interest entities as defined by accounting principles generally accepted in the United States of America.

Labor Relations

SoCalGas

Field, technical and most clerical employees at SoCalGas are represented by the Utility Workers Union of America or the International Chemical Workers Union Council (collectively "Union") under a single collective bargaining agreement. The provisions of the collective bargaining agreement for these employees covering wages, hours, working conditions, medical and all other benefit plans are in effect through September 30, 2015. At December 31, 2014, SoCalGas had 8,324 employees, 69 percent of whom are represented by the Union.

SDG&E

Field employees and some clerical and technical employees at SDG&E are represented by the International Brotherhood of Electrical Workers. Provisions of the collective bargaining agreement covering wages and working conditions for these employees are in effect through August 31, 2015. For these same employees, the agreement covering pension and savings plan benefits is in effect through October 1, 2015, and the agreement covering health and welfare benefits is in effect through December 31, 2015. At December 31, 2014, SDG&E had 4,300 employees, 30 percent of whom are covered by these agreements.

Sempra South American Utilities

Field, technical and administrative employees at Luz del Sur are represented by the Unified Trade Union of Electricity Workers of Lima and Callao, and the Trade Union of Employees of Electrolima. A collective bargaining agreement is under negotiation with both of these trade unions and once signed, will cover these employees and will also be extended to 149 nonrepresented employees. It will cover wages, working conditions and other benefit plans, and will be in effect from January 1, 2015 through December 31, 2015.

Field, technical and administrative employees at Chilquinta Energía are represented by Labor Union Number 1 Chilquinta Energía, Labor Union Number 2 Chilquinta Energía, Litoral Labor Union, Luzlinares Labor Union, Tecnoed Labor Union Number 1, Negotiating Group Luzparral and Negotiating Group Casablanca. The collective bargaining agreements for employees represented by these unions and negotiating groups cover wages, hours, working conditions and medical and other benefit plans and are in effect through various dates from 2015 to 2016.

Professional employees at Chilquinta Energía are represented by Group of University Graduates of Chilquinta Energía. The collective bargaining agreement for these employees covers wages, hours, working conditions and medical and other benefit plans and is in effect through July 2, 2017.

At December 31, 2014, Sempra South American Utilities had a total of 1,340 employees in Peru, of whom 24 percent are covered under a labor agreement, and 1,385 employees in Chile, of whom 37 percent are covered under labor agreements.

Sempra Mexico

At December 31, 2014, Sempra Mexico had 581 employees, 6 percent of whom are covered by various collective bargaining agreements with different labor unions. The collective bargaining agreements are subject to renegotiation on an annual basis with respect to wages, and otherwise on a bi-annual basis.

Mobile Gas

Field employees at Mobile Gas are represented by the United Steelworkers Union under a single collective bargaining agreement. The agreement for these employees covers wages, hours, working conditions and medical and other benefit plans and is in effect through November 30, 2017. At December 31, 2014, Mobile Gas had a total of 216 employees, 34 percent of whom are covered under this agreement.

ITEM 1A. RISK FACTORS

When evaluating our company and its subsidiaries, you should consider carefully the following risk factors and all other information contained in this report. These risk factors could materially adversely affect our actual results and cause such results to differ materially from those expressed in any forward-looking statements made by us or on our behalf. We may also be materially harmed by risks and uncertainties not currently known to us or that we currently deem to be immaterial. If any of the following occurs, our businesses, cash flows, results of operations, financial condition and/or prospects could be materially negatively impacted. In addition, the trading prices of our securities and those of our subsidiaries could substantially decline due to the occurrence of any of these risks. These risk factors should be read in conjunction with the other detailed information concerning our company set forth in the Annual Report, including, without limitation, the information set forth in the Notes to Consolidated Financial Statements and in “Management’s Discussion and Analysis of Financial Condition and Results of Operations.” In this section, when we state that a risk or uncertainty may, could or will have a “material adverse effect” on us or may, could or will materially adversely affect us, we mean that the risk or uncertainty may, could or will have a material adverse effect on our businesses, cash flows, results of operations, financial condition, prospects and/or the trading prices of our securities.

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

Sempra Energy’s ability to pay dividends and meet its debt obligations depends almost entirely on cash flows from its subsidiaries and, in the short term, its ability to raise capital from external sources. In the long term, cash flows from the subsidiaries depend on their ability to generate operating cash flows in excess of their own expenditures and long-term debt obligations. In addition, the subsidiaries are separate and distinct legal entities that are not obligated to pay dividends and could be precluded from making such distributions under certain circumstances, including, without limitation, as a result of legislation, regulation, court order, contractual restrictions or in times of financial distress.

A significant portion of our worldwide cash reserves are generated by, and therefore held in, foreign jurisdictions. Some jurisdictions restrict the amount of cash that can be transferred to the United States or impose taxes and penalties on such transfers of cash, which reduces the cash available to us. In addition, we may be required to pay U.S. income taxes on earnings that are not repatriated if legislation being discussed on this matter is passed. To the extent we have excess cash in foreign locations that could be used in, or is needed by, our United States operations, we may incur significant U.S. and foreign taxes and/or penalties to repatriate these funds.

Conditions in the financial markets and economic conditions generally may materially adversely affect us.

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

The credit markets and financial services industry have in the past experienced periods of extreme world-wide turmoil characterized by the bankruptcy, failure, collapse or sale of many financial institutions and by extraordinary levels of government intervention and regulation.

Limitations on the availability of credit and increases in interest rates or credit spreads may materially adversely affect our businesses, cash flows, results of operations, financial condition and/or prospects, as well as our ability to meet contractual and other commitments. In difficult credit market environments, we may find it necessary to fund our operations and capital expenditures at a higher cost or we may be unable to raise as much funding as we need to support business activities. This could cause us to reduce capital expenditures and could increase our cost of servicing debt, both of which could significantly reduce our short-term and long-term profitability.

The availability and cost of credit for our businesses may be greatly affected by credit ratings. If the credit ratings of SoCalGas or SDG&E were to be reduced, their cash flows and results of operations could be materially adversely affected, and any reduction in Sempra Energy’s credit ratings could materially adversely affect the cash flows and results of operations of Sempra Energy and its non-California regulated utility subsidiaries. If the credit ratings of Sempra Energy or any of its subsidiaries were to decline, especially below investment grade, financing costs and the principal amount of borrowings would likely increase because certain counterparties may require collateral in the form of cash, a letter of credit or other forms of security for new and existing transactions. Such amounts may be material and could adversely affect our cash flows, results of operations and financial condition.

Sempra Energy has substantial investments in Mexico and South America which expose us to foreign currency, legal, tax, economic and management oversight risk.

We have foreign operations in Mexico and South America. Our foreign operations pose complex management, foreign currency, legal, tax and economic risks, which we may not be able to fully mitigate with our actions. These risks differ from and potentially may be greater than those associated with our domestic businesses. Our international businesses are sensitive to changes in the priorities and budgets of international customers and to geo-political uncertainties, which may be driven by changes in threat environments and potentially volatile worldwide economic conditions, various regional and local economic and political factors, risks and uncertainties, as well as U.S. foreign policy. Foreign currency exchange rates and fluctuations may have an impact on our revenue, costs or cash flows from our international operations, which could materially adversely affect our financial performance. Our primary currency exposures are to the Mexican, Peruvian and Chilean currencies. Our primary objective in reducing foreign currency risk is to preserve the economic value of our foreign investments and to reduce earnings volatility that would otherwise occur due to exchange rate fluctuations. We may attempt to offset material cross-currency transactions and earnings exposure through various means, including financial instruments and short-term investments. Because we generally do not hedge our net investments in foreign countries, we are susceptible to volatility in other comprehensive income caused by exchange rate fluctuations.

Risks Related to All Sempra Energy Subsidiaries

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

In recent years, the regulatory environment that applies to the electric power and natural gas industries has undergone significant changes, on the federal, state and local levels. These changes have affected the nature of these industries and the manner in which their participants conduct their businesses. These changes are ongoing, and we cannot predict the future course of changes in this regulatory environment or the ultimate effect that this changing regulatory environment will have on our businesses. Moreover, existing regulations, laws and tariffs may be revised or reinterpreted, and new regulations, laws and

tariffs may be adopted or become applicable to us and our facilities. Special tariffs may also be imposed on components used in our businesses that could increase costs.

Our businesses are subject to increasingly complex accounting and tax requirements, and the regulations, laws and tariffs that affect us may change in response to economic or political conditions. Compliance with these requirements could increase our operating costs, and new tax legislation, regulations or other interpretations in the U.S. and other countries in which we operate could materially adversely affect our tax expense and/or tax balances. Changes in regulations, laws and tariffs and changes in the way regulations, laws and tariffs are implemented and interpreted may have a material adverse effect on our businesses, cash flows, financial condition, results of operations and/or prospects.

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

Our businesses require numerous permits, licenses and other governmental approvals from various federal, state, local and foreign governmental agencies; any failure to obtain or maintain required permits, licenses or approvals could cause our sales to materially decline and/or our costs to materially increase, and otherwise materially adversely affect our businesses, cash flows, financial condition, results of operations and/or prospects.

All of our existing and planned development projects require multiple approvals. The acquisition, construction, ownership and operation of LNG terminals, natural gas pipelines and storage facilities, and electric generation and transmission facilities require numerous permits, licenses, certificates and other approvals from federal, state, local and foreign governmental agencies. Once received, approvals may be subject to litigation, and projects may be delayed or approvals reversed or modified in litigation. In addition, permits, licenses, certificates, and other approvals may be modified, rescinded or fail to be extended by one or more of the governmental agencies and authorities that oversee our businesses. If there is a delay in obtaining any required regulatory approvals or failure to obtain or maintain any required approvals or to comply with any applicable laws or regulations, we may not be able to construct or operate our facilities, or we may be forced to incur additional costs. Any such delay or failure to obtain or maintain the necessary permits, licenses, certificates and other approvals could cause our sales to materially decline, and/or our costs to materially increase, and otherwise materially adversely affect our businesses, cash flows, financial condition, results of operations and/or prospects.

Our businesses have significant environmental compliance costs, and future environmental compliance costs could have a material adverse effect on our cash flows and results of operations.

Our businesses are subject to extensive federal, state, local and foreign statutes, rules and regulations relating to environmental protection, including, in particular, climate change and greenhouse gas, or GHG, emissions. We are required to obtain numerous governmental permits, licenses, certificates and other approvals to construct and operate our businesses. Additionally, to comply with these legal requirements, we must spend significant amounts on environmental monitoring, pollution control equipment, mitigation costs and emissions fees. In addition, we are generally responsible for all on-site liabilities associated with the environmental condition of our electric generation facilities and other energy projects, regardless of when the liabilities arose and whether they are known or unknown. Our facilities are subject to regulations protecting migratory birds, which have recently been the subject of increased enforcement activity with respect to wind farms. Failure to comply with applicable environmental laws may subject our businesses to substantial penalties and fines and/or significant curtailments of our operations, which could materially adversely affect our cash flows and/or results of operations.

The scope and effect of new environmental laws and regulations, including their effects on our current operations and future expansions, are difficult to predict. Increasing international, national, regional and state-level concerns as well as new or proposed legislation and regulation may have substantial negative effects on our operations, operating costs, and the scope and economics of proposed expansion, which could have a material adverse effect on our results of operations, cash flows and/or prospects. In particular, state-level laws and regulations, as well as proposed national and international legislation and regulation relating to the control and reduction of GHG emissions (including carbon dioxide, methane, nitrous oxide, hydrofluorocarbons, perfluorocarbons and sulfur hexafluoride), may materially limit or otherwise materially adversely affect our operations. The implementation of recent and proposed California and federal legislation and regulation may materially adversely affect our unregulated businesses by imposing, among other things, additional costs associated with emission limits, controls and the possible requirement of carbon taxes or the purchase of emissions credits. Similarly, the California Utilities may be materially adversely affected if these additional costs are not recoverable in rates. Even if recoverable, the effects of existing and proposed greenhouse gas emission reduction standards may cause rates to increase to levels that substantially reduce customer demand and growth and may have a material adverse effect on the California Utilities' cash flows. SDG&E may also be subject to significant penalties and fines if certain mandated renewable energy goals are not met.

In addition, existing and future laws and regulation on mercury, nitrogen and sulfur oxides, particulates, or other emissions could result in requirements for additional pollution control equipment or emission fees and taxes that could materially adversely affect our results of operations and/or cash flows. Moreover, existing rules and regulations may be interpreted or revised in ways that may materially adversely affect our results of operations and/or cash flows.

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

Severe weather conditions, natural disasters, catastrophic accidents or acts of terrorism could materially adversely affect our businesses, financial condition, results of operations, cash flows and/or prospects.

Like other major industrial facilities, ours may be damaged by severe weather conditions, natural disasters such as earthquakes, tsunamis and fires, catastrophic accidents, or acts of terrorism. Because we are in the business of using, storing, transporting and disposing of highly flammable and explosive materials, as well as radioactive materials, and operating highly energized equipment, the risks such incidents may pose to our facilities and infrastructure, as well as the risks to the surrounding communities are substantially greater than the risks such incidents may pose to a typical business. The facilities and infrastructure we own that may be subject to such incidents include, but are not limited to:

- | | |
|--|---|
| § power generation plants | § natural gas, propane and ethane pipelines, storage and compression facilities |
| § electric transmission and distribution | § nuclear fuel and nuclear waste storage facilities |
| § LNG terminals and storage | § nuclear power facilities |

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

Depending on the nature and location of the facilities and infrastructure affected, any such incident also could cause catastrophic fires, leaks, radioactive releases, explosions, spills or other significant damage to natural resources or property belonging to third parties, or cause personal injuries or fatalities. Any of these consequences could lead to significant claims against us. In some cases, we may be liable for damages even though we are not at fault, and in cases where the concept of inverse condemnation applies, we may be liable for damages without being found to be at fault or to have been negligent. Insurance coverage may significantly increase in cost or become unavailable for certain of these risks, and any insurance proceeds we receive may be insufficient to cover our losses or liabilities, which could materially adversely affect our businesses, financial condition, results of operations, cash flows and/or prospects.

Severe weather conditions may also impact our businesses. On January 17, 2014, the Governor of California declared a state of emergency because of severe drought conditions in the state. The drought conditions in California and the western United States increase the risk of catastrophic wildfires in SDG&E's and SoCalGas' service territories, which could place third party property and our electric and natural gas infrastructure in jeopardy. The drought conditions also reduce the amount of power available from hydro-electric generation facilities in the Northwest United States, which could adversely impact the availability of a reliable energy supply into the California electric grid managed by the California ISO. If alternate supplies of electric generation are not available to replace the lower level of power available from hydro-electric generation facilities, this could result in temporary power shortages in SDG&E's service territory.

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

Sempra Energy and its subsidiaries are defendants in numerous lawsuits and arbitration proceedings. We have spent, and continue to spend, substantial amounts of money and time defending these lawsuits and proceedings, and in related investigations and regulatory proceedings. We discuss these proceedings in Note 15 of the Notes to Consolidated Financial Statements and in "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Annual Report. The uncertainties inherent in lawsuits, arbitrations and other legal proceedings make it difficult to estimate with any degree of certainty the costs and effects of resolving these matters. In addition, juries have demonstrated a willingness to grant large awards, including punitive damages, in personal injury, product liability, property damage and other claims. Accordingly, actual costs incurred may differ materially from insured or reserved amounts and may not be recoverable in whole or in part from our customers, which in each case could materially adversely affect our businesses, cash flows, results of operations and/or financial condition.

We cannot and do not attempt to fully hedge our assets or contract positions against changes in commodity prices. In addition, for those contract positions that are hedged, our hedging procedures may not mitigate our risk as planned.

To reduce financial exposure related to commodity price fluctuations, we may enter into contracts to hedge our known or anticipated purchase and sale commitments, inventories of natural gas and LNG, electric generation capacity, and natural gas storage and pipeline capacity. As part of this strategy, we may use forward contracts, physical purchase and sales contracts, futures, financial swaps, and options. We do not hedge the entire exposure to market price volatility of our assets or our contract positions, and the coverage will vary over time. To the extent we have unhedged positions, or if our hedging strategies do not work as planned, fluctuating commodity prices could have a material adverse effect on our results of operations, cash flows and/or financial condition.

In addition, certain of the contracts we use for hedging purposes are subject to fair value accounting. Such accounting may result in gains or losses in earnings for that contract. In certain cases, these gains or losses may not reflect the associated losses or gains of the underlying position being hedged.

Risk management procedures may not prevent losses.

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

The operation of our facilities depends on good labor relations with our employees.

Several of our businesses have entered into and have in place collective bargaining agreements with different labor unions. Our collective bargaining agreements are generally negotiated on a facility-by-facility basis.

Any failure to reach an agreement on new labor contracts or to negotiate these labor contracts might result in strikes, boycotts or other labor disruptions. These potential labor disruptions could have a material adverse effect on our businesses, results of operations and/or cash flows. Labor disruptions, strikes or significant negotiated wage and benefit increases, whether due to union activities, employee turnover or otherwise, could have a material adverse effect on our businesses, results of operations and/or cash flows.

New business technologies present a risk for attacks on our information systems and the integrity of our energy grid and our natural gas pipeline infrastructure and storage.

Cybersecurity and the protection of our operations and other activities and our customer and employee information are a priority at Sempra Energy, SDG&E and SoCalGas. In addition to general information and cyber risks that all Fortune 500 corporations face (e.g. malware, malicious intent by insiders and inadvertent disclosure of sensitive information), the utility industry faces evolving cybersecurity risks associated with protecting sensitive and confidential customer information, Smart Grid infrastructure, and natural gas pipeline and storage infrastructure. Deployment of new business technologies represents a new and large-scale opportunity for attacks on our information systems and confidential customer information, as well as on the integrity of the energy grid and the natural gas infrastructure. While our computer systems have been, and will likely continue to be, subjected to computer viruses or other malicious codes, unauthorized access attempts, and cyber- or phishing-attacks, to date we have not experienced a material breach of cybersecurity. Addressing these risks is the subject of significant ongoing activities across Sempra Energy's businesses, but we cannot ensure that a successful attack will not occur. An attack

on our information systems, unauthorized access to confidential customer information, the integrity of the energy grid or the natural gas infrastructure, or one of our facilities could have a material adverse effect on our businesses, cash flows, financial condition, results of operations and/or prospects.

In the ordinary course of business, Sempra Energy and its subsidiaries collect and retain sensitive information, including personal identification information about customers and employees, customer energy usage and other information. The theft, damage or improper disclosure of sensitive electronic data can subject us to penalties for violation of applicable privacy laws, subject us to claims from third parties, require compliance with notification and monitoring regulations, and harm our reputation.

Finally, as seen with recent cyber-attacks on U.S. corporations, the goal of a cyber-attack may be primarily to inflict large scale harm on a company and the places where it operates. Any such cyber-attack could cause widespread disruptions to our operating and administrative systems, including the destruction of critical information and programming, that could materially adversely affect our business operations and the integrity of the power grid, and/or release confidential information about our company and our customers, employees and other constituents.

Our businesses will need to continue to adapt to technological change which may cause us to incur significant expenditures to adapt to these changes and which efforts may not be successful.

We expect that emerging technologies may be superior to, or may not be compatible with, some of our existing technologies, investments and infrastructure, and may require us to make significant expenditures to remain competitive or result in the obsolescence of certain operating assets. Our future success will depend, in part, on our ability to anticipate and successfully adapt to technological changes, to offer services that meet customer demands and evolving industry standards and to recover all, or a significant portion of, any unrecovered investment in obsolete assets. If we incur significant expenditures in adapting to technological changes, fail to adapt to significant technological changes, fail to obtain access to important new technologies, or fail to recover a significant portion of any remaining investment in obsolete assets, our businesses, operating results and financial condition could be materially and adversely affected. Examples of technological changes that could impact our businesses include

§ California Utilities—Technologies that could change the utilization of natural gas distribution and electric generation, transmission and distribution assets including

- efficient battery storage technology, combined with
- the expanded cost-effective utilization of distributed generation (e.g., rooftop solar and community solar projects).

§ Sempra U.S. Gas & Power

- At Sempra Renewables, technological advances in distributed and local power generation and energy storage could reduce the demand for large-scale renewable electricity generation. Sempra Renewables' power sales customers' ability to perform under long-term agreements could be impacted by changes in utility rate structures and advances in distributed and local power generation.
- At Sempra Natural Gas, technological advances in alternative fuels and other alternative energy sources could reduce the demand for natural gas.
- At our LNG businesses, technologies that lower global natural gas and LNG consumption would have the greatest impact on the business. These technologies include cost effective batteries for renewable electricity generation, economic improvements to gas-to-liquids conversion processes, and advances associated with seabed or Arctic gas hydrate exploitation.

Risks Related to the California Utilities

The California Utilities are subject to extensive regulation by state, federal and local legislative and regulatory authorities, which may materially adversely affect us.

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

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

The CPUC conducts various reviews and audits of utility performance, safety standards and practices, compliance with CPUC regulations and standards, affiliate relationships and other matters. These reviews and audits may result in disallowances, fines and penalties that could materially adversely affect our financial condition, results of operations and/or cash flows. SoCalGas and SDG&E may be subject to penalties or fines related to their operation of natural gas pipelines and, for SDG&E, electric operations, under new regulations concerning natural gas pipeline safety and new citation programs concerning both gas and electric safety, which could have a material adverse effect on their results of operations, financial condition and/or cash flows. We discuss various CPUC proceedings relating to the California Utilities' rates, costs, incentive mechanisms, and performance-based regulation in Notes 13 and 14 of the Notes to Consolidated Financial Statements and in "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Annual Report.

The California Utilities may invest a significant amount of money in a major capital project prior to receiving regulatory approval. If the project does not receive regulatory approval, if the regulatory approval is conditioned on major changes, or if management decides not to proceed with the project, they may be unable to recover all amounts invested in that project, which could materially adversely affect their financial condition, results of operations, cash flows and/or prospects.

The CPUC periodically approves the California Utilities' rates based on authorized capital expenditures, operating costs, including income taxes, and an authorized rate of return on investment. If actual capital expenditures and/or operating costs were to exceed the amounts approved by the CPUC, our results

of operations, financial condition, cash flows and/or prospects could be materially adversely affected. Reductions in key benchmark interest rates may trigger automatic adjustment mechanisms which would reduce the California Utilities' authorized rates of return, changes in which could materially adversely affect our results of operations, financial condition, cash flows and/or prospects.

The CPUC applies performance-based measures and mechanisms to all California utilities. Under these, earnings potential over authorized base margins is tied to achieving or exceeding specific performance and operating goals, and reductions in authorized base margins are tied to not achieving specific performance and operating goals. At both of the California Utilities, the areas that are currently eligible for performance mechanisms are operational activities designated by the CPUC and energy efficiency programs; at SDG&E, electric reliability performance; and, at SoCalGas, natural gas procurement and unbundled natural gas storage and system operator hub services. Although the California Utilities have received incentive awards in the past, there can be no assurance that they will receive awards in the future, or that any future awards earned would be in amounts comparable to prior periods. Additionally, if the California Utilities fail to achieve certain minimum performance levels established under such mechanisms, they may be assessed financial disallowances, penalties and fines which could have a material adverse effect on their results of operations, financial condition and/or cash flows.

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

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

The construction and expansion of the California Utilities' natural gas pipelines, SoCalGas' storage facilities, and SDG&E's electric transmission and distribution facilities require numerous permits, licenses and other approvals from federal, state and local governmental agencies. If there are delays in obtaining these approvals, or failure to obtain or maintain these approvals, or to comply with applicable laws or regulations, the California Utilities' businesses, cash flows, results of operations, financial condition and/or prospects could be materially adversely affected. Coordinating these projects so that they are on time and within budget requires competent execution from our employees and contractors, cooperation of third parties and the absence of litigation and regulatory delay. In the event that one or more of these major projects is delayed or experiences significant cost overruns, this could have a material adverse effect on the California Utilities.

Our California Utilities are also affected by the activities of organizations such as The Utility Reform Network (TURN), Utility Consumers' Action Network (UCAN) and other stakeholder and advocacy groups. Operations that may be influenced by these groups include

- § the rates charged to our customers;
- § our ability to site and construct new facilities;
- § our ability to purchase or construct generating facilities;
- § safety;
- § the issuance of securities;
- § accounting matters;
- § transactions between affiliates;
- § the installation of environmental emission controls equipment;
- § our ability to decommission generating facilities and recover the remaining carrying value of such facilities and related costs;
- § the amount of certain sources of energy we must use, such as renewable sources, and programs to encourage reductions in energy usage by customers; and
- § the amount of costs associated with these operations that may be recovered from customers.

Natural gas pipeline safety assessments may not be fully or adequately recovered in rates.

Pending the outcome of various regulatory agency evaluations of natural gas pipeline safety regulations, practices and procedures, the California Utilities may incur substantial incremental expense and capital investment associated with their natural gas pipeline operations and investments, including under SDG&E's and SoCalGas' Pipeline Safety Enhancement Plan (PSEP) currently estimated to be \$2.1 billion (\$1.6 billion for SoCalGas and \$500 million for SDG&E) over 10 years for the first phase of this project.

In June 2014, the CPUC issued a final decision in the Triennial Cost Allocation Proceeding (TCAP) addressing SDG&E's and SoCalGas' PSEP that approved the utilities' model for implementing PSEP, and established the criteria to determine the amounts related to PSEP that may be recovered from ratepayers and the processes for recovery of such amounts, including providing that such costs are subject to a reasonableness review. In July 2014, the CPUC Office of Ratepayer Advocates (ORA) and TURN filed a joint application for rehearing of the CPUC's June 2014 final decision.

If the CPUC were to decide as part of any future reasonableness review that rate recovery not be allowed for certain gas pipeline safety costs incurred by SDG&E and SoCalGas, or if the CPUC were to decide in favor of the ORA/TURN joint application for rehearing, it could materially adversely affect the respective company's cash flows, financial condition, results of operations and prospects.

We provide additional information in Note 14 of the Notes to Consolidated Financial Statements in the Annual Report.

The California Utilities are subject to increasingly stringent safety standards and the potential for significant penalties if regulators deem either SDG&E or SoCalGas to be out of compliance.

The California State Senate passed legislation in 2013 (SB 291) which requires the CPUC to develop and maintain a safety enforcement program that includes procedures for monitoring, data tracking and analysis, and investigations, as well as delegates citation authority to CPUC staff personnel under the direction of the CPUC Executive Director. This legislation requires the CPUC to implement the enforcement program for natural gas safety by July 1, 2014 and for electric safety by January 1, 2015. In exercising the citation authority, the CPUC staff will take into account voluntary reporting of potential violations, voluntary resolution efforts undertaken, prior history of violations, the gravity of the violation, and the degree of culpability. The CPUC is planning to adopt an administrative limit on the maximum monetary penalty that may be set by the CPUC staff.

In May 2014, the CPUC initiated a rulemaking proceeding to develop the necessary enforcement programs pursuant to the requirements of SB 291, with the CPUC issuing a decision on the electric safety enforcement program in the fourth quarter of 2014. We expect a CPUC decision making future refinements to the electric and gas safety programs in 2015.

In December 2011, the CPUC adopted a natural gas safety citation program whereby natural gas distribution companies can be fined by CPUC staff for violations of the CPUC's safety standards or federal standards. Each day of an ongoing violation may be counted as an additional offense. The maximum penalty is \$50,000 per offense. In September 2013, the CPUC issued Standard Operating Procedures setting forth its principles and management process for the gas safety citation program.

If the CPUC or its staff determine that either of SDG&E's or SoCalGas' operations and practices are not in compliance with the safety standards, the corrective actions required to be in conformance and any penalties imposed could materially adversely affect the respective company's cash flows, financial condition, results of operations and prospects.

Meaningful rate reform is necessary because the current multi-tiered electric rate design in California results in a disproportionately high amount of SDG&E's fixed cost of operating and maintaining its electric infrastructure being borne by higher use consumers in the residential customer class, which results in excessively high electric rates that indirectly subsidize lower use consumers in the residential customer class. The failure by the CPUC to reform SDG&E's rate structure in a relevant manner could have a material adverse effect on its business, cash flows, financial condition, results of operations and/or prospects.

The current electric rate structure in California places an undue burden on residential customers with higher electric use while subsidizing lower use customers. In addition, due to current rate structures and state policies, customers who self-generate their own power (primarily solar installations) currently do not pay their proportionate cost of maintaining and operating the electric transmission and distribution system, subject to certain limitations, while they still receive power from the system when their self-generation is inadequate to meet their electricity needs. As more higher electric use residential customers switch to self-generation or obtain local off-the-grid sources of power, the burden on the remaining higher electric use customers increases, which in turn encourages more self-generation and increases rate pressures. In addition, the increase of solar, other forms of self-generation and other local off-the-grid sources of power adversely impacts the reliability of the electric transmission and distribution system. Over the mid- to long-term, this rate structure is unsustainable. On January 1, 2014, AB 327 became effective. This law restores to the CPUC the authority to establish electric rates for electric utility companies in California and removes the rate caps established in AB 1X adopted in early 2001 during California's energy crisis, as well as Senate Bill 695 adopted in 2009. Additionally, the law provides the CPUC with the authority to adopt up to a \$10.00 monthly fixed charge for all residential customers effective January 1, 2015. In February 2014, SDG&E filed comprehensive proposals with the CPUC that provide a roadmap to reforming electric residential rate base design beginning in 2015 and continuing through 2018, consistent with the provisions of AB 327. The CPUC will implement AB 327 through its current Order Instituting Rulemaking proceeding regarding electric rate reform.

In July 2014, the CPUC initiated a rulemaking proceeding to develop a successor tariff to the state's existing net energy metering (NEM) program pursuant to the provisions of AB 327, which require the CPUC to establish a revised NEM tariff or similar program by December 31, 2015. The NEM program is an electric billing tariff mechanism designed to promote the installation of on-site renewable generation. It was originally established in California in 1995 with the adoption of Senate Bill 656, as codified in Section 2827 of the Public Utilities Code. Currently, customers who install and operate eligible renewable generation facilities of 1 megawatt or less may choose to participate in the NEM program. Under NEM, customer-generators receive a full retail-rate bill credit for the power they generate that is fed back to the utility's power grid and during times when the customer's generation exceeds their own energy usage. Meaningful rate reform is necessary to ensure that SDG&E is authorized to recover its costs in providing services to NEM customers due to, among other issues, the increased power supply from renewable energy sources and the growth in distributed and local power generation.

If the CPUC fails to reform rate structures to maintain reasonable, cost-based electric rates that are competitive with alternative sources of power and adequate to maintain the reliability of the electric transmission and distribution system, such failure could have a material adverse effect on our business, cash flows, financial condition, results of operations and/or prospects.

Recovery of 2007 Wildfire Litigation Costs Requires Future Regulatory Approval.

SDG&E is seeking to recover in rates its reasonably incurred costs of resolving 2007 wildfire claims in excess of its liability insurance coverage and amounts recovered from third parties. Through December 31, 2014, SDG&E's costs to settle these claims and its estimated future settlement costs and defense costs have exceeded its liability insurance coverage and the amounts recovered from third-parties. SDG&E has concluded that it is probable that SDG&E will be permitted to recover a substantial portion of these excess costs in rates, and at December 31, 2014, Sempra Energy's and SDG&E's Consolidated Balance Sheets include assets of \$373 million in Other Regulatory Assets, of which \$366 million is related to CPUC-regulated operations and \$7 million is related to FERC-regulated operations, with respect to these excess costs. However, recovery of these amounts in rates will require future regulatory approval.

In December 2012, the CPUC issued a final decision allowing SDG&E to maintain its authorized memorandum account, enabling SDG&E to file applications with the CPUC requesting recovery of amounts properly recorded in the memorandum account, subject to reasonableness review, at a later date. For a description of this proceeding and information about 2007 wildfire litigation costs and their recovery, see Notes 14 and 15 of the Notes to Consolidated Financial Statements in the Annual Report.

SDG&E will continue to assess the probability of recovery of these excess wildfire costs in rates. Should SDG&E conclude that recovery in rates is no longer probable, SDG&E will record a charge against earnings at the time such conclusion is reached. If SDG&E had concluded that the recovery of regulatory assets related to CPUC-regulated operations was no longer probable or was less than currently estimated as of December 31, 2014, the resulting after-tax charge against earnings would have been up to \$217 million.

As noted above, recovery of excess wildfire costs in rates will require future regulatory approval, and a failure to obtain all or a significant portion of the expected recovery, or a conclusion that recovery in rates is no longer probable, would likely have a material adverse effect on Sempra Energy's and SDG&E's cash flows, financial condition and/or results of operations. In addition, if recovery is permitted, the collection process may extend over a number of years.

We discuss how we assess the probability of recovery of our regulatory assets in Note 1 of the Notes to Consolidated Financial Statements in the Annual Report.

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

SDG&E has a 20-percent ownership interest in SONGS, a 2,150-MW nuclear generating facility near San Clemente, California, operated by Southern California Edison Company, or Edison. The NRC has broad authority under federal law to impose licensing and safety-related requirements for the operation of nuclear generation facilities. On June 6, 2013, Edison notified SDG&E that it had reached a decision to permanently retire SONGS' Units 2 and 3 and seek approval from the NRC to start the decommissioning activities for the entire facility. Although the facility will be decommissioned in the future, SDG&E's ownership interest in SONGS continues to subject it to the risks of owning a partial interest in a nuclear generation facility, which include

- § the potential that a natural disaster such as an earthquake or tsunami could cause a catastrophic failure of the safety systems in place that are designed to prevent the release of radioactive material. If such a failure were to occur, a substantial amount of radiation could be released and cause catastrophic harm to human health and the environment;
- § the potential harmful effects on the environment and human health resulting from the prior operation of nuclear facilities and the storage, handling and disposal of radioactive materials;
- § limitations on the amounts and types of insurance commercially available to cover losses that might arise in connection with operations and the decommissioning of the facility; and
- § uncertainties with respect to the technological and financial aspects of decommissioning the facility.

In addition, SDG&E maintains two trusts for the purposes of providing funds to decommission SONGS. Up to approximately 32 percent of the trust assets has been generally invested in equity securities, which are subject to market fluctuation. A decline in the market value of trust assets or an adverse change in the law regarding funding requirements for decommissioning trusts could increase the funding requirements for these trusts, which in each case may not be fully recoverable in rates. Furthermore, CPUC approval is required in order to make withdrawals from these trusts. SDG&E may not receive these approvals during periods where cash is required to be expended for decommissioning, and approval for certain expenditures may be denied by the CPUC altogether if the CPUC determines that the expenditures are unreasonable. Finally, decommissioning may be materially more expensive than we currently anticipate and therefore may exceed the amounts in the trust funds. Recovery for those overruns would require CPUC approval, which may not occur.

The occurrence of any of these events could have a material adverse effect on SDG&E's and Sempra Energy's businesses, cash flows, financial condition, results of operations and/or prospects.

Risks Related to our Sempra International and Sempra U.S. Gas & Power Businesses

Our businesses are exposed to market risks, including fluctuations in commodity prices, and our businesses, financial condition, results of operations, cash flows and/or prospects may be materially adversely affected by these risks. Energy-related commodity prices impact LNG liquefaction and regasification, the transport and storage of natural gas, and power generation from renewable and conventional sources, among other businesses that we operate.

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

Sempra Mexico, Sempra Renewables and Sempra Natural Gas generate electricity that they sell under long-term contracts and into the spot market or other competitive markets. Sempra Mexico and Sempra Natural Gas purchase natural gas to fuel their power plants and may also purchase electricity in the open market to satisfy their contractual obligations. As part of their risk management strategy, they may hedge a substantial portion of their electricity sales and natural gas purchases to manage their portfolios, which subjects us to the risk that the counterparty to such hedge may be unable to fulfill its obligations. Such a failure could materially adversely affect our cash flows, financial condition and/or results of operations. Sempra Natural Gas' generation asset, the remaining 625-MW block of the Mesquite Power Plant, is currently held for sale and we expect to complete a pending sale in the first half of 2015, subject to obtaining third party consents for the assignment of an associated 25-year power sales contract to the buyer. We discuss the pending sale in Note 3 of the Notes to Consolidated Financial Statements in the Annual Report.

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

- § weather conditions
- § seasonality
- § changes in supply and demand
- § transmission or transportation constraints or inefficiencies
- § availability of competitively priced alternative energy sources
- § commodity production levels
- § actions by oil and natural gas producing nations or organizations affecting the global supply of crude oil and natural gas
- § federal, state and foreign energy and environmental regulation and legislation
- § natural disasters, wars, embargoes and other catastrophic events

§ expropriation of assets by foreign countries

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

When our businesses enter into fixed-price long-term contracts to provide services or commodities, they are exposed to inflationary pressures such as rising commodity prices, and interest rate risks.

Sempra Mexico, Sempra Renewables and Sempra Natural Gas generally endeavor to secure long-term contracts with customers for services and commodities to optimize the use of their facilities, reduce volatility in earnings, and support the construction of new infrastructure. However, if these contracts are at fixed prices, the profitability of the contract may be materially adversely affected by inflationary pressures, including rising operational costs, costs of labor, materials, equipment and commodities, and rising interest rates that affect financing costs. We may try to mitigate these risks by using variable pricing tied to market indices, anticipating an escalation in costs when bidding on projects, providing for cost escalation, providing for direct pass-through of operating costs or entering into hedges. However, these measures, if implemented, may not ensure that the increase in revenues they provide will fully offset increases in operating expenses and/or financing costs. The failure to so fully or substantially offset these increases could have a material adverse effect on our financial condition, cash flows and/or results of operations.

Business development activities may not be successful and projects under construction may not commence operation as scheduled or be completed within budget, which could have a material adverse effect on our businesses, financial condition, cash flows, results of operations and/or prospects.

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

Success in developing a particular project is contingent upon, among other things:

- § negotiation of satisfactory engineering, procurement and construction agreements
- § negotiation of supply and natural gas sales agreements or firm capacity service agreements
- § timely receipt of required governmental permits, licenses, authorizations, and rights of way and maintenance or extension of these authorizations
- § timely implementation and satisfactory completion of construction
- § obtaining adequate and reasonably priced financing for the project

Successful completion of a particular project may be materially adversely affected by, among other factors:

- § unforeseen engineering problems
- § construction delays and contractor performance shortfalls
- § work stoppages
- § failure to obtain, maintain or extend required governmental permits, licenses, authorizations, and rights of way
- § equipment unavailability or delay and cost increases
- § adverse weather conditions
- § environmental and geological conditions
- § litigation
- § unsettled property rights

If we are unable to complete a development project or if we have substantial delays or cost overruns, this could have a material adverse effect on our businesses, financial condition, cash flows, results of operations and/or prospects.

The operation of existing and future facilities also involves many risks, including the breakdown or failure of electric generation or natural gas regasification, liquefaction and storage facilities or other equipment or processes, labor disputes, fuel interruption, environmental contamination and operating performance below expected levels. In addition, weather-related incidents and other natural disasters can disrupt generation, regasification, liquefaction, storage and transmission systems. The occurrence of any of these events could lead to our facilities being idled for an extended period of time or our facilities operating well below expected capacity levels, which may result in lost revenues or increased expenses, including higher maintenance costs and penalties. Such occurrences could materially adversely affect our businesses, financial condition, cash flows, results of operations and/or prospects.

With respect to our project to add LNG export capability at the Cameron LNG facility, the newly formed joint venture, Cameron LNG Holdings, LLC (Cameron LNG Holdings), has begun building an LNG export facility consisting of three liquefaction trains with a total nameplate capacity of 13.5 million tonnes per annum (Mtpa) of LNG with an expected export capability of 12 Mtpa of LNG, or approximately 1.7 Bcf per day. The anticipated incremental investment in the three-train liquefaction project is estimated to be approximately \$7 billion, excluding capitalized interest and other financing costs. While our joint venture partners made a final investment decision to proceed, our joint venture became effective and financing was procured for the project, there are still a number of risks to completing this project. Cameron LNG Holdings has a turnkey engineering, procurement and construction (EPC) contract with a joint venture contractor comprised of subsidiaries of Chicago Bridge & Iron Company N.V. and Chiyoda Corporation, who are jointly and severally liable for performance under the contract. If the contractor becomes unwilling or unable to perform according to the terms and timetable of the EPC contract, Cameron LNG Holdings would be required to engage a substitute contractor, which would result in project delays and in increased costs. The construction of this facility requires a large and specialized work force, necessary equipment and materials, and sophisticated engineering. There can be no assurance that Cameron LNG Holdings' contractor will not encounter delays due to disruptions in obtaining the necessary equipment and materials, inability to field the necessary workforce, or engineering issues that were not contemplated. As construction progresses, Cameron LNG Holdings may decide or be forced to submit change orders to the contractor that could result in longer construction periods and higher construction costs or both. In addition, weather conditions, new regulation, labor disputes, breakdown or failure of equipment, and litigation, such as the lawsuit filed by the Sierra Club and Gulf Restoration Network challenging the June 19, 2014 FERC order that approved the construction of the Cameron LNG liquefaction project, could substantially delay the project. As we do not control Cameron LNG Holdings, we are dependent on reaching a consensus with one or more of our joint venture partners to resolve a variety of issues that could transpire. The inability to timely resolve issues, including construction issues, could cause substantial delays to the completion of this project. A substantial delay could result in cost overruns, substantially postpone the earnings we anticipate deriving from this facility, and require additional cash investments by us and our joint venture partners. The anticipated cost of this project is based on a number of assumptions that may prove incorrect, and the ultimate cost could significantly exceed the current estimate of approximately \$7 billion of incremental investment, excluding capitalized interest and other financing costs. These risks could have a material adverse effect on our business, results of operations, cash flows, financial condition, and/or prospects.

We face many challenges to develop and complete our contemplated LNG export facilities.

In addition to the three-train Cameron liquefaction facility described above, we are looking at several other LNG export terminal development opportunities, including a greenfield project in Port Arthur, Texas, a brownfield project at our existing Energía Costa Azul regasification facility in Baja California, Mexico and an expansion of up to two additional liquefaction trains to the Cameron facility. Each of these contemplated projects faces numerous risks and must overcome significant hurdles before we can proceed with construction. Common to all of these projects is the risk that an extended decline in current and forward projections of crude oil prices could reduce the demand for natural gas in some sectors and cause a corresponding reduction in projected global demand for LNG. This could result in increased competition among those working on projects in an environment of declining LNG demand, such as the Sempra Energy-sponsored export initiatives. Such reduction in natural gas demand could also occur from higher penetration of coal in new power generation, which could also lead to increased competition among the LNG suppliers for the declining LNG demand. Oil prices at certain moderate levels, could also make LNG projects in other parts of the world still feasible and competitive with LNG projects from North America, thus increasing supply and the competition for the available LNG demand. A decline in natural gas prices outside the United States (which in many foreign countries are based on the price of crude oil) may also materially adversely affect the relative pricing advantage that has existed in recent years in favor of domestic natural gas prices (based on Henry Hub pricing). In addition, all of our proposed projects require the receipt of a number of permits and regulatory approvals, finding suitable partners and customers, obtaining financing, and negotiating suitable construction contracts.

Expansion of the Cameron LNG facility beyond the first three trains is subject to certain restrictions and conditions under the joint venture project financing agreements. Furthermore, there are a number of potential new projects contemplated by various developers in North America, in addition to ours, and given the projected global demand for LNG, the vast majority of these projects likely will not be completed. With respect to our Port Arthur, Texas project, this is a greenfield site, and therefore it may not have the cost advantages often associated with brownfield sites. The Energía Costa Azul facility in Mexico is subject to on-going land and permitting disputes that could make project financing difficult as well as finding suitable partners and customers. In addition, while we have completed the regulatory process for an LNG export facility in the U.S., the regulatory process in Mexico and the overlay of U.S. regulations for natural gas exports to an LNG export facility in Mexico are not well developed. There can be no assurance that such a facility could be permitted and constructed without facing significant legal challenges and uncertainties, which in turn could make project financing difficult as well as finding suitable partners and customers. Finally, Energía Costa Azul has profitable long-term regasification contracts for 100 percent of the facility, making the decision to pursue a new liquefaction facility dependent in part on whether the investment in a new liquefaction facility would be more profitable than just continuing to supply regasification services under our existing contracts.

There can be no assurance that our contemplated LNG export facilities will be completed, and our inability to complete one or more of our contemplated LNG export facilities could have a material adverse effect on our future cash flows, results of operations and prospects.

Increased competition could materially adversely affect us.

The markets in which we operate are characterized by numerous strong and capable competitors, many of whom may have extensive and diversified developmental and/or operating experience (including both domestic and international) and financial resources similar to or greater than ours. Further, in recent years, the natural gas pipeline, storage and LNG market segments have been characterized by strong and increasing competition both with respect to winning new development projects and acquiring existing assets. In Mexico, despite the commissioning of many new energy infrastructure projects by the Federal Electricity Commission (Comisión Federal de Electricidad, or CFE) and other governmental agencies in connection with energy reforms, competition for recent pipeline projects has been intense with numerous bidders competing aggressively for these projects. There can be no assurance that we will be successful in bidding for new development opportunities in the U.S., Mexico or South America. In addition, as noted above, there are a number of potential new LNG liquefaction projects contemplated by various developers in North America, including our contemplated new projects, and given the projected global demand for LNG, the vast majority of these projects likely will not be completed. Finally, our natural gas storage assets in the Gulf Coast region compete with other facilities for storage customers as existing contracts expire and for anchor customers that could support development of new capacity. These competitive factors could have a material adverse effect on our business, results of operations, cash flows and/or prospects.

We may elect not to, or may not be able to, enter into, extend or replace expiring long-term supply and sales agreements or long-term firm capacity agreements for our projects, which would subject our revenues to increased volatility and our businesses to increased competition. Such long-term contracts, once entered into, increase our credit risk if our counterparties fail to perform or become unable to meet their contractual obligations on a timely basis due to bankruptcy, insolvency, or otherwise.

The Energía Costa Azul LNG facility and the Cameron LNG facility (within the newly formed Cameron LNG Holdings joint venture) have entered into long-term capacity agreements. Under these agreements, customers pay capacity reservation and usage fees to receive, store and regasify the customer's LNG. We also may enter into short-term and/or long-term supply agreements to purchase LNG to be received, stored and regasified for sale to other parties. The long-term supply agreement contracts are expected to reduce our exposure to changes in natural gas prices through corresponding natural gas sales agreements or

by tying LNG supply prices to prevailing natural gas market price indices. If the counterparties, customers or suppliers to one or more of the key agreements for the LNG facilities were to fail to perform or become unable to meet their contractual obligations on a timely basis, it could have a material adverse effect on our results of operations, cash flows and/or prospects.

At Cameron LNG Holdings, although the Cameron LNG terminal is partially contracted for regasification, there is a termination agreement in place that will result in the termination of this agreement at the point in the construction of the new liquefaction facilities where piping tie-ins to the existing regasification terminal become necessary, which we expect to occur during the first quarter of 2017.

Sempra Mexico's and Sempra Natural Gas' ability to enter into or replace existing long-term firm capacity agreements for their natural gas pipeline operations are dependent on demand for and supply of LNG and/or natural gas from their transportation customers, which may include our LNG facilities. A significant sustained decrease in demand for and supply of LNG and/or natural gas from such customers could have a material adverse effect on our businesses, results of operations, cash flows and/or prospects.

Sempra Natural Gas owns a 25-percent interest in Rockies Express Pipeline LLC (Rockies Express), a partnership that operates a natural gas pipeline, the Rockies Express pipeline (REX). Rockies Express has agreements for west-to-east capacity on REX that expire in 2019 and new contracting activity related to that capacity may not be sufficient to replace the revenues from the expiring agreements. Sempra Natural Gas also has an agreement for such capacity that expires in 2019. The capacity costs are offset by revenues from releases of the capacity to third-parties. Contracting activity related to that capacity has not been sufficient to offset all of our capacity payments to Rockies Express.

Historically, the value of natural gas storage services has positively correlated with the difference between the seasonal prices of natural gas, among other factors. In general, over the past several years, seasonal differences in natural gas prices have declined, which have contributed to lower prices for storage services. As our legacy (higher rate) sales contracts mature at our Bay Gas Storage Company, Ltd. (Bay Gas) and Mississippi Hub, LLC (Mississippi Hub) facilities, replacement sales contract rates could be lower than has historically been the case. Lower sales revenues may not be offset by cost reductions, which could lead to depressed asset values. In addition, our LA Storage, LLC (LA Storage) development project may be unable to either attract cash flow commitments sufficient to support further investment or extend its FERC construction permit beyond its expiration date of June 2015. The LA Storage project also includes an existing 23.3-mile pipeline header system, the LA Storage Pipeline, that is uncontracted. Market conditions could result in the need to perform recovery testing of our recorded asset values. In the event such values are not recoverable, we would consider the fair value of these assets relative to their recorded value. To the extent the book value is in excess of the fair value, we would record an impairment charge. The book value of our equity in natural gas storage assets at December 31, 2014 was \$1.3 billion, excluding intercompany loans to the projects totaling approximately \$250 million. A significant impairment charge related to our natural gas storage assets would have a material adverse effect on our results of operations in the period in which it is recorded. A noncash impairment charge would reduce our book basis in the associated assets.

The electric generation and wholesale power sales industries are highly competitive. As more plants are built and competitive pressures increase, wholesale electricity prices may become more volatile. Without the benefit of long-term power sales agreements, our revenues may be subject to increased price volatility, and we may be unable to sell the power that Sempra Natural Gas' and Sempra Mexico's facilities are capable of producing or to sell it at favorable prices, which could materially adversely affect our results of operations, cash flows and/or prospects.

We provide information about these matters in "Management's Discussion and Analysis of Financial Condition and Results of Operations" and in Notes 4, 10 and 15 of the Notes to Consolidated Financial Statements in the Annual Report.

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

Our businesses, and the businesses that we invest in, are exposed to the risk that counterparties, business partners, customers, and suppliers that owe money or commodities as a result of market transactions or other long-term agreements or arrangements will not perform their obligations in accordance with such agreements or arrangements. Should they fail to so perform, we may be required to acquire alternative hedging arrangements or to honor the underlying commitment at then-current market prices. In such event, we may incur additional losses to the extent of amounts already paid to such counterparties or suppliers. In addition, many such agreements are important for the conduct and growth of our businesses. The failure of any of the parties to perform in accordance with these agreements could materially adversely affect our businesses, results of operations, cash flows, financial condition and/or prospects. Finally, we often extend credit to counterparties and customers. While we perform significant credit analyses prior to extending credit, we are exposed to the risk that we may not be able to collect amounts owed to us.

Sempra Mexico's and Sempra Natural Gas' obligations and those of their suppliers for LNG supplies are contractually subject to (1) suspension or termination for "force majeure" events beyond the control of the parties; and (2) substantial limitations of remedies for other failures to perform, including limitations on damages to amounts that could be substantially less than those necessary to provide full recovery of costs for breach of the agreements, which in either event could have a material adverse effect on our results of operations, cash flows, financial condition and/or prospects.

Legal actions challenging our property rights could materially adversely affect our businesses, financial condition, cash flows, results of operations and/or prospects.

We are engaged in disputes regarding our title to the properties on and adjacent to our LNG terminal in Mexico, as we discuss in Note 15 of the Notes to Consolidated Financial Statements in the Annual Report. In the event that we are unable to defend and retain title to the properties on which our LNG terminal is located, we could lose our rights to occupy and use such properties and the related terminal, which could result in breaches of one or more permits or contracts that we have entered into with respect to such terminal. In addition, our ability to convert the LNG terminal into an export facility may be hindered by these disputes, and they could make project financing such a facility and finding suitable partners and customers very difficult. If we are unable to occupy and use such properties and the related terminal, it could have a material adverse effect on our businesses, financial condition, results of operations, cash flows and/or prospects.

We rely on transportation assets and services, much of which we do not own or control, to deliver electricity and natural gas.

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

§ deliver the electricity and natural gas we sell to wholesale markets,

§ supply natural gas to our gas storage and electric generation facilities, and

§ provide retail energy services to customers.

Sempra Mexico and Sempra Natural Gas also depend on natural gas pipelines to interconnect with their ultimate source or customers of the commodities they are transporting. Sempra Mexico and Sempra Natural Gas also rely on specialized ships to transport LNG to their facilities and on natural gas pipelines to transport natural gas for customers of the facilities. Sempra Natural Gas, Sempra Renewables, Sempra South American Utilities and Sempra Mexico rely on transmission lines to sell electricity to their customers. If transportation is disrupted, or if capacity is inadequate, we may be unable to sell and deliver our commodities, electricity and other services to some or all of our customers. As a result, we may be responsible for damages incurred by our customers, such as the additional cost of acquiring alternative natural gas supplies and LNG at then-current spot market rates, which could have a material adverse effect on our businesses, financial condition, cash flows, results of operations and/or prospects.

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

In Mexico, we own or have interests in electricity generation, distribution and transmission facilities, natural gas, propane and ethane distribution, storage and transportation projects, and an LNG terminal. In Peru and Chile, we own or have interests in electricity transmission and distribution facilities and operations. Developing infrastructure projects, owning energy assets, and operating businesses in foreign jurisdictions subject us to significant political, legal, regulatory and financial risks that vary by country, including:

- § changes in foreign laws and regulations, including tax and environmental laws and regulations, and U.S. laws and regulations, in each case, that are related to foreign operations
- § governance by and decisions of local regulatory bodies, including setting of rates and tariffs that may be earned by our businesses
- § high rates of inflation
- § volatility in exchange rates between the U.S. dollar and currencies of the countries in which we operate
- § foreign cash balances that may be unavailable to fund U.S. operations, or available only at unfavorable U.S. and/or foreign tax rates upon repatriation of such amounts or changes in tax law
- § changes in government policies or personnel
- § trade restrictions
- § limitations on U.S. company ownership in foreign countries
- § permitting and regulatory compliance
- § changes in labor supply and labor relations
- § adverse rulings by foreign courts or tribunals, challenges to permits and approvals, difficulty in enforcing contractual and property rights, and unsettled property rights and titles in Mexico and other foreign jurisdictions
- § expropriation of assets
- § adverse changes in the stability of the governments in the countries in which we operate
- § general political, social, economic and business conditions
- § compliance with the Foreign Corrupt Practices Act and similar laws

Our international businesses also are subject to foreign currency risks. These risks arise from both volatility in foreign currency exchange and inflation rates and devaluations of foreign currencies. In such cases, an appreciation of the U.S. dollar against a local currency could materially reduce the amount of cash and income received from those foreign subsidiaries. We may or may not choose to hedge these risks, and any hedges entered into may or may not be effective. Fluctuations in foreign currency exchange and inflation rates may result in significantly increased taxes in foreign countries and materially adversely affect our cash flows, financial condition, results of operations and/or prospects.

We discuss litigation related to Sempra Mexico's Energía Costa Azul LNG terminal and other international energy projects in Note 15 of the Notes to Consolidated Financial Statements and in "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Annual Report.

Other Risks

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

As described above, SDG&E holds a 20-percent ownership interest in SONGS, which is operated by Edison. Also, Sempra Natural Gas owns a 25-percent interest in Rockies Express, a joint venture that operates a natural gas pipeline. Our investment in Rockies Express is \$340 million at December 31, 2014. At December 31, 2014, Sempra Renewables has investments totaling \$911 million in several joint ventures to develop and operate renewable generation facilities. Sempra Mexico has a 50-percent interest in a joint venture with PEMEX that operates several natural gas pipelines and propane systems in northern Mexico. Sempra Mexico also has a 50-percent interest in a renewables wind project in Baja California. At December 31, 2014, these investments total \$434 million. Sempra Energy has an investment balance of \$71 million at December 31, 2014 that reflects remaining distributions expected to be received from the RBS Sempra Commodities LLP (RBS Sempra Commodities) partnership as it is dissolved. The timing and amount of distributions may be impacted by the

matters we discuss related to RBS Sempra Commodities in Note 15 of the Notes to Consolidated Financial Statements in the Annual Report. The failure to collect all or a substantial portion of our remaining investment in the partnership could have a corresponding effect on our cash flows, financial condition and results of operations. We continue to make investments in entities that we do not control or manage or in which we share control.

On October 1, 2014, Sempra Natural Gas and its joint venture project partners completed the formation of the Cameron LNG joint venture, Cameron LNG Holdings, for their investment in the development, construction and operation of the three-train natural gas liquefaction export facility. Our equity interest in Cameron LNG Holdings was derived from our contribution of Cameron LNG to the joint venture at its historical carrying value. Beginning October 1, 2014, Cameron LNG is no longer wholly owned by Sempra Natural Gas, and Sempra Natural Gas accounts for its investment in Cameron LNG Holdings under the equity method. At December 31, 2014, Sempra Natural Gas' investment in the joint venture is \$1 billion.

Sempra Renewables and Sempra Natural Gas have provided guarantees related to joint venture financing agreements, and Sempra South American Utilities and Sempra Mexico have provided loans to joint ventures in which they have investments and to other affiliates. We discuss the guarantees in Notes 4, 5 and 15 and affiliate loans in Note 1 of the Notes to Consolidated Financial Statements in the Annual Report.

We have limited influence over these ventures and other businesses in which we do not have a controlling interest. In addition to the other risks inherent in these businesses, if their management were to fail to perform adequately or the other investors in the businesses were unable or otherwise failed to perform their obligations to provide capital and credit support for these businesses, it could have a material adverse effect on our results of operations, financial condition, cash flows and/or prospects. We discuss our investments further in Notes 3, 4 and 10 of the Notes to Consolidated Financial Statements in the Annual Report.

Market performance or changes in other assumptions could require Sempra Energy, SDG&E and/or SoCalGas to make significant unplanned contributions to their pension and other postretirement benefit plans.

Sempra Energy, SDG&E and SoCalGas provide defined benefit pension plans and other postretirement benefits to eligible employees and retirees. A decline in the market value of plan assets may increase the funding requirements for these plans. In addition, the cost of providing pension and other postretirement benefits is also affected by other factors, including the assumed rate of return on plan assets, employee demographics, discount rates used in determining future benefit obligations, rates of increase in health care costs, levels of assumed interest rates and future governmental regulation. An adverse change to any of these factors could cause a material increase in our funding obligations which could have a material adverse effect on our results of operations, financial condition, cash flows and/or prospects.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

ELECTRIC PROPERTIES – SDG&E

At December 31, 2014, SDG&E owns and operates four natural gas-fired power plants:

- § a 566-MW electric generation facility (the Palomar generation facility) in Escondido, California
- § a 485-MW electric generation facility (the Desert Star generation facility) in Boulder City, Nevada
- § a 96-MW electric generation peaking facility (the Miramar Energy Center) in San Diego, California
- § a 47-MW electric generation facility (the Cuyamaca Peak Energy Plant) in El Cajon, California

SDG&E's interest in SONGS is described above in Item 1 under "Electric Utility Operations – SDG&E." We also discuss matters related to SONGS' retirement and related issues in Note 13 of the Notes to Consolidated Financial Statements in the Annual Report.

At December 31, 2014, SDG&E's electric transmission and distribution facilities included substations, and overhead and underground lines. These electric facilities are located in San Diego, Imperial and Orange counties of California, and in Arizona and Nevada. The facilities consist of 2,090 miles of transmission lines and 23,158 miles of distribution lines. Periodically, various areas of the service territory require expansion to accommodate customer growth.

NATURAL GAS PROPERTIES – CALIFORNIA UTILITIES

At December 31, 2014, SDG&E's natural gas facilities consisted of two compressor stations, 168 miles of transmission pipelines, 8,571 miles of distribution pipelines and 6,457 miles of service pipelines.

At December 31, 2014, SoCalGas' natural gas facilities included 2,960 miles of transmission and storage pipelines, 50,001 miles of distribution pipelines and 47,517 miles of service pipelines. They also included 11 transmission compressor stations and four underground natural gas storage reservoirs with a combined working capacity of 137 Bcf.

ENERGY PROPERTIES – SEMPRA INTERNATIONAL AND SEMPRA U.S. GAS & POWER

At December 31, 2014, Sempra Mexico, Sempra Renewables and Sempra Natural Gas operate or own interests in power plants and renewable generation facilities in North America with a total capacity of 3,001 MW. Our share of this capacity is 2,156 MW. We provide additional information in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and in Note 4 of the Notes to Consolidated Financial Statements in the Annual Report.

Sempra South American Utilities operates Chilquinta Energía located in Valparaiso, Chile. Its property consists of 9,941 miles of distribution lines, 342 miles of transmission lines and 47 substations.

Sempra South American Utilities operates Luz del Sur located in Lima, Peru. Its property consists of 12,536 miles of distribution lines and 279 miles of transmission lines. Luz del Sur expects to complete construction of Santa Teresa, a 100-MW hydroelectric power plant located in the Cusco region of Peru, in the first half of 2015.

At December 31, 2014, Sempra Mexico’s operations included 2,189 miles of distribution pipelines, 360 miles of transmission pipelines and three compressor stations. Sempra Mexico operates its Energía Costa Azul LNG regasification terminal on land it owns in Baja California, Mexico.

Sempra Renewables leases properties in Nevada for currently operating solar electric generation facilities with the potential to develop additional solar electric generation facilities on these properties. Sempra Renewables also owns property in Arizona and California for potential development of solar electric generation facilities. Sempra Mexico leases properties in Mexico for current and potential development of wind electric generation facilities.

In 2006, Sempra Natural Gas and ProLiance Transportation and Storage, LLC acquired three existing salt caverns representing 10 Bcf to 12 Bcf of potential natural gas storage capacity in Cameron Parish, Louisiana, with plans for development of a natural gas storage facility, LA Storage.

The Sempra Natural Gas segment owns and operates Mobile Gas, a natural gas distribution utility located in Mobile and Baldwin counties in Alabama. Its property consists of distribution mains, service lines and regulating equipment.

The Sempra Natural Gas segment also owns and operates Willmut Gas, a natural gas distribution utility headquartered in Forrest County, Mississippi, serving Forrest, Simpson, Lamar, Jones, Covington and Rankin counties. Its property consists of distribution mains, service lines and regulating equipment.

In Washington County, Alabama, Sempra Natural Gas operates a 20 Bcf natural gas storage facility, Bay Gas, under a land lease, with the potential to expand total working capacity to 26 Bcf. Sempra Natural Gas also owns land in Simpson County, Mississippi, on which it operates a 22 Bcf natural gas storage facility, Mississippi Hub, with the potential to expand total working capacity to 30 Bcf.

Sempra Natural Gas owns land in Port Arthur, Texas, for potential development. Sempra Natural Gas also has an equity interest in the Cameron LNG Holdings joint venture, which owns land and an LNG regasification terminal and has a land lease in Hackberry, Louisiana. The joint venture is constructing a liquefaction terminal at the facility.

OTHER PROPERTIES

Sempra Energy occupies its 19-story corporate headquarters building in San Diego, California, pursuant to an operating lease that expires in 2015. In August 2013, Sempra Energy entered into a 25-year, build-to-suit lease for its future San Diego, California, headquarters. The lease has five five-year renewal options. We discuss the details of this lease further in Note 15 of the Notes to Consolidated Financial Statements in the Annual Report.

SoCalGas leases approximately one-fourth of a 52-story office building in downtown Los Angeles, California, pursuant to an operating lease expiring in 2026. The lease has four five-year renewal options.

SDG&E occupies a six-building office complex in San Diego pursuant to two separate operating leases, both ending in December 2024. One lease has four five-year renewal options and the other lease has three five-year renewal options.

Sempra International and Sempra U.S. Gas & Power own or lease office facilities at various locations in the United States, Mexico, Chile and Peru, with the leases ending from 2015 to 2021.

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

ITEM 3. LEGAL PROCEEDINGS

We are not party to, and our property is not the subject of, any material pending legal proceedings (other than ordinary routine litigation incidental to our businesses) except for the matters (1) described in Notes 13, 14 and 15 of the Notes to Consolidated Financial Statements in the Annual Report, or (2) referred to in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in the Annual Report.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

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

COMMON STOCK AND RELATED SHAREHOLDER MATTERS

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

SEMPRA ENERGY EQUITY COMPENSATION PLANS

Sempra Energy has a long-term incentive plan that permits the grant of a wide variety of equity and equity-based incentive awards to directors, officers and key employees. At December 31, 2014, outstanding awards consisted of stock options, restricted stock, and restricted stock units held by 395 employees.

The following table sets forth information regarding our equity compensation plan at December 31, 2014.

EQUITY COMPENSATION PLAN

	Number of shares to be issued upon exercise of outstanding options, warrants and rights(A)	Weighted-average exercise price of outstanding options, warrants and rights(B)	Number of additional shares remaining available for future issuance(C)(D)
Equity compensation plan approved by shareholders: 2013 Long-Term Incentive Plan	3,935,591	\$ 53.84	6,562,347
(A) <i>Consists of 757,412 options to purchase shares of our common stock, all of which were granted at an exercise price of 100% of the grant date fair market value of the shares subject to the option, 303,237 service-based restricted stock units and 2,874,942 performance-based restricted stock units. Each performance-based restricted stock unit represents the right to receive up to 1.5 shares (2.0 shares for awards granted in 2014) of our common stock if applicable performance conditions are satisfied. The 3,935,591 also includes awards granted under two previously shareholder-approved long-term incentive plans (Predecessor Plans). No new awards may be granted under these Predecessor Plans.</i>			
(B) <i>Represents only the weighted-average exercise price of the 757,412 options to purchase shares of common stock.</i>			
(C) <i>The number of shares available for future issuance is increased by the number of shares or units withheld or surrendered to satisfy the exercise price or to satisfy tax withholding obligations relating to any plan awards.</i>			
(D) <i>The number of shares available for future issuance is increased by the number of shares subject to awards that expire or are forfeited, canceled or otherwise terminated without the issuance of shares.</i>			

We provide additional discussion of share-based compensation in Note 8 of the Notes to Consolidated Financial Statements in the Annual Report.

PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS

On September 11, 2007, the Sempra Energy board of directors authorized the repurchase of Sempra Energy common stock provided that the amounts spent for such purpose do not exceed the greater of \$2 billion or amounts spent to purchase no more than 40 million shares. During 2008, we expended \$1 billion to purchase a total of 18,416,241 shares. No shares were repurchased under this authorization during 2009. In 2010, we prepaid \$500 million to repurchase a total of 9,574,435 shares of our common stock in 2010 and 2011. No shares have been repurchased under this authorization since 2011. Therefore, approximately \$500 million remains authorized by the board for the purchase of additional shares, not to exceed approximately 12 million shares.

We also may, from time to time, purchase shares of our common stock from restricted stock plan participants who elect to sell a sufficient number of vesting restricted shares to meet minimum statutory tax withholding requirements.

ITEM 6. SELECTED FINANCIAL DATA

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

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

The information required by Item 7 is set forth under "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Annual Report, on pages 2 through 81.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The information required by Item 8 is set forth on pages 95 through 239 of the Annual Report. Item 15(a)1 of Part IV of this report includes a listing of financial statements included.

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

None.

ITEM 9A. CONTROLS AND PROCEDURES

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

ITEM 9B. OTHER INFORMATION

None.

PART III

Because SDG&E meets the conditions of General Instructions I(1)(a) and (b) of Form 10-K and is therefore filing this report with a reduced disclosure format as permitted by General Instruction I(2), the information required by Items 10, 11, 12 and 13 below is not required for SDG&E. We have, however, provided the information required by Item 10 with respect to SDG&E’s executive officers in Part I, Item 1. Business under “Executive Officers of the Registrants – SDG&E and SoCalGas.”

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

SEMPRA ENERGY

We provide the information required by Item 10 with respect to executive officers for Sempra Energy in Part I, Item 1. Business under “Executive Officers of the Registrants – Sempra Energy.” All other information required by Item 10 is incorporated by reference from “Corporate Governance” and “Share Ownership” in the Proxy Statement prepared for the May 2015 annual meeting of shareholders.

SOCALGAS

We provide the information required by Item 10 with respect to executive officers for SoCalGas in Part I, Item 1. Business under “Executive Officers of the Registrants – SDG&E and SoCalGas.” All other information required by Item 10 is incorporated by reference from the company’s Information Statement prepared for its May 2015 annual meeting of shareholders.

ITEM 11. EXECUTIVE COMPENSATION

The information required by Item 11 is incorporated by reference from “Corporate Governance” and “Executive Compensation,” including “Compensation Discussion and Analysis” and “Compensation Committee Report” in the Proxy Statement prepared for the May 2015 annual meeting of shareholders for Sempra Energy and from the Information Statement prepared for the May 2015 annual meeting of shareholders for SoCalGas.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS

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

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS

The security ownership information required by Item 12 is incorporated by reference from “Share Ownership” in the Proxy Statement prepared for the May 2015 annual meeting of shareholders for Sempra Energy and from the Information Statement prepared for the May 2015 annual meeting of shareholders for SoCalGas.

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

The information required by Item 13 is incorporated by reference from “Corporate Governance” in the Proxy Statement prepared for the May 2015 annual meeting of shareholders for Sempra Energy and from the Information Statement prepared for the May 2015 annual meeting of shareholders for SoCalGas.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Information regarding principal accountant fees and services, as required by Item 14, is presented below for Sempra Energy, SDG&E and SoCalGas. The following table shows the fees paid to Deloitte & Touche LLP, the independent registered public accounting firm for Sempra Energy, SDG&E and SoCalGas, for services provided for 2014 and 2013.

PRINCIPAL ACCOUNTANT FEES

(Dollars in thousands)

	Sempra Energy Consolidated		SDG&E		SoCalGas	
	Fees	% of Total	Fees	% of Total	Fees	% of Total
2014:						
Audit fees:						
Consolidated financial statements and internal controls audits, subsidiary and statutory audits	\$ 9,217		\$ 2,362		\$ 2,412	
Regulatory filings and related services	187		—		86	
Total audit fees	9,404	89%	2,362	91%	2,498	89%
Audit-related fees:						
Employee benefit plan audits	430		134		219	
Other audit-related services, accounting consultation	357		34		—	
Total audit-related fees	787	7	168	6	219	8
Tax planning and compliance fees	346	3	81	3	84	3
All other fees	53	1	—	—	—	—
Total fees	\$ 10,590	100%	\$ 2,611	100%	\$ 2,801	100%

	Sempra Energy Consolidated		SDG&E		SoCalGas	
	Fees	% of Total	Fees	% of Total	Fees	% of Total
2013:						
Audit fees:						
Consolidated financial statements and internal controls audits, subsidiary and statutory audits	\$ 9,462		\$ 2,451		\$ 2,246	
Regulatory filings and related services	155		64		—	
Total audit fees	9,617	80%	2,515	87%	2,246	92%
Audit-related fees:						
Employee benefit plan audits	475		125		192	
Other audit-related services, accounting consultation	325		66		—	
Total audit-related fees	800	7	191	7	192	8
Tax planning and compliance fees	1,473	12	175	6	—	—
All other fees	77	1	—	—	—	—
Total fees	\$ 11,967	100%	\$ 2,881	100%	\$ 2,438	100%

The Audit Committee of Sempra Energy’s board of directors is directly responsible and has sole authority for selecting, appointing, retaining and overseeing the work and approving the compensation of the independent registered public accounting firm for Sempra Energy and its subsidiaries, including SDG&E and SoCalGas. As a matter of good corporate governance, the SDG&E and SoCalGas boards of directors also reviewed the performance of Deloitte & Touche LLP and concurred with the determination by the Sempra Energy Audit Committee to retain them as the independent registered public accounting firm for each of Sempra Energy, SDG&E and SoCalGas. Sempra Energy’s board has determined that each member of its Audit Committee is an independent director and is financially literate, and that Mr. Brocksmith, the chair of the committee, and Mr. Taylor are each an audit committee financial expert as defined by the rules of the Securities and Exchange Commission.

Except where pre-approval is not required by the Securities and Exchange Commission rules, Sempra Energy’s Audit Committee pre-approves all audit and permissible non-audit services provided by Deloitte & Touche LLP for Sempra Energy and its subsidiaries. The committee’s pre-approval policies and procedures provide for the general pre-approval of specific types of services and give detailed guidance to management as to the services that are eligible for general pre-approval. They require specific pre-approval of all other permitted services. For both types of pre-approval, the committee considers whether the services to be provided are consistent with maintaining the firm’s independence. The policies and procedures also delegate authority to the chair of the committee to address any requests for pre-approval of services between committee meetings, with any pre-approval decisions to be reported to the committee at its next scheduled meeting.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

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

1. FINANCIAL STATEMENTS

	Page in Annual Report(1)		
	Sempra Energy	San Diego Gas & Electric Company	Southern California Gas Company
Evaluation of Disclosure Controls and Procedures	87	87	87
Management's Report On Internal Control Over Financial Reporting	87	87	87
Reports of Independent Registered Public Accounting Firm	89	91	93
Consolidated Statements of Operations for the years ended December 31, 2014, 2013 and 2012	95	102	109
Consolidated Statements of Comprehensive Income for the years ended December 31, 2014, 2013 and 2012	96	103	110
Consolidated Balance Sheets at December 31, 2014 and 2013	97	104	111
Consolidated Statements of Cash Flows for the years ended December 31, 2014, 2013 and 2012	99	106	113
Consolidated Statements of Changes in Equity for the years ended December 31, 2014, 2013 and 2012	101	108	N/A
Consolidated Statements of Changes in Shareholders' Equity for the years ended December 31, 2014, 2013 and 2012	N/A	N/A	114
Notes to Consolidated Financial Statements	115	115	115

(1) Incorporated by reference from the indicated pages of the 2014 Annual Report to Shareholders, filed as Exhibit 13.1.

2. FINANCIAL STATEMENT SCHEDULES

Sempra Energy

Schedule I--Sempra Energy Condensed Financial Information of Parent may be found on page 49 of this report.

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

3. EXHIBITS

See Exhibit Index on page 57 of this report.

CONSENTS OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM AND REPORT ON SCHEDULE

SEMPRA ENERGY

To the Board of Directors and Shareholders of Sempra Energy:

We consent to the incorporation by reference in Registration Statement No. 333-198572 on Form S-3 and 333-200828, 333-188526, 333-182225, 333-56161, 333-50806, 333-49732, 333-121073, 333-128441, 333-151184, 333-155191, 333-129774 and 333-157567 on Form S-8 of our reports dated February 26,

2015, relating to the consolidated financial statements of Sempra Energy and subsidiaries (the “Company”), and the effectiveness of the Company’s internal control over financial reporting, incorporated by reference in this Annual Report on Form 10-K of Sempra Energy for the year ended December 31, 2014.

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

/s/ DELOITTE & TOUCHE LLP

San Diego, California

February 26, 2015

SAN DIEGO GAS & ELECTRIC COMPANY

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

We consent to the incorporation by reference in Registration Statement No. 333-181639 on Form S-3 of our reports dated February 26, 2015, relating to the consolidated financial statements of San Diego Gas & Electric Company (the “Company”), and the effectiveness of the Company’s internal control over financial reporting, incorporated by reference in this Annual Report on Form 10-K of San Diego Gas & Electric Company for the year ended December 31, 2014.

/s/ DELOITTE & TOUCHE LLP

San Diego, California

February 26, 2015

SOUTHERN CALIFORNIA GAS COMPANY

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

We consent to the incorporation by reference in Registration Statement No. 333-182557 on Form S-3 of our reports dated February 26, 2015, relating to the consolidated financial statements of Southern California Gas Company and subsidiaries (the “Company”), and the effectiveness of the Company’s internal control over financial reporting, incorporated by reference in this Annual Report on Form 10-K of Southern California Gas Company for the year ended December 31, 2014.

/s/ DELOITTE & TOUCHE LLP

San Diego, California

February 26, 2015

SCHEDULE I – SEMPRA ENERGY CONDENSED FINANCIAL INFORMATION OF PARENT

**SEMPRA ENERGY
CONDENSED STATEMENTS OF OPERATIONS**
(Dollars in millions, except per share amounts)

	Years ended December 31,		
	2014	2013	2012
Interest income	\$	—	\$ 42
Interest expense		(235)	(247)

Operation and maintenance	(78)	(63)	(68)
Other income, net	50	41	66
Income tax benefits	133	117	145
Loss before equity in earnings of subsidiaries	(130)	(102)	(21)
Equity in earnings of subsidiaries, net of income taxes	1,291	1,103	880
Net income/earnings	\$ 1,161	\$ 1,001	\$ 859
Basic earnings per common share	\$ 4.72	\$ 4.10	\$ 3.56
Weighted-average number of shares outstanding (thousands)	245,891	243,863	241,347
Diluted earnings per common share	\$ 4.63	\$ 4.01	\$ 3.48
Weighted-average number of shares outstanding (thousands)	250,655	249,332	246,693

See Notes to Condensed Financial Information of Parent.

SEMPRA ENERGY
CONDENSED STATEMENTS OF COMPREHENSIVE INCOME
(Dollars in millions)

	Years ended December 31,		
	Pretax amount	Income tax benefit (expense)	Net-of-tax amount
2014:			
Net income	\$ 1,028	\$ 133	\$ 1,161
Other comprehensive loss:			
Foreign currency translation adjustments	(193)	—	(193)
Pension and other postretirement benefits	(20)	8	(12)
Financial instruments	(106)	42	(64)
Total other comprehensive loss	(319)	50	(269)
Comprehensive income	\$ 709	\$ 183	\$ 892
2013:			
Net income	\$ 884	\$ 117	\$ 1,001
Other comprehensive income:			
Foreign currency translation adjustments	111	—	111
Pension and other postretirement benefits	47	(19)	28
Financial instruments	13	(4)	9
Total other comprehensive income	171	(23)	148
Comprehensive income	\$ 1,055	\$ 94	\$ 1,149
2012:			
Net income	\$ 714	\$ 145	\$ 859
Other comprehensive income (loss):			
Foreign currency translation adjustments	119	—	119
Pension and other postretirement benefits	(4)	2	(2)
Financial instruments	(6)	2	(4)
Total other comprehensive income	109	4	113
Comprehensive income	\$ 823	\$ 149	\$ 972

See Notes to Condensed Financial Information of Parent.

SEMPRA ENERGY
CONDENSED BALANCE SHEETS
(Dollars in millions)

	December 31, 2014	December 31, 2013
Assets:		
Cash and cash equivalents	\$ 3	\$ 6
Due from affiliates	101	132
Deferred income taxes	398	170
Other current assets	15	16
Total current assets	517	324
Investments in subsidiaries	14,557	13,866
Due from affiliates	174	802
Deferred income taxes	1,544	1,466
Other assets	631	555
Total assets	\$ 17,423	\$ 17,013
Liabilities and shareholders' equity:		
Current portion of long-term debt	\$ —	\$ 800
Due to affiliates	338	273
Income taxes payable	93	64
Other current liabilities	271	276
Total current liabilities	702	1,413
Long-term debt	4,666	4,117
Due to affiliates	230	—
Other long-term liabilities	499	475
Shareholders' equity	11,326	11,008

See Notes to Condensed Financial Information of Parent.

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

	Years ended December 31,		
	2014	2013	2012
Net cash used in operating activities	\$ (260)	\$ (131)	\$ (809)
Dividends received from subsidiaries	300	50	250
Expenditures for property, plant and equipment	(15)	(1)	(1)
Purchase of trust assets	(4)	(5)	(6)
Proceeds from sales by trust	—	10	10
Capital contribution to subsidiaries	—	(6)	—
Decrease (increase) in loans to affiliates, net	627	962	(33)
Cash provided by investing activities	908	1,010	220
Common stock dividends paid	(598)	(606)	(550)
Issuances of common stock	56	62	78
Repurchases of common stock	(38)	(45)	(16)
Issuances of long-term debt	499	498	1,100
Payments on long-term debt	(800)	(650)	(8)
Increase (decrease) in loans from affiliates, net	234	(147)	—
Other	(4)	(3)	(8)
Cash (used in) provided by financing activities	(651)	(891)	596
(Decrease) increase in cash and cash equivalents	(3)	(12)	7
Cash and cash equivalents, January 1	6	18	11
Cash and cash equivalents, December 31	\$ 3	\$ 6	\$ 18

See Notes to Condensed Financial Information of Parent.

SEMPRA ENERGY
NOTES TO CONDENSED FINANCIAL INFORMATION OF PARENT
Note 1. Basis of Presentation

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

Other Income, Net, on the Condensed Statements of Operations includes \$27 million, \$39 million and \$41 million of gains on dedicated assets in support of our executive retirement and deferred compensation plans in 2014, 2013 and 2012, respectively.

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

Note 2. Long-Term Debt

The following table shows the detail and maturities of long-term debt outstanding:

LONG-TERM DEBT
(Dollars in millions)

	December 31, 2014	December 31, 2013
2% Notes March 15, 2014	\$ —	\$ 500
Notes at variable rates (1.01% at December 31, 2013) March 15, 2014	—	300
6.5% Notes June 1, 2016, including \$300 at variable rates after fixed-to-floating rate swaps effective January 2011 (4.44% at December 31, 2014)	750	750
2.3% Notes April 1, 2017	600	600
6.15% Notes June 15, 2018	500	500
9.8% Notes February 15, 2019	500	500
2.875% Notes October 1, 2022	500	500
4.05% Notes December 1, 2023	500	500
3.55% Notes June 15, 2024	500	—
6% Notes October 15, 2039	750	750
Market value adjustments for interest rate swaps, net	—	12
Build-to-suit lease	75	14
	4,675	4,926
Current portion of long-term debt	—	(800)

Unamortized discount on long-term debt
Total long-term debt

(9) (9)
\$ 4,666 \$ 4,117

Maturities of long-term debt are \$750 million in 2016, \$600 million in 2017, \$500 million in 2018, \$500 million in 2019 and \$2.3 billion thereafter.

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

Note 3. Commitments and Contingencies

For contingencies and guarantees related to Sempra Energy, refer to Notes 4, 5 and 15 of the Notes to Consolidated Financial Statements in the Annual Report.

Sempra Energy:

SIGNATURES

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

SEMPRA ENERGY,
(Registrant)

By: /s/ Debra L. Reed
Debra L. Reed
Chairman and Chief Executive Officer

Date: February 26, 2015

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

<u>Name/Title</u>	<u>Signature</u>	<u>Date</u>
Principal Executive Officer: Debra L. Reed Chief Executive Officer	<u>/s/ Debra L. Reed</u>	February 26, 2015
Principal Financial Officer: Joseph A. Householder Executive Vice President and Chief Financial Officer	<u>/s/ Joseph A. Householder</u>	February 26, 2015
Principal Accounting Officer: Trevor I. Mihalik Senior Vice President, Controller and Chief Accounting Officer	<u>/s/ Trevor I. Mihalik</u>	February 26, 2015
Directors: Debra L. Reed, Chairman	<u>/s/ Debra L. Reed</u>	February 26, 2015
Alan L. Boeckmann, Director	<u>/s/ Alan L. Boeckmann</u>	February 26, 2015
James G. Brocksmith, Jr., Director	<u>/s/ James G. Brocksmith, Jr.</u>	February 26, 2015
Kathleen L. Brown, Director	<u>/s/ Kathleen L. Brown</u>	February 26, 2015
Pablo A. Ferrero, Director	<u>/s/ Pablo A. Ferrero</u>	February 26, 2015
William D. Jones, Director	<u>/s/ William D. Jones</u>	February 26, 2015
William G. Ouchi, Ph.D., Director	<u>/s/ William G. Ouchi</u>	February 26, 2015

William C. Rusnack, Director	<u>/s/ William C. Rusnack</u>	February 26, 2015
William P. Rutledge, Director	<u>/s/ William P. Rutledge</u>	February 26, 2015
Lynn Schenk, Director	<u>/s/ Lynn Schenk</u>	February 26, 2015
Jack T. Taylor, Director	<u>/s/ Jack T. Taylor</u>	February 26, 2015
Luis M. Téllez, Ph.D., Director	<u>/s/ Luis M. Téllez</u>	February 26, 2015
James C. Yardley, Director	<u>/s/ James C. Yardley</u>	February 26, 2015

San Diego Gas & Electric Company:

SIGNATURES

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

SAN DIEGO GAS & ELECTRIC COMPANY,
(Registrant)

By: /s/ J. Walker Martin
J. Walker Martin
Chief Executive Officer

Date: February 26, 2015

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

Name/Title	Signature	Date
Principal Executive Officer: J. Walker Martin Chief Executive Officer	<u>/s/ J. Walker Martin</u>	February 26, 2015
Principal Financial and Accounting Officer: Robert M. Schlax Vice President, Controller, Chief Financial Officer and Chief Accounting Officer	<u>/s/ Robert M. Schlax</u>	February 26, 2015
Directors: Jessie J. Knight, Jr., Chairman	<u>/s/ Jessie J. Knight, Jr.</u>	February 26, 2015
Steven D. Davis, Director	<u>/s/ Steven D. Davis</u>	February 26, 2015
Joseph A. Householder, Director	<u>/s/ Joseph A. Householder</u>	February 26, 2015
J. Walker Martin, Director	<u>/s/ J. Walker Martin</u>	February 26, 2015
Martha B. Wyrsh, Director	<u>/s/ Martha B. Wyrsh</u>	February 26, 2015

Southern California Gas Company:

SIGNATURES

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

SOUTHERN CALIFORNIA GAS COMPANY,
(Registrant)

By: /s/ Dennis V. Arriola
Dennis V. Arriola
President and Chief Executive Officer

Date: February 26, 2015

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

<u>Name/Title</u>	<u>Signature</u>	<u>Date</u>
Principal Executive Officer: Dennis V. Arriola President and Chief Executive Officer	<u>/s/ Dennis V. Arriola</u>	February 26, 2015
Principal Financial and Accounting Officer: Robert M. Schlax Vice President, Controller, Chief Financial Officer and Chief Accounting Officer	<u>/s/ Robert M. Schlax</u>	February 26, 2015
Directors: Jessie J. Knight, Jr., Chairman	<u>/s/ Jessie J. Knight, Jr.</u>	February 26, 2015
Dennis V. Arriola, Director	<u>/s/ Dennis V. Arriola</u>	February 26, 2015
Joseph A. Householder, Director	<u>/s/ Joseph A. Householder</u>	February 26, 2015
J. Bret Lane, Director	<u>/s/ J. Bret Lane</u>	February 26, 2015
Martha B. Wyrsh, Director	<u>/s/ Martha B. Wyrsh</u>	February 26, 2015

EXHIBIT INDEX

The exhibits filed under the Registration Statements, Proxy Statements and Forms 8-K, 10-K and 10-Q that are incorporated herein by reference were filed under Commission File Number 1-14201 (Sempra Energy), Commission File Number 1-40 (Pacific Lighting Corporation), Commission File Number 1-03779 (San Diego Gas & Electric Company) and/or Commission File Number 1-01402 (Southern California Gas Company).

The following exhibits relate to each registrant as indicated.

EXHIBIT 3 -- BYLAWS AND ARTICLES OF INCORPORATION

Sempra Energy

- 3.1 Amended and Restated Articles of Incorporation of Sempra Energy effective May 23, 2008 (Appendix B to the 2008 Sempra Energy Definitive Proxy Statement, filed on April 15, 2008).
- 3.2 Bylaws of Sempra Energy (as amended through May 9, 2014) (Sempra Energy Form 8-K filed on May 14, 2014, Exhibit 3.1).

San Diego Gas & Electric Company

- 3.3 Amended and Restated Bylaws of San Diego Gas & Electric effective June 15, 2010 (Form 8-K filed on June 17, 2010, Exhibit 3).
- 3.4 Amended and Restated Articles of Incorporation of San Diego Gas & Electric Company effective August 15, 2014.

Southern California Gas Company

- 3.5 Amended and Restated Bylaws of Southern California Gas Company effective June 14, 2010 (Form 8-K filed on June 17, 2010, Exhibit 3.1).
- 3.6 Restated Articles of Incorporation of Southern California Gas Company effective October 7, 1996 (1996 SoCalGas Form 10-K, Exhibit 3.01).

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

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

Sempra Energy

- 4.1 Description of rights of Sempra Energy Common Stock (Amended and Restated Articles of Incorporation of Sempra Energy effective May 23, 2008, Exhibit 3.1 above).
- 4.2 Indenture dated as of February 23, 2000, between Sempra Energy and U.S. Bank Trust National Association, as Trustee (Sempra Energy Registration Statement on Form S-3 (No. 333-153425), filed on September 11, 2008, Exhibit 4.1).

Southern California Gas Company

- 4.3 Description of preferences of Preferred Stock, Preference Stock and Series Preferred Stock (Southern California Gas Company Restated Articles of Incorporation, Exhibit 3.6 above).

Sempra Energy / San Diego Gas & Electric Company

- 4.4 Mortgage and Deed of Trust dated July 1, 1940 (SDG&E Registration Statement No. 2-4769, Exhibit B-3).
- 4.5 Second Supplemental Indenture dated as of March 1, 1948 (SDG&E Registration Statement No. 2-7418, Exhibit B-5B).
- 4.6 Ninth Supplemental Indenture dated as of August 1, 1968 (SDG&E Registration Statement No. 333-52150, Exhibit 4.5).
- 4.7 Tenth Supplemental Indenture dated as of December 1, 1968 (SDG&E Registration Statement No. 2-36042, Exhibit 2-K).
- 4.8 Sixteenth Supplemental Indenture dated August 28, 1975 (SDG&E Registration Statement No. 33-34017, Exhibit 4.2).

Sempra Energy / Southern California Gas Company

- 4.9 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).
- 4.10 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).
- 4.11 Supplemental Indenture of Southern California Gas Company to American Trust Company dated as of December 1, 1956 (2006 Sempra Energy Form 10-K, Exhibit 4.09).
- 4.12 Supplemental Indenture of Southern California Gas Company to Wells Fargo Bank dated as of June 1, 1965 (2006 Sempra Energy Form 10-K, Exhibit 4.10).
- 4.13 Supplemental Indenture of Southern California Gas Company to Wells Fargo Bank, National Association dated as of August 1, 1972 (Registration Statement No. 2-59832 filed by Southern California Gas Company on September 6, 1977, Exhibit 2.19).
- 4.14 Supplemental Indenture of Southern California Gas Company to Wells Fargo Bank, National Association dated as of May 1, 1976 (Registration Statement No. 2-56034 filed by Southern California Gas Company on April 14, 1976, Exhibit 2.20).
- 4.15 Supplemental Indenture of Southern California Gas Company to Wells Fargo Bank, National Association dated as of September 15, 1981 (Registration Statement No. 333-70654, Exhibit 4.24).

EXHIBIT 10 -- MATERIAL CONTRACTS

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

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

Sempra Energy

- 10.2 Indemnity Agreement, dated as of April 1, 2008, between Sempra Energy, Pacific Enterprises, Enova Corporation and The Royal Bank of Scotland plc (Sempra Energy March 31, 2008 Form 10-Q, Exhibit 10.2).

- 10.3 First Amendment to Indemnity Agreement, dated as of March 30, 2009, by and among Sempra Energy, Pacific Enterprises, Enova Corporation and The Royal Bank of Scotland plc (Sempra Energy March 31, 2009 Form 10-Q, Exhibit 10.3).
- 10.4 Second Amendment to Indemnity Agreement, dated as of June 30, 2009, by and among Sempra Energy, Pacific Enterprises, Enova Corporation and The Royal Bank of Scotland plc (Sempra Energy June 30, 2009 Form 10-Q, Exhibit 10.1).
- 10.5 Third Amendment to Indemnity Agreement, dated as of December 3, 2009, by and among Sempra Energy, Pacific Enterprises, Enova Corporation and The Royal Bank of Scotland plc (2009 Sempra Energy Form 10-K, Exhibit 10.06).
- 10.6 Fourth Amendment to Indemnity Agreement, dated as of April 15, 2011, by and among The Royal Bank of Scotland plc, Sempra Energy, Pacific Enterprises and Enova Corporation (Sempra Energy Form 8-K filed on April 21, 2011, Exhibit 10.2).
- 10.7 Letter Agreement, dated as of April 15, 2011, by and among The Royal Bank of Scotland plc, Sempra Energy, Sempra Commodities, Inc. and Sempra Energy Holdings VII B.V. (Sempra Energy Form 8-K/A filed on April 21, 2011, Exhibit 10.1).
- 10.8 Purchase and Sale Agreement, dated as of February 16, 2010, entered into by and among J.P. Morgan Ventures Energy Corporation, Sempra Energy Trading LLC, RBS Sempra Commodities LLP, Sempra Energy and The Royal Bank of Scotland plc (Sempra Energy Form 8-K filed on February 19, 2010, Exhibit 10.1).
- 10.9 First Amendment to Purchase and Sale Agreement, dated as of June 30, 2010, entered into by and among J.P. Morgan Ventures Energy Corporation, Sempra Energy Trading LLC, RBS Sempra Commodities LLP, Sempra Energy and The Royal Bank of Scotland plc (Sempra Energy June 30, 2010 Form 10-Q, Exhibit 10.1).
- 10.10 Letter Agreement, dated as of February 16, 2010, entered into by and between Sempra Energy and The Royal Bank of Scotland plc (Sempra Energy Form 8-K filed on February 19, 2010, Exhibit 10.2).
- 10.11 Limited Liability Partnership Agreement, dated as of April 1, 2008, between Sempra Energy, Sempra Commodities, Inc., Sempra Energy Holdings, VII B.V., RBS Sempra Commodities LLP and The Royal Bank of Scotland plc (Sempra Energy March 31, 2008 Form 10-Q, Exhibit 10.1).
- 10.12 First Amendment to Limited Liability Partnership Agreement, dated as of April 6, 2009 and effective as of November 14, 2008, by and among The Royal Bank of Scotland plc, Sempra Energy, Sempra Commodities, Inc., Sempra Energy Holdings VII B.V. and RBS Sempra Commodities LLP (Sempra Energy March 31, 2009 Form 10-Q, Exhibit 10.4).
- 10.13 Second Amendment to Limited Liability Partnership Agreement, dated December 23, 2009, by and among The Royal Bank of Scotland plc, Sempra Energy, Sempra Commodities, Inc., Sempra Energy Holdings VII B.V. and RBS Sempra Commodities LLP (2009 Sempra Energy Form 10-K, Exhibit 10.11).
- 10.14 Master Formation and Equity Interest Purchase Agreement, dated as of July 9, 2007, by and among Sempra Energy, Sempra Global, Sempra Energy Trading International, B.V. and The Royal Bank of Scotland plc (Sempra Energy Form 8-K filed on July 9, 2007, Exhibit 10.2).
- 10.15 First amendment to the Master Formation and Equity Interest Purchase Agreement, dated as of April 1, 2008, by and among Sempra Energy, Sempra Global, Sempra Energy Trading International, B.V. and The Royal Bank of Scotland plc (Sempra Energy March 31, 2008 Form 10-Q, Exhibit 10.3).

Sempra Energy / San Diego Gas & Electric Company

- 10.16 Amended and Restated Operating Order between San Diego Gas & Electric Company and the California Department of Water Resources effective March 10, 2011 (Sempra Energy March 31, 2011 Form 10-Q, Exhibit 10.4).
- 10.17 Amended and Restated Servicing Order between San Diego Gas & Electric Company and the California Department of Water Resources effective March 10, 2011 (Sempra Energy March 31, 2011 Form 10-Q, Exhibit 10.5).

Compensation

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

- 10.18 Form of Sempra Energy Shared Services Executive Incentive Compensation Plan (2013 Sempra Energy Form 10-K, Exhibit 10.19).
- 10.19 Form of Sempra Energy 2013 Long-Term Incentive Plan 2015 Performance-Based Restricted Stock Unit Award - Relative Total Shareholder Return Performance Measure.

- 10.20 Form of Sempra Energy 2013 Long-Term Incentive Plan 2015 Performance-Based Restricted Stock Unit Award - EPS Growth Performance Measure.
- 10.21 Form of Sempra Energy 2013 Long-Term Incentive Plan 2015 Performance-Based Restricted Stock Unit Award.
- 10.22 Form of Sempra Energy 2013 Long-Term Incentive Plan 2014 Restricted Stock Unit Award (Sempra Energy March 31, 2014 Form 10-Q, Exhibit 10.1).
- 10.23 Form of Sempra Energy 2013 Long-Term Incentive Plan 2014 Performance-Based Restricted Stock Unit Award - EPS Growth Performance Measure (Sempra Energy March 31, 2014 Form 10-Q, Exhibit 10.2).
- 10.24 Form of Sempra Energy 2013 Long-Term Incentive Plan 2014 Performance-Based Restricted Stock Unit Award - Relative Total Shareholder Return Performance Measure (Sempra Energy March 31, 2014 Form 10-Q, Exhibit 10.3).
- 10.25 Form of Sempra Energy 2013 Long-Term Incentive Plan 2013 Performance-Based Restricted Stock Unit Award (Sempra Energy September 30, 2013 Form 10-Q, Exhibit 10.1).
- 10.26 Form of Sempra Energy 2008 Long Term Incentive Plan 2012 Performance-Based Restricted Stock Unit Award (March 31, 2012 Sempra Energy Form 10-Q, Exhibit 10.1).
- 10.27 Form of Sempra Energy 2008 Long Term Incentive Plan, 2011 Performance-Based Restricted Stock Unit Award (Sempra Energy March 31, 2011 Form 10-Q, Exhibit 10.2).
- 10.28 Form of Sempra Energy 2008 Long Term Incentive Plan, 2009 Nonqualified Stock Option Agreement (March 31, 2009 Sempra Energy Form 10-Q, Exhibit 10.2).
- 10.29 Form of Sempra Energy 2008 Long Term Incentive Plan, 2008 Nonqualified Stock Option Agreement (June 30, 2008 Sempra Energy Form 10-Q, Exhibit 10.4).
- 10.30 Sempra Energy 2008 Long Term Incentive Plan (Appendix A to the 2008 Sempra Energy Definitive Proxy Statement, filed on April 15, 2008).
- 10.31 Form of Sempra Energy 1998 Long Term Incentive Plan, 2008 Non-Qualified Stock Option Agreement (2007 Sempra Energy Form 10-K, Exhibit 10.10).
- 10.32 Amended and Restated Sempra Energy 1998 Long-Term Incentive Plan (June 30, 2003 Sempra Energy Form 10-Q, Exhibit 10.2).
- 10.33 Sempra Energy 2008 Long Term Incentive Plan for EnergySouth, Inc. Employees and Other Eligible Individuals (Registration Statement on Form S-8 Sempra Energy Registration Statement No. 333-155191 dated November 7, 2008, Exhibit 10.1).
- 10.34 Third Amendment to the Sempra Energy Employee and Director Retirement Savings Plan (2012 Sempra Energy Form 10-K, Exhibit 10.21).
- 10.35 Second Amendment to the Sempra Energy Employee and Director Retirement Savings Plan (June 30, 2012 Sempra Energy Form 10-Q, Exhibit 10.1).
- 10.36 First Amendment to the Sempra Energy Employee and Director Savings Plan (2011 Sempra Energy Form 10-K, Exhibit 10.22).
- 10.37 Amendment to the Amendment and Restatement of the Sempra Energy 2005 Deferred Compensation Plan, now known as Sempra Energy Employee and Director Retirement Savings Plan (2010 Sempra Energy Form 10-K, Exhibit 10.20).
- 10.38 Sempra Energy 2013 Long-Term Incentive Plan (March 21, 2013 Sempra Energy Proxy Statement, Appendix D).
- 10.39 Amendment and Restatement of the Sempra Energy 2005 Deferred Compensation Plan, now known as Sempra Energy Employee and Director Retirement Savings Plan (2008 Sempra Energy Form 10-K, Exhibit 10.18).
- 10.40 Amendment to the Amended and Restated Sempra Energy Deferred Compensation and Excess Savings Plan (2008 Sempra Energy Form 10-K, Exhibit 10.25).
- 10.41 Amended and Restated Sempra Energy Deferred Compensation and Excess Savings Plan (September 30, 2002 Sempra Energy Form 10-Q, Exhibit 10.3).
- 10.42 Amendment and Restatement of the Sempra Energy Supplemental Executive Retirement Plan (2008 Sempra Energy Form 10-K, Exhibit 10.19).
- 10.43 Amendment to the 2009 Amendment and Restatement of the Sempra Energy Supplemental

Executive Retirement Plan effective July 1, 2009.

- 10.44 Amendment and Restatement of the Sempra Energy Cash Balance Restoration Plan (2008 Sempra Energy Form 10-K, Exhibit 10.16).
- 10.45 Sempra Energy Amended and Restated Executive Life Insurance Plan (2012 Sempra Energy Form 10-K, Exhibit 10.22).
- 10.46 Sempra Energy Executive Personal Financial Planning Program Policy Document (September 30, 2004 Sempra Energy Form 10-Q, Exhibit 10.11).
- 10.47 Form of Indemnification Agreement with Directors and Executive Officers (June 30, 2008 Sempra Energy Form 10-Q, Exhibit 10.2).
- 10.48 Sempra Energy Amended and Restated Executive Medical Plan (2008 Sempra Energy Form 10-K, Exhibit 10.26).
- 10.49 Sempra Energy Employee Stock Ownership Plan and Trust Agreement effective January 1, 2001 (September 30, 2008 Sempra Energy Form 10-Q, Exhibit 10.1).

Sempra Energy

- 10.50 Sempra Energy Executive Incentive Plan effective January 1, 2003 (2002 Sempra Energy Form 10-K, Exhibit 10.09).
- 10.51 Amended and Restated Sempra Energy Severance Pay Agreement between Sempra Energy and Debra L. Reed (Sempra Energy Form 8-K filed on July 1, 2011, Exhibit 10.1).
- 10.52 Amendment to Severance Pay Agreement between Sempra Energy and Mark A. Snell (Sempra Energy Form 8-K filed on September 15, 2011, Exhibit 10.1).
- 10.53 Amended and Restated Sempra Energy Severance Pay Agreement between Sempra Energy and Mark A. Snell, dated November 4, 2008.
- 10.54 Severance Pay Agreement between Sempra Energy and Joseph A. Householder (Sempra Energy Form 8-K filed on September 15, 2011, Exhibit 10.2).
- 10.55 Severance Pay Agreement between Sempra Energy and Martha B. Wyrsh, dated September 3, 2013 (2013 Sempra Energy Form 10-K, Exhibit 10.57).
- 10.56 Severance Pay Agreement between Sempra Energy and Jessie J. Knight, Jr. (2011 Sempra Energy Form 10-K, Exhibit 10.24).
- 10.57 Severance Pay Agreement between Sempra Energy and G. Joyce Rowland (2011 Sempra Energy Form 10-K, Exhibit 10.26).
- 10.58 Severance Pay Agreement between Sempra Energy and Trevor Mihalik (June 30, 2012 Sempra Energy Form 10-Q, Exhibit 10.3).
- 10.59 Form of Sempra Energy Non-Employee Directors' Restricted Stock Unit Award.
- 10.60 Form of Sempra Energy Long Term Incentive Plan, Restricted Stock Unit Award for Sempra Energy's Board of Directors (Sempra Energy June 30, 2010 Form 10-Q, Exhibit 10.2).
- 10.61 Form of Sempra Energy 2008 Non-Employee Directors' Stock Plan, Nonqualified Stock Option Agreement (June 30, 2008 Sempra Energy Form 10-Q, Exhibit 10.5).
- 10.62 Form of Sempra Energy 1998 Non-Employee Directors' Stock Plan Non-Qualified Stock Option Agreement (2006 Sempra Energy Form 10-K, Exhibit 10.09).
- 10.63 Amendment and Restatement of Sempra Energy 1998 Non-Employee Directors' Stock Plan effective March 2, 1999.
- 10.64 Sempra Energy 1998 Non-Employee Directors' Stock Plan (Registration Statement on Form S-8 Sempra Energy Registration Statement No. 333-56161 dated June 5, 1998, Exhibit 4.2).
- 10.65 Sempra Energy Amended and Restated Sempra Energy Retirement Plan for Directors (June 30, 2008 Sempra Energy Form 10-Q, Exhibit 10.7).

Sempra Energy / San Diego Gas & Electric Company

- 10.66 Form of Sempra Energy and San Diego Gas & Electric Company Executive Incentive Compensation Plan (2013 Sempra Energy Form 10-K, Exhibit 10.64).
- 10.67 Severance Pay Agreement between Sempra Energy and John C. Baker, dated February 18, 2013.

- 10.68 Severance Pay Agreement between Sempra Energy and Steven D. Davis, dated December 31, 2011.
- 10.69 Severance Pay Agreement between Sempra Energy and Jeffrey W. Martin, dated April 3, 2010 (2013 Sempra Energy Form 10-K, Exhibit 10.65).
- 10.70 Severance Pay Agreement between Sempra Energy and Robert M. Schlax, dated January 17, 2014 (2013 Sempra Energy Form 10-K, Exhibit 10.66).
- 10.71 Severance Pay Agreement between Sempra Energy and James P. Avery, dated February 18, 2013 (Sempra Energy March 31, 2013 Form 10-Q, Exhibit 10.2).
- 10.72 Severance Pay Agreement between Sempra Energy and Lee Schavrien, dated February 18, 2013 (Sempra Energy March 31, 2013 Form 10-Q, Exhibit 10.3).
- 10.73 Severance Pay Agreement between Sempra Energy and Erbin Keith, dated February 18, 2013 (Sempra Energy March 31, 2013 Form 10-Q, Exhibit 10.5).

Sempra Energy / Southern California Gas Company

- 10.74 Form of Sempra Energy and Southern California Gas Company Executive Incentive Compensation Plan (2013 Sempra Energy Form 10-K, Exhibit 10.71).
- 10.75 Severance Pay Agreement between Sempra Energy and Dennis Arriola (September 30, 2012 Sempra Energy Form 10-Q, Exhibit 10.1).
- 10.76 Severance Pay Agreement between Sempra Energy and J. Bret Lane, dated August 4, 2012 (2013 Sempra Energy Form 10-K, Exhibit 10.72).

Nuclear

Sempra Energy / San Diego Gas & Electric Company

- 10.77 Nuclear Facilities Qualified CPUC Decommissioning Master Trust Agreement for San Onofre Nuclear Generating Station, approved November 25, 1987 (1992 SDG&E Form 10-K, Exhibit 10.7).
- 10.78 Amendment No. 1 to the Qualified CPUC Decommissioning Master Trust Agreement dated September 22, 1994 (see Exhibit 10.77 above) (1994 SDG&E Form 10-K, Exhibit 10.56).
- 10.79 Second Amendment to the San Diego Gas & Electric Company Nuclear Facilities Qualified CPUC Decommissioning Master Trust Agreement for San Onofre Nuclear Generating Station (see Exhibit 10.77 above) (1994 SDG&E Form 10-K, Exhibit 10.57).
- 10.80 Third Amendment to the San Diego Gas & Electric Company Nuclear Facilities Qualified CPUC Decommissioning Master Trust Agreement for San Onofre Nuclear Generating Station (see Exhibit 10.77 above) (1996 SDG&E Form 10-K, Exhibit 10.59).
- 10.81 Fourth Amendment to the San Diego Gas & Electric Company Nuclear Facilities Qualified CPUC Decommissioning Master Trust Agreement for San Onofre Nuclear Generating Station (see Exhibit 10.77 above) (1996 SDG&E Form 10-K, Exhibit 10.60).
- 10.82 Fifth Amendment to the San Diego Gas & Electric Company Nuclear Facilities Qualified CPUC Decommissioning Master Trust Agreement for San Onofre Nuclear Generating Station (see Exhibit 10.77 above) (1999 SDG&E Form 10-K, Exhibit 10.26).
- 10.83 Sixth Amendment to the San Diego Gas & Electric Company Nuclear Facilities Qualified CPUC Decommissioning Master Trust Agreement for San Onofre Nuclear Generating Station (see Exhibit 10.77 above) (1999 SDG&E Form 10-K, Exhibit 10.27).
- 10.84 Seventh Amendment to the San Diego Gas & Electric Company Nuclear Facilities Qualified CPUC Decommissioning Master Trust Agreement for San Onofre Nuclear Generating Station dated December 24, 2003 (see Exhibit 10.77 above) (2003 Sempra Energy Form 10-K, Exhibit 10.42).
- 10.85 Eighth Amendment to the San Diego Gas & Electric Company Nuclear Facilities Qualified CPUC Decommissioning Master Trust Agreement for San Onofre Nuclear Generating Station dated October 12, 2011 (see Exhibit 10.77 above) (2011 SDG&E Form 10-K, Exhibit 10.70).
- 10.86 Ninth Amendment to the San Diego Gas & Electric Company Nuclear Facilities Qualified CPUC Decommissioning Master Trust Agreement for San Onofre Nuclear Generating Station dated January 9, 2014 (see Exhibit 10.77 above) (2013 Sempra Energy Form 10-K, Exhibit 10.83).
- 10.87 Tenth Amendment to the San Diego Gas & Electric Company Nuclear Facilities Qualified CPUC Decommissioning Master Trust Agreement for San Onofre Nuclear Generating Station dated August 27, 2014 (see Exhibit 10.77 above) (Sempra Energy September 30, 2014 Form 10-Q, Exhibit 10.1).

- 10.88 Eleventh Amendment to the San Diego Gas & Electric Company Nuclear Facilities Qualified CPUC Decommissioning Master Trust Agreement for San Onofre Nuclear Generating Station dated August 27, 2014 (see Exhibit 10.77 above) (Sempra Energy September 30, 2014 Form 10-Q, Exhibit 10.2).
- 10.89 Twelfth Amendment to the San Diego Gas & Electric Company Nuclear Facilities Qualified CPUC Decommissioning Master Trust Agreement for San Onofre Nuclear Generating Station dated August 27, 2014 (see Exhibit 10.77 above) (Sempra Energy September 30, 2014 Form 10-Q, Exhibit 10.3).
- 10.90 Nuclear Facilities Non-Qualified CPUC Decommissioning Master Trust Agreement for San Onofre Nuclear Generating Station, approved November 25, 1987 (1992 SDG&E Form 10-K, Exhibit 10.8).
- 10.91 First Amendment to the San Diego Gas & Electric Company Nuclear Facilities Non-Qualified CPUC Decommissioning Master Trust Agreement for San Onofre Nuclear Generating Station (see Exhibit 10.90 above) (1996 SDG&E Form 10-K, Exhibit 10.62).
- 10.92 Second Amendment to the San Diego Gas & Electric Company Nuclear Facilities Non-Qualified CPUC Decommissioning Master Trust Agreement for San Onofre Nuclear Generating Station (see Exhibit 10.90 above) (1996 SDG&E Form 10-K, Exhibit 10.63).
- 10.93 Third Amendment to the San Diego Gas & Electric Company Nuclear Facilities Non-Qualified CPUC Decommissioning Master Trust Agreement for San Onofre Nuclear Generating Station (see Exhibit 10.90 above) (1999 SDG&E Form 10-K, Exhibit 10.31).
- 10.94 Fourth Amendment to the San Diego Gas & Electric Company Nuclear Facilities Non-Qualified CPUC Decommissioning Master Trust Agreement for San Onofre Nuclear Generating Station (see Exhibit 10.90 above) (1999 SDG&E Form 10-K, Exhibit 10.32).
- 10.95 Fifth Amendment to the San Diego Gas & Electric Company Nuclear Facilities Non-Qualified CPUC Decommissioning Master Trust Agreement for San Onofre Nuclear Generating Station dated December 24, 2003 (see Exhibit 10.90 above) (2003 Sempra Energy Form 10-K, Exhibit 10.48).
- 10.96 Sixth Amendment to the San Diego Gas & Electric Company Nuclear Facilities Non-Qualified CPUC Decommissioning Master Trust Agreement for San Onofre Nuclear Generating Station dated October 12, 2011 (see Exhibit 10.90 above) (2011 SDG&E Form 10-K, Exhibit 10.77).
- 10.97 Seventh Amendment to the San Diego Gas & Electric Company Nuclear Facilities Non-Qualified CPUC Decommissioning Master Trust Agreement for San Onofre Nuclear Generating Station dated January 9, 2014 (see Exhibit 10.90 above) (2013 Sempra Energy Form 10-K, Exhibit 10.91).
- 10.98 Eighth Amendment to the San Diego Gas & Electric Company Nuclear Facilities Non-Qualified CPUC Decommissioning Master Trust Agreement for San Onofre Nuclear Generating Station dated August 27, 2014 (see Exhibit 10.90 above) (Sempra Energy September 30, 2014 Form 10-Q, Exhibit 10.4).
- 10.99 Ninth Amendment to the San Diego Gas & Electric Company Nuclear Facilities Non-Qualified CPUC Decommissioning Master Trust Agreement for San Onofre Nuclear Generating Station dated August 27, 2014 (see Exhibit 10.90 above) (Sempra Energy September 30, 2014 Form 10-Q, Exhibit 10.5).
- 10.100 Tenth Amendment to the San Diego Gas & Electric Company Nuclear Facilities Non-Qualified CPUC Decommissioning Master Trust Agreement for San Onofre Nuclear Generating Station dated August 27, 2014 (see Exhibit 10.90 above) (Sempra Energy September 30, 2014 Form 10-Q, Exhibit 10.6).
- 10.101 U. S. Department of Energy contract for disposal of spent nuclear fuel and/or high-level radioactive waste, entered into between the DOE and Southern California Edison Company, as agent for SDG&E and others; Contract DE-CR01-83NE44418, dated June 10, 1983 (1988 SDG&E Form 10-K, Exhibit 10N).

EXHIBIT 12 -- STATEMENTS RE: COMPUTATION OF RATIOS

Sempra Energy

- 12.1 Sempra Energy Computation of Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends for the years ended December 31, 2014, 2013, 2012, 2011 and 2010.

San Diego Gas & Electric Company

- 12.2 San Diego Gas & Electric Computation of Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends for the years ended December 31, 2014, 2013, 2012, 2011

and 2010.

Southern California Gas Company

- 12.3 Southern California Gas Company Computation of Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends for the years ended December 31, 2014, 2013, 2012, 2011 and 2010.

EXHIBIT 13 -- ANNUAL REPORT TO SECURITY HOLDERS

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

- 13.1 Sempra Energy 2014 Annual Report to Shareholders. (Such report, except for the portions thereof which are expressly incorporated by reference in this Annual Report, is furnished for the information of the Securities and Exchange Commission and is not to be deemed "filed" as part of this Annual Report).

EXHIBIT 14 -- CODE OF ETHICS

San Diego Gas & Electric Company / Southern California Gas Company

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

EXHIBIT 21 -- SUBSIDIARIES

Sempra Energy

- 21.1 Sempra Energy Schedule of Certain Subsidiaries at December 31, 2014.

EXHIBIT 23 -- CONSENTS OF EXPERTS AND COUNSEL

- 23.1 Consents of Independent Registered Public Accounting Firm and Report on Schedule, pages 46 through 48.

EXHIBIT 31 -- SECTION 302 CERTIFICATIONS

Sempra Energy

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

San Diego Gas & Electric Company

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

Southern California Gas Company

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

EXHIBIT 32 -- SECTION 906 CERTIFICATIONS

Sempra Energy

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

San Diego Gas & Electric Company

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

Southern California Gas Company

32.5 Statement of Southern California Gas Company's Chief Executive Officer pursuant to 18 U.S.C. Sec. 1350.

32.6 Statement of Southern California Gas Company's Chief Financial Officer pursuant to 18 U.S.C. Sec. 1350.

EXHIBIT 101 -- INTERACTIVE DATA FILE

101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

GLOSSARY

AB	Assembly Bill	LA Storage	LA Storage, LLC
Annual Report	2014 Annual Report to Shareholders	LNG	Liquefied natural gas
Bay Gas	Bay Gas Storage Company, Ltd.	Luz del Sur	Luz del Sur S.A.A. and its subsidiaries
Bcf	Billion cubic feet (of natural gas)	Mississippi Hub	Mississippi Hub, LLC
BMV	La Bolsa Mexicana de Valores, S.A.B. de C.V. (the Mexican Stock Exchange)	Mobile Gas	Mobile Gas Service Corporation
California Utilities	San Diego Gas & Electric Company and Southern California Gas Company	Mtpa	Million tonnes per annum
Cameron LNG Holdings	Cameron LNG Holdings, LLC	MW	Megawatt
CARB	California Air Resources Board	MWh	Megawatt hours
CCC	California Coastal Commission	NEM	Net energy metering
CDEC	Centros de Despacho Económico de Carga (Centers for Economic Load Dispatch) (Chile)	NRC	Nuclear Regulatory Commission
CDEC-SIC	Sistema Interconectado Central (Central Interconnected System) (Chile)	NYK	Nippon Yusen Kabushiki Kaisha
CDEC-SING	Sistema Interconectado del Norte Grande (Northern Interconnected System) (Chile)	ORA	Office of Ratepayer Advocates
CEC	California Energy Commission	OSINERGMIN	Organismo Supervisor de la Inversión en Energía y Minería (Energy and Mining Investment Supervisory Body) (Peru)
Chilquinta Energía	Chilquinta Energía S.A. and its subsidiaries	PEMEX	Petróleos Mexicanos (Mexican state-owned oil company)
CNBV	Comisión Nacional Bancaria y de Valores (Mexican National Banking and Securities Commission)	PG&E	Pacific Gas and Electric Company
CNE	Comisión Nacional de Energía (National Energy Commission) (Chile)	PSEP	Pipeline Safety Enhancement Plan
COES	Comité de Operación Económica del Sistema Interconectado Nacional (Committee of Economic Operation of the National Interconnected System) (Peru)	QF	Qualifying Facility
CPUC	California Public Utilities Commission	RBS Sempra Commodities	RBS Sempra Commodities LLP
CRE	Comisión Reguladora de Energía (Energy Regulatory Commission) (Mexico)	REX	Rockies Express pipeline
DOE	U.S. Department of Energy	RNV	Registro Nacional de Valores (Mexican National Securities Registry)
DOT	U.S. Department of Transportation	Rockies Express	Rockies Express Pipeline LLC
Edison	Southern California Edison Company	RPS	Renewables Portfolio Standard
EPA	Environmental Protection Agency	SDG&E	San Diego Gas & Electric Company
EPC	Engineering, procurement and construction	SEC	Securities and Exchange Commission
ERR	Eligible Renewable Energy Resource	SEIN	Sistema Eléctrico Interconectado Nacional (Peruvian national interconnected system) (Peru)
FERC	Federal Energy Regulatory Commission	SoCalGas	Southern California Gas Company
FTA	Free Trade Agreement	SONGS	San Onofre Nuclear Generating Station
GHG	Greenhouse gas	TCAP	Triennial Cost Allocation Proceeding
IEnova	Infraestructura Energética Nova, S.A.B. de C.V.	The board	Sempra Energy's board of directors
IOUs	Investor-owned utilities	TURN	The Utility Reform Network
kV	Kilovolt	UCAN	Utility Consumers' Action Network
kW	Kilowatt	Willmut Gas	Willmut Gas Company

SAN DIEGO GAS & ELECTRIC COMPANY

AMENDED AND RESTATED ARTICLES OF INCORPORATION

Robert M. Schlax and Jennifer F. Jett certify that:

1. They are a Vice President and the Corporate Secretary, respectively, of **San Diego Gas & Electric Company**, a California corporation.
2. The Articles of Incorporation of San Diego Gas & Electric Company are amended and restated to read in full as set forth on Exhibit A hereto, which is incorporated by this reference as if fully set forth herein.
3. The amendment and restatement has been approved by the board of directors.
4. The amendment and restatement has been approved by the required vote of shareholders in accordance with Sections 902 and 903 of the California Corporations Code. The total number of outstanding shares of the corporation entitled to vote on the amendment and restatement was 116,583,358 shares of Common Stock. There are no outstanding shares of Cumulative Preferred Stock of the corporation. There are no outstanding shares of Preference Stock (Cumulative) of the corporation. There are no outstanding shares of Series Preference Stock of the corporation. The number of shares voting in favor of the amendment and restatement equaled or exceeded the vote required. The percentage vote required was not less than 66 2/3% of the outstanding shares of Common Stock.

We further declare under penalty of perjury under the laws of the State of California that the matters set forth in this certificate are true and correct of our own knowledge.

Dated: August 15, 2014

Robert Schlax
Vice President, Controller, and Chief
Financial Officer

Jennifer F. Jett
Corporate Secretary

**AMENDED AND RESTATED
ARTICLES OF INCORPORATION
OF
SAN DIEGO GAS & ELECTRIC COMPANY**

FIRST: That the name of the Corporation shall be SAN DIEGO GAS & ELECTRIC COMPANY (the "Corporation").

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

THIRD: That the Corporation shall have perpetual existence.

FOURTH: The total number of shares of all classes of stock that the Corporation shall have authority to issue is 300,000,000, of which 255,000,000 shall be shares of Common Stock, each without par value ("Common Stock"), and 45,000,000 shall be shares of Preferred Stock, each without par value ("Preferred Stock").

The Preferred Stock may be issued in one or more series. The board of directors of the Corporation (the "Board") is authorized (a) to fix the number of shares of any series of Preferred Stock; (b) to determine the designation of any such series; (c) to increase or decrease (but not below the number of shares of such series then outstanding) the number of shares of any such series subsequent to the issue of shares of that series; and (d) to determine or alter the rights, preferences, privileges and restrictions granted to or imposed upon any wholly unissued series of Preferred Stock.

FIFTH: Each director, including a director elected to fill a vacancy, shall hold office until the expiration of the term for which elected and until a successor has been elected and qualified. Vacancies on the Board, including, without limitation, vacancies created by the removal of any director, may be filled by a majority of the directors then in office, whether or not less than a quorum, or by a sole remaining director.

SIXTH:

A. LIMITATION OF DIRECTORS' LIABILITY.

The liability of the directors of the Corporation for monetary damages shall be eliminated to the fullest extent permissible under California law.

B. INDEMNIFICATION OF CORPORATE AGENTS.

The Corporation is authorized to provide indemnification of agents (as defined in Section 317 of the California Corporations Code) through bylaw provisions, agreements with agents, vote of shareholders or disinterested directors, or otherwise, in excess of the indemnification otherwise permitted by Section 317 of the California Corporations Code, subject only to the applicable limits set forth in Section 204 of the California Corporations Code.

C. INSURANCE.

The Corporation shall have the power to purchase and maintain insurance on behalf of any agent (as defined in Section 317 of the California Corporations Code) of the Corporation against any liability asserted against or incurred by the agent in that capacity or arising out of the agent's status as such to the fullest extent permissible under California law and whether or not the Corporation would have the power to indemnify the agent under Section 317 of the California Corporations Code or these articles of incorporation.

D. REPEAL OR MODIFICATION.

Any repeal or modification of the provisions of this Article SIXTH shall be prospective only and shall not adversely affect the rights or protections or increase the liability of any director or agent of the Corporation existing at the time of such repeal or modification.

SEVENTH: The Board of Directors is expressly authorized to adopt, amend or repeal the bylaws of the Corporation, without any action on the part of the shareholders, except as otherwise required by the California Corporations Code. Bylaws also may be adopted, amended or repealed by the shareholders of the Corporation by the approval of the outstanding shares (as defined in Section 152 of the California Corporations Code).

— Title:

(Signature)
Chairman and Chief Executive Officer

SEMPRA ENERGY
2013 LONG TERM INCENTIVE PLAN
Year <YEAR> Restricted Stock Unit Award Agreement

Award:

You have been granted a performance-based restricted stock unit award under Sempra Energy's 2013 Long Term Incentive Plan. The award consists of the number of restricted stock units set forth on the Cover Page/Summary to this Agreement, and dividend equivalents with respect to the restricted stock units (described below).

Your restricted stock units represent the right to receive shares of Common Stock in the future, subject to the terms and conditions of your award. Your restricted stock units are not shares of Common Stock.

Each restricted stock unit initially represents the right to receive one share of Common Stock upon the vesting of the unit.

Unless and until they vest, your restricted stock units and any dividend equivalents (as described below) will be subject to transfer restrictions and forfeiture and vesting conditions.

Subject to the provisions below relating to the treatment of your restricted stock units in connection with a Change in Control, your restricted stock units (and dividend equivalents) will vest only upon and only to the extent that the Compensation Committee of Sempra Energy's Board of Directors determines and certifies that Sempra Energy has met specified total shareholder return criteria for the performance period beginning <DATE>, <YEAR> and ending at the close of trading on <DATE> <YEAR>. Any restricted stock units (and dividend equivalents) that do not vest will be forfeited.

Your restricted stock units (and dividend equivalents) also may be forfeited if your employment terminates before they vest.

See "Vesting/Forfeiture," "Transfer Restrictions," and "Termination of Employment" below.

Vesting/Forfeiture:

Subject to the provisions below relating to the treatment of your restricted stock units in connection with a Change in Control, your restricted stock units (and dividend equivalents, as described below) will vest only upon and only to the extent that the Compensation Committee of Sempra Energy's Board of Directors determines and certifies that Sempra Energy has met the following total shareholder return performance criteria for the performance period beginning on <DATE>, <YEAR> and ending on the close of trading on <DATE> <YEAR>:

Preliminary Calculation Based on Sempra Energy's cumulative total shareholder return relative to the S&P 500 Utilities Index and S&P 500 Index:

- § The percentage of your target number of restricted stock units that vest will be determined as follows, based on the percentile ranking for the performance period (as measured based on the thirty-day average immediately preceding the start of the performance period compared to the thirty-day average immediately preceding the end of the performance period) of Sempra Energy's cumulative total shareholder return (consisting of per share appreciation in Common Stock plus reinvested dividends and other distributions paid on Common Stock) among the companies (ranked by cumulative total shareholder returns) in the S&P 500 Utility Index, as determined and certified by the Compensation Committee, subject to adjustment as described below.

Sempra Energy Total Shareholder Return Percentile Ranking	Percentage of Target Number of Restricted Stock Units that Vest
90 th	200%
80 th	175%
70 th	150%

60 th	125%
50 th	100%
40 th	50%
35 th	25%
30 th	0%

If the percentile ranking does not equal a ranking shown in the above table, the percentage of your target number of restricted stock units that vest will be determined by a linear interpolation between the next lowest percentile shown in the table and the next highest percentile shown on the table, subject to adjustment as described below.

- If the percentile ranking is at or above the 90th percentile, 200% of your target number of restricted stock units will vest, subject to adjustment as described below.
- If the percentile ranking is at or below the 30th percentile, none of your restricted stock units will vest.
- The Compensation Committee also will compare Sempra Energy's cumulative total shareholder return for the performance period (as measured based on the thirty-day average immediately preceding the start of the performance period compared to the thirty-day average immediately preceding the end of the performance period) to the market capitalization-weighted S&P 500 Composite Index. If the Compensation Committee determines and certifies that Sempra Energy's cumulative total shareholder return is at or above the cumulative total shareholder return of the market capitalization-weighted S&P 500 Composite Index, the percentage of your target number of restricted stock units that vest will be the greater of 100% and the percentage calculated above using the percentile ranking of Sempra Energy's total shareholder return among companies in the S&P 500 Utility Index, subject to the adjustment described below.

Final Calculation with Potential Adjustment based on Sempra Energy's cumulative total shareholder return:

- The Compensation Committee will then determine and certify the final percentage of your target restricted stock units that vest (based on the relative total shareholder return performance criteria described above) and as adjusted by the cumulative total shareholder return performance criteria described below:
 - If Sempra Energy's cumulative total shareholder return for the performance period (as measured based on the thirty-day average immediately preceding the start of the performance period compared to the thirty-day average immediately preceding the end of the performance period) is at or above <PERCENTAGE>, the percentage of your restricted stock units that vest will be increased by 20%, but in no event shall the percentage of your target restricted stock unit that vest exceed 200%.
 - If Sempra Energy's cumulative total shareholder return for the performance period (as measured based on the thirty-day average immediately preceding the start of the performance period compared to the thirty-day average immediately preceding the end of the performance period) is at or below <PERCENTAGE>, the percentage of your restricted stock units that vest will be decreased by 20%.
 - If Sempra Energy's cumulative total shareholder return for the performance period (as measured based on the thirty-day average immediately preceding the start of the performance period compared to the thirty-day average immediately preceding the end of the performance period) is above <PERCENTAGE> but below <PERCENTAGE>, no adjustment will be applied.

- As soon as reasonably practicable following the end of the performance period, the Compensation Committee will determine and certify the extent to which Sempra Energy has met the performance criteria and the extent, if any, as to which your restricted stock units have then vested. You will receive the number of shares of Common Stock equal to the number of your vested restricted stock units after the Compensation Committee's determination and certification. Also, you will receive the number of shares of Common Stock equal to your dividend equivalents after the Compensation Committee's determination and certification. Certificates for the shares will be issued to you or transferred to an account that you designate. When the shares of Common Stock are issued to you, your restricted stock units (vested and unvested) and your dividend equivalents will terminate.
- Examples illustrating the application of the vesting provisions are shown in Exhibit A to this Award Agreement.

Transfer Restrictions:

You may not sell or otherwise transfer or assign your restricted stock units (or your dividend equivalents).

Dividend Equivalents:

You also have been awarded dividend equivalents with respect to your restricted stock units. Your dividend equivalents represent the right to receive additional shares of Common Stock in the future, subject to the terms and conditions of your award. Your dividend equivalents will be determined based on the dividends that you would have received, had you held shares of Common Stock equal to the vested number of your restricted stock units from the date of your award to the date of the distribution of shares of Common Stock following the vesting of your restricted stock units, and assuming that the dividends were reinvested in Common Stock (and any dividends on such shares were reinvested in Common Stock). The dividends will be deemed reinvested in Common Stock in the same manner as dividends reinvested pursuant to the terms of the Sempra Dividend Reinvestment Plan.

Your dividend equivalents will be subject to the same transfer restrictions and forfeiture and vesting conditions as your restricted stock units. They will vest when your restricted stock units vest.

Also, your restricted stock units (and dividend equivalents), including the terms and conditions thereof, will be adjusted to prevent dilution or enlargement of your rights in the event of a stock dividend on shares of Common Stock or as the result of a stock-split, recapitalization, reorganization or other similar transaction in accordance with the terms and conditions of the 2013 Long Term Incentive Plan. Any additional restricted stock units (and dividend equivalents) awarded to you as a result of such an adjustment also will be subject to the same transfer restrictions, forfeiture and vesting conditions and other terms and conditions that are applicable to your restricted stock units.

No Shareholder Rights:

Your restricted stock units (and dividend equivalents) are not shares of Common Stock. You will have no rights as a shareholder unless and until shares of Common Stock are issued to you following the vesting of your restricted stock units (and dividend equivalents) as provided in this Agreement and the 2013 Long Term Incentive Plan.

Distribution of Shares:

As described in "Vesting/Forfeiture" above, the Compensation Committee will determine and certify the extent to which Sempra Energy has met the performance criteria and the extent, if any, as to which your restricted stock units have then vested.

You will receive the number of shares of Common Stock equal to the number of your restricted stock units that have vested. However, in no event will you receive under this award, and other awards granted to you under the 2013 Long Term Incentive Plan in the same fiscal year of Sempra Energy, more than the maximum number of shares of Common Stock permitted under the 2013 Long Term Incentive Plan. Also, you will receive the number of shares of Common Stock equal to your dividend equivalents after the Compensation Committee's determination and certification.

You will receive the shares as soon as reasonably practicable following the Compensation Committee's determination and certification (and in no event later than March 15, <YEAR>). Once you receive the shares of Common Stock, your vested and unvested restricted stock units (and dividend equivalents) will terminate.

Termination of Employment:

§ Termination:

If your employment with Sempra Energy and its Subsidiaries terminates for any reason prior to the vesting of your restricted stock units (and dividend equivalents) (other than under the circumstances set forth in the next paragraph), all of your restricted stock units (and dividend equivalents) will be forfeited. Subject to the provisions below relating to the treatment of your restricted stock units in connection with a Change in Control, the vesting of your restricted stock units does not occur until the date of the Compensation Committee's determination and certification described above.

If your employment terminates prior to a Change in Control, other than by Termination for cause, and you had both completed five years of continuous service with Sempra Energy and its Subsidiaries AND met any of the following conditions:

- 1.) your employment terminates after <DATE>, <YEAR> and at the date of termination you had attained age 55; or
- 2.) your employment terminates after <DATE>, <YEAR> and at the date of termination you had attained age 62; or
- 3.) at the date of termination you had attained age 65 and you were an officer subject to the company's mandatory retirement policy;

your restricted stock units (and dividend equivalents) will not be forfeited but will continue to be subject to the transfer restrictions and vesting conditions and other terms and conditions of this Agreement

§ Termination for Cause:

If your employment with Sempra Energy and its Subsidiaries terminates for cause, or your employment would have been subject to termination for cause, prior to the vesting of your restricted stock units (and dividend equivalents), all of your restricted stock units (and dividend equivalents) will be cancelled.

Prior to the consummation of a Change in Control, a termination for cause is (i) the willful failure by you to substantially perform your duties with the Company (other than any such failure resulting from your incapacity due to physical or mental illness), (ii) the grossly negligent performance of such obligations referenced in clause (i) of this definition, (iii) your gross insubordination; and/or (iv) your commission of one or more acts of moral turpitude that constitute a violation of applicable law (including but not limited to a felony) which have or result in an adverse effect on the Company, monetarily or otherwise, or one or more significant acts of dishonesty. For purposes of clause (i), no act, or failure to act, on your part shall be deemed "willful" unless done, or omitted to be done, by you not in good faith and without reasonable belief that your act, or failure to act, was in the best interests of the Company." If your restricted stock units remain outstanding following a Change in Control pursuant to a Replacement Award, a termination for cause following such Change in Control shall be determined in accordance with Section 2.8 of the 2013 Long Term Incentive Plan (which defines "Cause" for purposes of the plan), including reasonable notice and, if possible, a reasonable opportunity to cure as provided therein.

§ Leaves of Absence:

Your employment does not terminate when you go on military leave, a sick leave or another *bona fide* leave of absence, if the leave was approved by your employer in writing. But your employment will be treated as terminating 90 days after you went on leave, unless your right to return to active work is guaranteed by law or by a contract. And your employment terminates in any event when the approved leave ends, unless you immediately return to active work. Your employer determines which leaves count for this purpose.

Taxes:

§ Withholding Taxes:

When you become subject to withholding taxes upon distribution of the shares of Common Stock or otherwise, Sempra Energy or its Subsidiary is required to withhold taxes. Unless you instruct otherwise and pay or make arrangements satisfactory to Sempra Energy to pay these taxes, upon the distribution of your shares, Sempra Energy will withhold a sufficient number of shares of common stock or restricted stock units (valued in each case at the distribution date fair market value) to cover the minimum required withholding taxes and transfer to you only the remaining balance of your shares. In the event that, following a Change in Control, your restricted stock units become eligible for a distribution upon your Retirement by reason of your combined age and service, your restricted stock units may become subject to employment tax withholding prior to the distribution of shares with respect to such units.

§ Code Section 409A:

Your restricted stock units are subject to Sections 16.5 and 20.12 of the 2013 Long Term Incentive Plan, which set forth terms to comply with Code Section 409A.

Recoupment (“Clawback”) Policy:

The Company shall require the forfeiture, recovery or reimbursement of awards or compensation under this Plan as (i) required by applicable law, or (ii) required under any policy implemented or maintained by the Company pursuant to any applicable rules or requirements of a national securities exchange or national securities association on which any securities of the Company are listed. The Company reserves the right to recoup compensation paid if it determines that the results on which the compensation was paid were not actually achieved.

The Compensation Committee may, in its sole discretion, require the recovery or reimbursement of long-term incentive compensation awards from any employee whose fraudulent or intentional misconduct materially affects the operations or financial results of the Company or its Subsidiaries.

Retention Rights:

Neither your restricted stock unit award nor this Agreement gives you any right to be retained by Sempra Energy or any of its Subsidiaries in any capacity and your employer reserves the right to terminate your employment at any time, with or without cause. The value of your award will not be included as compensation or earnings for purposes of any other benefit plan offered by Sempra Energy or any of its Subsidiaries.

Change in Control:

In the event of a Change in Control, the following terms shall apply:

§ If (i) you have achieved age 55 and have completed at least five years of continuous service with Sempra Energy and its Subsidiaries as of the date of a Change in Control and your restricted stock units have not been forfeited prior to the Change in Control, (ii) your outstanding restricted stock units as of the date of a Change in Control are not subject to a “substantial risk of forfeiture” within the meaning of Code Section 409A and/or (iii) your outstanding restricted stock units are not assumed or substituted with one or more Replacement Awards as contemplated in Section 16.1 of the 2013 Long Term Incentive Plan, then in each case your outstanding restricted stock units and any associated dividend equivalents will vest immediately prior to the Change in Control with the applicable performance goals deemed to have been achieved at the greater of target level as of the date of such vesting or the actual performance level had the performance period ended on the date of the Change in Control. If the foregoing terms apply, immediately prior to the date of the Change in Control you will receive a number of shares of Common Stock equal to the number of your restricted stock units and dividend equivalents that have vested.

· If your outstanding restricted stock awards are assumed or substituted with one or more Replacement Awards as contemplated in Section 16.1 of the 2013 Long Term Incentive Plan, then, except as provided otherwise in an individual severance agreement or employment agreement to which you are a party, the terms set forth in Sections

16.3 and 16.4 of the 2013 Long Term Incentive Plan shall apply with respect to such Replacement Award following the Change in Control. If the foregoing terms apply and the Replacement Award vests upon your separation from service or death, on such date, you will receive a number of shares or other property in settlement of the Replacement Awards.

Further Actions:

You agree to take all actions and execute all documents appropriate to carry out the provisions of this Agreement.

You shall not be deemed to have accepted this award unless you execute the Arbitration Agreement provided with your award letter.

You also appoint as your attorney-in-fact each individual who at the time of so acting is the Secretary or an Assistant Secretary of Sempra Energy with full authority to effect any transfer of any shares of Common Stock distributable to you, including any transfer to pay withholding taxes, that is authorized by this Agreement.

Applicable Law:

This Agreement will be interpreted and enforced under the laws of the State of California.

Disputes:

Any and all disputes between you and the Company relating to or arising out of the Plan or your restricted stock unit award shall be subject to the Arbitration Agreement provided with your award letter, including, but not limited to, any disputes referenced in Section 16.4 of the Plan.

Other Agreements:

In the event of any conflict between the terms of this Agreement and any written employment, severance or other employment-related agreement between you and Sempra Energy, the terms of this Agreement, or the terms of such other agreement, whichever are more favorable to you, shall prevail, provided that in each case a conflict shall be resolved in a manner consistent with the intent that your restricted stock units comply with Code Section 409A. In the event of a conflict between the terms of this Agreement and the 2013 Long Term Incentive Plan, the plan document shall prevail.

***By your acceptance of this award, you agree
to all of the terms and conditions described above and in the 2013 Long Term Incentive Plan***

**Examples Illustrating the Determination
of the Vested Percentage of the
Target Number of Restricted Stock Units**

The following examples illustrate how the percentage of the target number of restricted stock units is to be determined. The examples assume that Sempra Energy achieves certain total cumulative shareholder returns for the performance period. The vested percentage of your target number of restricted stock units will be determined based on Sempra Energy's actual cumulative total shareholder return for the performance period as measured at the end of the performance period. No assurance is given that Sempra Energy will achieve the cumulative total shareholder returns shown in the examples.

Example 1

Sempra Energy's cumulative total shareholder return for the performance period among the companies (ranked by total shareholder returns) in the S&P 500 Utility Index, as determined and certified by the Compensation Committee, is at the 94th percentile. Sempra Energy's cumulative total shareholder return for the performance period is <PERCENTAGE>.

Because Sempra Energy's cumulative total cumulative shareholder return is above the 90th percentile, 200% of the target number of restricted stock units vest. This is the maximum number of restricted stock units under the award and no further award adjustment can be made even though Sempra Energy's cumulative total shareholder return is above <PERCENTAGE>.

Example 2

Sempra Energy's cumulative total shareholder return for the performance period among the companies (ranked by total shareholder returns) in the S&P 500 Utility Index, as determined and certified by the Compensation Committee, is at the 67th percentile and Sempra Energy's cumulative total shareholder return for the performance period is <PERCENTAGE>.

The percentage of the target number of restricted stock units that vest is determined by a linear interpolation between the percentage based on the achievement of the 60th percentile (125%) and the percentage based on the achievement of the 70th percentile (150%).

Based on Sempra Energy's cumulative total shareholder return relative to the S&P 500 Utilities Index and prior to consideration of the cumulative total shareholder return performance criteria, 142.5% of the target number of restricted stock units would vest. Because Sempra Energy's cumulative total shareholder return of <PERCENTAGE> is higher than <PERCENTAGE> (the trigger for the adjustment based on cumulative total shareholder return performance), the preliminary performance score is increased by 20% and the final performance score is 171%. [Calculation is $142.5\% \times 1.2 = 171\%$.]

Example 3

Sempra Energy's cumulative total shareholder return for the performance period among the companies (ranked by total shareholder returns) in the S&P 500 Utility Index, as determined and certified by the Compensation Committee, is at the 45th percentile. Sempra Energy's cumulative total shareholder return for the performance period is <PERCENTAGE>.

Sempra Energy's cumulative total shareholder return for the performance period exceeds the total shareholder returns of the market capitalization-weighted S&P 500 Composite Index, as determined and certified by the Compensation Committee.

Because Sempra Energy's cumulative total shareholder return is at the 45th percentile when ranked among the companies in the S&P 500 Utility Index, 75% of the target number of restricted stock units would vest (before taking into account Sempra Energy's performance compared to the market capitalization-weighted S&P 500 Composite Index).

However, because Sempra Energy's cumulative total shareholder return exceeds the total shareholder return of the market capitalization-weighted S&P 500 Composite Index, 100% of the target number of restricted stock units vest prior to consideration of the cumulative total shareholder return performance criteria. Because Sempra Energy's cumulative total shareholder return of <PERCENTAGE> is less than <PERCENTAGE> (the trigger for the adjustment based on cumulative total shareholder return performance), the preliminary performance score is decreased by 20% and the final performance score is 80%. [Calculation is $100\% \times 0.80 = 80\%$.]

Example 4

Sempra Energy's cumulative total shareholder return for the performance period among the companies (ranked by total shareholder returns) in the S&P 500 Utility Index, as determined and certified by the Compensation Committee, is at the 30th percentile. Sempra Energy's cumulative total shareholder return for the performance period is <PERCENTAGE>.

Also, Sempra Energy's total shareholder return for the performance period is below the total shareholder return of the market capitalization-weighted S&P 500 Composite Index.

Because Sempra Energy's total shareholder return for the performance period among companies in the S&P 500 Utility Index is at the 30th percentile, none of the target number of restricted stock units vest. Because no shares vest, there is no need to determine whether any adjustment applies based on cumulative total shareholder return.

SEMPRA ENERGY
2013 LONG TERM INCENTIVE PLAN
<YEAR> PERFORMANCE-BASED RESTRICTED STOCK UNIT AWARD

You have been granted a performance-based restricted stock unit award representing the right to receive the number of shares of Sempra Energy Common Stock set forth below, subject to the vesting conditions set forth below. The restricted stock units, and dividend equivalents with respect to the restricted stock units, under your award may not be sold or assigned. They will be subject to forfeiture unless and until they vest based upon the satisfaction of performance criteria for a performance period beginning on January 1, <YEAR> and ending on December 31, <YEAR>. Shares of Common Stock will be distributed to you after the completion of the performance period ending December 31, <YEAR>, if the restricted stock units vest under the terms and conditions of your award.

The terms and conditions of your award are set forth in the attached Year <YEAR> Restricted Stock Unit Award Agreement and in the Sempra Energy 2013 Long Term Incentive Plan, which has been provided to you. The summary below highlights selected terms and conditions but it is not complete and you should carefully read the attachments to fully understand the terms and conditions of your award.

SUMMARY

Date of Award:	<DATE>, <YEAR>
Name of Recipient:	NAME
Recipient's Employee Number:	EE ID
Number of Restricted Stock Units (prior to any dividend equivalents):	
At Target:	# RSU
At Maximum:	200% of Target (e.g. 1,000 at Target = 2,000 at Maximum)
Award Date Fair Market Value per Share of Common Stock:	\$TBD

Restricted Stock Units:

Your restricted stock units represent the right to receive shares of Common Stock in the future, subject to the terms and conditions of your award. Your restricted stock units are not shares of Common Stock. The target number of restricted stock units will vest (as described below), if the target "Earnings Per Share Growth" (as defined in the attached Year <YEAR> Restricted Stock Unit Award Agreement) is achieved. If above target Earnings Per Share Growth is achieved, you may vest in up to the maximum number of restricted stock units plus reinvested dividends as described below.

Vesting/Forfeiture of Restricted Stock Units:

Subject to certain exceptions set forth in the Year <YEAR> Restricted Stock Unit Award Agreement, your restricted stock units will vest only upon the Compensation Committee's determination and certification that Sempra Energy has achieved positive cumulative net income (to be determined in accordance with GAAP) for the performance period beginning on January 1, <YEAR> and ending on December 31, <YEAR>. In such event, the percentage of restricted stock units that vest shall be a maximum of 200% of target, subject to the Compensation Committee's exercise of negative discretion and the Compensation Committee's determination and certification that Sempra Energy has met specified earnings per share growth criteria, as described below, for the performance period beginning on January 1, <YEAR> and ending December 31, <YEAR>. Any restricted stock units that do not vest upon the Compensation Committee's determination and certification will be forfeited.

Transfer Restrictions:

Your restricted stock units may not be sold or otherwise transferred and will remain subject to forfeiture conditions until they vest.

Termination of Employment:

Your restricted stock units also may be forfeited if your employment terminates.

Dividend Equivalents:

You also have been awarded dividend equivalents with respect to your restricted stock units. Your dividend equivalents represent the right to receive additional shares of Common Stock in the future, subject to the terms and conditions of your award. Your dividend equivalents will be determined based on the dividends that you would have received, had you held shares of Common Stock equal to the vested number of your restricted stock units from the date of your award to the date of the distribution of shares of Common Stock following the vesting of your restricted stock units, and assuming that the dividends were reinvested in Common Stock (and any dividends on such shares were reinvested in Common Stock). The dividends will be deemed reinvested in Common Stock in the same manner as dividends reinvested pursuant to the terms of the Sempra Dividend Reinvestment Plan. Your dividend equivalents will be subject to the same transfer restrictions and forfeiture and vesting conditions as the shares represented by your restricted stock units.

Distribution of Shares:

Shares of Common Stock will be distributed to you to the extent your restricted stock units vest. Except as provided otherwise in the attached Year <YEAR> Restricted Stock Unit Award Agreement, the shares will be distributed to you after the completion of the performance period ending on December 31, <YEAR> and the Compensation Committee's determination and certification of Sempra Energy's Earnings Per Share Growth for the performance period. The shares of Common Stock will include the additional shares to be distributed pursuant to your dividend equivalents.

Taxes:

Upon distribution of shares of Common Stock to you, you will be subject to income taxes on the value of the distributed shares at the time of distribution and must pay applicable withholding taxes.

By your acceptance of this award, you agree to all of the terms and conditions set forth in this Cover Page/Summary, the attached Year <YEAR> Restricted Stock Unit Award Agreement and the Sempra Energy 2013 Long Term Incentive Plan.

Recipient:

x

(Signature)

Sempra Energy:

/s/ Debra L. Reed

(Signature)

Title:

Chairman and Chief Executive Officer

SEMPRA ENERGY
2013 LONG TERM INCENTIVE PLAN
Year <YEAR> Restricted Stock Unit Award Agreement

Award:

You have been granted a performance-based restricted stock unit award under Sempra Energy's 2013 Long Term Incentive Plan. The award consists of the number of restricted stock units set forth on the Cover Page/Summary to this Agreement, and dividend equivalents with respect to the restricted stock units (described below).

Your restricted stock units represent the right to receive shares of Common Stock in the future, subject to the terms and conditions of your award. Your restricted stock units are not shares of Common Stock.

Each restricted stock unit initially represents the right to receive one share of Common Stock upon the vesting of the unit.

Unless and until they vest, your restricted stock units and any dividend equivalents (as described below) will be subject to transfer restrictions and forfeiture and vesting conditions.

Subject to the provisions below relating to the treatment of your restricted stock units in connection with a Change in Control, your restricted stock units (and dividend equivalents) will vest only upon and only to the extent that the Compensation Committee of Sempra Energy's Board of Directors determines and certifies that Sempra Energy has met specified positive cumulative net income and earnings per share growth performance criteria for the performance period beginning January 1, <YEAR> and ending on December 31, <YEAR>. Any restricted stock units (and dividend equivalents) that do not vest will be forfeited.

Your restricted stock units (and dividend equivalents) also may be forfeited if your employment terminates before they vest.

See "Vesting/Forfeiture," "Transfer Restrictions," and "Termination of Employment" below.

Vesting/Forfeiture:

Subject to the provisions below relating to the treatment of your restricted stock units in connection with a Change in Control, your restricted stock units (and dividend equivalents, as described below) will vest only upon the Compensation Committee's determination and certification that Sempra Energy has achieved positive cumulative fiscal <YEAR> through fiscal <YEAR> net income (to be determined in accordance with GAAP). In such event, the percentage of restricted stock units that vest shall be a maximum of 200% of target, **SUBJECT TO THE COMPENSATION COMMITTEE'S EXERCISE OF NEGATIVE DISCRETION BASED ON THE EARNINGS PER SHARE GROWTH PERFORMANCE CRITERIA DESCRIBED BELOW AND CERTIFIED BY THE COMPENSATION COMMITTEE:**

Earnings Per Share Growth is determined based upon the compound annual growth rate (CAGR) of Sempra Energy's fiscal <YEAR> and fiscal <YEAR> earnings per share, subject to adjustments by the Committee in its sole discretion. For purposes of this calculation, (i) the starting point to calculate Earnings Per Share Growth shall be Sempra Energy's <YEAR> earnings per share, (ii) the ending point to calculate Earnings Per Share Growth shall be Sempra Energy's <YEAR> earnings per share and (iii) earnings per share shall be calculated using weighted average shares outstanding (WASO) for fiscal <YEAR> and fiscal <YEAR>, as diluted to reflect outstanding stock options and RSUs (Diluted WASO).

The calculation of the Earnings component of Earnings Per Share is intended to be consistent with the calculation of the Earnings under the Sempra Energy Incentive Compensation Plans (ICP) and Executive Incentive Compensation Plans (EICP). Adjustments to Earnings are intended to be generally consistent with the adjustments applied under the ICP and EICP, but the Committee shall determine which adjustments shall apply for purposes of calculating Earnings Per Share Growth. The Committee in its sole discretion shall determine the extent to which the Earnings Per Share Growth performance criteria have been achieved.

In exercising negative discretion, the percentage of your target number of restricted stock units that vest will be determined as follows:

Earnings Per Share Growth <YEAR> _ <YEAR>	Percentage of Target Number of Restricted Stock Units That Vest
<PERCENT>%	200%
<PERCENT>%	150%
<PERCENT>%	100%
<PERCENT>%	0%

If the Earnings Per Share Growth does not equal a growth rate level shown in the above table, the percentage of your target number of restricted stock units that vest will be determined by a linear interpolation between the next lowest percentage shown in the table and the next highest percentage shown on the table.

If the Earnings Per Share Growth is at or above <PERCENT>%, 200% of your target number of restricted stock units will vest.

If the Earnings Per Share Growth is at or below <PERCENT>%, none of your restricted stock units will vest.

As soon as reasonably practicable following the end of the performance period, the Compensation Committee will determine and certify the extent to which Sempra Energy has met the cumulative net income performance measure and, after the application of negative discretion based on the earnings per share growth performance criteria, the extent, if any, as to which your restricted stock units have then vested. You will receive the number of shares of Common Stock equal to the number of your vested restricted stock units after the Compensation Committee's determination and certification. Also, you will receive the number of shares of Common Stock equal to your dividend equivalents after the Compensation Committee's determination and certification. Certificates for the shares will be issued to you or transferred to an account that you designate. When the shares of Common Stock are issued to you, your restricted stock units (vested and unvested) and your dividend equivalents will terminate.

Notwithstanding anything to the contrary herein, the Compensation Committee, in its sole discretion, may exercise negative discretion in determining Earnings Per Share Growth to reduce the number of restricted stock units that otherwise would vest based on achievement of the applicable performance criteria set forth herein.

Transfer Restrictions:

You may not sell or otherwise transfer or assign your restricted stock units (or your dividend equivalents).

Dividend Equivalents:

You also have been awarded dividend equivalents with respect to your restricted stock units. Your dividend equivalents represent the right to receive additional shares of Common Stock in the future, subject to the terms and conditions of your award. Your dividend equivalents will be determined based on the dividends that you would have received, had you held shares of Common Stock equal to the vested number of your restricted stock units from the date of your award to the date of the distribution of shares of Common Stock following the vesting of your restricted stock units, and assuming that the dividends were reinvested in Common Stock (and any dividends on such shares were reinvested in Common Stock). The dividends will be deemed reinvested in Common Stock in the same manner as dividends reinvested pursuant to the terms of the Sempra Dividend Reinvestment Plan.

Your dividend equivalents will be subject to the same transfer restrictions and forfeiture and vesting conditions as your restricted stock units. They will vest when your restricted stock units vest.

Also, your restricted stock units (and dividend equivalents), including the terms and conditions thereof, will be adjusted to prevent dilution or enlargement of your rights in the event of a stock dividend on shares of Common Stock or as the result of a stock-split, recapitalization, reorganization or other similar transaction in accordance with the terms and conditions of the 2013 Long Term Incentive Plan. Any additional restricted stock units (and dividend equivalents) awarded to you as a result of such an adjustment also will be subject to the same transfer restrictions, forfeiture and vesting conditions and other terms and conditions that are applicable to your restricted stock units.

No Shareholder Rights:

Your restricted stock units (and dividend equivalents) are not shares of Common Stock. You will have no rights as a shareholder unless and until shares of Common Stock are issued to you following the vesting of your restricted stock units (and dividend equivalents) as provided in this Agreement and the 2013 Long Term Incentive Plan.

Distribution of Shares:

As described in "Vesting/Forfeiture" above, the Compensation Committee will determine and certify the extent to which Sempra Energy has met the performance criteria and the extent, if any, as to which your restricted stock units have then vested.

You will receive the number of shares of Common Stock equal to the number of your restricted stock units that have vested. However, in no event will you receive under this award, and other awards granted to you under the 2013 Long Term Incentive Plan in the same fiscal year of Sempra Energy, more than the maximum number of shares of Common Stock permitted under the 2013 Long Term Incentive Plan. Also, you will receive the number of shares of Common Stock equal to your dividend equivalents after the Compensation Committee's determination and certification.

You will receive the shares as soon as reasonably practicable following the Compensation Committee's determination and certification (and in no event later than March 15, <YEAR>). Once you receive the shares of Common Stock, your vested and unvested restricted stock units (and dividend equivalents) will terminate.

Termination of Employment:

Termination

If your employment with Sempra Energy and its Subsidiaries terminates for any reason prior to the vesting of your restricted stock units (and dividend equivalents) (other than under the circumstances set forth in the next paragraph), all of your restricted stock units (and dividend equivalents) will be forfeited. Subject to the provisions below relating to the treatment of your restricted stock units in connection with a Change in Control, the vesting of your restricted stock units does not occur until the date of the Compensation Committee's determination and certification described above.

If your employment terminates prior to a Change in Control, other than by Termination for cause, and you had both completed five years of continuous service with Sempra Energy and its Subsidiaries AND met any of the following conditions:

- 1.) your employment terminates after <DATE>, <YEAR> and at the date of termination you had attained age 55; or
- 2.) your employment terminates after <DATE>, <YEAR> and at the date of termination you had attained age 62; or
- 3.) at the date of termination you had attained age 65 and you were an officer subject to the company's mandatory retirement policy;

your restricted stock units (and dividend equivalents) will not be forfeited but will continue to be subject to the transfer restrictions and vesting conditions and other terms and conditions of this Agreement.

Termination for Cause

If your employment with Sempra Energy and its Subsidiaries terminates for cause, or your employment would have been subject to termination for cause, prior to the vesting of your restricted stock units (and dividend equivalents), all of your restricted stock units (and dividend equivalents) will be cancelled.

Prior to the consummation of a Change in Control, a termination for cause is (i) the willful failure by you to substantially perform your duties with the Company (other than any such failure resulting from your incapacity due to physical or mental illness), (ii) the grossly negligent performance of such obligations referenced in clause (i) of this definition, (iii) your gross insubordination; and/or (iv) your commission of one or more acts of moral turpitude that constitute a violation of applicable law (including but not limited to a felony) which have or result in an adverse effect on the Company, monetarily or otherwise, or one or more significant acts of dishonesty. For purposes of clause (i), no act, or failure to act, on your part shall be deemed "willful" unless done, or omitted to be done, by you not in good faith and without reasonable belief that your act, or failure to act, was in the best interests of the Company." If your restricted stock units remain outstanding following a Change in Control pursuant to a Replacement Award, a termination for cause following such Change in Control shall be determined in accordance with Section 2.8 of the 2013 Long Term Incentive Plan (which defines "Cause" for purposes of the plan), including reasonable notice and, if possible, a reasonable opportunity to cure as provided therein.

Leaves of Absence

Your employment does not terminate when you go on military leave, a sick leave or another *bona fide* leave of absence, if the leave was approved by your employer in writing. But your employment will be treated as terminating 90 days after you went on leave, unless your right to return to active work is guaranteed by law or by a contract. And your employment terminates in any event when the approved leave ends, unless you immediately return to active work. Your employer determines which leaves count for this purpose.

Taxes:

Withholding Taxes

When you become subject to withholding taxes upon distribution of the shares of Common Stock or otherwise, Sempra Energy or its Subsidiary is required to withhold taxes. Unless you instruct otherwise and pay or make arrangements satisfactory to Sempra Energy to pay these taxes, upon the distribution of your shares, Sempra Energy will withhold a sufficient number of shares of common stock or restricted stock units (valued in each case at the distribution date fair market value) to cover the minimum required withholding taxes and transfer to you only the remaining balance of your shares. In the event that, following a Change in Control, your restricted stock units become eligible for a distribution upon your Retirement by reason of your combined age and service, your restricted stock units may become subject to employment tax withholding prior to the distribution of shares with respect to such units.

Code Section 409A

Your restricted stock units are subject to Sections 16.5 and 20.12 of the 2013 Long Term Incentive Plan, which set forth terms to comply with Code Section 409A.

Recoupment ("Clawback") Policy:

The Company shall require the forfeiture, recovery or reimbursement of awards or compensation under this Plan as (i) required by applicable law, or (ii) required under any policy implemented or maintained by the Company pursuant to any applicable rules or requirements of a national securities exchange or national securities association on which any securities of the Company are listed. The Company reserves the right to recoup compensation paid if it determines that the results on which the compensation was paid were not actually achieved.

The Compensation Committee may, in its sole discretion, require the recovery or reimbursement of long-term incentive compensation awards from any employee whose fraudulent or intentional misconduct materially affects the operations or financial results of the Company or its Subsidiaries.

Retention Rights:

Neither your restricted stock unit award nor this Agreement gives you any right to be retained by Sempra Energy or any of its Subsidiaries in any capacity and your employer reserves the right to terminate your employment at any time, with or without cause. The value of your award will not be included as compensation or earnings for purposes of any other benefit plan offered by Sempra Energy or any of its Subsidiaries.

Change in Control:

In the event of a Change in Control, the following terms shall apply:

- § If (i) you have achieved age 55 and have completed at least five years of continuous service with Sempra Energy and its Subsidiaries as of the date of a Change in Control and your restricted stock units have not been forfeited prior to the Change in Control, (ii) your outstanding restricted stock units as of the date of a Change in Control are not subject to a "substantial risk of forfeiture" within the meaning of Code Section 409A and/or (iii) your outstanding restricted stock units are not assumed or substituted with one or more Replacement Awards as contemplated in Section 16.1 of the 2013 Long Term Incentive Plan, then in each case your outstanding restricted stock units and any associated dividend equivalents will vest immediately prior to the Change in Control with the applicable performance goals deemed to have been achieved at the greater of target level as of the date of such vesting or the actual performance level had the performance period ended on the last day of the calendar year immediately preceding the date of the Change in Control. If the foregoing terms apply, immediately prior to the date of the Change in Control you will receive a number of shares of Common Stock equal to the number of your restricted stock units and dividend equivalents that have vested.
- § If your outstanding restricted stock awards are assumed or substituted with one or more Replacement Awards as contemplated in Section 16.1 of the 2013 Long Term Incentive Plan, then, except as provided otherwise in an individual severance agreement or employment agreement to which you are a party, the terms set forth in Sections 16.3 and 16.4 of the 2013 Long Term Incentive Plan shall apply with respect to such Replacement Award following the Change in Control. If the foregoing terms apply and the Replacement Award vests upon your separation from service or death, on such date, you will receive a number of shares or other property in settlement of the Replacement Awards.

Further Actions:

You agree to take all actions and execute all documents appropriate to carry out the provisions of this Agreement.

You shall not be deemed to have accepted this award unless you execute the Arbitration Agreement provided with your award letter.

You also appoint as your attorney-in-fact each individual who at the time of so acting is the Secretary or an Assistant Secretary of Sempra Energy with full authority to effect any transfer of any shares of Common Stock distributable to you, including any transfer to pay withholding taxes, that is authorized by this Agreement.

Applicable Law:

This Agreement will be interpreted and enforced under the laws of the State of California.

Disputes:

Any and all disputes between you and the Company relating to or arising out of the Plan or your restricted stock unit award shall be subject to the Arbitration Agreement provided with your award letter, including, but not limited to, any disputes referenced in Section 16.4 of the Plan.

Other Agreements:

In the event of any conflict between the terms of this Agreement and any written employment, severance or other employment-related agreement between you and Sempra Energy, the terms of this Agreement, or the terms of such other agreement, whichever are more favorable to you, shall prevail, provided that in each case a conflict shall be resolved in a manner consistent with the intent that your restricted stock units comply with Code Section 409A. In the event of a conflict between the terms of this Agreement and the 2013 Long Term Incentive Plan, the plan document shall prevail.

***By your acceptance of this award, you agree
to all of the terms and conditions described above and in the 2013 Long Term Incentive Plan***

SEMPRA ENERGY
2013 LONG TERM INCENTIVE PLAN
2015 PERFORMANCE-BASED RESTRICTED STOCK UNIT AWARD

You have been granted a performance-based restricted stock unit award representing the right to receive the number of shares of Sempra Energy Common Stock set forth below, subject to the vesting conditions set forth below. The restricted stock units, and dividend equivalents with respect to the restricted stock units, under your award may not be sold or assigned. They will be subject to forfeiture unless and until they vest based upon the satisfaction of performance criteria. Shares of Common Stock will be distributed to you after the the Compensation Committee's determination and certification that the performance criteria have been met, if the restricted stock units vest under the terms and conditions of your award.

The terms and conditions of your award are set forth in the attached Year 2015 Restricted Stock Unit Award Agreement and in the Sempra Energy 2013 Long Term Incentive Plan, which has been provided to you. The summary below highlights selected terms and conditions but it is not complete and you should carefully read the attachments to fully understand the terms and conditions of your award.

SUMMARY

Date of Award: January 2, 2015

Name of Recipient: NAME

Recipient's Employee Number: EE ID

Number of Restricted Stock Units (prior to any dividend equivalents):

At Target: # RSU

Award Date Fair Market Value per Share of Common Stock: \$TBD

Restricted Stock Units:

Your restricted stock units represent the right to receive shares of Common Stock in the future, subject to the terms and conditions of your award. Your restricted stock units are not shares of Common Stock. Your restricted stock units will vest (as described below), if and when both the cumulative net income performance measure (as defined in the attached Year 2015 Restricted Stock Unit Award Agreement) and commencement of commercial operations of Cameron LNG Train 1 are achieved.

Vesting/Forfeiture of Restricted Stock Units:

Subject to certain exceptions set forth in the Year 2015 Restricted Stock Unit Award Agreement, your restricted stock units will vest only upon the Compensation Committee's determination and certification that Sempra Energy has achieved positive cumulative net income (to be determined in accordance with GAAP) for the performance period beginning on January 1, 2015 and ending December 31, 2017 and the Cameron LNG joint venture has commenced commercial operations of Cameron LNG Train 1. Any restricted stock units that do not vest upon the Compensation Committee's determination and certification will be forfeited.

Transfer Restrictions:

Your restricted stock units may not be sold or otherwise transferred and will remain subject to forfeiture conditions until they vest.

Termination of Employment:

Your restricted stock units also may be forfeited if your employment terminates.

Dividend Equivalents:

You also have been awarded dividend equivalents with respect to your restricted stock units. Your dividend equivalents represent the right to receive additional shares of Common Stock in the future, subject to the terms and conditions of your award. Your dividend equivalents will be determined based on the dividends that you would have received, had you held shares of Common Stock equal to the vested number of your restricted stock units from the date of your award to the date of the distribution of shares of Common Stock following the vesting of your restricted stock units, and assuming that the dividends were reinvested in Common Stock (and any dividends on such shares were reinvested in Common Stock). The dividends will be deemed reinvested in Common Stock in the same manner as dividends reinvested pursuant to the terms of the Sempra Dividend Reinvestment Plan. Your dividend equivalents will be subject to the same transfer restrictions and forfeiture and vesting conditions as the shares represented by your restricted stock units.

Distribution of Shares:

Shares of Common Stock will be distributed to you to the extent your restricted stock units vest. Except as provided otherwise in the attached Year 2015 Restricted Stock Unit Award Agreement, the shares will be distributed to you after the Compensation Committee's determination and certification of achievement of the performance criteria. The shares of Common Stock will include the additional shares to be distributed pursuant to your dividend equivalents.

Taxes:

Upon distribution of shares of Common Stock to you, you will be subject to income taxes on the value of the distributed shares at the time of distribution and must pay applicable withholding taxes.

By your acceptance of this award, you agree to all of the terms and conditions set forth in this Cover Page/Summary, the attached Year 2015 Restricted Stock Unit Award Agreement and the Sempra Energy 2013 Long Term Incentive Plan.

Recipient:

X

(Signature)

Sempra Energy:

/s/ Debra L. Reed

Title:

(Signature)
Chairman and Chief Executive Officer

SEMPRA ENERGY
2013 LONG TERM INCENTIVE PLAN
Year 2015 Restricted Stock Unit Award Agreement

Award: You have been granted a performance-based restricted stock unit award under Sempra Energy's 2013 Long Term Incentive Plan. The award consists of the number of restricted stock units set forth on the Cover Page/Summary to this Agreement, and dividend equivalents with respect to the restricted stock units (described below).

Your restricted stock units represent the right to receive shares of Common Stock in the future, subject to the terms and conditions of your award. Your restricted stock units are not shares of Common Stock.

Each restricted stock unit represents the right to receive one share of Common Stock upon the vesting of the unit.

Unless and until they vest, your restricted stock units and any dividend equivalents (as described below) will be subject to transfer restrictions and forfeiture and vesting conditions.

Subject to the provisions below relating to the treatment of your restricted stock units in connection with a Change in Control, your restricted stock units (and dividend equivalents) will vest only upon and only to the extent that the Compensation Committee of Sempra Energy's Board of Directors determines and certifies that Sempra Energy has achieved positive cumulative fiscal 2015 through fiscal 2017 net income and the Cameron LNG joint venture has commenced commercial operations of Cameron LNG Train 1. Any restricted stock units (and dividend equivalents) that do not vest will be forfeited.

Your restricted stock units (and dividend equivalents) also may be forfeited if your employment terminates before they vest.

See "Vesting/Forfeiture," "Transfer Restrictions," and "Termination of Employment" below.

Vesting/Forfeiture: Subject to the provisions below relating to the treatment of your restricted stock units in connection with a Change in Control, your restricted stock units (and dividend equivalents, as described below) will vest only upon the Compensation Committee's determination and certification that both of the following performance criteria have been met:

1. Sempra Energy has achieved positive cumulative fiscal 2015 through fiscal 2017 net income (to be determined in accordance with GAAP). and
2. The Cameron LNG joint venture has commenced commercial operations of Cameron LNG Train 1.

As soon as reasonably practicable following the later to occur of (i) the end of the performance period for the cumulative net income performance measure and (ii) the achievement of commercial operations of Cameron LNG Train 1, the Compensation Committee will determine and certify the achievement of the performance criteria. You will receive the number of shares of Common Stock equal to the number of your vested restricted stock units after the Compensation Committee's determination and certification of both performance measures.

Also, you will receive the number of shares of Common Stock equal to your dividend equivalents after the Compensation Committee's determination and certification. Certificates for the shares will be issued to you or transferred to an account that you designate. When the shares of Common Stock are issued to you, your restricted stock units (vested and unvested) and your dividend equivalents will terminate.

Transfer Restrictions: You may not sell or otherwise transfer or assign your restricted stock units (or your dividend equivalents).

Dividend Equivalents: You also have been awarded dividend equivalents with respect to your restricted stock units. Your dividend equivalents represent the right to receive additional shares of Common Stock in the future, subject to the terms and conditions of your award. Your dividend equivalents will be determined based on the dividends that you would have received, had you held shares of Common Stock equal to the vested number of your restricted stock units from the date of your award to the date of the distribution of shares of Common Stock following the vesting of your restricted stock units, and assuming that the dividends were reinvested in Common Stock (and any dividends on such shares were reinvested in Common Stock). The dividends will be deemed reinvested in Common Stock in the same manner as dividends reinvested pursuant to the terms of the Sempra Dividend Reinvestment Plan.

Your dividend equivalents will be subject to the same transfer restrictions and forfeiture and vesting conditions as your restricted stock units. They will vest when your restricted stock units vest.

Also, your restricted stock units (and dividend equivalents), including the terms and conditions thereof, will be adjusted to prevent dilution or enlargement of your rights in the event of a stock dividend on shares of Common Stock or as the result of a stock-split, recapitalization, reorganization or other similar transaction in accordance with the terms and conditions of the 2013 Long Term Incentive Plan. Any additional restricted stock units (and dividend equivalents) awarded to you as a result of such an adjustment also will be subject to the same transfer restrictions, forfeiture and vesting conditions and other terms and conditions that are applicable to your restricted stock units.

No Shareholder Rights:	Your restricted stock units (and dividend equivalents) are not shares of Common Stock. You will have no rights as a shareholder unless and until shares of Common Stock are issued to you following the vesting of your restricted stock units (and dividend equivalents) as provided in this Agreement and the 2013 Long Term Incentive Plan.
Distribution of Shares:	<p>As described in "Vesting/Forfeiture" above, the Compensation Committee will determine and certify the extent to which Sempra Energy has met the performance criteria and the extent, if any, as to which your restricted stock units have then vested.</p> <p>You will receive the number of shares of Common Stock equal to the number of your restricted stock units that have vested. However, in no event will you receive under this award, and other awards granted to you under the 2013 Long Term Incentive Plan in the same fiscal year of Sempra Energy, more than the maximum number of shares of Common Stock permitted under the 2013 Long Term Incentive Plan. Also, you will receive the number of shares of Common Stock equal to your dividend equivalents after the Compensation Committee's determination and certification of both performance measures.</p> <p>You will receive the shares as soon as reasonably practicable following the Compensation Committee's determination and certification (and in no event later than March 15 of the year following the year of achievement of the two performance measures, or if the achievement of the two performance measures occurs in different years, the later to occur). Once you receive the shares of Common Stock, your vested and unvested restricted stock units (and dividend equivalents) will terminate.</p>
Termination of Employment:	
<i>Termination</i>	Subject to the provisions below relating to the treatment of your restricted stock units in connection with a Change in Control, if your employment with Sempra Energy and its Subsidiaries terminates for any reason prior to the vesting of your restricted stock units (and dividend equivalents) all of your restricted stock units (and dividend equivalents) will be forfeited, provided however that the Compensation Committee in its sole discretion may determine that your restricted stock units will not be forfeited, in which event your restricted stock units will continue to be subject to the achievement of the performance measures and vesting of your restricted stock units will not occur until the date of the Compensation Committee's determination and certification described above.
<i>Leaves of Absence</i>	Your employment does not terminate when you go on military leave, a sick leave or another <i>bona fide</i> leave of absence, if the leave was approved by your employer in writing. But your employment will be treated as terminating 90 days after you went on leave, unless your right to return to active work is guaranteed by law or by a contract. And your employment terminates in any event when the approved leave ends, unless you immediately return to active work. Your employer determines which leaves count for this purpose.
Taxes:	
<i>Withholding Taxes</i>	When you become subject to withholding taxes upon distribution of the shares of Common Stock or otherwise, Sempra Energy or its Subsidiary is required to withhold taxes. Unless you instruct otherwise and pay or make arrangements satisfactory to Sempra Energy to pay these taxes, upon the distribution of your shares, Sempra Energy will withhold a sufficient number of shares of common stock or restricted stock units (valued in each case at the distribution date fair market value) to cover the minimum required withholding taxes and transfer to you only the remaining balance of your shares. In the event that, following a Change in Control, your restricted stock units become eligible for a distribution upon your Retirement by reason of your combined age and service, your restricted stock units may become subject to employment tax withholding prior to the distribution of shares with respect to such units.
<i>Code Section 409A</i>	Your restricted stock units are subject to Sections 16.5 and 20.12 of the 2013 Long Term Incentive Plan, which set forth terms to comply with Code Section 409A.
Recoupment ("Clawback") Policy:	<p>The Company shall require the forfeiture, recovery or reimbursement of awards or compensation under this Plan as (i) required by applicable law, or (ii) required under any policy implemented or maintained by the Company pursuant to any applicable rules or requirements of a national securities exchange or national securities association on which any securities of the Company are listed. The Company reserves the right to recoup compensation paid if it determines that the results on which the compensation was paid were not actually achieved.</p> <p>The Compensation Committee may, in its sole discretion, require the recovery or reimbursement of long-term incentive compensation awards from any employee whose fraudulent or intentional misconduct materially affects the operations or financial results of the Company or its Subsidiaries.</p>
Retention Rights:	Neither your restricted stock unit award nor this Agreement gives you any right to be retained by Sempra Energy or any of its Subsidiaries in any capacity and your employer reserves the right to terminate your employment at any time, with or without cause. The value of your award will not be included as compensation or earnings for purposes of any other benefit plan offered by Sempra Energy or any of its Subsidiaries.

- Change in Control:** In the event of a Change in Control, the following terms shall apply:
- § If (i) you have achieved age 55 and have completed at least five years of continuous service with Sempra Energy and its Subsidiaries as of the date of a Change in Control and your restricted stock units have not been forfeited prior to the Change in Control, (ii) your outstanding restricted stock units as of the date of a Change in Control are not subject to a “substantial risk of forfeiture” within the meaning of Code Section 409A and/or (iii) your outstanding restricted stock units are not assumed or substituted with one or more Replacement Awards as contemplated in Section 16.1 of the 2013 Long Term Incentive Plan, then in each case your outstanding restricted stock units and any associated dividend equivalents will vest immediately prior to the Change in Control with the applicable performance goals deemed to have been achieved. If the foregoing terms apply, immediately prior to the date of the Change in Control you will receive a number of shares of Common Stock equal to the number of your restricted stock units and dividend equivalents that have vested.
 - § If your outstanding restricted stock awards are assumed or substituted with one or more Replacement Awards as contemplated in Section 16.1 of the 2013 Long Term Incentive Plan, then, except as provided otherwise in an individual severance agreement or employment agreement to which you are a party, your Replacement Awards will vest immediately as of the date such Replacement Awards are not subject to a “substantial risk of forfeiture” within the meaning of Code Section 409A. If the foregoing terms apply, in no event later than March 15 of the year following the year in which your Replacement Awards are not subject to a “substantial risk of forfeiture” within the meaning of Code Section 409A, you will receive a number of shares or other property in settlement of the Replacement Awards.
- Further Actions:** You agree to take all actions and execute all documents appropriate to carry out the provisions of this Agreement.
- You shall not be deemed to have accepted this award unless you execute the Arbitration Agreement provided with your award letter.
- You also appoint as your attorney-in-fact each individual who at the time of so acting is the Secretary or an Assistant Secretary of Sempra Energy with full authority to effect any transfer of any shares of Common Stock distributable to you, including any transfer to pay withholding taxes, that is authorized by this Agreement.
- Applicable Law:** This Agreement will be interpreted and enforced under the laws of the State of California.
- Disputes:** Any and all disputes between you and the Company relating to or arising out of the Plan or your restricted stock unit award shall be subject to the Arbitration Agreement provided with your award letter, including, but not limited to, any disputes referenced in Section 16.4 of the Plan.
- Other Agreements:** In the event of any conflict between the terms of this Agreement and any written employment, severance or other employment-related agreement between you and Sempra Energy, the terms of this Agreement, or the terms of such other agreement, whichever are more favorable to you, shall prevail, provided that in each case a conflict shall be resolved in a manner consistent with the intent that your restricted stock units comply with Code Section 409A. In the event of a conflict between the terms of this Agreement and the 2013 Long Term Incentive Plan, the plan document shall prevail.

***By your acceptance of this award, you agree
to all of the terms and conditions described above and in the 2013 Long Term Incentive Plan***

**SECOND AMENDMENT
TO THE
2009 AMENDMENT AND RESTATEMENT
OF THE
SEMPRA ENERGY
SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN**

Sempra Energy maintains the Sempra Energy Supplemental Executive Retirement Plan, as amended and restated, effective as of July 1, 2009 (the "Plan"). In order to amend the Plan in certain respects, this Second Amendment to the Plan is hereby adopted, effective as of January 1, 2014.

The Plan is hereby amended, as follows:

1. Section 1.1 of the Plan is hereby amended in its entirety to read as follows:
 - 1.1 **"Actuarial Equivalent"** means equivalent value when computed using the applicable mortality table promulgated by the IRS under Code Section 417(e)(3) as in effect on the first day of the Plan Year and the applicable interest rate promulgated by the IRS under Code Section 417(e)(3) for the November preceding the first day of the Plan Year. Notwithstanding the foregoing, effective January 1, 2014 equivalent value is computed using the applicable mortality table promulgated by the IRS under Code Section 417(e)(3) as in effect on the first day of the Plan Year and the 48-month average of the applicable interest rates promulgated by the IRS under Code Section 417(e)(3). For this purpose, the 48-month averaging period ends with the month of November preceding the first day of the Plan Year. In determining such 48-month average, the applicable interest rates for months in 2009 in the average reflect a blend of 40% segment rates and 60% 30-year Treasury rate, months in 2010 in the average reflect a blend of 60% segment rates and 40% 30-year Treasury rate, and months in 2011 in the average reflect a blend of 80% segment rates and 20% 30-year Treasury rate.
2. The first sentence of Section 3.1(a) of the Plan is hereby amended to read as follows:
 - (a) is a lump sum using the actuarial interest and mortality assumptions in Section 1.1 based upon the single annuity value of the annual annuity with the annual annuity determined as follows: the sum of the following percent of the total of the Participant's Average Earnings and Average Bonus
3. The first sentence of Section 3.1(b) of the Plan is hereby amended in its entirety to read as follows:
 - (b) is the sum of the lump sum of the annual annuity determined under (i) using the actuarial interest and mortality assumptions in the Basic Pension Plan based on the single annuity value and the lump sum of the annual annuity determined under (ii) using the actuarial interest and mortality assumptions in Section 1.1 based on the single annuity value, where (i) and (ii) are as follows
4. Section 4.2(b)(i) of the Plan is hereby amended to read as follows:
 - (i) the benefits which would be paid to such Participant or on his behalf to his beneficiary(ies) under the Basic Pension Plan, and, if applicable, to the Participant, under subsection (a), if the provisions of such Plan were administered without regard to the covered compensation limitations under Section 401(a)(17) of the Code set forth in the Basic Pension Plan and using the actuarial interest and mortality assumptions in Section 1.1 (and, with respect to covered compensation paid or payable in plan years beginning on or after January 1, 2007, with a maximum compensation limit for each plan year of Two Million Dollars (\$2,000,000)), over
5. The second sentence of Section 4.3(a)(iii)(A) of the Plan is hereby amended to read as follows:
 - (A) The amount of such optional annuity benefit with respect to such Participant's Post-Section 409A Cash Balance Restoration Benefit under this Plan shall be computed as specified in Section 4.2 of this Plan with conversion from a straight life annuity to a joint and survivor annuity using the interest and mortality factors specified in the Basic Pension Plan.
6. The second sentence of Section 4.3(b)(i) of the Plan is hereby amended to read as follows:
 - (i) The amount of such optional benefit under this Plan shall be computed as specified in Section 4.2 of this Plan with conversion from a straight life annuity to a joint and survivor annuity using the interest and mortality factors specified in the Basic Pension Plan.
7. The second sentence of Section 4.3(c)(i) of the Plan is hereby amended to read as follows:
 - (i) The amount of such optional annuity benefit under this Plan shall be computed as specified in Section 4.2 of this Plan with conversion from a straight life annuity to a joint and survivor annuity using the interest and mortality factors specified in the Basic Pension Plan.

8. Section 4.3(e)(i) of the Plan is hereby amended in its entirety to read as follows:
- (i) The death benefits payable to such Participant's beneficiary(ies) under this subsection (e) shall be computed as specified in Section 4.2 of this Plan with conversion from a straight life annuity to a joint and survivor annuity using the actuarial factors specified in the Basic Pension Plan.

Executed at San Diego, California.

SEMPRA ENERGY

By:

Sr. Vice President and Chief Human
Resources and Administrative Officer

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

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

WHEREAS, Sempra Energy and the Executive entered into the Sempra Energy Severance Pay Agreement, dated as of February 18, 2005 (the "Prior Agreement"); and

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

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

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

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

Section 1. Definitions. For purposes of this Agreement, the following capitalized terms have the meanings set forth below:

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

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

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

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

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

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

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

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

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

"Cause" means:

(a) Prior to a Change in Control, (i) the willful failure by the Executive to substantially perform the Executive's duties with the Company (other than any such failure resulting from the Executive's incapacity due to physical or mental illness, (ii) the grossly negligent performance of such obligations referenced in clause (i) of this definition, (iii) the Executive's gross insubordination; and/or (iv) the Executive's commission of one or more acts of moral turpitude that constitute a violation of applicable law (including but not limited to a felony) which have or result in an adverse effect on the Company, monetarily or otherwise, or one or more significant acts of dishonesty. For purposes of clause (i) of this subsection (a), no act, or failure to act, on the Executive's part shall be deemed "willful" unless done, or omitted to be done, by the Executive not in good faith and without reasonable belief that the Executive's act, or failure to act, was in the best interests of the Company.

(b) From and after a Change in Control, (i) the willful and continued failure by the Executive to substantially perform the Executive's duties with the Company (other than any such failure resulting from the Executive's incapacity due to physical or mental illness or any such actual or anticipated failure after the issuance of a Notice of Termination for Good Reason by the Executive pursuant to Section 3 hereof) and/or (ii) the Executive's commission of one or more acts of moral turpitude that constitute a violation of applicable law (including but not limited to a felony) which have or result in an adverse effect on the Company, monetarily or otherwise, or one or more significant acts of dishonesty. For purposes of clause (i) of this subsection (b), no act, or failure to act, on the Executive's part shall be deemed "willful" unless done, or omitted to be done, by the Executive not

in good faith and without reasonable belief that the Executive's act, or failure to act, was in the best interests of the Company. Notwithstanding the foregoing, the Executive shall not be deemed terminated for Cause pursuant to clause (i) of this subsection (b) unless and until the Executive shall have been provided with reasonable notice of and, if possible, a reasonable opportunity to cure the facts and circumstances claimed to provide a basis for termination of the Executive's employment for Cause.

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

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

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

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

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

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

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

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

(ii) a merger or consolidation which would result in the voting securities of Sempra Energy outstanding immediately prior to such merger or consolidation continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity or any parent thereof), in combination with the ownership of any trustee or other fiduciary holding securities under an employee benefit plan of the Company, at least sixty percent (60%) of the combined voting power of the securities of Sempra Energy or such surviving entity or any parent thereof outstanding immediately after such merger or consolidation, or

(iii) a merger or consolidation effected to implement a recapitalization of Sempra Energy (or similar transaction) in which no Person is or becomes the Beneficial Owner, directly or indirectly, of securities of Sempra Energy (not including the securities beneficially owned by such Person any securities acquired directly from Sempra Energy or its Affiliates other than in connection with the acquisition by Sempra Energy or its Affiliates of a business) representing twenty percent (20%) or more of the combined voting power of Sempra Energy's then outstanding securities.

(c) A "change in the ownership of a substantial portion of assets of Sempra Energy" shall not occur under clause (a)(iii) by reason of a sale or disposition by Sempra Energy of the assets of Sempra Energy to an entity, at least sixty percent (60%) of the combined voting power of the voting securities of which are owned by shareholders of Sempra Energy in substantially the same proportions as their ownership of Sempra Energy immediately prior to such sale.

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

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

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

"Compensation Committee" means the compensation committee of the Board.

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

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

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

“Disability” has the meaning set forth in the Company’s long-term disability plan or its successor; *provided, however,* that the Board may not terminate the Executive’s employment hereunder by reason of Disability unless (i) at the time of such termination there is no reasonable expectation that the Executive will return to work within the next ninety (90) day period and (ii) such termination is permitted by all applicable disability laws.

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

“Effective Date” means February 18, 2005.

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

“Good Reason” means:

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

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

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

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

(iv) the failure by the Company to pay to the Executive any portion of the Executive’s current compensation and benefits or any portion of an installment of deferred compensation under any deferred compensation program of the Company within thirty (30) days of the date such compensation is due;

(v) any purported termination of the Executive’s employment that is not effected pursuant to a Notice of Termination satisfying the requirements of Section 3 hereof; for purposes of this Agreement, no such purported termination shall be effective;

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

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

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

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

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

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

(iii) the relocation of the Executive’s principal place of employment immediately prior to the Change in Control Date (the “Principal Location”) to a location which is both further away from the Executive’s residence and more than thirty (30) miles from such Principal Location, or the Company’s requiring the Executive to be based anywhere other than such Principal Location (or permitted relocation thereof), or a substantial increase in the Executive’s business travel obligations outside of the Southern California area as of the Effective Date other than any such increase that (A) arises in connection with extraordinary business activities of the Company of limited duration and (B) is understood not to be part of the Executive’s regular duties with the Company;

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

(v) any purported termination of the Executive's employment that is not effected pursuant to a Notice of Termination satisfying the requirements of Section 3 hereof; for purposes of this Agreement, no such purported termination shall be effective;

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

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

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

Following a Change in Control, the Executive's determination that an act or failure to act constitutes Good Reason shall be presumed to be valid unless such determination is deemed to be unreasonable by an arbitrator pursuant to the procedure described in Section 13 hereof. The Executive's right to terminate the Executive's employment for Good Reason shall not be affected by the Executive's incapacity due to physical or mental illness. The Executive's continued employment shall not constitute consent to, or a waiver of rights with respect to, any act or failure to act constituting Good Reason hereunder.

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

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

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

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

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

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

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

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

"Person" has the meaning set forth in section 3(a)(9) of the Exchange Act, as modified and used in sections 13(d) and 14(d) thereof, except that such term shall not include (i) the Company or any of its Affiliates, (ii) a trustee or other fiduciary holding securities under an employee benefit plan of the Company or any of its Affiliates, (iii) an underwriter temporarily holding securities pursuant to an offering of such securities, (iv) a corporation owned, directly or indirectly, by the shareholders of the Company in substantially the same proportions as their ownership of stock of the Company, or (v) a person or group as used in Rule 13d-1(b) promulgated under the Exchange Act.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Section 2. Sarbanes-Oxley Act of 2002. Notwithstanding anything herein to the contrary, if the Company determines, in its good faith judgment, that any provision of this Agreement is likely to be interpreted as a personal loan prohibited by the Sarbanes-Oxley Act of 2002 and the rules and regulations promulgated thereunder (the “Act”), then such provision shall be modified as necessary or appropriate so as to not violate the Act; and if this cannot be accomplished, then the Company shall use its reasonable efforts to provide the Executive with similar, but lawful, substitute benefit(s) at a cost to the Company not to significantly exceed the amount the Company would have otherwise paid to provide such benefit(s) to the Executive. In addition, if the Executive is required to forfeit or to make any repayment of any compensation or benefit(s) to the Company under the Act or any other law, such forfeiture or repayment shall not constitute Good Reason.

Section 3. Notice and Date of Termination.

(a) Any termination of the Executive’s employment by the Company or by the Executive shall be communicated by a written notice of termination to the other party (the “Notice of Termination”). Where applicable, the Notice of Termination shall indicate the specific termination provision in this Agreement relied upon and shall set forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of the Executive’s employment under the provision so indicated. Unless the Board determines otherwise, a Notice of Termination by the Executive alleging a termination for Good Reason must be made within 180 days of the act or failure to act that the Executive alleges to constitute Good Reason.

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

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

Section 5. Severance Benefits upon Involuntary Termination Prior to Change in Control. Except as provided in Section 6 and Section 19(i) hereof, in the event of the Involuntary Termination of the Executive prior to a Change in Control, the Company shall pay the Executive, in one lump sum cash payment, an amount (the "Pre-Change in Control Severance Payment") equal to the greater of: (X) 170% of the Executive's Annual Base Salary as in effect on the Date of Termination, and (Y) the Executive's Annual Base Salary as in effect on the Date of Termination, plus the Executive's Average Annual Bonus. In addition to the Pre-Change in Control Severance Payment, the Executive shall be entitled to the following additional benefits specified in subsections (a) through (e). Except as provided in Section 5(f), the Pre-Change in Control Severance Payment and the payment under Section 5(a) shall be paid on such date as is determined by the Company within thirty (30) days after the date of the Involuntary Termination; *provided, however*, that, if the Executive is a Specified Employee on the date of the Executive's Involuntary Termination, the Pre-Change in Control Severance Payment and the financial planning services and the related tax gross up payments provided under Section 5(e) shall be paid as provided in Section 10 hereof.

(a) **Accrued Obligations.** The Company shall pay the Executive a lump sum amount in cash equal to the sum of (A) the Executive's Annual Base Salary through the Date of Termination to the extent not theretofore paid, (B) an amount equal to any annual Incentive Compensation Awards earned with respect to fiscal years ended prior to the year that includes the Date of Termination to the extent not theretofore paid, (C) any accrued and unpaid vacation, if any, and (D) reimbursement for unreimbursed business expenses, if any, properly incurred by the Executive in the performance of his duties in accordance with policies established from time to time by the Board, in each case to the extent not theretofore paid. (The amounts specified in clauses (A), (B), (C) and (D) shall be hereinafter referred to as the "Pre-Change in Control Accrued Obligations").

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

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

(d) **Outplacement Services.** The Executive shall receive reasonable outplacement services, on an in-kind basis, suitable to his position and directly related to the Executive's Involuntary Termination, for a period of twenty-four (24) months following the date of the Involuntary Termination, in an aggregate amount of cost to the Company not to exceed \$50,000. Notwithstanding the foregoing, the Executive shall cease to receive outplacement services on the date the Executive accepts employment with a subsequent employer. Such outplacement services shall be provided in a manner that complies with Treasury Regulation Section 1.409A-1(b)(9)(v)(A).

(e) **Financial Planning Services.** The Executive shall receive financial planning services, on an in-kind basis, for a period of twenty-four (24) months following the Date of Termination. Such financial planning services shall include expert financial and legal resources to assist the Executive with financial planning needs and shall be limited to (i) current investment portfolio management, (ii) tax planning, (iii) tax return preparation, and (iv) estate planning advice and document preparation (including wills and trusts); *provided, however*, that the Company shall provide such financial planning services during any taxable year of the Executive only to the extent the cost to the Company for such taxable year does not exceed \$25,000. The Company shall provide such financial planning services through a financial planner selected by the Company, and shall pay the fees for such financial planning services. The financial planning services provided during any taxable year of the Executive shall not affect the financial planning services provided in any other taxable year of the Executive. The Executive's right to financial planning services shall not be subject to liquidation or exchange for any other benefit. Such financial planning services shall be provided in a manner that complies with Treasury Regulation Section 1.409A-3(i)(1)(iv).

(f)

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

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

Notwithstanding the provisions of Section 5 above, and except as provided in Section 19(i) hereof, in the event of the Involuntary Termination of the Executive on or within two (2) years following a Change in Control, in lieu of the payments described in Section 5 above, the Company shall pay the Executive, in one lump sum cash payment, an amount (the “Post-Change in Control Severance Payment”) equal to two times the greater of: (X) 170% of the Executive’s Annual Base Salary as in effect immediately prior to the Change in Control or the Date of Termination, whichever is greater, and (Y) the Executive’s Annual Base Salary as in effect immediately prior to the Change in Control or on the Date of Termination, whichever is greater, plus the Executive’s Average Annual Bonus. In addition to the Post-Change in Control Severance Payment, the Executive shall be entitled to the following additional benefits specified in subsections (a) through (f). Except as provided in Sections 6(g) and 6(h), the Post-Change in Control Severance Payment and the payments under Sections 6(a) and (b) shall be paid on such date as is determined by the Company within thirty (30) days after the date of the Involuntary Termination; *provided, however*, that, if the Executive is a Specified Employee on the date of the Executive’s Involuntary Termination, the Post-Change in Control Severance Payment, the Additional Post-Change in Control Severance Payment under Section 6(a)(E), the payment under Section 6(b) (but only to the extent such payment or portion thereof is subject to Section 409A of the Code), and the financial planning services and the related tax gross up payments provided under Section 6(f) shall be paid as provided in Section 10 hereof.

(a) Accrued Obligations. The Company shall pay the Executive a lump sum amount in cash equal to the sum of (A) the Executive’s Annual Base Salary through the Date of Termination to the extent not theretofore paid, (B) an amount equal to any annual Incentive Compensation Awards earned with respect to fiscal years ended prior to the year that includes the Date of Termination to the extent not theretofore paid, (C) any accrued and unpaid vacation, if any, (D) reimbursement for unreimbursed business expenses, if any, properly incurred by the Executive in the performance of his duties in accordance with policies established from time to time by the Board, and (E) an amount (the “Additional Post-Change in Control Severance Payment”) equal to: (i) the greater of: (X) 70% of the Executive’s Annual Base Salary as in effect immediately prior to the Change in Control or on the Date of Termination, whichever is greater, or (Y) the Executive’s Average Annual Bonus, multiplied by (ii) a fraction, the numerator of which shall be the number of days from the beginning of such fiscal year to and including the Date of Termination and the denominator of which shall be 365, in the case of each amount described in clause (A), (B), (C) or (D) to the extent not theretofore paid. (The amounts specified in clauses (A), (B), (C), (D) and (E) shall be hereinafter referred to as the “Post-Change in Control Accrued Obligations”).

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

(c) Equity-Based Compensation. Notwithstanding the provisions of any applicable equity-compensation plan or award agreement to the contrary, all equity-based Incentive Compensation Awards (including, without limitation, stock options, stock appreciation rights, restricted stock awards, restricted stock units, performance share awards, awards covered under Section 162(m) of the Code, and dividend equivalents) held by the Executive shall immediately vest and become exercisable or payable, as the case may be, as of the Date of Termination, to be exercised or paid, as the case may be, in accordance with the terms of the applicable Incentive Compensation Plan and Incentive Compensation Award agreement, and any restrictions on any such Incentive Compensation Awards shall automatically lapse; *provided, however*, that any such stock option or stock appreciation rights awards granted on or after June 26, 1998 shall remain outstanding and exercisable until the earlier of (A) the later of eighteen (18) months following the Date of Termination or the period specified in the applicable Incentive Compensation Award agreements or (B) the expiration of the original term of such Incentive Compensation Award (or, if earlier, the tenth anniversary of the original date of

grant) (it being understood that all Incentive Compensation Awards granted prior to or after June 26, 1998 shall remain outstanding and exercisable for a period that is no less than that provided for in the applicable agreement in effect as of the date of grant).

(d) Welfare Benefits. Subject to Section 12 below, for a period of twenty-four (24) months following the date of Involuntary Termination (and an additional twelve (12) months if the Executive provides consulting services under Section 14(e) hereof), the Executive and his dependents shall be provided with life, disability, accident and health insurance benefits substantially similar to those provided to the Executive and his dependents immediately prior to the date of Involuntary Termination or the Change in Control Date, whichever is more favorable to the Executive; *provided, however*, that such benefits shall be provided on substantially the same terms and conditions and at the same cost to the Executive as in effect immediately prior to the date of Involuntary Termination or the Change in Control Date, whichever is more favorable to the Executive. Such benefits shall be provided through insurance maintained by the Company under the Company benefit plans. Such benefits shall be provided in a manner that complies with Treasury Regulation Section 1.409A-1(a)(5).

(e) Outplacement Services. The Executive shall receive reasonable outplacement services, on an in-kind basis, suitable to his position and directly related to the Executive's Involuntary Termination, for a period of thirty-six (36) months following the date of Involuntary Termination (but in no event beyond the last day of the Executive's second taxable year following the Executive's taxable year in which the Involuntary Termination occurs), in the aggregate amount of cost to the Company not to exceed \$50,000. Notwithstanding the foregoing, the Executive shall cease to receive outplacement services on the date the Executive accepts employment with a subsequent employer. Such outplacement services shall be provided in a manner that complies with Treasury Regulation Section 1.409A-1(b)(9)(v)(A).

(f) Financial Planning Services. The Executive shall receive financial planning services, on an in-kind basis, for a period of thirty-six (36) months following the date of Involuntary Termination. Such financial planning services shall include expert financial and legal resources to assist the Executive with financial planning needs and shall be limited to (i) current investment portfolio management, (ii) tax planning, (iii) tax return preparation, and (iv) estate planning advice and document preparation (including wills and trusts); *provided, however*, that the Company shall provide such financial services during any taxable year of the Executive only to the extent the cost to the Company for such taxable year does not exceed \$25,000. The Company shall provide such financial planning services through a financial planner selected by the Company, and shall pay the fees for such financial planning services. The financial planning services provided during any taxable year of the Executive shall not affect the financial planning services provided in any other taxable year of the Executive. The Executive's right to financial planning services shall not be subject to liquidation or exchange for any other benefit. Such financial planning services shall be provided in a manner that complies with Section 1.409A-3(i)(1)(iv).

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

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

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

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

Section 9. Certain Additional Payments by the Company.

(a) Anything in this Agreement to the contrary notwithstanding and except as set forth below, in the event it shall be determined that any payment or distribution in the nature of compensation (within the meaning of Section 280G(b)(2) of the Code) to or for the benefit of the Executive, whether paid or payable pursuant to this Agreement or otherwise (the "Payment") would be subject (in whole or in part) to the excise tax imposed by Section 4999 of the Code, together with any interest or penalties imposed with respect to such excise tax (collectively, the "Excise Tax"), then the Executive shall be entitled to receive an additional payment (the "Gross-Up Payment") in an amount such that, after payment by the Executive of all taxes (and any interest or penalties imposed with respect to such taxes), including, without limitation, any income taxes (and any interest and penalties

imposed with respect thereto) and Excise Tax imposed upon the Gross-Up Payment, the Executive retains an amount of the Gross-Up Payment equal to the Excise Tax imposed upon the Payment. Unless otherwise provided herein, the Company's obligation to make Gross-Up Payments under this Section 9 shall not be conditioned upon the Executive's Separation from Service. For purposes of determining the amount of any Gross-Up Payment, the Executive shall be considered to pay federal income tax at the Executive's actual marginal rate of federal income taxation in the calendar year in which the Gross-Up Payment is to be made and state and local income taxes at the Executive's actual marginal rate of taxation in the state and locality of the Executive's residence on the date on which the Gross-Up Payment is calculated for purposes of this Section 9, net of the Executive's actual reduction in federal income taxes which could be obtained from deduction of such state and local taxes, and taking into consideration the phase-out of the Executive's itemized deductions under federal income tax law.

(b) Subject to the provisions of Section 9(c) below, all determinations required to be made under this Section 9, including whether and when a Gross-Up Payment is required, the amount of such Gross-Up Payment and the assumptions to be utilized in arriving at such determination, shall be made by a nationally recognized accounting firm as may be agreed by the Company and the Executive (the "Accounting Firm"); *provided*, that the Accounting Firm's determination shall be made based upon "substantial authority" within the meaning of Section 6662 of the Code. The Accounting Firm shall provide detailed supporting calculations to both the Company and the Executive within fifteen (15) business days of the receipt of notice from the Executive that there has been a Payment or such earlier time as is requested by the Company. All fees and expenses of the Accounting Firm shall be borne solely by the Company. Any Gross-Up Payment, as determined pursuant to this Section 9, shall be paid by the Company to the Executive within five (5) days of the receipt of the Accounting Firm's determination. Any determination by the Accounting Firm shall be binding upon the Company and the Executive. As a result of the uncertainty in the application of Section 4999 of the Code at the time of the initial determination by the Accounting Firm hereunder, it is possible that Gross-Up Payments that will not have been made by the Company should have been made (the "Underpayment"), consistent with the calculations required to be made hereunder. In the event the Company exhausts its remedies pursuant to Section 9(c) below and the Executive thereafter is required to make a payment of any Excise Tax, the Accounting Firm shall determine the amount of the Underpayment that has occurred, and any such Underpayment shall be promptly paid by the Company to or for the benefit of the Executive.

(c) The Executive shall notify the Company in writing of any claim by the Internal Revenue Service that, if successful, would require the payment by the Company of the Gross-Up Payment. Such notification shall be given as soon as practicable, but no later than ten (10) business days after the Executive is informed in writing of such claim. The Executive shall apprise the Company of the nature of such claim and the date on which such claim is requested to be paid. The Executive shall not pay such claim prior to the expiration of the thirty (30) day period following the date on which the Executive gives such notice to the Company (or such shorter period ending on the date that any payment of taxes with respect to such claim is due). If the Company notifies the Executive in writing prior to the expiration of such period that the Company desires to contest such claim, the Executive shall:

- (i) give the Company any information reasonably requested by the Company relating to such claim,
- (ii) take such action in connection with contesting such claim as the Company shall reasonably request in writing from time to time, including, without limitation, accepting legal representation with respect to such claim by an attorney reasonably selected by the Company,
- (iii) cooperate with the Company in good faith in order effectively to contest such claim, and
- (iv) permit the Company to participate in any proceedings relating to such claim;

provided, however, that the Company shall bear and pay directly all costs and expenses (including additional interest and penalties) incurred in connection with such contest, and shall indemnify and hold the Executive harmless, on an after-tax basis, for any Excise Tax, income tax or any other taxes (including interest and penalties) imposed as a result of such representation and payment of costs and expenses. Without limitation on the foregoing provisions of this Section 9(c), the Company shall control all proceedings taken in connection with such contest, and, at its sole discretion, may pursue or forgo any and all administrative appeals, proceedings, hearings and conferences with the applicable taxing authority in respect of such claim and may, at its sole discretion, either direct the Executive to pay the tax claimed and sue for a refund or contest the claim in any permissible manner, and the Executive agrees to prosecute such contest to a determination before any administrative tribunal, in a court of initial jurisdiction and in one or more appellate courts, as the Company shall determine; *provided, however*, that if the Company directs the Executive to pay such claim and sue for a refund, the Company shall advance the amount of such payment to the Executive, on an interest-free basis, and shall indemnify and hold the Executive harmless, on an after-tax basis, from any Excise Tax, income tax or any other taxes (including interest or penalties) imposed with respect to such advance or with respect to any imputed income in connection with such advance; and *provided, further*, that any extension of the statute of limitations relating to payment of taxes for the taxable year of the Executive with respect to which such contested amount is claimed to be due is limited solely to such contested amount. Furthermore, the Company's control of the contest shall be limited to issues with respect to which the Gross-Up Payment would be payable hereunder, and the Executive shall be entitled to settle or contest, as the case may be, any other issue raised by the Internal Revenue Service or any other taxing authority.

(d) If, after the receipt by the Executive of a Gross-Up Payment or an amount advanced by the Company pursuant to Section 9(c) above, the Executive becomes entitled to receive any refund with respect to the Excise Tax to which such Gross-Up Payment relates or with respect to such claim, the Executive shall (subject to the Company's complying with the requirements of Section 9(c) above, if applicable) promptly pay to the Company the amount of such refund (together with any interest paid or credited thereon after taxes applicable thereto). If, after the receipt by the Executive of an amount advanced by the

Company pursuant to Section 9(c) above, a determination is made that the Executive shall not be entitled to any refund with respect to such claim and the Company does not notify the Executive in writing of its intent to contest such denial of refund prior to the expiration of thirty (30) days after such determination, then such advance shall be forgiven and shall not be required to be repaid, and the amount of such advance shall offset, to the extent thereof, the amount of Gross-Up Payment required to be paid.

(e) Notwithstanding any other provision of this Section 9, the Company may, in its sole discretion, withhold and pay over to the Internal Revenue Service or any other applicable taxing authority, for the benefit of the Executive, all or any portion of any Gross-Up Payment, and the Executive hereby consents to such withholding. If such payment is made by the Company to the Internal Revenue Service or other applicable taxing authority, then the Executive shall not be entitled to payment pursuant to Section 9(b) above.

(f) Any other liability for unpaid or unwithheld Excise Taxes shall be borne exclusively by the Company, in accordance with Section 3403 of the Code. The foregoing sentence shall not in any manner relieve the Company of any of its obligations under this Agreement.

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

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

Section 11. Nonexclusivity of Rights. Nothing in this Agreement shall prevent or limit the Executive's continuing or future participation in any benefit, plan, program, policy or practice provided by the Company and for which the Executive may qualify (except with respect to any benefit to which the Executive has waived his rights in writing), including, without limitation, any and all indemnification arrangements in favor of the Executive (whether under agreements or under the Company's charter documents or otherwise), and insurance policies covering the Executive, nor shall anything herein limit or otherwise affect such rights as the Executive may have under any other contract or agreement entered into after the Effective Date with the Company. Amounts which are vested benefits or which the Executive is otherwise entitled to receive under any benefit, plan, policy, practice or program of, or any contract or agreement entered into with, the Company shall be payable in accordance with such benefit, plan, policy, practice or program or contract or agreement except as explicitly modified by this Agreement. At all times during the Executive's employment with the Company and thereafter, the Company shall provide (to the extent permissible under applicable law) the Executive with indemnification and D&O insurance insuring the Executive against insurable events which occur or have occurred while the Executive was a director or the Executive officer of the Company, on terms and conditions that are at least as generous as that then provided to any other current or former director or the Executive officer of the Company or any Affiliate. Such indemnification and D&O insurance shall be provided in a manner that complies with Treasury Regulation Section 1.409A-1(b)(10).

Section 12. Full Settlement; Mitigation. The Company's obligation to make the payments provided for in this Agreement and otherwise to perform its obligations hereunder shall not be affected by any set-off, counterclaim, recoupment, defense or other claim, right or action which the Company may have against the Executive or others, provided that nothing herein shall preclude the Company from separately pursuing recovery from the Executive based on any such claim. In no event shall the Executive be obligated to seek other employment or take any other action by way of mitigation of the amounts (including amounts for damages for breach) payable to the Executive under any of the provisions of this Agreement, and such amounts shall not be reduced whether or not the Executive obtains other employment.

Section 13. Dispute Resolution.

Any disagreement, dispute, controversy or claim arising out of or relating to this Agreement or the interpretation of this Agreement or any arrangements relating to this Agreement or contemplated in this Agreement or the breach, termination or invalidity thereof shall be settled by final and binding arbitration administered by JAMS in San Diego, California in accordance with the then existing JAMS arbitration rules applicable to employment disputes (the "JAMS Rules"); *provided that*, notwithstanding any provision in such rules to the contrary, in all cases the parties shall be entitled to reasonable discovery. In the event of such an arbitration proceeding, the Executive and the Company shall select a mutually acceptable neutral arbitrator from among the JAMS panel of arbitrators. In the event the Executive and the Company cannot agree on an arbitrator, the arbitrator shall be selected in accordance with the then existing JAMS Rules. Neither the Executive nor the Company nor the arbitrator shall disclose the existence, content or results of any arbitration hereunder without the prior written consent of all parties, except to the extent necessary to enforce any arbitration award in a court of competent jurisdiction. Except as provided herein, the Federal Arbitration Act shall govern the interpretation of, enforcement of and all proceedings under this agreement to arbitrate. The arbitrator shall apply the substantive law (and the law of remedies, if applicable) of the state of California, or federal law, or both, as applicable, and the arbitrator is without jurisdiction to apply any different substantive law. The arbitrator shall have the authority to entertain a motion to dismiss and/or a motion for summary judgment by any party and shall apply the standards governing such motions under the Federal Rules of Civil Procedure. The arbitrator shall render an award and a written, reasoned opinion in support thereof. Judgment upon the award may be entered in any court having jurisdiction thereof. The Executive shall not be required to pay any arbitration fee or cost that is unique to arbitration or greater than any amount he would be required to pay to pursue his claims in a court of competent jurisdiction.

Section 14. Executive's Covenants.

(a) Confidentiality. The Executive acknowledges that in the course of his employment with the Company, he has acquired non-public privileged or confidential information and trade secrets concerning the operations, future plans and methods of doing business ("Proprietary Information") of the Company and its Affiliates; and the Executive agrees that it would be extremely damaging to the Company and its Affiliates if such Proprietary Information were disclosed to a competitor of the Company and its Affiliates or to any other person or corporation. The Executive understands and agrees that all Proprietary Information has been divulged to the Executive in confidence and further understands and agrees to keep all Proprietary Information secret and confidential (except for such information which is or becomes publicly available other than as a result of a breach by the Executive of this provision or information the Executive is required by any governmental, administrative or court order to disclose) without limitation in time. In view of the nature of the Executive's employment and the Proprietary Information the Executive has acquired during the course of such employment, the Executive likewise agrees that the Company and its Affiliates would be irreparably harmed by any disclosure of Proprietary Information in violation of the terms of this paragraph and that the Company and its Affiliates shall therefore be entitled to preliminary and/or permanent injunctive relief prohibiting the Executive from engaging in any activity or threatened activity in violation of the terms of this paragraph and to any other relief available to them. Inquiries regarding whether specific information constitutes Proprietary Information shall be directed to the Company's Senior Vice President, Public Policy (or, if such position is vacant, the Company's then Chief Executive Officer); *provided*, that the Company shall not unreasonably classify information as Proprietary Information.

(b) Non-Solicitation of Employees. The Executive recognizes that he possesses and will possess confidential information about other employees of the Company and its Affiliates relating to their education, experience, skills, abilities, compensation and benefits, and inter-personal relationships with customers of the Company and its Affiliates. The Executive recognizes that the information he possesses and will possess about these other employees is not generally known, is of substantial value to the Company and its Affiliates in developing their business and in securing and retaining customers, and has been and will be acquired by him because of his business position with the Company and its Affiliates. The Executive agrees that at all times during the Executive's employment with the Company and for a period of one (1) year thereafter, he will not, directly or indirectly, solicit or recruit any employee of the Company or its Affiliates for the purpose of being employed by him or by any competitor of the Company or its Affiliates on whose behalf he is acting as an agent, representative or employee and that he will not convey any such confidential information or trade secrets about other employees of the Company and its Affiliates to any other person; *provided, however*, that it shall not constitute a solicitation or recruitment of employment in violation of this paragraph to discuss employment opportunities with any employee of the Company or its Affiliates who has either first contacted the Executive or regarding whose employment the Executive has discussed with and received the written approval of the Company's Vice President, Human Resources (or, if such position is vacant, the Company's then Chief Executive Officer), prior to making such solicitation or recruitment. In view of the nature of the Executive's employment with the Company, the Executive likewise agrees that the Company and its Affiliates would be irreparably harmed by any solicitation or recruitment in violation of the terms of this paragraph and that the Company and its Affiliates shall therefore be entitled to preliminary and/or permanent injunctive relief prohibiting the Executive from engaging in any activity or threatened activity in violation of the terms of this paragraph and to any other relief available to them.

(c) Survival of Provisions. The obligations contained in Section 14(a) and Section 14(b) above shall survive the termination of the Executive's employment within the Company and shall be fully enforceable thereafter. If it is determined by a court of competent jurisdiction in any state that any restriction in Section 14(a) or Section 14(b) above is excessive in duration or scope or is unreasonable or unenforceable under the laws of that state, it is the intention of the parties that such restriction may be modified or amended by the court to render it enforceable to the maximum extent permitted by the law of that state.

(d) Release; Lump Sum Payment. In the event of the Executive's Involuntary Termination, if the Executive (i) agrees to the covenants described in Section 14(a) and Section 14(b) above, (ii) executes a release (the "Release") of all claims substantially in the form attached hereto as Exhibit A within fifty (50) days after the date of Involuntary Termination and does not

revoke such Release in accordance with the terms thereof, and (iii) agrees to provide the consulting services described in Section 14(e) below, then in consideration for such covenants, the Company shall pay the Executive, in one cash lump sum, an amount (the “Consulting Payment”) in cash equal to the greater of: (X) 170% of the Executive’s Annual Base Salary as in effect on the Date of Termination, and (Y) the Executive’s Annual Base Salary as in effect on the Date of Termination, plus the Executive’s Average Annual Bonus. Except as provided in this subsection, the Consulting Payment shall be paid on such date as is determined by the Company within the ten (10) day period commencing on the 60th day after the date of the Executive’s Involuntary Termination; *provided, however*, that if the Executive is a Specified Employee on the date of the Executive’s Involuntary Termination, the Consulting Payment shall be paid as provided in Section 10 hereof. The Executive shall have the right to elect to defer the Consulting Payment under the terms and conditions of the Company’s Deferred Compensation Plan. Any such deferral election shall be made in accordance with Section 18(b) hereof.

(e) Consulting. If the Executive agrees to the covenants described in Section 14(d) above, then the Executive shall have the obligation to provide consulting services to the Company as an independent contractor, commencing on the Date of Termination and ending on the second anniversary of the Date of Termination (the “Consulting Period”). The Executive shall hold himself available at reasonable times and on reasonable notice to render such consulting services as may be so assigned to him by the Board or the Company’s then Chief Executive Officer; *provided, however*, that unless the parties otherwise agree, the consulting services rendered by the Executive during the Consulting Period shall not exceed twenty (20) hours each month; and, *provided, further*, that the consulting services rendered by the Executive during the Consulting Period shall in no event exceed twenty percent (20%) of the average level of services performed by the Executive for the Company over the thirty-six (36) month period immediately preceding the Executive’s Separation from Service (or the full period of services to the Company, if the Executive has been providing services to the Company for less than thirty-six (36) months). The Company agrees to use its best efforts during the Consulting Period to secure the benefit of the Executive’s consulting services so as to minimize the interference with the Executive’s other activities, including requiring the performance of consulting services at the Company’s offices only when such services may not be reasonably performed off-site by the Executive.

Section 15. Legal Fees.

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

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

Section 16. Successors.

(a) Assignment by the Executive. This Agreement is personal to the Executive and without the prior written consent of Sempra Energy shall not be assignable by the Executive otherwise than by will or the laws of descent and distribution. This Agreement shall inure to the benefit of and be enforceable by the Executive’s legal representatives.

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

(c) Assumption. Sempra Energy shall require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of Sempra Energy to assume expressly and agree to perform the obligations and satisfy and discharge the liabilities of this Agreement in the same manner and to the same extent that Sempra Energy would have been required to perform the obligations and satisfy and discharge the liabilities under this Agreement if no such succession had taken place, and Sempra Energy shall have no further obligations and liabilities under this Agreement. Upon such assumption, references to Sempra Energy in this Agreement shall be replaced with references to such successor.

(d) Sale of Subsidiary. In the event that (i) the Executive is employed by a direct or indirect subsidiary of Sempra Energy that is a member of the Sempra Energy Control Group, (ii) Sempra Energy, directly or indirectly through one or more intermediaries, sells or otherwise disposes of such subsidiary, and (iii) such subsidiary ceases to be a member of the Sempra Energy Control Group, then if, on the date such subsidiary ceases to be a member of the Sempra Energy Control Group, the Executive continues in employment with such subsidiary and the Executive does not have a Separation from Service, Sempra

Energy shall require such subsidiary or any successor (whether direct or indirect, by purchase merger, consolidation or otherwise) to such subsidiary, or the parent thereof, to assume expressly and agree to perform the obligations and satisfy and discharge the liabilities under this Agreement in the same manner and to the same extent that Sempra Energy would have been required to perform the obligations and satisfy and discharge the liabilities under this Agreement, if such subsidiary had not ceased to be part of the Sempra Energy Control Group, and, upon such assumption, Sempra Energy shall have no further obligations and liabilities under the Agreement. Upon such assumption, (i) references to Sempra Energy in this Agreement shall be replaced with references to such subsidiary, or such successor or parent thereof, assuming this Agreement, and (ii) subsection (b) of the definition of "Cause" and subsection (b) of the definition of "Good Reason" shall apply thereafter, as if a Change in Control had occurred on the date of such cessation.

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

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

Section 18. Section 409A of the Code.

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

(b) Deferral Elections. As provided in Sections 5(f), 6(h) and 14(d), the Executive may elect to defer the Pre-Change in Control Severance Payment, the Post-Change in Control Severance Payment and the Consulting Payment as follows.

The Executive's deferral election shall satisfy the requirements of Treasury Regulation Section 1.409A-2(b) and the terms and conditions of the Deferred Compensation Plan. Such deferral election shall designate the whole percentage (up to a maximum of

100%) of the Pre-Change in Control Severance Payment, the Post-Change in Control Severance Payment and the Consulting Payment to be deferred, shall be irrevocable when made, and shall not take effect until at least twelve (12) months after the date on which the election is made. Such deferral election shall provide that the amount deferred shall be deferred for a period of not less than five (5) years from the date the payment of the amount deferred would otherwise have been made, in accordance with Treasury Regulation Section 1.409A-2(b)(1)(ii).

Section 19. Miscellaneous.

(a) Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of California, without reference to its principles of conflict of laws. The captions of this Agreement are not part of the provisions hereof and shall have no force or effect. This Agreement may not be amended, modified, repealed, waived, extended or discharged except by an agreement in writing signed by the party against whom enforcement of such amendment, modification, repeal, waiver, extension or discharge is sought. No person, other than pursuant to a resolution of the Board or a committee thereof, shall have authority on behalf of the Company to agree to amend, modify, repeal, waive, extend or discharge any provision of this Agreement or anything in reference thereto.

(b) Notices. All notices and other communications hereunder shall be in writing and shall be given by hand delivery to the other party or by registered or certified mail, return receipt requested, postage prepaid, addressed, in either case, to the Company's headquarters or to such other address as either party shall have furnished to the other in writing in accordance herewith. Notices and communications shall be effective when actually received by the addressee.

(c) Severability. The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement.

(d) Taxes. The Company may withhold from any amounts payable under this Agreement such federal, state or local taxes as shall be required to be withheld pursuant to any applicable law or regulation.

(e) No Waiver. The Executive's or the Company's failure to insist upon strict compliance with any provision hereof or any other provision of this Agreement or the failure to assert any right the Executive or the Company may have hereunder, including, without limitation, the right of the Executive to terminate employment for Good Reason pursuant to Section 1 hereof, or the right of the Company to terminate the Executive's employment for Cause pursuant to Section 1 hereof shall not be deemed to be a waiver of such provision or right or any other provision or right of this Agreement.

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

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

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

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

(j) Term. The term of this Agreement shall commence on the Effective Date and shall continue until the third (3rd) anniversary of the Effective Date; provided, however, that commencing on the second (2nd) anniversary of the Effective Date (and each anniversary of the Effective Date thereafter), the term of this Agreement shall automatically be extended for one (1) additional year, unless at least ninety (90) days prior to such date, the Company or the Executive shall give written notice to the other party that it or he, as the case may be, does not wish to so extend this Agreement. Notwithstanding the foregoing, if the Company gives such written notice to the Executive less than two (2) years after a Change in Control, the term of this Agreement shall be automatically extended until the later of (A) the date that is one (1) year after the anniversary of the Effective Date that follows such written notice or (B) the second (2nd) anniversary of the Change in Control Date.

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

[remainder of page intentionally left blank]

IN WITNESS WHEREOF, the Executive and, pursuant to due authorization from its Board of Directors, the Company have caused this Agreement to be executed as of the day and year first above written.

SEMPRA ENERGY

G. Joyce Rowland
Senior Vice President, Human Resources

Date

EXECUTIVE

MARK A. SNELL

Date

GENERAL RELEASE

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

WHEREAS, you and the Company have previously entered into that certain Amended and Restated Severance Pay Agreement dated _____, 200__ (the "Severance Pay Agreement"); and

WHEREAS, Section 14(d) of the Severance Pay Agreement provides for the payment of a benefit to you by the Company in consideration for certain covenants, including your execution and non-revocation of a general release of claims by you against the Company and its subsidiaries and affiliates.

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

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

TWO: As a material inducement for the payment of the benefit under Section 14(d) of the Severance Pay Agreement, and except as otherwise provided in this Agreement, you and the Company hereby irrevocably and unconditionally release, acquit and forever discharge the other from any and all Claims either may have against the other. For purposes of this Agreement and the preceding sentence, the words "Releasee" or "Releasees" and "Claim" or "Claims" shall have the meanings set forth below:

(a) The words "Releasee" or "Releasees" shall refer to you and to the Company and each of the Company's owners, stockholders, predecessors, successors, assigns, agents, directors, officers, employees, representatives, attorneys, advisors, parent companies, divisions, subsidiaries, affiliates (and agents, directors, officers, employees, representatives, attorneys and advisors of such parent companies, divisions, subsidiaries and affiliates) and all persons acting by, through, under or in concert with any of them.

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

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

"A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS WHICH THE CREDITOR DOES NOT KNOW OR SUSPECT TO EXIST IN HIS FAVOR AT THE TIME OF EXECUTING THE

RELEASE, WHICH IF KNOWN BY HIM MUST HAVE MATERIALLY AFFECTED HIS SETTLEMENT WITH THE DEBTOR.”

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

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

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

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

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

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

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

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

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

NINE:

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

(b) If you are a party or are threatened to be made a party to any proceeding by reason of the fact that you were an officer or director of the Company, the Company shall indemnify you against any expenses (including reasonable attorneys' fees; *provided*, that counsel has been approved by the Company prior to retention, which approval shall not be unreasonably withheld), judgments, fines, settlements and other amounts actually or reasonably incurred by you in connection with that proceeding; *provided*, that you acted in good faith and in a manner you reasonably believed to be in the best interest of the Company. The limitations of California Corporations Code Section 317 shall apply to this assurance of indemnification.

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

TEN: This Agreement is made and entered into in California. This Agreement shall in all respects be interpreted, enforced and governed by and under the laws of the State of California and applicable Federal law. Any dispute about the validity, interpretation, effect or alleged violation of this Agreement (an “arbitrable dispute”) must be submitted to arbitration in San Diego, California. Arbitration shall take place before an experienced employment arbitrator licensed to practice law in such state and

selected in accordance with the then existing JAMS arbitration rules applicable to employment disputes; *provided, however*, that in any event, the arbitrator shall allow reasonable discovery. Arbitration shall be the exclusive remedy for any arbitrable dispute. The arbitrator in any arbitrable dispute shall not have authority to modify or change the Agreement in any respect. You and the Company shall each be responsible for payment of one-half (1/2) the amount of the arbitrator's fee(s); *provided, however*, that in no event shall you be required to pay any fee or cost of arbitration that is unique to arbitration or exceeds the costs you would have incurred had any arbitrable dispute been pursued in a court of competent jurisdiction. The Company shall make up any shortfall. Should any party to this Agreement institute any legal action or administrative proceeding against the other with respect to any Claim waived by this Agreement or pursue any arbitrable dispute by any method other than arbitration, the prevailing party shall be entitled to recover from the non-prevailing party all damages, costs, expenses and attorneys' fees incurred as a result of that action. The arbitrator's decision and/or award shall be rendered in writing and will be fully enforceable and subject to an entry of judgment by the Superior Court of the State of California for the County of San Diego, or any other court of competent jurisdiction.

ELEVEN: Both you and the Company understand that this Agreement is final and binding eight (8) days after its execution and return. Should you nevertheless attempt to challenge the enforceability of this Agreement as provided in Paragraph TEN or, in violation of that Paragraph, through litigation, as a further limitation on any right to make such a challenge, you shall initially tender to the Company, by certified check delivered to the Company, all monies received pursuant to Section 14(d) of the Severance Pay Agreement, plus interest, and invite the Company to retain such monies and agree with you to cancel this Agreement and void the Company's obligations under Section 14(d) of the Severance Pay Agreement. In the event the Company accepts this offer, the Company shall retain such monies and this Agreement shall be canceled and the Company shall have no obligation under Section 14(d) of the Severance Pay Agreement. In the event the Company does not accept such offer, the Company shall so notify you and shall place such monies in an interest-bearing escrow account pending resolution of the dispute between you and the Company as to whether or not this Agreement and the Company's obligations under Section 14(d) of the Severance Pay Agreement shall be set aside and/or otherwise rendered voidable or unenforceable. Additionally, any consulting agreement then in effect between you and the Company shall be immediately rescinded with no requirement of notice.

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

To Company: [TO COME]

Attn: [TO COME]

To You:

THIRTEEN: You understand and acknowledge that you have been given a period of forty-five (45) days to review and consider this Agreement (as well as statistical data on the persons eligible for similar benefits) before signing it and may use as much of this forty-five (45) day period as you wish prior to signing. You are encouraged, at your personal expense, to consult with an attorney before signing this Agreement. You understand and acknowledge that whether or not you do so is your decision. You may revoke this Agreement within seven (7) days of signing it. If you wish to revoke, the Company's Vice President, Human Resources must receive written notice from you no later than the close of business on the seventh (7th) day after you have signed the Agreement. If revoked, this Agreement shall not be effective and enforceable, and you will not receive payments or benefits under Section 14(d) of the Severance Pay Agreement.

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

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

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

SEVENTEEN: This Agreement may be executed in counterparts.

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

DATED: _____

DATED: _____

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

SEMPRA ENERGY
2013 LONG TERM INCENTIVE PLAN
<YEAR> RESTRICTED STOCK UNIT AWARD

You have been granted a restricted stock unit award representing the right to receive one share of Sempra Energy Common Stock (together with reinvested dividend equivalents) for each unit, subject to the vesting conditions set forth below. The restricted stock units, and reinvested dividend equivalents, may not be sold or assigned and will be subject to forfeiture unless and until they vest on the date of the <YEAR> Annual Meeting of Shareholders. Shares of Common Stock will be distributed to you when the restricted stock units vest under the terms and conditions of your award.

The terms and conditions of your award are set forth herein and in the Sempra Energy 2013 Long Term Incentive Plan, which is enclosed.

Date of Award: <DATE>

Name of Recipient: <NAME>

Number of Restricted Stock Units (prior to any reinvested dividend equivalents): <# RSU>

Award Date Fair Market Value per Share of Common Stock: <\$STOCK PRICE>

You have been granted a restricted stock unit award under the Sempra Energy 2013 Long Term Incentive Plan. Your restricted stock units represent the right to receive one share of Sempra Energy Common Stock (together with reinvested dividend equivalents) for each restricted stock unit upon the vesting of your award, subject to the terms and conditions of your award.

Your restricted stock units are not shares of Common Stock. You will have no rights as a shareholder unless and until shares of Common Stock are issued to you upon the vesting of your restricted stock units.

Your restricted stock units (and reinvested dividend equivalents) are subject to transfer restrictions and will be forfeited if your Sempra Energy board service terminates before your units vest. See “Vesting/Forfeiture”, “Transfer Restrictions”, and “Termination of Board Service” below.

Vesting/Forfeiture of Restricted Stock Units:

If not previously forfeited, your restricted stock units will vest on the date of the <YEAR> Annual Meeting of Shareholders or upon your earlier termination of board service by reason of your death, disability, or removal from the board without cause.

Your restricted stock units will be forfeited upon your termination of board service before the date of the <YEAR> Annual Meeting of Shareholders for any reason other than your death, disability, or removal from the board without cause.

Transfer Restrictions:

Your restricted stock units may not be sold or otherwise transferred and will remain subject to forfeiture conditions until they vest.

Termination of Board Service:

If your Sempra Energy board service terminates for any reason prior to the date of the <YEAR> Annual Meeting of Shareholders (other than by reason of your death, disability, or removal from the board without cause), all of your restricted stock units will be forfeited.

If your board service terminates by reason of your death, disability, or removal from the board without cause, your restricted stock units (and reinvested dividend equivalents) will immediately vest.

Reinvested Dividend Equivalents:

You also have been awarded reinvested dividend equivalents with respect to your restricted stock units. Your reinvested dividend equivalents represent the right to receive additional shares of Common Stock in the future, subject to the terms and conditions of your award. Your reinvested dividend equivalents will be determined based on the dividends that you would have received, had you held shares of Common Stock equal to the number of your restricted stock units from the date of your award to the date they vest, and assuming that the dividends and successive dividends thereon were reinvested in Common Stock in the same manner as dividends reinvested pursuant to the terms of the Sempra Energy Dividend Reinvestment Plan. Your reinvested dividend equivalents will be subject to the same transfer restrictions and forfeiture and vesting conditions as the shares represented by your restricted stock units.

Also, your restricted stock units (and dividend equivalents), including the terms and conditions thereof, will be adjusted to prevent dilution or enlargement of your rights in the event of a stock dividend on shares of Common Stock or as the result of a stock-split, recapitalization, reorganization or other similar transaction in accordance with the terms and conditions of the 2013 Long Term Incentive Plan. Any additional restricted stock units (and dividend equivalents) awarded to you as a result of such an adjustment also will be subject to the same transfer restrictions, forfeiture and vesting conditions and other terms and conditions that are applicable to your restricted stock units.

Distribution of Shares:

Following the vesting of your restricted stock units, you will receive the number of shares of Common Stock equal to the number of your restricted stock units that have vested. You will receive the shares as soon as reasonably practicable following the vesting date. Once you receive the shares of Common Stock, your restricted stock units (and dividend equivalents) will terminate.

Taxes:

Upon the distribution of your units (and reinvested dividend equivalents) in shares of Common Stock, you will realize taxable income based on the fair market value of the shares on the distribution date and, if applicable, you must pay any applicable withholding (or other) taxes.

If you are subject to withholding (or other) taxes, prior to the taxable or tax withholding event, as applicable, you must pay, or make adequate arrangements satisfactory to Sempra Energy to pay these taxes. In this regard, unless you instruct otherwise and pay or make arrangements satisfactory to Sempra Energy to pay these taxes, upon the distribution of your shares, Sempra Energy will withhold a sufficient number of shares of common stock or restricted stock units (valued in each case at the distribution date fair market value) to cover the minimum required withholding taxes and transfer to you only the remaining balance of your shares.

Change in Control:

A change in control shall be governed in accordance with Article 16 (Change in Control) of the 2013 Sempra Energy Long Term Incentive Plan.

Further Actions:

You agree to take all actions and execute all documents appropriate to carry out the provisions of this Agreement.

You also appoint as your attorney-in-fact each individual who at the time of so acting is the Secretary or an Assistant Secretary of Sempra Energy with full authority to effect any transfer of any shares of Common Stock distributable to you that is authorized by this Agreement.

Applicable Law:

This Agreement will be interpreted and enforced under the laws of the State of California.

Other Agreements:

In the event of a conflict between the terms of this Agreement and the 2013 Long Term Incentive Plan, the plan document shall prevail.

To accept your award you must sign the accompanying copy of this page and promptly return it to Sempra Energy. By doing so, you agree to all of the terms and conditions set forth herein and in the Sempra Energy 2013 Long Term Incentive Plan.

Recipient: _____ X _____
(Signature)
Sempra Energy: _____ /s/ Debra L. Reed _____
(Signature)
Title: _____ Chairman and Chief Executive Officer _____

**SEMPRA ENERGY
1998 NON-EMPLOYEE DIRECTORS' STOCK PLAN**

SEMPRA ENERGY
1998 NON-EMPLOYEE DIRECTORS' STOCK PLAN
(as Amended and Restated on March 2, 1999)

1. PURPOSE

The purposes of the Sempra Energy 1998 Non-Employee Directors' Stock Plan (the "Plan") are (i) to retain the services of qualified individuals who are not employees of SEMPra ENERGY, a California corporation (the "Company"), to serve as members of the Board and to secure for the Company the benefits of the incentives inherent in increased Common Stock ownership by such individuals by awarding such individuals Director Shares and Options to purchase shares of Common Stock, and (ii) to provide such individuals an opportunity to defer payment of all or a portion of their Director's Fees in accordance with the terms and conditions set forth herein.

2. DEFINITIONS

For purposes of the Plan, the following terms shall be as follows.

"Affiliate" and "Associate" have the respective meanings ascribed to such terms in Rule 12b-2 promulgated under the Exchange Act.

"Annual Meeting" means an annual meeting of the Company's shareholders.

"Beneficiary" or "Beneficiaries" means an individual or entity designated by a Non-Employee Director on a Beneficiary Designation Form to receive Deferred Benefit payments in the event of the Non-Employee Director's death.

"Beneficiary Designation Form" means a document, in a form approved by the Board, to be used by Non-Employee Directors to name their respective Beneficiaries.

"Board" means the Board of Directors of the Company.

A "Change in Control" of the Company shall be deemed to have occurred when:

- (i) Any Person is or becomes the Beneficial Owner directly or indirectly, of securities of the Company representing twenty percent (20%) or more of the combined voting power of the Company's then outstanding securities; or

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

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

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

"Code" means the Internal Revenue Code of 1986, as amended, and the applicable rulings and regulations thereunder.

"Common Stock" means the common stock, with no par value, of the Company.

"Deferral Election" means the election of a Non-Employee Director, made in accordance with the terms and conditions of the Plan, to defer all or a specified percentage of his or her Director's Fees for a Deferral Period.

"Deferral Period" means each period commencing on the date of an Annual Meeting and ending on the date immediately preceding the next Annual Meeting. The first Deferral Period under the Plan shall commence on the date of the Annual Meeting first following the Effective Date. If an individual becomes eligible to participate in the Plan after the commencement of a Deferral Period, the Deferral Period for the individual shall be the remainder of such Deferral Period.

"Deferred Benefit" means an amount that will be paid on a deferred basis under the Plan to a Non-Employee Director who has made a Deferral Election pursuant to Section 7.

"Deferred Compensation Account" means the bookkeeping account established for each Non-Employee Director. A Deferred Compensation Account is established only for purposes of measuring a Deferred Benefit and not to segregate assets or to identify assets that may be used to pay a Deferred Benefit.

"Director's Fees" means the cash portion of (i) any annual fee payable to a Non-Employee Director for service on the Board and (ii) any other fee determined on an annual basis and payable for service on, or for acting as chairperson of, any committee of the Board.

"Director Shares" means shares of Common Stock granted to a Non-Employee Director, which shall be subject to such terms and conditions as are set forth in Section 6 below.

"Election Date" means the day that is 30 days prior to the commencement of a Deferral Period.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended.

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

"Fair Market Value" means, in the event that the Common Stock is traded on a recognized securities exchange, the closing price of the Common Stock on the date set for valuation, or in the event that the Common Stock is quoted by the National Association of Securities Dealers Automated Quotations on National Market Issues system, an amount equal to the average of the high and low prices of the Common Stock on such quotations system on the date set for valuation or, if no sales of Common Stock were made on said exchange or so quoted on that date, the average of the high and low prices of the Common Stock on the next preceding day on which sales were made on such exchange or quotations system; or, if the Common Stock is not so traded or quoted, that value determined, in its sole discretion, by the Board.

"Non-Employee Director" means a member of the Board who is not an employee of the Company.

"Option" means an option to purchase shares of Common Stock awarded to a Non-Employee Director pursuant to the Plan, which option shall not be intended to qualify, and shall not be treated, as an "incentive stock option" within the meaning of Section 422 of the Code.

"Parent" means any corporation which is a "parent corporation" within the meaning of Section 424 of the Code with respect to the relevant entity.

"Person" means any person, entity, or "group" within the meaning of Section 13(d)(3) or Section 14(d)(2) of the Exchange Act, except that such term shall not include (i) the Company or any of its subsidiaries, (ii) a trustee or other fiduciary holding securities under an employee benefit plan of the Company or any of its Affiliates, (iii) an underwriter temporarily holding securities pursuant to an offering of such securities, (iv) a corporation owned, directly or indirectly, by the shareholders of the Company in substantially the same proportions as their ownership, of stock of the Company, or (v) a person or group as used in Rule 13d-1(b) under the Exchange Act.

"Phantom Stock Unit" means a bookkeeping unit representing one share of Common Stock.

"Retirement" means a Non-Employee Director ceasing to be a member of the Board as a result of retirement from the Board in accordance with the retirement policy then applicable to Board members from time to time.

3. ADMINISTRATION

The entire Board will be responsible for administering the Plan, *provided, however*, that the Board may delegate its administrative authority to a committee or to one or more officers of the Company at any time in its sole discretion. The Board will have authority to adopt such rules as it may deem appropriate to carry out the purposes of the Plan, and shall have authority to interpret and construe the provisions of the Plan and any agreements and notices under the Plan and to make determination pursuant to any Plan provision. Each interpretation, determination or other action made or taken by the Board pursuant to the Plan shall be final and binding on all persons. No member of the Board shall be liable for anything whatsoever in connection with the administration of the Plan except such person's own willful misconduct. In the performance of its functions with respect to the Plan, the Board shall be entitled to rely upon information and advice furnished by the Company's officers, the Company's accountants, the Company's counsel and any other party the Board deems necessary, and no member of the Board shall be liable for any action taken or not taken in reliance upon any such advice.

4. SHARES AVAILABLE

Subject to the provisions of Section 8 of the Plan, the maximum number of shares of Common Stock which may be issued under the Plan shall not exceed 1.5 million shares (the "Section 4 Limit"). Either authorized and unissued shares of Common Stock or treasury shares may be delivered pursuant to the Plan. For purposes of determining the number of shares that remain available for issuance under the Plan, the following rules shall apply:

- (a) the number of shares subject to awards granted under the Plan shall be charged against the Section 4 Limit; and
- (b) the Section 4 Limit shall be increased by:
 - (i) the number of shares subject to an Option that lapses, expires or is otherwise terminated without the issuance of the underlying shares;
 - (ii) the number of Phantom Stock Units settled by the delivery of consideration other than shares;
 - (iii) the number of shares tendered to pay the exercise price of an Option; and
 - (iv) the number of shares withheld to satisfy any tax withholding obligations of a Non-Employee Director with respect to any shares or other payments hereunder.

5. OPTIONS

Each Non-Employee Director shall receive grants of Options under the Plan as follows :

(a) Option Grants

- (i) **Initial Directors** Each individual who is a Non-Employee Director on the tenth business day after the consummation of the combination of Enova Corporation and Pacific Enterprises to form the Company, shall receive as of such date a grant of an Option to purchase 15,000 shares of Common Stock. In addition, at each Annual Meeting at or following which he or she is re-elected or continues to serve, each such Non-Employee Director shall receive as of such date a grant of an Option to purchase 5,000 shares. Each such Option shall have a per share exercise price equal to the Fair Market Value of the Common Stock on the date of grant, shall be for a term of ten years and shall be subject to the vesting schedule provided for in Section 5(b) and the other terms and conditions provided for herein.

(ii) Subsequent Directors Each individual who subsequently becomes a Non-Employee Director (including any Non-Employee Director who is re-elected after a period during which he or she did not serve on the Board) shall receive coincident with his or her election to the Board (or re-election after a period during which he or she did not serve on the Board) a grant of an Option to purchase 15,000 shares of Common Stock. In addition, at each Annual Meeting at or following which he or she is re-elected or continues to serve (other than the Annual Meeting coincident with or first succeeding his or her election), each Non-Employee Director shall receive as of such date a grant of an Option to purchase 5,000 shares of Common Stock. Each such Option shall have a per share exercise price equal to the Fair Market Value of the Common Stock on the date of grant and shall be for a term of ten years and shall be subject to the vesting schedule provided for in Section 5(b) and the other terms and conditions provided for herein.

(b) Vesting Schedule of Options

Options awarded pursuant to the Plan shall vest and become exercisable on the date of the first Annual Meeting following the date of grant; *provided, however*, that an Option shall become fully vested and exercisable upon a Non-Employee Director ceasing to be a member of the Board as a result of death, Disability, Retirement or in the event of his or her involuntary termination of service on the Board other than for cause.

(c) Exercise of Options Following Termination of Service

If a Non-Employee Director ceases to be a member of the Board for any reason, then (A) the Non-Employee Director shall have the right, subject to the terms and conditions hereof, to exercise the Option, to the extent it has vested as of the date of such termination of service, at any time within five years after the date of such termination or the earlier expiration of the ten-year term of the Option, and (B) the unvested portion of any Options awarded to the Non-Employee Director shall be forfeited as of the date of termination of service.

(d) Method of Exercise

The exercise price of an Option may be paid in cash or previously owned shares or a combination thereof and in whole or in part through the withholding of shares subject to the Option with a Fair Market Value equal to the exercise price. In accordance with the rules and procedures established by the Board for this purpose, an Option may also be exercised through a "cashless exercise" procedure approved by the Board involving a broker or dealer approved by the Board, that affords Non-Employee Directors the opportunity to sell immediately some or all of the shares underlying the exercised portion of the Option in order to generate sufficient cash to pay the Option exercise price and/or to satisfy withholding tax obligation related to the Option.

(e) Restrictions on Transfer

An Option may not be transferred, pledged, assigned, or otherwise disposed of, except by will or by the laws of descent and distribution or pursuant to a “qualified domestic relations order” as defined in the Code or Title I of ERISA (a “QDRO”); *provided, however*, that the Board may, subject to such terms and conditions as the Board shall specify, permit the transfer of an Option to a Non-Employee Director's family members or to one or more trusts established in whole or in part for the benefit of one or more of such family members. The Option shall be exercisable, during the Non-Employee Director's lifetime, only by the Non-Employee Director or by the person to whom the Option has been transferred in accordance with the previous sentence.

6. DIRECTOR SHARES

A Non-Employee Director may elect to receive all or a specified percentage of his or her Director's Fees for each year of service on the Board in Director Shares, in lieu of cash compensation for such portion thereof, rounded up or down to the next whole share in the event of fractional amounts. The number of Director Shares to be received by each Non-Employee Director shall be determined by dividing the portion of such Non-Employee Director's Fees to be paid in Director Shares by the Fair Market Value of a share of Common Stock on the date such compensation would otherwise have been paid in cash. The Non-Employee Director shall have all the rights and privileges of a shareholder as to such shares, including the right to receive dividends and the right to vote such shares. The Director Shares shall be immediately vested upon grant, shall not be forfeitable to the Company and shall not be subject to any restrictions on transfer (other than those imposed under applicable law or under any trading policy of the Company).

7. DEFERRAL OF DIRECTOR'S FEES

(a) Deferral Elections

(i) General Provisions A Non-Employee Director may elect to defer all or a specified percentage of his or her Director's Fees with respect to a Deferral Period in the manner provided in this Section 7; *provided, however*, that a Non-Employee Director may not elect to defer any Director's Fees which the Non-Employee Director will receive in Director Shares in accordance with Section 6 above. A Non-Employee Director's Deferred Benefit is at all times nonforfeitable. The deferral provisions set forth in this Section 7 shall be nonexclusive and shall not be construed to prevent a Non-Employee Director from deferring Director's Fees under another applicable plan or program of the Company.

(ii) Deferral Election Form Before the Election Date applicable to a Deferral Period, each Non-Employee Director will be provided with a Deferral Election Form and a Beneficiary Designation Form. In order for a Non-Employee Director to participate in the Plan for a given Deferral Period, a Deferral Election Form, completed and signed by the Non-Employee Director, must be delivered to the Company on or prior to the applicable Election Date. A Non-Employee Director electing to participate in the Plan for a given Deferral Period shall indicate on his or her Deferral Election Form:

(A) the percentage of the Director's Fees for the applicable Deferral Period to be deferred; and

(B) The Non-Employee Director's election either to have distribution of his or her Deferred Benefit commence following termination of service as a Non-Employee Director or to have such distribution commence as of a date specified by him or her on such Form, *provided, however*, that any such election concerning the commencement of distribution of a Non-Employee Director's Deferred Benefit shall be subject to the terms and conditions of Section 7(e); *and provided further, however*, that in no event may a Non-Employee Director elect to defer any Director's Fees for a period that is less than two years.

(iii) Revocation of Deferral Election A Non-Employee Director may revoke a Deferral Election applicable to a Deferral Period; *provided*, that in order to be effective, a revocation must be in writing and signed by the Non-Employee Director, must express the Non-Employee Director's intention to revoke his or her Deferral Election applicable to that Deferral Period, and must be delivered to the Company before the close of business on the Election Date applicable to such Deferral Period.

(b) Establishment of Deferred Compensation Accounts

A Non-Employee Director's deferrals will be credited to a Deferred Compensation Account established for that Non-Employee Director. As of the last business day of each calendar quarter, a Non-Employee Director's Deferred Compensation Account will be credited with a number of Phantom Stock Units (including fractions of Phantom Stock Units) determined by dividing (i) the amount of the Director's Fees deferred over such quarter by (ii) the average closing price of a share of Common Stock over the applicable calendar quarter. The crediting of Phantom Stock Units to a Non-Employee Director's Deferred Compensation Account shall not confer on the Non-Employee Director any rights as a shareholder of the Company.

(c) Dividend Equivalents on Phantom Stock Deferrals

Each Phantom Stock Unit credited to the Deferred Compensation Account of a Non-Employee Director will be credited with an additional number of Phantom Stock Units (including fractions thereof) as dividend equivalents, determined by dividing (i) the amount of cash, or the value (as determined by the Board) of any securities or other property, paid or distributed as dividends in respect of one outstanding share of Common Stock by (ii) the Fair Market Value of a share of Common Stock for the date of such payment or distribution. Such credit shall be made effective as of the date of the dividend or other distribution in respect of the Common Stock.

(d) Manner of Payment of Deferred Benefit

Payments of Deferred Benefits under the Plan will be in cash or shares of Common Stock, or a combination thereof, as the Board in its sole discretion shall determine. To the extent that cash payments are made hereunder, they shall be based on the Fair Market Value of the Common Stock on the day preceding the day on which the payment is due. The Company shall pay a Non-Employee Director's Deferred Benefit either in a single lump sum or in a series of installments, as the Board in its sole discretion shall determine, *provided, however*, that if the Board elects to pay a Non-Employee Director's Deferred Benefit in a series of installments, such installments shall be paid no more frequently than quarterly and the Deferred Benefit must be distributed over a period not exceeding five years. The unpaid portion of a Non-Employee Director's Deferred Benefit shall continue to be credited with dividend equivalents as provided in Section 7(c) until it is fully paid.

(e) Commencement of Payment of Deferred Benefit

Except as provided in Section 7(f), a Non-Employee Director's Deferred Benefit shall be paid (if payable in a lump sum), or commence to be paid (if payable in a series of installments), to the Non-Employee Director as soon as practicable (but in no event more than 90 days) after the earliest to occur of: (i) termination of service as a Non-Employee Director; (ii) the date specified in the Deferral Election Form executed by the Non-Employee Director; or (iii) the Non-Employee Director's death.

(f) Designation of Beneficiary

Each Non-Employee Director may designate a Beneficiary to receive any Deferred Benefit due under the Plan upon the Non-Employee Director's death by executing a Beneficiary Designation Form. A Beneficiary designation is not binding on the Company until the Company receives the Beneficiary Designation Form. If no designation is made or no designated Beneficiary is alive (or in the case of an entity designated as a Beneficiary, in existence) at the time of the Non-Employee Director's death, payments due under the Plan will be made to the Non-Employee Director's estate.

(g) Restrictions on Transfer

The Company shall pay all Deferred Benefits payable under the Plan only to the Non-Employee Director or Beneficiary designated under the Plan to receive such amounts. Neither a Non-Employee Director nor his or her Beneficiary shall have any right to anticipate, alienate, sell, transfer, assign, pledge, encumber or change any benefits to which he or she may become entitled under the Plan, and any attempt to do so shall be void. A Deferred Benefit shall not be subject to attachment, execution by levy, garnishment, or other legal or equitable process for a Non-Employee Director's or Beneficiary's debts or other obligations.

8. RECAPITALIZATION OR REORGANIZATION

(a) Authority of the Company and Shareholders

The existence of the Plan shall not affect or restrict in any way the right or power of the Company or the shareholders of the Company to make or authorize any adjustment, recapitalization, reorganization or other change in the Company's capital structure or its business, any merger or consolidation of the Company, any issue of stock or of options, warrants or rights to purchase stock or of bonds, debentures, preferred or prior preference stocks whose rights are superior to or affect the Common Stock or the rights thereof or which are convertible into or exchangeable for Common Stock, or the dissolution or liquidation of the Company, or any sale or transfer of all or any part of its assets of business, or any other corporate act or proceeding, whether of a similar character or otherwise.

(b) Change in Capitalization

Notwithstanding any other provision of the Plan, in the event of any change in the outstanding Common Stock by reason of a stock dividend, recapitalization, reorganization, merger, consolidation, stock split, combination or exchange of shares or any other significant corporate event affecting the Common Stock, the Board shall make (i) such proportionate adjustments as it considers appropriate (in the form determined by the Board in its sole discretion) to prevent diminution or enlargement of the rights of Non-Employee Directors under the Plan with respect to the aggregate number of shares of Common Stock authorized to be awarded under the Plan, the number of shares of Common Stock covered by each outstanding Option and the exercise prices in respect thereof, the number of shares of Common Stock covered by future Option awards and the number of Phantom Stock Units credited to a Non-Employee Director's Deferred Compensation Account and/or (ii) such other adjustments as it deems appropriate. The Board's determination as to what, if any, adjustments shall be made shall be final and binding on the Company and all Non-Employee Directors.

9. CHANGE IN CONTROL

In the event of a Change in Control (i) all Options then outstanding shall automatically become fully vested and exercisable as of the date of the Change in Control; and (ii) all Deferred Benefits shall be paid out in a cash lump sum within five business days of the Change in Control. In the case of a Change in Control involving a merger of, or consolidation involving, the Company in which the Company is (A) not the surviving corporation (the "Surviving Entity") or (B) becomes a wholly owned subsidiary of the Surviving Entity or any Parent thereof, each outstanding Option granted under the Plan and not exercised (a "Predecessor Option") will be converted into an option (a "Replacement Option") to acquire common stock of the Surviving Entity or its Parent, which Replacement Option will have substantially the same terms and conditions as the Predecessor Option, with appropriate adjustments as to the number and kind of shares and exercise prices. Notwithstanding the foregoing, in the event of a Change in Control, the Board expressly reserves the discretion to cancel all outstanding Options, effective as of the date of the Change in Control, in exchange for a cash payment to be made to each of the Non-Employee Directors within five business days following the Change in Control in an amount equal to the excess of the fair market value of the Company's Common Stock on the date of the Change in Control over the exercise price of each such Option, multiplied by the number of shares that are subject to such option. Notwithstanding the foregoing, in the event that the Company becomes a party to a transaction that is intended to qualify for "pooling of interests" accounting treatment and, but for one or more of the provisions of this Plan would so qualify, then this Plan shall be interpreted so as to preserve such accounting treatment, and to the extent that any provision of the Plan would disqualify the transaction from pooling of interests accounting treatment then such provision shall be null and void. All determinations to be made in connection with the preceding sentence shall be made by the independent accounting firm whose opinion with respect to "pooling of interests" treatment is required as a condition to the Company's consummation of such transaction.

10. TERMINATION AND AMENDMENT OF THE PLAN

(a) Termination

The Plan shall terminate as of the tenth anniversary of the Effective Date (as defined in Section 11(i)). Following the tenth anniversary of the Effective Date, no further awards of Director Shares or Options shall be granted pursuant to the Plan and no additional Director's Fees may be deferred by a Non-Employee Director into his or her Deferred Compensation Account.

(b) General Power of Board

Notwithstanding anything herein to the contrary, the Board may at any time and from time to time terminate, modify, suspend or amend the Plan in whole or in part; *provided, however*, that no such termination, modification, suspension or amendment shall be effective without shareholder approval if such approval is required to comply with any applicable law or stock exchange rule; and *provided further*, that the Board may not, without shareholder approval, increase the Section 4 Limit except as provided in Section 8(b) above.

(c) When Non-Employee Directors' Consent Is Required

The Board may not alter, amend, suspend, or terminate the Plan without the consent of any Non-Employee Director to the extent that such action would (i) adversely affect his or her rights with respect to Director Shares or Options that have previously been granted or (ii) result in the distribution to such Non-Employee Director of amounts then credited to his or her Deferred Compensation Account in any manner other than as provided in the Plan or could reasonably be expected to result in the immediate taxation to such Non-Employee Director of Deferred Benefits.

11. MISCELLANEOUS

(a) Tax Withholding

The obligations of the Company under the Plan shall be conditioned upon the Company's rights, to the extent permitted by law, to deduct all applicable taxes, if any, from any payment of any kind otherwise due to the Non-Employee Director.

(b) No Right to Grants or Re-election

No Non-Employee Director shall have any claim or right to receive any grants or awards under the Plan. Nothing in the Plan shall be deemed to create any obligation on the part of the Board to nominate any of its members for re-election by the Company's shareholders, nor confer upon any Non-Employee Director the right to remain a member of the Board for any period of time, or at any particular rate of compensation.

(c) Unfunded Plan

(i) Generally This Plan is unfunded. Amounts payable under the Plan will be satisfied solely out of the general assets of the Company subject to the claims of the Company's creditors.

(ii) Deferred Benefits A Deferred Benefit represents at all times an unfunded and unsecured contractual obligation of the Company and each Non-Employee Director or Beneficiary will be an unsecured creditor of the Company. No Non-Employee Director, Beneficiary or any other Person shall have any interest in any fund or in any specific asset of the Company by reason of any amount credited to him or her hereunder, nor shall any Non-Employee Director, Beneficiary or any other Person have any right to receive any distribution under the Plan except as, and to the extent, expressly provided in the Plan. The Company will not segregate any funds or assets for Deferred Benefits or issue any notes or security for the payment of any Deferred Benefits. Any reserve or other asset that the Company may establish or acquire to assure itself of the funds to provide benefits under the Plan shall not serve in any way as security to any Non-Employee Director, Beneficiary or other Person for the performance of the Company under the Plan.

(d) Other Compensation Arrangements

Payments received by a Non-Employee Director under any award made pursuant to the provisions of the Plan shall not be included in, nor have any effect on, the determination of benefits under any other arrangement provided by the Company.

(e) Securities Law Restrictions

The Board may require each Non-Employee Director purchasing or acquiring shares of Common Stock pursuant to the Plan to and agree with the Company in writing that such Non-Employee Director is acquiring the shares for investment and not with a view to the distribution thereof. All certificates for shares of Common Stock delivered under the Plan shall be subject to such stock-transfer orders and other restrictions as the Board may deem advisable under the rules, regulations, and other requirements of the Securities and Exchange Commission or any exchange upon which the Common Stock is then listed, and any applicable federal or state securities law, and the Board may cause a legend or legends to be put on any such certificates to make appropriate reference to such restrictions. No shares of Common Stock shall be issued hereunder unless the Company shall have determined that such issuance is in compliance with, or pursuant to an exemption from, all applicable federal and state securities laws.

(f) Compliance with Rule 16b-3

(i) The Plan is intended to comply with Rule 16b-3 under the Exchange Act or its successor under the Exchange Act and the Board shall interpret and administer the provisions of the Plan in a manner consistent therewith. To the extent any provision of the Plan or any action by the Board fails to so comply, it shall be deemed null and void, to the extent permitted by law and deemed advisable by the Board. Moreover, in the event the Plan does not include a provision required by Rule 16b-3 to be stated therein, such provision (other than one relating to eligibility requirements, or the price and amount of Options) shall be deemed automatically to be incorporated by reference into the Plan.

(ii) Notwithstanding anything contained in the Plan to the contrary , if the consummation of any transaction under the Plan would result in the possible imposition of liability on a Non-Employee Director pursuant to Section 16(b) of the Exchange Act, the Board shall have the right, in its sole discretion, but shall not be obligated, to defer such transaction to the extent necessary to avoid such liability.

(g) Expenses

The costs and expenses of administering the Plan shall be borne by the Company.

(h) Applicable Law

Except as to matters of federal law , the Plan and all actions taken thereunder shall be governed by and construed in accordance with the laws of the State of California without giving effect to conflicts of law principles.

(i) Effective Date

The Plan shall be effective as of the Effective Time of the business combination of Pacific Enterprises and Enova Corporation, pursuant to which such corporations will become subsidiaries of the Company (the "Effective Date"), subject to the approval by the Company's shareholders of the Plan at or prior to the first Annual Meeting after the Effective Date. If shareholder approval is not obtained at or prior to the first Annual Meeting, the Plan and any awards thereunder shall terminate *ab initio* and be of no further force and effect.

**SEMPRA ENERGY
SEVERANCE PAY AGREEMENT**

THIS AGREEMENT (this “Agreement”), dated as of February 18, 2013 (the “Effective Date”), is made by and between SEMPRA ENERGY, a California corporation (“Sempra Energy”), and John C. Baker (the “Executive”).

WHEREAS, the Executive is currently employed by Sempra Energy or a direct or indirect subsidiary of Sempra Energy (Sempra Energy and its subsidiaries are hereinafter collectively referred to as the “Company”) as Senior Vice President, Strategic Planning and Technology; and

WHEREAS, Sempra Energy and the Executive desire to enter into this Agreement; and

WHEREAS, the Board of Directors of Sempra Energy (the “Board”) has authorized this Agreement.

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

Section 1. Definitions. For purposes of this Agreement, the following capitalized terms have the meanings set forth below:

“Accounting Firm” has the meaning assigned thereto in Section 8(d) hereof.

“Accrued Obligations” means the sum of (A) the Executive’s Annual Base Salary through the Date of Termination to the extent not theretofore paid, (B) an amount equal to any annual Incentive Compensation Awards earned with respect to fiscal years ended prior to the year that includes the Date of Termination to the extent not theretofore paid, (C) any accrued and unpaid vacation, if any, and (D) reimbursement for unreimbursed business expenses, if any, properly incurred by the Executive in the performance of his duties in accordance with policies established from time to time by the Board, in each case to the extent not theretofore paid.

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

“Annual Base Salary” means the Executive’s annual base salary from the Company.

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

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

“Average Annual Bonus” means the average of the annual bonuses from the Company earned by the Executive with respect to the three (3) fiscal years of the Company immediately preceding the Date of Termination (the “Bonus Fiscal Years”); *provided, however*, that, if the Executive was employed by the Company for less than three (3) Bonus Fiscal Years, “Average Annual Bonus” means the average of the annual bonuses (if any) from the Company earned by the Executive with respect to the Bonus Fiscal Years during which the Executive was employed by the Company; and, *provided, further*, that, if the Executive was not employed by the Company during any of the Bonus Fiscal Years, “Average Annual Bonus” means zero.

“Cause” means:

(a) Prior to a Change in Control, (i) the willful failure by the Executive to substantially perform the Executive’s duties with the Company (other than any such failure resulting from the Executive’s incapacity due to physical or mental illness, (ii) the grossly negligent performance of such obligations referenced in clause (i) of this definition, (iii) the Executive’s gross insubordination; and/or (iv) the Executive’s commission of one or more acts of moral turpitude that constitute a violation of applicable law (including but not limited to a felony) which have or result in an adverse effect on the Company, monetarily or otherwise, or one or more significant acts of dishonesty. For purposes of clause (i) of this subsection (a), no act, or failure to act, on the Executive’s part shall be deemed “willful” unless done, or omitted to be done, by the Executive not in good faith and without reasonable belief that the Executive’s act, or failure to act, was in the best interests of the Company.

(b) From and after a Change in Control, (i) the willful and continued failure by the Executive to substantially perform the Executive’s duties with the Company (other than any such failure resulting from the Executive’s incapacity due to physical or mental illness or any such actual or anticipated failure after the issuance of a Notice of Termination for Good Reason by the Executive pursuant to Section 2 hereof) and/or (ii) the Executive’s commission of one or more acts of moral turpitude that constitute a violation of applicable law (including but not limited to a felony) which have or result in an adverse effect on the Company, monetarily or otherwise, or one or more significant acts of dishonesty. For purposes of clause (i) of this subsection (b), no act, or failure to act, on the Executive’s part shall be deemed “willful” unless done, or omitted to be done, by the Executive not in good faith and without reasonable belief that the Executive’s act, or failure to act, was in the best interests of the Company. Notwithstanding the foregoing, the Executive shall not be deemed terminated for Cause pursuant to clause (i) of this subsection (b) unless and until the Executive shall have been provided with reasonable notice of and, if possible, a reasonable opportunity to cure the facts and circumstances claimed to provide a basis for termination of the Executive’s employment for Cause.

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

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

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

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

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

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

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

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

(ii) a merger or consolidation which would result in the voting securities of Sempra Energy outstanding immediately prior to such merger or consolidation continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity or any parent thereof), in combination with the ownership of any trustee or other fiduciary holding securities under an employee benefit plan of the Company, at least sixty percent (60%) of the combined voting power of the securities of Sempra Energy or such surviving entity or any parent thereof outstanding immediately after such merger or consolidation, or

(iii) a merger or consolidation effected to implement a recapitalization of Sempra Energy (or similar transaction) in which no Person is or becomes the Beneficial Owner (within the meaning of Rule 13d-3 promulgated under the Exchange Act), directly or indirectly, of securities of Sempra Energy (not including the securities beneficially owned by such Person any securities acquired directly from Sempra Energy or its Affiliates other than in connection with the acquisition by Sempra Energy or its Affiliates of a business) representing twenty percent (20%) or more of the combined voting power of Sempra Energy’s then outstanding securities.

(c) A “change in the ownership of a substantial portion of assets of Sempra Energy” shall not occur under clause (a)(iii) by reason of a sale or disposition by Sempra Energy of the assets of Sempra Energy to an entity, at least sixty percent (60%) of the combined voting power of the voting securities of which are owned by shareholders of Sempra Energy in substantially the same proportions as their ownership of Sempra Energy immediately prior to such sale.

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

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

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

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

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

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

“Date of Termination” has the meaning assigned thereto in Section 2(b) hereof.

“Deferred Compensation Plan” has the meaning assigned thereto in Section 4(f) hereof.

“Disability” has the meaning set forth in the Company’s long-term disability plan or its successor; *provided*, however, that the Board may not terminate the Executive’s employment hereunder by reason of Disability unless (i) at the time of

such termination there is no reasonable expectation that the Executive will return to work within the next ninety (90) day period and (ii) such termination is permitted by all applicable disability laws.

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

“Excise Tax” has the meaning assigned thereto in Section 8(a) hereof.

“Good Reason” means:

(a) Prior to a Change in Control, the occurrence of any of the following without the prior written consent of the Executive, unless such act or failure to act is corrected by the Company prior to the Date of Termination specified in the Notice of Termination (as required under Section 2 hereof):

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

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

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

(iv) the failure by the Company to pay to the Executive any portion of the Executive’s current compensation and benefits or any portion of an installment of deferred compensation under any deferred compensation program of the Company within thirty (30) days of the date such compensation is due;

(v) any purported termination of the Executive’s employment that is not effected pursuant to a Notice of Termination satisfying the requirements of Section 2 hereof; for purposes of this Agreement, no such purported termination shall be effective;

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

(vii) the failure by the Company to provide the indemnification and D&O insurance protection Section 10 of this Agreement requires it to provide; or

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

(b) From and after a Change in Control, the occurrence of any of the following without the prior written consent of the Executive, unless such act or failure to act is corrected by the Company prior to the Date of Termination specified in the Notice of Termination (as required under Section 2 hereof):

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

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

(iii) the relocation of the Executive’s principal place of employment immediately prior to the Change in Control Date (the “Principal Location”) to a location which is both further away from the Executive’s residence and more than thirty (30) miles from such Principal Location, or the Company’s requiring the Executive to be based anywhere other than such Principal Location (or permitted relocation thereof), or a substantial increase in the Executive’s business travel obligations outside of the Southern California area as of the Effective Date other than any such increase that (A) arises in connection with extraordinary business activities of the Company of limited duration and (B) is understood not to be part of the Executive’s regular duties with the Company;

(iv) the failure by the Company to pay to the Executive any portion of the Executive’s current compensation and benefits or any portion of an installment of deferred compensation under any deferred compensation program of the Company within thirty (30) days of the date such compensation is due;

(v) any purported termination of the Executive's employment that is not effected pursuant to a Notice of Termination satisfying the requirements of Section 2 hereof; for purposes of this Agreement, no such purported termination shall be effective;

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

(vii) the failure by the Company to provide the indemnification and D&O insurance protection Section 10 of this Agreement requires it to provide; or

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

Following a Change in Control, the Executive's determination that an act or failure to act constitutes Good Reason shall be presumed to be valid unless such determination is deemed to be unreasonable by an arbitrator pursuant to the procedure described in Section 13 hereof. The Executive's right to terminate the Executive's employment for Good Reason shall not be affected by the Executive's incapacity due to physical or mental illness. The Executive's continued employment shall not constitute consent to, or a waiver of rights with respect to, any act or failure to act constituting Good Reason hereunder.

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

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

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

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

"Mandatory Retirement" means termination of employment pursuant to the Company's mandatory retirement policy.

"Notice of Termination" has the meaning assigned thereto in Section 2(a) hereof.

"Payment" has the meaning assigned thereto in Section 8(a) hereof.

"Payment in Lieu of Notice" has the meaning assigned thereto in Section 2(b) hereof.

"Person" has the meaning set forth in section 3(a)(9) of the Exchange Act, as modified and used in sections 13(d) and 14(d) thereof, except that such term shall not include (i) the Company or any of its Affiliates, (ii) a trustee or other fiduciary holding securities under an employee benefit plan of the Company or any of its Affiliates, (iii) an underwriter temporarily holding securities pursuant to an offering of such securities, (iv) a corporation owned, directly or indirectly, by the shareholders of the Company in substantially the same proportions as their ownership of stock of the Company, or (v) a person or group as used in Rule 13d-1(b) promulgated under the Exchange Act.

"Post-Change in Control Severance Payment" has the meaning assigned thereto in Section 5 hereof.

"Pre-Change in Control Severance Payment" has the meaning assigned thereto in Section 4 hereof.

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

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

"Pro Rata Bonus" has the meaning assigned thereto in Section 5(b) hereof.

"Release" has the meaning assigned thereto in Section 4 hereof.

"Section 409A Payments" means any of the following: (a) the Payment in Lieu of Notice; (b) the Pre-Change in Control Severance Payment; (c) the Post-Change in Control Severance Payment; (d) the Pro Rata Bonus; (e) the Consulting Payment; (f) the payment under Section 5(c); (g) the financial planning services and the related payments provided under Sections 4(e) and 5(g); (h) the legal fees and expenses reimbursed under Section 15; and (i) any other payment that the Company determines in its sole discretion is subject to Section 409A of the Code as non-qualified deferred compensation.

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

"Separation from Service" has the meaning set forth in Treasury Regulation Section 1.409A-1(h), with respect to the Service Recipient.

"SERP" has the meaning assigned thereto in Section 5(c) hereof.

“Specified Employee” shall be determined in accordance with Section 409A(a)(2)(B)(i) of the Code and Treasury Regulation 1.409A-1(i).

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

Section 2. Notice and Date of Termination.

(a) Any termination of the Executive’s employment by the Company or by the Executive shall be communicated by a written notice of termination to the other party (the “Notice of Termination”). Where applicable, the Notice of Termination shall indicate the specific termination provision in this Agreement relied upon and shall set forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of the Executive’s employment under the provision so indicated. Unless the Board determines otherwise, a Notice of Termination by the Executive alleging a termination for Good Reason must be made within 180 days of the act or failure to act that the Executive alleges to constitute Good Reason.

(b) The date of the Executive’s termination of employment with the Company (the “Date of Termination”) shall be determined as follows: (i) if the Executive’s Separation from Service is at the volition of the Company, the Date of Termination shall be the date specified in the Notice of Termination (which, in the case of a termination by the Company other than for Cause, shall not be less than two (2) weeks from the date such Notice of Termination is given unless the Company elects to pay the Executive, in addition to any other amounts payable hereunder, an amount (the “Payment in Lieu of Notice”) equal to two (2) weeks of the Executive’s Annual Base Salary in effect on the Date of Termination), and (ii) if the Executive’s Separation from Service is by the Executive for Good Reason, the Date of Termination shall be determined by the Executive and specified in the Notice of Termination, but shall not in any event be less than fifteen (15) days nor more than sixty (60) days after the date such Notice of Termination is given. The Payment in Lieu of Notice shall be paid on such date as is required by law, but no later than thirty (30) days after the date of the Executive’s Separation from Service; *provided, however*, that if the Executive is a Specified Employee on the date of his or her Separation from Service, such Payment in Lieu of Notice shall be paid as provided in Section 9 hereof.

Section 3. Termination from the Board. Upon the termination of the Executive’s employment for any reason, the Executive’s membership on the Board, the board of directors of any of the Company’s Affiliates, any committees of the Board and any committees of the board of directors of any of the Company’s Affiliates, if applicable, shall be automatically terminated.

Section 4. Severance Benefits upon Involuntary Termination Prior to Change in Control. Except as provided in Section 5(h) and Section 19(i) hereof, in the event of the Involuntary Termination of the Executive prior to a Change in Control, the Company shall pay the Executive, in one lump sum cash payment, an amount (the “Pre-Change in Control Severance Payment”) equal to one-half (0.5) times the greater of: (X) 150% of the Executive’s Annual Base Salary as in effect on the Date of Termination, and (Y) the Executive’s Annual Base Salary as in effect on the Date of Termination, plus the Executive’s Average Annual Bonus. In addition to the Pre-Change in Control Severance Payment, the Executive shall be entitled to the following additional benefits specified in subsections (a) through (e). The Company’s obligation to pay the Pre-Change in Control Severance Payment or provide the benefits set forth in subsections (c), (d) and (e) are subject to and conditioned upon the Executive executing a release (the “Release”) of all claims substantially in the form attached hereto as Exhibit A within fifty (50) days after the date of Involuntary Termination and Executive not revoking such Release in accordance with the terms thereof. Except as provided in Section 4(f), the Pre-Change in Control Severance Payment shall be paid on such date as is determined by the Company within sixty (60) days after the date of the Involuntary Termination; but not before the Release becomes effective and irrevocable. If the fifty (50) day period in which the Release could become effective spans more than one taxable year, then the Pre-Change in Control Severance Payment shall not be made until the later taxable year. Notwithstanding the foregoing, if the Executive is a Specified Employee on the date of the Executive’s Involuntary Termination, the Pre-Change in Control Severance Payment and the financial planning services and the related payments provided under Section 4(e) shall be paid as provided in Section 9 hereof.

(a) **Accrued Obligations.** The Company shall pay the Executive a lump sum amount in cash equal to the Accrued Obligations within the time required by law.

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

(c) **Welfare Benefits.** Subject to Section 12 below, for a period of six (6) months following the date of the Involuntary Termination (and an additional twelve (12) months if the Executive provides consulting services under Section 14(e) hereof), the Executive and his dependents shall be provided with health insurance benefits substantially similar to those provided to the Executive and his dependents immediately prior to the date of the Involuntary Termination; *provided, however*, that such benefits shall be provided on substantially the same terms and conditions and at the same cost to the Executive as in effect immediately prior to the date of the Involuntary Termination. Such benefits shall be provided through insurance maintained by the Company under the Company’s benefit plans. Such benefits shall be provided in a manner that complies with Treasury Regulation Section 1.409A-1(a)(5). Notwithstanding the foregoing, if the Company determines in its sole discretion that it cannot provide the foregoing benefit without potentially violating applicable law (including, without limitation, Section 2716 of the Public Health Service Act), the Company shall in lieu thereof provide to the Executive a taxable monthly payment in an amount equal to the monthly premium that the Executive would be required to pay to continue the Executive’s and his covered dependents’ group insurance coverages under COBRA as in effect on the Date of Termination (which amount shall be based on the premiums for the first month of COBRA coverage); *provided, however*, that, if the Executive is a Specified Employee on the Date of Termination, then such payments shall be paid as provided in Section 9 hereof.

(d) Outplacement Services. The Executive shall receive reasonable outplacement services, on an in-kind basis, suitable to his position and directly related to the Executive's Involuntary Termination, for a period of eighteen (18) months following the date of the Involuntary Termination, in an aggregate amount of cost to the Company not to exceed \$50,000.

Notwithstanding the foregoing, the Executive shall cease to receive outplacement services on the date the Executive accepts employment with a subsequent employer. Such outplacement services shall be provided in a manner that complies with Treasury Regulation Section 1.409A-1(b)(9)(v)(A).

(e) Financial Planning Services. The Executive shall receive financial planning services, on an in-kind basis, for a period of eighteen (18) months following the Date of Termination. Such financial planning services shall include expert financial and legal resources to assist the Executive with financial planning needs and shall be limited to (i) current investment portfolio management, (ii) tax planning, (iii) tax return preparation, and (iv) estate planning advice and document preparation (including wills and trusts); *provided, however*, that the Company shall provide such financial planning services during any taxable year of the Executive only to the extent the cost to the Company for such taxable year does not exceed \$25,000. The Company shall provide such financial planning services through a financial planner selected by the Company, and shall pay the fees for such financial planning services. The financial planning services provided during any taxable year of the Executive shall not affect the financial planning services provided in any other taxable year of the Executive. The Executive's right to financial planning services shall not be subject to liquidation or exchange for any other benefit. Such financial planning services shall be provided in a manner that complies with Treasury Regulation Section 1.409A-3(i)(1)(iv).

(f) Deferral of Payments. The Executive shall have the right to elect to defer the Pre-Change in Control Severance Payment to be received by the Executive pursuant to this Section 4 under the terms and conditions of the Sempra Energy 2005 Deferred Compensation Plan (the "Deferred Compensation Plan"). Any such deferral election shall be made in accordance with Section 18(b) hereof.

Section 5. Severance Benefits upon Involuntary Termination in Connection with and after Change in Control.

Notwithstanding the provisions of Section 4 above, and except as provided in Section 19(i) hereof, in the event of the Involuntary Termination of the Executive on or within two (2) years following a Change in Control, in lieu of the payments described in Section 4 above, the Company shall pay the Executive, in one lump sum cash payment, an amount (the "Post-Change in Control Severance Payment") equal to the greater of: (X) 150% of the Executive's Annual Base Salary as in effect immediately prior to the Change in Control or the Date of Termination, whichever is greater, and (Y) the Executive's Annual Base Salary as in effect immediately prior to the Change in Control or on the Date of Termination, whichever is greater, plus the Executive's Average Annual Bonus. In addition to the Post-Change in Control Severance Payment, the Executive shall be entitled to the following additional benefits specified in subsections (a) through (g). The Company's obligation to pay the Post-Change in Control Severance Payment or provide the benefits set forth in subsections (b),(c), (d), (e), (f) and (g) are subject to and conditioned upon the Executive executing the Release within fifty (50) days after the date of Involuntary Termination and Executive not revoking such Release in accordance with the terms thereof. Except as provided in Sections 5(h) and 5(i), the Post-Change in Control Severance Payment, the Pro Rata Bonus and the payments under Section 6(c) shall be paid on such date as is determined by the Company within sixty (60) days after the date of the Involuntary Termination. If the fifty (50) day period in which the Release could become effective spans more than one taxable year, then the Post-Change in Control Severance Payment, Pro Rata Bonus and payments under Section 5(c) shall not be made until the later taxable year. Notwithstanding the foregoing, if the Executive is a Specified Employee on the date of the Executive's Involuntary Termination, the Post-Change in Control Severance Payment, the Pro Rata Bonus, the payment under Section 5(c) and the financial planning services and the related payments provided under Section 5(g) shall be paid as provided in Section 9 hereof.

(a) Accrued Obligations. The Company shall pay the Executive a lump sum amount in cash equal to the Accrued Obligations within the time required by law.

(b) Pro Rata Bonus. The Company shall pay the Executive a lump sum amount in cash equal to: (i) the greater of: (X) 50% of the Executive's Annual Base Salary as in effect immediately prior to the Change in Control or on the Date of Termination, whichever is greater, or (Y) the Executive's Average Annual Bonus, multiplied by (ii) a fraction, the numerator of which shall be the number of days from the beginning of such fiscal year to and including the Date of Termination and the denominator of which shall be 365 equal to (the "Pro Rata Bonus").

(c) Pension Supplement. The Executive shall be entitled to receive a Supplemental Retirement Benefit under the Sempra Energy Supplemental Executive Retirement Plan, as in effect from time to time ("SERP"), determined in accordance with this Section 5(c), in the event that the Executive is a "Participant" (as defined in the SERP) as of the Date of Termination. Such Supplemental Retirement Benefit shall be determined by crediting the Executive with additional months of Service (if any) equal to the number of full calendar months from the Date of Termination to the date on which the Executive would have attained age 62. The Executive shall be entitled to receive such Supplemental Retirement Benefit without regard to whether the Executive has attained age 55 or completed five years of "Service" (as defined in the SERP) as of the Date of Termination. The Executive shall be treated as qualified for "Retirement" (as defined in the SERP) as of the Date of Termination, and the Executive's Vesting Factor with respect to the Supplemental Retirement Benefit shall be 100%. The Executive's Supplemental Retirement Benefit shall be calculated based on the Executive's actual age as of the date of commencement of payment of such Supplemental Retirement Benefit (the "SERP Distribution Date"), and by applying the applicable early retirement factors under the SERP, if the Executive has not attained age 62 but has attained age 55 as of the SERP Distribution Date. If the Executive has not attained age 55 as of the SERP Distribution Date, the Executive's Supplemental Retirement Benefit shall be calculated by applying the applicable early retirement factor under the SERP for age 55, and the Supplemental Retirement Benefit otherwise payable at age 55 shall be actuarially adjusted to the Executive's actual age as of the SERP Distribution Date using the following actuarial assumptions: (i) the applicable mortality table promulgated by the Internal Revenue Service under Section 417(e)(3) of the Code, as in effect on the

first day of the calendar year in which the SERP Distribution Date occurs, and (ii) the applicable interest rate promulgated by the Internal Revenue Service under Section 417(a)(3) of the Code for the November next preceding the first day of the calendar year in which the SERP Distribution Date occurs. The Executive's Supplemental Retirement Benefit shall be determined in accordance with this Section 5(c), notwithstanding any contrary provisions of the SERP and, to the extent subject to Section 409A of the Code, shall be paid in accordance with Treasury Regulation Section 1.409A-3(c)(1). The Supplemental Retirement Benefit paid to or on behalf of the Executive in accordance with this Section 5(c) shall be in full satisfaction of any and all of the benefits payable to or on behalf of the Executive under the SERP.

(d) Equity-Based Compensation. Notwithstanding the provisions of any applicable equity-compensation plan or award agreement to the contrary, all equity-based Incentive Compensation Awards (including, without limitation, stock options, stock appreciation rights, restricted stock awards, restricted stock units, performance share awards, awards covered under Section 162(m) of the Code, and dividend equivalents) held by the Executive shall immediately vest and become exercisable or payable, as the case may be, as of the Date of Termination, to be exercised or paid, as the case may be, in accordance with the terms of the applicable Incentive Compensation Plan and Incentive Compensation Award agreement, and any restrictions on any such Incentive Compensation Awards shall automatically lapse; *provided, however*, that any such stock option or stock appreciation rights awards granted on or after June 26, 1998 shall remain outstanding and exercisable until the earlier of (A) the later of eighteen (18) months following the Date of Termination or the period specified in the applicable Incentive Compensation Award agreements or (B) the expiration of the original term of such Incentive Compensation Award (or, if earlier, the tenth anniversary of the original date of grant) (it being understood that all Incentive Compensation Awards granted prior to or after June 26, 1998 shall remain outstanding and exercisable for a period that is no less than that provided for in the applicable agreement in effect as of the date of grant).

(e) Welfare Benefits. Subject to Section 12 below, for a period of twelve (12) months following the date of Involuntary Termination (and an additional twelve (12) months if the Executive provides consulting services under Section 14(e) hereof), the Executive and his dependents shall be provided with life, disability, accident and health insurance benefits substantially similar to those provided to the Executive and his dependents immediately prior to the date of Involuntary Termination or the Change in Control Date, whichever is more favorable to the Executive; *provided, however*, that such benefits shall be provided on substantially the same terms and conditions and at the same cost to the Executive as in effect immediately prior to the date of Involuntary Termination or the Change in Control Date, whichever is more favorable to the Executive. Such benefits shall be provided through insurance maintained by the Company under the Company benefit plans. Such benefits shall be provided in a manner that complies with Treasury Regulation Section 1.409A-1(a)(5). Notwithstanding the foregoing, if the Company determines in its sole discretion that it cannot provide the foregoing benefit without potentially violating applicable law (including, without limitation, Section 2716 of the Public Health Service Act), the Company shall in lieu thereof provide to the Executive a taxable monthly payment in an amount equal to the monthly premium that the Executive would be required to pay to continue the Executive's and his covered dependents' group insurance coverages under COBRA as in effect on the Date of Termination (which amount shall be based on the premiums for the first month of COBRA coverage); *provided, however*, that, if the Executive is a Specified Employee on the Date of Termination, then such payments shall be paid as provided in Section 9 hereof.

(f) Outplacement Services. The Executive shall receive reasonable outplacement services, on an in-kind basis, suitable to his position and directly related to the Executive's Involuntary Termination, for a period of twenty-four (24) months following the date of Involuntary Termination (but in no event beyond the last day of the Executive's second taxable year following the Executive's taxable year in which the Involuntary Termination occurs), in the aggregate amount of cost to the Company not to exceed \$50,000. Notwithstanding the foregoing, the Executive shall cease to receive outplacement services on the date the Executive accepts employment with a subsequent employer. Such outplacement services shall be provided in a manner that complies with Treasury Regulation Section 1.409A-1(b)(9)(v)(A).

(g) Financial Planning Services. The Executive shall receive financial planning services, on an in-kind basis, for a period of twenty-four (24) months following the date of Involuntary Termination. Such financial planning services shall include expert financial and legal resources to assist the Executive with financial planning needs and shall be limited to (i) current investment portfolio management, (ii) tax planning, (iii) tax return preparation, and (iv) estate planning advice and document preparation (including wills and trusts); *provided, however*, that the Company shall provide such financial services during any taxable year of the Executive only to the extent the cost to the Company for such taxable year does not exceed \$25,000. The Company shall provide such financial planning services through a financial planner selected by the Company, and shall pay the fees for such financial planning services. The financial planning services provided during any taxable year of the Executive shall not affect the financial planning services provided in any other taxable year of the Executive. The Executive's right to financial planning services shall not be subject to liquidation or exchange for any other benefit. Such financial planning services shall be provided in a manner that complies with Section 1.409A-3(i)(1)(iv).

(h) Involuntary Termination in Connection with a Change in Control. Notwithstanding anything contained herein, in the event of an Involuntary Termination prior to a Change in Control, if the Involuntary Termination (1) was at the request of a third party who has taken steps reasonably calculated to effect such Change in Control or (2) otherwise arose in connection with or in anticipation of such Change in Control, then the Executive shall, in lieu of the payments described in Section 4 hereof, be entitled to the Post-Change in Control Severance Payment and the additional benefits described in this Section 5 as if such Involuntary Termination had occurred within two (2) years following the Change in Control. The amounts specified in Section 5 that are to be paid under this Section 5(h) shall be reduced by any amount previously paid under Section 4. The amounts to be paid under this Section 5(h) shall be paid within sixty (60) days after the Change in Control Date of such Change in Control.

(i) Deferral of Payments. The Executive shall have the right to elect to defer the Post-Change in Control Severance Payment and the Pro Rata Bonus to be received by the Executive pursuant to this Section 5 under the terms and

conditions of the Deferred Compensation Plan. Any such deferral election shall be made in accordance with Section 18(b) hereof.

Section 6. Severance Benefits upon Termination by the Company for Cause or by the Executive Other than for Good Reason. If the Executive's employment shall be terminated for Cause, or if the Executive terminates employment other than for Good Reason, the Company shall have no further obligations to the Executive under this Agreement other than the Accrued Obligations and any amounts or benefits described in Section 10 hereof.

Section 7. Severance Benefits upon Termination due to Death or Disability. If the Executive has a Separation from Service by reason of death or Disability, the Company shall pay the Executive or his estate, as the case may be, the Accrued Obligations and the Pro Rata Bonus (without regard to whether a Change in Control has occurred) and any amounts or benefits described in Section 10 hereof. Such payments shall be in addition to those rights and benefits to which the Executive or his estate may be entitled under the relevant Company plans or programs. The Company's obligation to pay the Pro Rata Bonus is conditioned upon the Executive, the Executive's representative or the Executive's estate, as the case may be executing the Release within fifty (50) days after the date of Executive's Separation from Service and not revoking such Release in accordance with the terms thereof. The Accrued Obligations shall be paid within the time required by law and the Pro Rata Bonus shall be paid on such date as determined by the Company within sixty (60) days after the date of the Separation from Service but not before the Release becomes effective and irrevocable. If the fifty (50) day period in which the Release could become effective spans more than one taxable year, then the Pro Rata Bonus shall not be made until the later taxable year. Notwithstanding the foregoing, if the Executive is a Specified Employee on the date of the Executive's Separation from Service, the Pro Rata Bonus shall be paid as provided in Section 9 hereof.

Section 8. Limitations on Payments by the Company.

(a) Anything in this Agreement to the contrary notwithstanding and except as set forth in this Section 8 below, in the event it shall be determined that any payment or distribution in the nature of compensation (within the meaning of Section 280G(b)(2) of the Code) to or for the benefit of the Executive, whether paid or payable pursuant to this Agreement or otherwise (the "Payment") would be subject (in whole or in part) to the excise tax imposed by Section 4999 of the Code, (the "Excise Tax"), then, subject to subsection (b), the Pre-Change in Control Severance Benefit or the Post-Change in Control Severance Payment (whichever is applicable) payable under this Agreement shall be reduced under this subsection (a) to the amount equal to the Reduced Payment. For such Payment payable under this Agreement, the "Reduced Payment" shall be the amount equal to the greatest portion of the Payment (which may be zero) that, if paid, would result in no portion of any Payment being subject to the Excise Tax.

(b) The Pre-Change in Control Severance Benefit or the Post-Change in Control Severance Payment (whichever is applicable) payable under this Agreement shall not be reduced under subsection (a) if:

- (i) such reduction in such Payment is not sufficient to cause no portion of any Payment to be subject to the Excise Tax, or
- (ii) the Net After-Tax Unreduced Payments (as defined below) would equal or exceed one hundred and five percent (105%) of the Net After-Tax Reduced Payments (as defined below).

For purposes of determining the amount of any Reduced Payment under subsection (a), and the Net-After Tax Reduced Payments and the Net After-Tax Unreduced Payments, the Executive shall be considered to pay federal, state and local income and employment taxes at the Executive's applicable marginal rates taking into consideration any reduction in federal income taxes which could be obtained from the deduction of state and local income taxes, and any reduction or disallowance of itemized deductions and personal exemptions under applicable tax law). The applicable federal, state and local income and employment taxes and the Excise Tax (to the extent applicable) are collectively referred to as the "Taxes".

(c) The following definitions shall apply for purposes of this Section 8:

- (i) "Net After-Tax Reduced Payments" shall mean the total amount of all Payments that the Executive would retain, on a Net After-Tax Basis, in the event that the Payments payable under this Agreement are reduced pursuant to subsection (a).
- (ii) "Net After-Tax Unreduced Payments" shall mean the total amount of all Payments that the Executive would retain, on a Net After-Tax Basis, in the event that the Payments payable under this Agreement are not reduced pursuant to subsection (a).
- (iii) "Net After-Tax Basis" shall mean, with respect to the Payments, either with or without reduction under subsection (a) (as applicable), the amount that would be retained by the Executive from such Payments after the payment of all Taxes.

(d) All determinations required to be made under this Section 8 and the assumptions to be utilized in arriving at such determinations, shall be made by a nationally recognized accounting firm as may be agreed by the Company and the Executive (the "Accounting Firm"); *provided*, that the Accounting Firm's determination shall be made based upon "substantial authority" within the meaning of Section 6662 of the Code. The Accounting Firm shall provide detailed supporting calculations to both the Company and the Executive within fifteen (15) business days of the receipt of notice from the Executive that there has been a Payment or such earlier time as is requested by the Company. All fees and expenses of the Accounting Firm shall be borne solely by the Company. Any determination by the Accounting Firm shall be binding upon the Company and the Executive. For

purposes of determining whether and the extent to which the Payments will be subject to the Excise Tax, (i) no portion of the Payments the receipt or enjoyment of which the Executive shall have waived at such time and in such manner as not to constitute a “payment” within the meaning of Section 280G(b) of the Code shall be taken into account, (ii) no portion of the Payments shall be taken into account which, in the written opinion of the Accounting Firm, does not constitute a “parachute payment” within the meaning of Section 280G(b)(2) of the Code (including by reason of Section 280G(b)(4)(A) of the Code) and, in calculating the Excise Tax, no portion of such Payments shall be taken into account which, in the opinion of the Accounting Firm, constitutes reasonable compensation for services actually rendered, within the meaning of Section 280G(b)(4)(B) of the Code, in excess of the base amount (as defined in Section 280G(b)(3) of the Code) allocable to such reasonable compensation, and (iii) the value of any non-cash benefit or any deferred payment or benefit included in the Payments shall be determined by the Accounting Firm in accordance with the principles of Sections 280G(d)(3) and (4) of the Code.

Section 9. Delayed Distribution under Section 409A of the Code. If the Executive is a Specified Employee on the date of the Executive’s Involuntary Termination (or on the date of the Executive’s Separation from Service by reason of Disability), the Section 409A Payments, and any other payments or benefits under this Agreement subject to Section 409A of the Code, shall be delayed in order to avoid a prohibited distribution under Section 409A(a)(2)(B)(i) of the Code, and such payments or benefits shall be paid or distributed to the Executive during the thirty (30) day period commencing on the earlier of (a) the expiration of the six-month period measured from the date of the Executive’s Separation from Service or (b) the date of the Executive’s death. Upon the expiration of the applicable six-month period under Section 409A(a)(2)(B)(i) of the Code, all payments deferred pursuant to this Section 9 (excluding in-kind benefits) shall be paid in a lump sum payment to the Executive, plus interest thereon from the date of the Executive’s Involuntary Termination through the payment date at an annual rate equal to Moody’s Rate. The “Moody’s Rate” shall mean the average of the daily Moody’s Corporate Bond Yield Average – Monthly Average Corporates as published by Moody’s Investors Service, Inc. (or any successor) for the month next preceding the Date of Termination. Any remaining payments due under the Agreement shall be paid as otherwise provided herein.

Section 10. Nonexclusivity of Rights. Nothing in this Agreement shall prevent or limit the Executive’s continuing or future participation in any benefit, plan, program, policy or practice provided by the Company and for which the Executive may qualify (except with respect to any benefit to which the Executive has waived his rights in writing), including, without limitation, any and all indemnification arrangements in favor of the Executive (whether under agreements or under the Company’s charter documents or otherwise), and insurance policies covering the Executive, nor shall anything herein limit or otherwise affect such rights as the Executive may have under any other contract or agreement entered into after the Effective Date with the Company. Amounts which are vested benefits or which the Executive is otherwise entitled to receive under any benefit, plan, policy, practice or program of, or any contract or agreement entered into with, the Company shall be payable in accordance with such benefit, plan, policy, practice or program or contract or agreement except as explicitly modified by this Agreement. At all times during the Executive’s employment with the Company and thereafter, the Company shall provide (to the extent permissible under applicable law) the Executive with indemnification and D&O insurance insuring the Executive against insurable events which occur or have occurred while the Executive was a director or the Executive officer of the Company, on terms and conditions that are at least as generous as that then provided to any other current or former director or the Executive officer of the Company or any Affiliate. Such indemnification and D&O insurance shall be provided in a manner that complies with Treasury Regulation Section 1.409A-1(b)(10).

Section 11. Clawbacks. Notwithstanding anything herein to the contrary, if the Company determines, in its good faith judgment, that if the Executive is required to forfeit or to make any repayment of any compensation or benefit(s) to the Company under the Sarbanes-Oxley Act of 2002 or pursuant to the Dodd-Frank Wall Street Reform and Consumer Protection Act or any other law, such forfeiture or repayment shall not constitute Good Reason.

Section 12. Full Settlement; Mitigation. The Company’s obligation to make the payments provided for in this Agreement and otherwise to perform its obligations hereunder shall not be affected by any set-off, counterclaim, recoupment, defense or other claim, right or action which the Company may have against the Executive or others, provided that nothing herein shall preclude the Company from separately pursuing recovery from the Executive based on any such claim. In no event shall the Executive be obligated to seek other employment or take any other action by way of mitigation of the amounts (including amounts for damages for breach) payable to the Executive under any of the provisions of this Agreement, and such amounts shall not be reduced whether or not the Executive obtains other employment.

Section 13. Dispute Resolution.

(a) If any dispute arises between Executive and the Company, including, but not limited to, disputes relating to or arising out of this Agreement, any action relating to or arising out of my employment or its termination, and/or any disputes regarding the interpretation, enforceability, or validity of this Agreement (“Arbitrable Dispute”), Executive and the Company waive the right to resolve the dispute through litigation in a judicial forum and agree to resolve the Arbitrable Dispute through final and binding arbitration, except as prohibited by law. Arbitration shall be the exclusive remedy for any Arbitrable Dispute.

(b) As to any Arbitrable Dispute, the Company and Executive waive any right to a jury trial or a court bench trial. The Company and Executive also waive the right to bring, maintain, or participate in any class, collective, or representative proceeding, whether in arbitration or otherwise. Further, Arbitrable Disputes must be brought in the individual capacity of the party asserting the claim, and cannot be maintained on a class, collective, or representative basis.

(c) Arbitration shall take place at the office of the Judicial Arbitration and Mediation Service (“JAMS”) (or, if Executive is employed outside of California, the American Arbitration Association (“AAA”)) nearest to the location where Executive last worked for the Company. Except to the extent it conflicts with the rules and procedures set forth in this Arbitration

Agreement, arbitration shall be conducted in accordance with the JAMs Employment Arbitration Rules & Procedures (if Executive is employed outside of California, the AAA Employment Arbitration Rules & Mediation Procedures), copies of which are attached for my reference and available at www.jamsadr.com; tel: 800.352.5267 and www.adr.org; tel: 800.778.7879, before a single experienced, neutral employment arbitrator selected in accordance with those rules.

(d) The Company will be responsible for paying any filing fee and the fees and costs of the arbitrator. Each party shall pay its own attorneys' fees. However, if any party prevails on a statutory claim that authorizes an award of attorneys' fees to the prevailing party, or if there is a written agreement providing for attorneys' fees, the arbitrator may award reasonable attorneys' fees to the prevailing party, applying the same standards a court would apply under the law applicable to the claim.

(e) The arbitrator shall apply the Federal Rules of Evidence, shall have the authority to entertain a motion to dismiss or a motion for summary judgment by any party, and shall apply the standards governing such motions under the Federal Rules of Civil Procedure. The arbitrator does not have the authority to consider, certify, or hear an arbitration as a class action, collective action, or any other type of representative action. The Company and Executive recognize that this Agreement arises out of or concerns interstate commerce and that the Federal Arbitration Act shall govern the arbitration and shall govern the interpretation or enforcement of this Arbitration Agreement or any arbitration award.

(f) EXECUTIVE ACKNOWLEDGES THAT BY ENTERING INTO THIS AGREEMENT, EXECUTIVE IS WAIVING ANY RIGHT HE OR SHE MAY HAVE TO A TRIAL BY JURY.

Section 14. Executive's Covenants.

(a) **Confidentiality.** The Executive acknowledges that in the course of his employment with the Company, he has acquired non-public privileged or confidential information and trade secrets concerning the operations, future plans and methods of doing business ("**Proprietary Information**") of the Company and its Affiliates; and the Executive agrees that it would be extremely damaging to the Company and its Affiliates if such Proprietary Information were disclosed to a competitor of the Company and its Affiliates or to any other person or corporation. The Executive understands and agrees that all Proprietary Information has been divulged to the Executive in confidence and further understands and agrees to keep all Proprietary Information secret and confidential (except for such information which is or becomes publicly available other than as a result of a breach by the Executive of this provision or information the Executive is required by any governmental, administrative or court order to disclose) without limitation in time. In view of the nature of the Executive's employment and the Proprietary Information the Executive has acquired during the course of such employment, the Executive likewise agrees that the Company and its Affiliates would be irreparably harmed by any disclosure of Proprietary Information in violation of the terms of this paragraph and that the Company and its Affiliates shall therefore be entitled to preliminary and/or permanent injunctive relief prohibiting the Executive from engaging in any activity or threatened activity in violation of the terms of this paragraph and to any other relief available to them. Inquiries regarding whether specific information constitutes Proprietary Information shall be directed to the Company's Senior Vice President, Public Policy (or, if such position is vacant, the Company's then Chief Executive Officer); *provided*, that the Company shall not unreasonably classify information as Proprietary Information.

(b) **Non-Solicitation of Employees.** The Executive recognizes that he possesses and will possess confidential information about other employees of the Company and its Affiliates relating to their education, experience, skills, abilities, compensation and benefits, and inter-personal relationships with customers of the Company and its Affiliates. The Executive recognizes that the information he possesses and will possess about these other employees is not generally known, is of substantial value to the Company and its Affiliates in developing their business and in securing and retaining customers, and has been and will be acquired by him because of his business position with the Company and its Affiliates. The Executive agrees that at all times during the Executive's employment with the Company and for a period of one (1) year thereafter, he will not, directly or indirectly, solicit or recruit any employee of the Company or its Affiliates for the purpose of being employed by him or by any competitor of the Company or its Affiliates on whose behalf he is acting as an agent, representative or employee and that he will not convey any such confidential information or trade secrets about other employees of the Company and its Affiliates to any other person; *provided, however*, that it shall not constitute a solicitation or recruitment of employment in violation of this paragraph to discuss employment opportunities with any employee of the Company or its Affiliates who has either first contacted the Executive or regarding whose employment the Executive has discussed with and received the written approval of the Company's Vice President, Human Resources (or, if such position is vacant, the Company's then Chief Executive Officer), prior to making such solicitation or recruitment. In view of the nature of the Executive's employment with the Company, the Executive likewise agrees that the Company and its Affiliates would be irreparably harmed by any solicitation or recruitment in violation of the terms of this paragraph and that the Company and its Affiliates shall therefore be entitled to preliminary and/or permanent injunctive relief prohibiting the Executive from engaging in any activity or threatened activity in violation of the terms of this paragraph and to any other relief available to them.

(c) **Survival of Provisions.** The obligations contained in Section 14(a) and Section 14(b) above shall survive the termination of the Executive's employment within the Company and shall be fully enforceable thereafter. If it is determined by a court of competent jurisdiction in any state that any restriction in Section 14(a) or Section 14(b) above is excessive in duration or scope or is unreasonable or unenforceable under the laws of that state, it is the intention of the parties that such restriction may be modified or amended by the court to render it enforceable to the maximum extent permitted by the law of that state.

(d) **Release; Lump Sum Payment.** In the event of the Executive's Involuntary Termination, if the Executive (i) reconfirms and agrees to abide by the covenants described in Section 14(a) and Section 14(b) above, (ii) executes the Release within fifty (50) days after the date of Involuntary Termination and does not revoke such Release in accordance with the terms thereof, and (iii) agrees to provide the consulting services described in Section 14(e) below, then in consideration for such

covenants and consulting services, the Company shall pay the Executive, in one cash lump sum, an amount (the “Consulting Payment”) in cash equal to the greater of: (X) 150% of the Executive’s Annual Base Salary as in effect on the Date of Termination, and (Y) the Executive’s Annual Base Salary as in effect on the Date of Termination, plus the Executive’s Average Annual Bonus. Except as provided in this subsection, the Consulting Payment shall be paid on such date as is determined by the Company within the ten (10) day period commencing on the 60th day after the date of the Executive’s Involuntary Termination; *provided, however*, that if the Executive is a Specified Employee on the date of the Executive’s Involuntary Termination, the Consulting Payment shall be paid as provided in Section 9 hereof. The Executive shall have the right to elect to defer the Consulting Payment under the terms and conditions of the Company’s Deferred Compensation Plan. Any such deferral election shall be made in accordance with Section 18(b) hereof.

(e) Consulting. If the Executive agrees to the provisions of Section 14(d) above, then the Executive shall have the obligation to provide consulting services to the Company as an independent contractor, commencing on the Date of Termination and ending on the second anniversary of the Date of Termination (the “Consulting Period”). The Executive shall hold himself available at reasonable times and on reasonable notice to render such consulting services as may be so assigned to him by the Board or the Company’s then Chief Executive Officer; *provided, however*, that unless the parties otherwise agree, the consulting services rendered by the Executive during the Consulting Period shall not exceed twenty (20) hours each month; and, *provided, further*, that the consulting services rendered by the Executive during the Consulting Period shall in no event exceed twenty percent (20%) of the average level of services performed by the Executive for the Company over the thirty-six (36) month period immediately preceding the Executive’s Separation from Service (or the full period of services to the Company, if the Executive has been providing services to the Company for less than thirty-six (36) months). The Company agrees to use its best efforts during the Consulting Period to secure the benefit of the Executive’s consulting services so as to minimize the interference with the Executive’s other activities, including requiring the performance of consulting services at the Company’s offices only when such services may not be reasonably performed off-site by the Executive.

Section 15. Legal Fees.

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

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

Section 16. Successors.

(a) Assignment by the Executive. This Agreement is personal to the Executive and without the prior written consent of Sempra Energy shall not be assignable by the Executive otherwise than by will or the laws of descent and distribution. This Agreement shall inure to the benefit of and be enforceable by the Executive’s legal representatives.

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

(c) Assumption. Sempra Energy shall require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of Sempra Energy to assume expressly and agree to perform the obligations and satisfy and discharge the liabilities of this Agreement in the same manner and to the same extent that Sempra Energy would have been required to perform the obligations and satisfy and discharge the liabilities under this Agreement if no such succession had taken place, and Sempra Energy shall have no further obligations and liabilities under this Agreement. Upon such assumption, references to Sempra Energy in this Agreement shall be replaced with references to such successor.

(d) Sale of Subsidiary. In the event that (i) the Executive is employed by a direct or indirect subsidiary of Sempra Energy that is a member of the Sempra Energy Control Group, (ii) Sempra Energy, directly or indirectly through one or more intermediaries, sells or otherwise disposes of such subsidiary, and (iii) such subsidiary ceases to be a member of the Sempra Energy Control Group, then if, on the date such subsidiary ceases to be a member of the Sempra Energy Control Group, the Executive continues in employment with such subsidiary and the Executive does not have a Separation from Service, Sempra Energy shall require such subsidiary or any successor (whether direct or indirect, by purchase merger, consolidation or otherwise)

to such subsidiary, or the parent thereof, to assume expressly and agree to perform the obligations and satisfy and discharge the liabilities under this Agreement in the same manner and to the same extent that Sempra Energy would have been required to perform the obligations and satisfy and discharge the liabilities under this Agreement, if such subsidiary had not ceased to be part of the Sempra Energy Control Group, and, upon such assumption, Sempra Energy shall have no further obligations and liabilities under the Agreement. Upon such assumption, (i) references to Sempra Energy in this Agreement shall be replaced with references to such subsidiary, or such successor or parent thereof, assuming this Agreement, and (ii) subsection (b) of the definition of "Cause" and subsection (b) of the definition of "Good Reason" shall apply thereafter, as if a Change in Control had occurred on the date of such cessation.

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

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

Section 18. Section 409A of the Code.

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

(b) Deferral Elections. As provided in Sections 4(f), 5(i) and 14(d), the Executive may elect to defer the Pre-Change in Control Severance Payment, the Post-Change in Control Severance Payment and the Consulting Payment as follows.

The Executive's deferral election shall satisfy the requirements of Treasury Regulation Section 1.409A-2(b) and the terms and conditions of the Deferred Compensation Plan. Such deferral election shall designate the whole percentage (up to a maximum of 100%) of the Pre-Change in Control Severance Payment, the Post-Change in Control Severance Payment and the Consulting

Payment to be deferred, shall be irrevocable when made, and shall not take effect until at least twelve (12) months after the date on which the election is made. Such deferral election shall provide that the amount deferred shall be deferred for a period of not less than five (5) years from the date the payment of the amount deferred would otherwise have been made, in accordance with Treasury Regulation Section 1.409A-2(b)(1)(ii).

Section 19. Miscellaneous.

(a) Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of California, without reference to its principles of conflict of laws. The captions of this Agreement are not part of the provisions hereof and shall have no force or effect. This Agreement may not be amended, modified, repealed, waived, extended or discharged except by an agreement in writing signed by the party against whom enforcement of such amendment, modification, repeal, waiver, extension or discharge is sought. No person, other than pursuant to a resolution of the Board or a committee thereof, shall have authority on behalf of the Company to agree to amend, modify, repeal, waive, extend or discharge any provision of this Agreement or anything in reference thereto.

(b) Notices. All notices and other communications hereunder shall be in writing and shall be given by hand delivery to the other party or by registered or certified mail, return receipt requested, postage prepaid, addressed, in either case, to the Company's headquarters or to such other address as either party shall have furnished to the other in writing in accordance herewith. Notices and communications shall be effective when actually received by the addressee.

(c) Severability. The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement.

(d) Taxes. The Company may withhold from any amounts payable under this Agreement such federal, state or local taxes as shall be required to be withheld pursuant to any applicable law or regulation.

(e) No Waiver. The Executive's or the Company's failure to insist upon strict compliance with any provision hereof or any other provision of this Agreement or the failure to assert any right the Executive or the Company may have hereunder, including, without limitation, the right of the Executive to terminate employment for Good Reason pursuant to Section 1 hereof, or the right of the Company to terminate the Executive's employment for Cause pursuant to Section 1 hereof shall not be deemed to be a waiver of such provision or right or any other provision or right of this Agreement.

(f) Entire Agreement; Exclusive Benefit; Supersession of Prior Agreement. This instrument contains the entire agreement of the Executive, the Company or any predecessor or subsidiary thereof with respect to any severance or termination pay. The Pre-Change in Control Severance Payment, the Post-Change in Control Severance Payment and all other benefits provided hereunder shall be in lieu of any other severance payments to which the Executive is entitled under any other severance plan or program or arrangement sponsored by the Company, as well as pursuant to any individual employment or severance agreement that was entered into by the Executive and the Company, and, upon the Effective Date of this Agreement, all such plans, programs, arrangements and agreements are hereby automatically superseded and terminated.

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

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

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

(j) Term. The term of this Agreement shall commence on the Effective Date and shall continue until the third (3rd) anniversary of the Effective Date; *provided, however*, that commencing on the second (2nd) anniversary of the Effective Date (and each anniversary of the Effective Date thereafter), the term of this Agreement shall automatically be extended for one (1) additional year, unless at least ninety (90) days prior to such date, the Company or the Executive shall give written notice to the other party that it or he, as the case may be, does not wish to so extend this Agreement. Notwithstanding the foregoing, if the Company gives such written notice to the Executive less than two (2) years after a Change in Control, the term of this Agreement shall be automatically extended until the later of (A) the date that is one (1) year after the anniversary of the Effective Date that follows such written notice or (B) the second (2nd) anniversary of the Change in Control Date.

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

[remainder of page intentionally left blank]

IN WITNESS WHEREOF, the Executive and, pursuant to due authorization from its Board of Directors, the Company have caused this Agreement to be executed as of the day and year first above written.

SEMPRA ENERGY

G. Joyce Rowland
Senior Vice President, Human Resources, Diversity and Inclusion

Date

EXECUTIVE

John C. Baker
Senior Vice President, Strategic Planning and Technology

Date

GENERAL RELEASE

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

WHEREAS, you and the Company have previously entered into that certain Severance Pay Agreement dated _____, 20____ (the "Severance Pay Agreement"); and

WHEREAS, your right to receive certain severance pay and benefits pursuant to the terms of Section 4 or Section 5 of the Severance Pay Agreement, as applicable, are subject to and conditioned upon your execution and non-revocation of a general release of claims by you against the Company and its subsidiaries and affiliates.

WHEREAS, your right to receive the Consulting Payment provided pursuant to Section 14(d) of the Severance Pay Agreement is subject to and conditioned upon your execution and non-revocation of a general release of claims by you against the Company and its subsidiaries and affiliates; and your adherence to the covenants described under Section 14 of the Severance Pay Agreement.

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

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

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

(a) The words "Releasee" or "Releasees" shall refer to you and to the Company and each of the Company's owners, stockholders, predecessors, successors, assigns, agents, directors, officers, employees, representatives, attorneys, advisors, parent companies, divisions, subsidiaries, affiliates (and agents, directors, officers, employees, representatives, attorneys and advisors of such parent companies, divisions, subsidiaries and affiliates) and all persons acting by, through, under or in concert with any of them.

(b) The words "Claim" or "Claims" shall refer to any charges, complaints, claims, liabilities, obligations, promises, agreements, controversies, damages, actions, causes of action, suits, rights, demands, costs, losses, debts and expenses (including attorneys' fees and costs actually incurred) of any nature whatsoever, known or unknown, suspected or unsuspected, which you or the Company now, in the past or, in the future may have, own or hold against any of the Releasees; *provided, however*, that the word "Claim" or "Claims" shall not refer to any charges, complaints, claims, liabilities, obligations, promises, agreements, controversies, damages, actions, causes of action, suits, rights, demands, costs, losses, debts and expenses (including attorneys' fees and costs actually incurred) arising under [*identify severance, employee benefits, stock option, indemnification and D&O and other agreements containing duties, rights obligations etc. of either party that are to remain operative*]. Claims released pursuant to this Agreement by you and the Company include, but are not limited to, rights arising out of alleged violations of any contracts, express or implied, any tort, claim, any claim that you failed to perform or negligently performed or breached your duties during employment at the Company, any legal restrictions on the Company's right to terminate employment relationships; and any federal, state or other governmental statute, regulation, or ordinance, governing the employment relationship including, without limitation, all state and federal laws and regulations prohibiting discrimination based on protected categories, and all state and federal laws and regulations prohibiting retaliation against employees for engaging in protected activity or legal off-duty conduct. This release does not extend to claims for workers' compensation or other claims which by law may not be waived or released by this Agreement.

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

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

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

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

FIVE: You hereby represent and acknowledge that you have not filed any Claim of any kind against the Company or others released in this Agreement. You further hereby expressly agree never to initiate against the Company or others released in this Agreement any administrative proceeding, lawsuit or any other legal or equitable proceeding of any kind asserting any Claims that are released in this Agreement. You agree that you will not be entitled to any monetary recovery that may result from any agency action against the Company related to the Claims released by this Agreement.

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

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

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

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

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

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

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

(b) If you are a party or are threatened to be made a party to any proceeding by reason of the fact that you were an officer or director of the Company, the Company shall indemnify you against any expenses (including reasonable attorneys' fees; *provided*, that counsel has been approved by the Company prior to retention, which approval shall not be unreasonably withheld), judgments, fines, settlements and other amounts actually or reasonably incurred by you in connection with that proceeding; *provided*, that you acted in good faith and in a manner you reasonably believed to be in the best interest of the Company. The limitations of California Corporations Code Section 317 shall apply to this assurance of indemnification.

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

TEN: This Agreement is entered into in California and shall be governed by substantive California law, except as provided in this section. If any dispute arises between you and the Company, including but not limited to, disputes relating to this Agreement, or if you prosecute a claim you purported to release by means of this Agreement ("Arbitrable Dispute"), you and the Company agree to resolve that Arbitrable Dispute through final and binding arbitration under this section. You also agree to arbitrate any Arbitrable Dispute which also involves any other released party who offers or agrees to arbitrate the dispute under this section. Your agreement to arbitrate applies, for example, to disputes about the validity, interpretation, or effect of this Agreement or alleged violations of it, claims of discrimination under federal or state law, or other statutory violation claims.

As to any Arbitrable Dispute, you and the Company waive any right to a jury trial or a court bench trial. You and the Company also waive the right to bring, maintain, or participate in any class, collective, or representative proceeding, whether in arbitration or otherwise. Further, Arbitrable Disputes must be brought in the individual capacity of the party asserting the claim, and cannot be maintained on a class, collective, or representative basis.

Arbitration shall take place in San Diego, California under the employment dispute resolution rules of the Judicial Arbitration and Mediation Service ("JAMS"), (or, if you are employed outside of California at the time of the termination of your employment, at the nearest location of the American Arbitration Association and in accordance with the AAA rules), before an experienced employment arbitrator selected in accordance with those rules. The arbitrator may not modify or change this Agreement in any way. The Company will be responsible for paying any filing fee and the fees and costs of the Arbitrator; provided, however, that if you are the party initiating the claim, you will contribute an amount equal to the filing fee to initiate a claim in the court of general jurisdiction in the state in which you are employed by the Company. Each party shall pay for its own costs and attorneys' fees, if any. However if any party prevails on a statutory claim which affords the prevailing party attorneys' fees and costs, or if there is a written agreement providing for attorneys' fees and/or costs, the Arbitrator may award reasonable attorney's fees and/or costs to the prevailing party, applying the same standards a court would apply under the law applicable to the claim. The Arbitrator shall apply the Federal Rules of Evidence and shall have the authority to entertain a motion to dismiss or a motion for summary judgment by any party and shall apply the standards governing such motions under the Federal Rules of Civil Procedure. The Federal Arbitration Act shall govern the arbitration and shall govern the interpretation or enforcement of this section or any arbitration award. The arbitrator will not have the authority to consider, certify, or hear an arbitration as a class action, collective action, or any other type of representative action.

To the extent that the Federal Arbitration Act is inapplicable, California law pertaining to arbitration agreements shall apply. Arbitration in this manner shall be the exclusive remedy for any Arbitrable Dispute. Except as prohibited by the ADEA, should you or the Company attempt to resolve an Arbitrable Dispute by any method other than arbitration pursuant to this section, the responding party will be entitled to recover from the initiating party all damages, expenses, and attorneys' fees incurred as a result of this breach. This Section TEN supersedes any existing arbitration agreement between the Company and me as to any Arbitrable Dispute. Notwithstanding anything in this Section TEN to the contrary, a claim for benefits under an ERISA-covered plan shall not be an Arbitrable Dispute.

ELEVEN: Both you and the Company understand that this Agreement is final and binding eight (8) days after its execution and return. Should you nevertheless attempt to challenge the enforceability of this Agreement as provided in Paragraph TEN or, in violation of that Paragraph, through litigation, as a further limitation on any right to make such a challenge, you shall initially tender to the Company, by certified check delivered to the Company, all monies received pursuant to Sections 4 or 5 of the Severance Pay Agreement, as applicable, plus interest, and invite the Company to retain such monies and agree with you to cancel this Agreement and void the Company's obligations under Section 14(d) of the Severance Pay Agreement. In the event the Company accepts this offer, the Company shall retain such monies and this Agreement shall be canceled and the Company shall have no obligation under the Severance Pay Agreement. In the event the Company does not accept such offer, the Company shall so notify you and shall place such monies in an interest-bearing escrow account pending resolution of the dispute between you and the Company as to whether or not this Agreement and the Company's obligations under the Severance Pay Agreement shall be set aside and/or otherwise rendered voidable or unenforceable. Additionally, any consulting agreement then in effect between you and the Company shall be immediately rescinded with no requirement of notice.

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

To Company: [TO COME]

Attn: [TO COME]

To You:

THIRTEEN: You understand and acknowledge that you have been given a period of forty-five (45) days to review and consider this Agreement (as well as statistical data on the persons eligible for similar benefits) before signing it and may use as much of this forty-five (45) day period as you wish prior to signing. You are encouraged, at your personal expense, to consult with an attorney before signing this Agreement. You understand and acknowledge that whether or not you do so is your decision. You may revoke this Agreement within seven (7) days of signing it. If you wish to revoke, the Company's Vice President, Human Resources must receive written notice from you no later than the close of business on the seventh (7th) day after you have signed the Agreement. If revoked, this Agreement shall not be effective and enforceable, and you will not receive payments or benefits under Sections 4 or 5, and Section 14 of the Severance Pay Agreement, as applicable.

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

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

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

SEVENTEEN: This Agreement may be executed in counterparts.

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

DATED: _____

DATED: _____

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

**SEMPRA ENERGY
SEVERANCE PAY AGREEMENT**

THIS AGREEMENT (this “Agreement”), dated as of December 31, 2011 (the “Effective Date”), is made by and between SEMPRA ENERGY, a California corporation (“Sempra Energy”), and STEVEN D. DAVIS (the “Executive”).

WHEREAS, the Executive is currently employed by Sempra Energy or a direct or indirect subsidiary of Sempra Energy (Sempra Energy and its subsidiaries are hereinafter collectively referred to as the “Company”) as Vice President – Investor Relations; and

WHEREAS, Sempra Energy and the Executive desire to enter into this Agreement; and

WHEREAS, the Board of Directors of Sempra Energy (the “Board”) has authorized this Agreement.

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

Section 1. Definitions. For purposes of this Agreement, the following capitalized terms have the meanings set forth below:

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

“Act” has the meaning assigned thereto in Section 2 hereof.

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

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

“Annual Base Salary” means the Executive’s annual base salary from the Company.

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

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

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

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

“Cause” means:

(a) Prior to a Change in Control, (i) the willful failure by the Executive to substantially perform the Executive’s duties with the Company (other than any such failure resulting from the Executive’s incapacity due to physical or mental illness, (ii) the grossly negligent performance of such obligations referenced in clause (i) of this definition, (iii) the Executive’s gross insubordination; and/or (iv) the Executive’s commission of one or more acts of moral turpitude that constitute a violation of applicable law (including but not limited to a felony) which have or result in an adverse effect on the Company, monetarily or otherwise, or one or more significant acts of dishonesty. For purposes of clause (i) of this subsection (a), no act, or failure to act, on the Executive’s part shall be deemed “willful” unless done, or omitted to be done, by the Executive not in good faith and without reasonable belief that the Executive’s act, or failure to act, was in the best interests of the Company.

(b) From and after a Change in Control, (i) the willful and continued failure by the Executive to substantially perform the Executive’s duties with the Company (other than any such failure resulting from the Executive’s incapacity due to physical or mental illness or any such actual or anticipated failure after the issuance of a Notice of Termination for Good Reason by the Executive pursuant to Section 3 hereof) and/or (ii) the Executive’s commission of one or more acts of moral turpitude that constitute a violation of applicable law (including but not limited to a felony) which have or result in an adverse effect on the Company, monetarily or otherwise, or one or more significant acts of dishonesty. For purposes of clause (i) of this subsection (b), no act, or failure to act, on the Executive’s part shall be deemed “willful” unless done, or omitted to be done, by the Executive not in good faith and without reasonable belief that the Executive’s act, or failure to act, was in the best interests of the Company. Notwithstanding the foregoing, the Executive shall not be deemed terminated for Cause pursuant to clause (i) of this subsection (b) unless and until the Executive shall have been provided with reasonable notice of and, if possible, a reasonable opportunity to cure the facts and circumstances claimed to provide a basis for termination of the Executive’s employment for Cause.

“Change in Control” shall be deemed to have occurred on the date that a change in the ownership of Sempra Energy, a change in the effective control of Sempra Energy, or a change in the ownership of a substantial portion of assets of Sempra

Energy occurs (each, as defined in subsection (a) below), except as otherwise provided in subsections (b), (c) and (d) below:

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

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

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

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

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

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

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

(ii) a merger or consolidation which would result in the voting securities of Sempra Energy outstanding immediately prior to such merger or consolidation continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity or any parent thereof), in combination with the ownership of any trustee or other fiduciary holding securities under an employee benefit plan of the Company, at least sixty percent (60%) of the combined voting power of the securities of Sempra Energy or such surviving entity or any parent thereof outstanding immediately after such merger or consolidation, or

(iii) a merger or consolidation effected to implement a recapitalization of Sempra Energy (or similar transaction) in which no Person is or becomes the Beneficial Owner, directly or indirectly, of securities of Sempra Energy (not including the securities beneficially owned by such Person any securities acquired directly from Sempra Energy or its Affiliates other than in connection with the acquisition by Sempra Energy or its Affiliates of a business) representing twenty percent (20%) or more of the combined voting power of Sempra Energy’s then outstanding securities.

(c) A “change in the ownership of a substantial portion of assets of Sempra Energy” shall not occur under clause (a)(iii) by reason of a sale or disposition by Sempra Energy of the assets of Sempra Energy to an entity, at least sixty percent (60%) of the combined voting power of the voting securities of which are owned by shareholders of Sempra Energy in substantially the same proportions as their ownership of Sempra Energy immediately prior to such sale.

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

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

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

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

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

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

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

“Disability” has the meaning set forth in the Company’s long-term disability plan or its successor; *provided*, however, that the Board may not terminate the Executive’s employment hereunder by reason of Disability unless (i) at the time of such termination there is no reasonable expectation that the Executive will return to work within the next ninety (90) day period and (ii) such termination is permitted by all applicable disability laws.

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

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

“Good Reason” means:

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

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

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

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

(iv) the failure by the Company to pay to the Executive any portion of the Executive’s current compensation and benefits or any portion of an installment of deferred compensation under any deferred compensation program of the Company within thirty (30) days of the date such compensation is due;

(v) any purported termination of the Executive’s employment that is not effected pursuant to a Notice of Termination satisfying the requirements of Section 3 hereof; for purposes of this Agreement, no such purported termination shall be effective;

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

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

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

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

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

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

(iii) the relocation of the Executive’s principal place of employment immediately prior to the Change in Control Date (the “Principal Location”) to a location which is both further away from the Executive’s residence and more than thirty (30) miles from such Principal Location, or the Company’s requiring the Executive to be based anywhere other than such Principal Location (or permitted relocation thereof), or a substantial increase in the Executive’s business travel obligations outside of the Southern California area as of the Effective Date other than any such increase that (A) arises in connection with extraordinary business activities of the Company of limited duration and (B) is understood not to be part of the Executive’s regular duties with the Company;

(iv) the failure by the Company to pay to the Executive any portion of the Executive’s current compensation and benefits or any portion of an installment of deferred compensation under any deferred compensation program of the Company within thirty (30) days of the date such compensation is due;

(v) any purported termination of the Executive’s employment that is not effected pursuant to a Notice of Termination satisfying the requirements of Section 3 hereof; for purposes of this Agreement, no such purported termination shall be effective;

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

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

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

Following a Change in Control, the Executive's determination that an act or failure to act constitutes Good Reason shall be presumed to be valid unless such determination is deemed to be unreasonable by an arbitrator pursuant to the procedure described in Section 13 hereof. The Executive's right to terminate the Executive's employment for Good Reason shall not be affected by the Executive's incapacity due to physical or mental illness. The Executive's continued employment shall not constitute consent to, or a waiver of rights with respect to, any act or failure to act constituting Good Reason hereunder.

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

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

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

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

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

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

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

"Person" has the meaning set forth in section 3(a)(9) of the Exchange Act, as modified and used in sections 13(d) and 14(d) thereof, except that such term shall not include (i) the Company or any of its Affiliates, (ii) a trustee or other fiduciary holding securities under an employee benefit plan of the Company or any of its Affiliates, (iii) an underwriter temporarily holding securities pursuant to an offering of such securities, (iv) a corporation owned, directly or indirectly, by the shareholders of the Company in substantially the same proportions as their ownership of stock of the Company, or (v) a person or group as used in Rule 13d-1(b) promulgated under the Exchange Act.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Section 2. Sarbanes-Oxley Act of 2002. Notwithstanding anything herein to the contrary, if the Company determines, in its good faith judgment, that any provision of this Agreement is likely to be interpreted as a personal loan prohibited by the Sarbanes-Oxley Act of 2002 and the rules and regulations promulgated thereunder (the “Act”), then such provision shall be modified as necessary or appropriate so as to not violate the Act; and if this cannot be accomplished, then the Company shall use its reasonable efforts to provide the Executive with similar, but lawful, substitute benefit(s) at a cost to the Company not to significantly exceed the amount the Company would have otherwise paid to provide such benefit(s) to the Executive. In addition, if the Executive is required to forfeit or to make any repayment of any compensation or benefit(s) to the Company under the Act or any other law, such forfeiture or repayment shall not constitute Good Reason.

Section 3. Notice and Date of Termination.

(a) Any termination of the Executive’s employment by the Company or by the Executive shall be communicated by a written notice of termination to the other party (the “Notice of Termination”). Where applicable, the Notice of Termination shall indicate the specific termination provision in this Agreement relied upon and shall set forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of the Executive’s employment under the provision so indicated. Unless the Board determines otherwise, a Notice of Termination by the Executive alleging a termination for Good Reason must be made within 180 days of the act or failure to act that the Executive alleges to constitute Good Reason.

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

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

Section 5. Severance Benefits upon Involuntary Termination Prior to Change in Control. Except as provided in Section 6 and Section 19(i) hereof, in the event of the Involuntary Termination of the Executive prior to a Change in Control, the Company shall pay the Executive, in one lump sum cash payment, an amount (the "Pre-Change in Control Severance Payment") equal to one-half (0.5) times the greater of: (X) 150% of the Executive's Annual Base Salary as in effect on the Date of Termination, and (Y) the Executive's Annual Base Salary as in effect on the Date of Termination, plus the Executive's Average Annual Bonus. In addition to the Pre-Change in Control Severance Payment, the Executive shall be entitled to the following additional benefits specified in subsections (a) through (e). Except as provided in Section 5(f), the Pre-Change in Control Severance Payment and the payment under Section 5(a) shall be paid on such date as is determined by the Company within thirty (30) days after the date of the Involuntary Termination; *provided, however*, that, if the Executive is a Specified Employee on the date of the Executive's Involuntary Termination, the Pre-Change in Control Severance Payment and the financial planning services and the related payments provided under Section 5(e) shall be paid as provided in Section 10 hereof.

(a) **Accrued Obligations.** The Company shall pay the Executive a lump sum amount in cash equal to the sum of (A) the Executive's Annual Base Salary through the Date of Termination to the extent not theretofore paid, (B) an amount equal to any annual Incentive Compensation Awards earned with respect to fiscal years ended prior to the year that includes the Date of Termination to the extent not theretofore paid, (C) any accrued and unpaid vacation, if any, and (D) reimbursement for unreimbursed business expenses, if any, properly incurred by the Executive in the performance of his duties in accordance with policies established from time to time by the Board, in each case to the extent not theretofore paid. (The amounts specified in clauses (A), (B), (C) and (D) shall be hereinafter referred to as the "Pre-Change in Control Accrued Obligations").

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

(c) **Welfare Benefits.** Subject to Section 12 below, for a period of six (6) months following the date of the Involuntary Termination (and an additional twelve (12) months if the Executive provides consulting services under Section 14(e) hereof), the Executive and his dependents shall be provided with health insurance benefits substantially similar to those provided to the Executive and his dependents immediately prior to the date of the Involuntary Termination; *provided, however*, that such benefits shall be provided on substantially the same terms and conditions and at the same cost to the Executive as in effect immediately prior to the date of the Involuntary Termination. Such benefits shall be provided through insurance maintained by the Company under the Company's benefit plans. Such benefits shall be provided in a manner that complies with Treasury Regulation Section 1.409A-1(a)(5).

(d) **Outplacement Services.** The Executive shall receive reasonable outplacement services, on an in-kind basis, suitable to his position and directly related to the Executive's Involuntary Termination, for a period of eighteen (18) months following the date of the Involuntary Termination, in an aggregate amount of cost to the Company not to exceed \$50,000. Notwithstanding the foregoing, the Executive shall cease to receive outplacement services on the date the Executive accepts employment with a subsequent employer. Such outplacement services shall be provided in a manner that complies with Treasury Regulation Section 1.409A-1(b)(9)(v)(A).

(e) **Financial Planning Services.** The Executive shall receive financial planning services, on an in-kind basis, for a period of eighteen (18) months following the Date of Termination. Such financial planning services shall include expert financial and legal resources to assist the Executive with financial planning needs and shall be limited to (i) current investment portfolio management, (ii) tax planning, (iii) tax return preparation, and (iv) estate planning advice and document preparation (including wills and trusts); *provided, however*, that the Company shall provide such financial planning services during any taxable year of the Executive only to the extent the cost to the Company for such taxable year does not exceed \$25,000. The Company shall provide such financial planning services through a financial planner selected by the Company, and shall pay the fees for such financial planning services. The financial planning services provided during any taxable year of the Executive shall not affect the financial planning services provided in any other taxable year of the Executive. The Executive's right to financial planning services shall not be subject to liquidation or exchange for any other benefit. Such financial planning services shall be provided in a manner that complies with Treasury Regulation Section 1.409A-3(i)(1)(iv).

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

Section 6. Severance Benefits upon Involuntary Termination in Connection with and after Change in Control. Notwithstanding the provisions of Section 5 above, and except as provided in Section 19(i) hereof, in the event of the Involuntary Termination of the Executive on or within two (2) years following a Change in Control, in lieu of the payments described in Section 5 above, the Company shall pay the Executive, in one lump sum cash payment, an amount (the "Post-Change in Control Severance Payment") equal to the greater of: (X) 150% of the Executive's Annual Base Salary as in effect immediately prior to the Change in Control or the Date of Termination, whichever is greater, and (Y) the Executive's Annual Base Salary as in effect immediately prior to the Change in Control or on the Date of Termination, whichever is greater, plus the Executive's Average Annual Bonus. In addition to the Post-Change in Control Severance Payment, the Executive shall be entitled to the following additional benefits specified in subsections (a) through (f). Except as provided in Sections 6(g) and 6(h), the Post-Change in

Control Severance Payment and the payments under Sections 6(a) and (b) shall be paid on such date as is determined by the Company within thirty (30) days after the date of the Involuntary Termination; *provided, however*, that, if the Executive is a Specified Employee on the date of the Executive's Involuntary Termination, the Post-Change in Control Severance Payment, the Additional Post-Change in Control Severance Payment under Section 6(a)(E), the payment under Section 6(b) (but only to the extent such payment or portion thereof is subject to Section 409A of the Code), and the financial planning services and the related payments provided under Section 6(f) shall be paid as provided in Section 10 hereof.

(a) Accrued Obligations. The Company shall pay the Executive a lump sum amount in cash equal to the sum of (A) the Executive's Annual Base Salary through the Date of Termination to the extent not theretofore paid, (B) an amount equal to any annual Incentive Compensation Awards earned with respect to fiscal years ended prior to the year that includes the Date of Termination to the extent not theretofore paid, (C) any accrued and unpaid vacation, if any, (D) reimbursement for unreimbursed business expenses, if any, properly incurred by the Executive in the performance of his duties in accordance with policies established from time to time by the Board, and (E) an amount (the "Additional Post-Change in Control Severance Payment") equal to: (i) the greater of: (X) 50% of the Executive's Annual Base Salary as in effect immediately prior to the Change in Control or on the Date of Termination, whichever is greater, or (Y) the Executive's Average Annual Bonus, multiplied by (ii) a fraction, the numerator of which shall be the number of days from the beginning of such fiscal year to and including the Date of Termination and the denominator of which shall be 365, in the case of each amount described in clause (A), (B), (C) or (D) to the extent not theretofore paid. (The amounts specified in clauses (A), (B), (C), (D) and (E) shall be hereinafter referred to as the "Post-Change in Control Accrued Obligations").

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

(c) Equity-Based Compensation. Notwithstanding the provisions of any applicable equity-compensation plan or award agreement to the contrary, all equity-based Incentive Compensation Awards (including, without limitation, stock options, stock appreciation rights, restricted stock awards, restricted stock units, performance share awards, awards covered under Section 162(m) of the Code, and dividend equivalents) held by the Executive shall immediately vest and become exercisable or payable, as the case may be, as of the Date of Termination, to be exercised or paid, as the case may be, in accordance with the terms of the applicable Incentive Compensation Plan and Incentive Compensation Award agreement, and any restrictions on any such Incentive Compensation Awards shall automatically lapse; *provided, however*, that any such stock option or stock appreciation rights awards granted on or after June 26, 1998 shall remain outstanding and exercisable until the earlier of (A) the later of eighteen (18) months following the Date of Termination or the period specified in the applicable Incentive Compensation Award agreements or (B) the expiration of the original term of such Incentive Compensation Award (or, if earlier, the tenth anniversary of the original date of grant) (it being understood that all Incentive Compensation Awards granted prior to or after June 26, 1998 shall remain outstanding and exercisable for a period that is no less than that provided for in the applicable agreement in effect as of the date of grant).

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

(e)

Outplacement Services. The Executive shall receive reasonable outplacement services, on an in-kind basis, suitable to his position and directly related to the Executive's Involuntary Termination, for a period of twenty-four (24) months following the date of Involuntary Termination (but in no event beyond the last day of the Executive's second taxable year following the Executive's taxable year in which the Involuntary Termination occurs), in the aggregate amount of cost to the Company not to exceed \$50,000. Notwithstanding the foregoing, the Executive shall cease to receive outplacement services on the date the Executive accepts employment with a subsequent employer. Such outplacement services shall be provided in a manner that complies with Treasury Regulation Section 1.409A-1(b)(9)(v)(A).

(f) **Financial Planning Services.** The Executive shall receive financial planning services, on an in-kind basis, for a period of twenty-four (24) months following the date of Involuntary Termination. Such financial planning services shall include expert financial and legal resources to assist the Executive with financial planning needs and shall be limited to (i) current investment portfolio management, (ii) tax planning, (iii) tax return preparation, and (iv) estate planning advice and document preparation (including wills and trusts); *provided, however*, that the Company shall provide such financial services during any taxable year of the Executive only to the extent the cost to the Company for such taxable year does not exceed \$25,000. The Company shall provide such financial planning services through a financial planner selected by the Company, and shall pay the fees for such financial planning services. The financial planning services provided during any taxable year of the Executive shall not affect the financial planning services provided in any other taxable year of the Executive. The Executive's right to financial planning services shall not be subject to liquidation or exchange for any other benefit. Such financial planning services shall be provided in a manner that complies with Section 1.409A-3(i)(1)(iv).

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

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

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

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

Section 9. Limitations on Payments by the Company.

(a) Anything in this Agreement to the contrary notwithstanding and except as set forth in this Section 9 below, in the event it shall be determined that any payment or distribution in the nature of compensation (within the meaning of Section 280G(b)(2) of the Code) to or for the benefit of the Executive, whether paid or payable pursuant to this Agreement or otherwise (the "**Payment**") would be subject (in whole or in part) to the excise tax imposed by Section 4999 of the Code, (the "**Excise Tax**"), then, subject to subsection (b), the Pre-Change in Control Severance Benefit or the Post-Change in Control Severance Payment (whichever is applicable) payable under this Agreement shall be reduced under this subsection (a) to the amount equal to the Reduced Payment. For such Payment payable under this Agreement, the "**Reduced Payment**" shall be the amount equal to the greatest portion of the Payment (which may be zero) that, if paid, would result in no portion of any Payment being subject to the Excise Tax.

(b) The Pre-Change in Control Severance Benefit or the Post-Change in Control Severance Payment (whichever is applicable) payable under this Agreement shall not be reduced under subsection (a) if:

(i) such reduction in such Payment is not sufficient to cause no portion of any Payment to be subject to the Excise Tax, or

(ii) the Net After-Tax Unreduced Payments (as defined below) would equal or exceed one hundred and five percent (105%) of the Net After-Tax Reduced Payments (as defined below).

For purposes of determining the amount of any Reduced Payment under subsection (a), and the Net-After Tax Reduced Payments and the Net After-Tax Unreduced Payments, the Executive shall be considered to pay federal, state and local income and employment taxes at the Executive's applicable marginal rates taking into consideration any reduction in federal income taxes which could be obtained from the deduction of state and local income taxes, and any reduction or disallowance of itemized deductions and personal exemptions under applicable tax law). The applicable federal, state and local income and employment taxes and the Excise Tax (to the extent applicable) are collectively referred to as the "Taxes".

(c) The following definitions shall apply for purposes of this Section 9:

(i) "Net After-Tax Reduced Payments" shall mean the total amount of all Payments that the Executive would retain, on a Net After-Tax Basis, in the event that the Payments payable under this Agreement are reduced pursuant to subsection (a).

(ii) "Net After-Tax Unreduced Payments" shall mean the total amount of all Payments that the Executive would retain, on a Net After-Tax Basis, in the event that the Payments payable under this Agreement are not reduced pursuant to subsection (a).

(iii) "Net After-Tax Basis" shall mean, with respect to the Payments, either with or without reduction under subsection (a) (as applicable), the amount that would be retained by the Executive from such Payments after the payment of all Taxes.

(d) All determinations required to be made under this Section 9 and the assumptions to be utilized in arriving at such determinations, shall be made by a nationally recognized accounting firm as may be agreed by the Company and the Executive (the "Accounting Firm"); *provided*, that the Accounting Firm's determination shall be made based upon "substantial authority" within the meaning of Section 6662 of the Code. The Accounting Firm shall provide detailed supporting calculations to both the Company and the Executive within fifteen (15) business days of the receipt of notice from the Executive that there has been a Payment or such earlier time as is requested by the Company. All fees and expenses of the Accounting Firm shall be borne solely by the Company. Any determination by the Accounting Firm shall be binding upon the Company and the Executive. For purposes of determining whether and the extent to which the Payments will be subject to the Excise Tax, (i) no portion of the Payments the receipt or enjoyment of which the Executive shall have waived at such time and in such manner as not to constitute a "payment" within the meaning of Section 280G(b) of the Code shall be taken into account, (ii) no portion of the Payments shall be taken into account which, in the written opinion of the Accounting Firm, does not constitute a "parachute payment" within the meaning of Section 280G(b)(2) of the Code (including by reason of Section 280G(b)(4)(A) of the Code) and, in calculating the Excise Tax, no portion of such Payments shall be taken into account which, in the opinion of the Accounting Firm, constitutes reasonable compensation for services actually rendered, within the meaning of Section 280G(b)(4)(B) of the Code, in excess of the base amount (as defined in Section 280G(b)(3) of the Code) allocable to such reasonable compensation, and (iii) the value of any non-cash benefit or any deferred payment or benefit included in the Payments shall be determined by the Accounting Firm in accordance with the principles of Sections 280G(d)(3) and (4) of the Code.

Section 10. Delayed Distribution under Section 409A of the Code. If the Executive is a Specified Employee on the date of the Executive's Involuntary Termination (or on the date of the Executive's Separation from Service by reason of Disability), the Section 409A Payments, and any other payments or benefits under this Agreement subject to Section 409A of the Code, shall be delayed in order to avoid a prohibited distribution under Section 409A(a)(2)(B)(i) of the Code, and such payments or benefits shall be paid or distributed to the Executive during the thirty (30) day period commencing on the earlier of (a) the expiration of the six-month period measured from the date of the Executive's Separation from Service or (b) the date of the Executive's death. Upon the expiration of the applicable six-month period under Section 409A(a)(2)(B)(i) of the Code, all payments deferred pursuant to this Section 10 (excluding in-kind benefits) shall be paid in a lump sum payment to the Executive, plus interest thereon from the date of the Executive's Involuntary Termination through the payment date at an annual rate equal to Moody's Rate. The "Moody's Rate" shall mean the average of the daily Moody's Corporate Bond Yield Average – Monthly Average Corporates as published by Moody's Investors Service, Inc. (or any successor) for the month next preceding the Date of Termination. Any remaining payments due under the Agreement shall be paid as otherwise provided herein.

Section 11. Nonexclusivity of Rights. Nothing in this Agreement shall prevent or limit the Executive's continuing or future participation in any benefit, plan, program, policy or practice provided by the Company and for which the Executive may qualify (except with respect to any benefit to which the Executive has waived his rights in writing), including, without limitation, any and all indemnification arrangements in favor of the Executive (whether under agreements or under the Company's charter documents or otherwise), and insurance policies covering the Executive, nor shall anything herein limit or otherwise affect such rights as the Executive may have under any other contract or agreement entered into after the Effective Date with the Company. Amounts which are vested benefits or which the Executive is otherwise entitled to receive under any benefit, plan, policy, practice or program of, or any contract or agreement entered into with, the Company shall be payable in accordance with such benefit, plan, policy, practice or program or contract or agreement except as explicitly modified by this Agreement. At all times during the Executive's employment with the Company and thereafter, the Company shall provide (to the extent permissible under applicable law) the Executive with indemnification and D&O insurance insuring the Executive against insurable events which occur or have occurred while the Executive was a director or the Executive officer of the Company, on terms and conditions that are at least as generous as that then provided to any other current or former director or the Executive officer of the Company or any Affiliate. Such indemnification and D&O insurance shall be provided in a manner that complies with Treasury Regulation Section 1.409A-1(b)(10).

Section 12.

Full Settlement; Mitigation. The Company's obligation to make the payments provided for in this Agreement and otherwise to perform its obligations hereunder shall not be affected by any set-off, counterclaim, recoupment, defense or other claim, right or action which the Company may have against the Executive or others, provided that nothing herein shall preclude the Company from separately pursuing recovery from the Executive based on any such claim. In no event shall the Executive be obligated to seek other employment or take any other action by way of mitigation of the amounts (including amounts for damages for breach) payable to the Executive under any of the provisions of this Agreement, and such amounts shall not be reduced whether or not the Executive obtains other employment.

Section 13. Dispute Resolution.

Any disagreement, dispute, controversy or claim arising out of or relating to this Agreement or the interpretation of this Agreement or any arrangements relating to this Agreement or contemplated in this Agreement or the breach, termination or invalidity thereof shall be settled by final and binding arbitration administered by JAMS in San Diego, California in accordance with the then existing JAMS arbitration rules applicable to employment disputes (the "JAMS Rules"); *provided that*, notwithstanding any provision in such rules to the contrary, in all cases the parties shall be entitled to reasonable discovery. In the event of such an arbitration proceeding, the Executive and the Company shall select a mutually acceptable neutral arbitrator from among the JAMS panel of arbitrators. In the event the Executive and the Company cannot agree on an arbitrator, the arbitrator shall be selected in accordance with the then existing JAMS Rules. Neither the Executive nor the Company nor the arbitrator shall disclose the existence, content or results of any arbitration hereunder without the prior written consent of all parties, except to the extent necessary to enforce any arbitration award in a court of competent jurisdiction. Except as provided herein, the Federal Arbitration Act shall govern the interpretation of, enforcement of and all proceedings under this agreement to arbitrate. The arbitrator shall apply the substantive law (and the law of remedies, if applicable) of the state of California, or federal law, or both, as applicable, and the arbitrator is without jurisdiction to apply any different substantive law. The arbitrator shall have the authority to entertain a motion to dismiss and/or a motion for summary judgment by any party and shall apply the standards governing such motions under the Federal Rules of Civil Procedure. The arbitrator shall render an award and a written, reasoned opinion in support thereof. Judgment upon the award may be entered in any court having jurisdiction thereof. The Executive shall not be required to pay any arbitration fee or cost that is unique to arbitration or greater than any amount he would be required to pay to pursue his claims in a court of competent jurisdiction.

Section 14. Executive's Covenants.

(a) **Confidentiality.** The Executive acknowledges that in the course of his employment with the Company, he has acquired non-public privileged or confidential information and trade secrets concerning the operations, future plans and methods of doing business ("Proprietary Information") of the Company and its Affiliates; and the Executive agrees that it would be extremely damaging to the Company and its Affiliates if such Proprietary Information were disclosed to a competitor of the Company and its Affiliates or to any other person or corporation. The Executive understands and agrees that all Proprietary Information has been divulged to the Executive in confidence and further understands and agrees to keep all Proprietary Information secret and confidential (except for such information which is or becomes publicly available other than as a result of a breach by the Executive of this provision or information the Executive is required by any governmental, administrative or court order to disclose) without limitation in time. In view of the nature of the Executive's employment and the Proprietary Information the Executive has acquired during the course of such employment, the Executive likewise agrees that the Company and its Affiliates would be irreparably harmed by any disclosure of Proprietary Information in violation of the terms of this paragraph and that the Company and its Affiliates shall therefore be entitled to preliminary and/or permanent injunctive relief prohibiting the Executive from engaging in any activity or threatened activity in violation of the terms of this paragraph and to any other relief available to them. Inquiries regarding whether specific information constitutes Proprietary Information shall be directed to the Company's Senior Vice President, Public Policy (or, if such position is vacant, the Company's then Chief Executive Officer); *provided*, that the Company shall not unreasonably classify information as Proprietary Information.

(b) **Non-Solicitation of Employees.** The Executive recognizes that he possesses and will possess confidential information about other employees of the Company and its Affiliates relating to their education, experience, skills, abilities, compensation and benefits, and inter-personal relationships with customers of the Company and its Affiliates. The Executive recognizes that the information he possesses and will possess about these other employees is not generally known, is of substantial value to the Company and its Affiliates in developing their business and in securing and retaining customers, and has been and will be acquired by him because of his business position with the Company and its Affiliates. The Executive agrees that at all times during the Executive's employment with the Company and for a period of one (1) year thereafter, he will not, directly or indirectly, solicit or recruit any employee of the Company or its Affiliates for the purpose of being employed by him or by any competitor of the Company or its Affiliates on whose behalf he is acting as an agent, representative or employee and that he will not convey any such confidential information or trade secrets about other employees of the Company and its Affiliates to any other person; *provided, however*, that it shall not constitute a solicitation or recruitment of employment in violation of this paragraph to discuss employment opportunities with any employee of the Company or its Affiliates who has either first contacted the Executive or regarding whose employment the Executive has discussed with and received the written approval of the Company's Vice President, Human Resources (or, if such position is vacant, the Company's then Chief Executive Officer), prior to making such solicitation or recruitment. In view of the nature of the Executive's employment with the Company, the Executive likewise agrees that the Company and its Affiliates would be irreparably harmed by any solicitation or recruitment in violation of the terms of this paragraph and that the Company and its Affiliates shall therefore be entitled to preliminary and/or permanent injunctive relief prohibiting the Executive from engaging in any activity or threatened activity in violation of the terms of this paragraph and to any other relief available to them.

(c) Survival of Provisions. The obligations contained in Section 14(a) and Section 14(b) above shall survive the termination of the Executive's employment within the Company and shall be fully enforceable thereafter. If it is determined by a court of competent jurisdiction in any state that any restriction in Section 14(a) or Section 14(b) above is excessive in duration or scope or is unreasonable or unenforceable under the laws of that state, it is the intention of the parties that such restriction may be modified or amended by the court to render it enforceable to the maximum extent permitted by the law of that state.

(d) Release; Lump Sum Payment. In the event of the Executive's Involuntary Termination, if the Executive (i) agrees to the covenants described in Section 14(a) and Section 14(b) above, (ii) executes a release (the "Release") of all claims substantially in the form attached hereto as Exhibit A within fifty (50) days after the date of Involuntary Termination and does not revoke such Release in accordance with the terms thereof, and (iii) agrees to provide the consulting services described in Section 14(e) below, then in consideration for such covenants, the Company shall pay the Executive, in one cash lump sum, an amount (the "Consulting Payment") in cash equal to the greater of: (X) 150% of the Executive's Annual Base Salary as in effect on the Date of Termination, and (Y) the Executive's Annual Base Salary as in effect on the Date of Termination, plus the Executive's Average Annual Bonus. Except as provided in this subsection, the Consulting Payment shall be paid on such date as is determined by the Company within the ten (10) day period commencing on the 60th day after the date of the Executive's Involuntary Termination; *provided, however*, that if the Executive is a Specified Employee on the date of the Executive's Involuntary Termination, the Consulting Payment shall be paid as provided in Section 10 hereof. The Executive shall have the right to elect to defer the Consulting Payment under the terms and conditions of the Company's Deferred Compensation Plan. Any such deferral election shall be made in accordance with Section 18(b) hereof.

(e) Consulting. If the Executive agrees to the covenants described in Section 14(d) above, then the Executive shall have the obligation to provide consulting services to the Company as an independent contractor, commencing on the Date of Termination and ending on the second anniversary of the Date of Termination (the "Consulting Period"). The Executive shall hold himself available at reasonable times and on reasonable notice to render such consulting services as may be so assigned to him by the Board or the Company's then Chief Executive Officer; *provided, however*, that unless the parties otherwise agree, the consulting services rendered by the Executive during the Consulting Period shall not exceed twenty (20) hours each month; and, *provided, further*, that the consulting services rendered by the Executive during the Consulting Period shall in no event exceed twenty percent (20%) of the average level of services performed by the Executive for the Company over the thirty-six (36) month period immediately preceding the Executive's Separation from Service (or the full period of services to the Company, if the Executive has been providing services to the Company for less than thirty-six (36) months). The Company agrees to use its best efforts during the Consulting Period to secure the benefit of the Executive's consulting services so as to minimize the interference with the Executive's other activities, including requiring the performance of consulting services at the Company's offices only when such services may not be reasonably performed off-site by the Executive.

Section 15. Legal Fees.

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

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

Section 16. Successors.

(a) Assignment by the Executive. This Agreement is personal to the Executive and without the prior written consent of Sempra Energy shall not be assignable by the Executive otherwise than by will or the laws of descent and distribution. This Agreement shall inure to the benefit of and be enforceable by the Executive's legal representatives.

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

(c) Assumption. Sempra Energy shall require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of Sempra Energy to assume expressly and agree to perform the obligations and satisfy and discharge the liabilities of this Agreement in the same manner and to the same extent that

Sempra Energy would have been required to perform the obligations and satisfy and discharge the liabilities under this Agreement if no such succession had taken place, and Sempra Energy shall have no further obligations and liabilities under this Agreement. Upon such assumption, references to Sempra Energy in this Agreement shall be replaced with references to such successor.

(d) Sale of Subsidiary. In the event that (i) the Executive is employed by a direct or indirect subsidiary of Sempra Energy that is a member of the Sempra Energy Control Group, (ii) Sempra Energy, directly or indirectly through one or more intermediaries, sells or otherwise disposes of such subsidiary, and (iii) such subsidiary ceases to be a member of the Sempra Energy Control Group, then if, on the date such subsidiary ceases to be a member of the Sempra Energy Control Group, the Executive continues in employment with such subsidiary and the Executive does not have a Separation from Service, Sempra Energy shall require such subsidiary or any successor (whether direct or indirect, by purchase merger, consolidation or otherwise) to such subsidiary, or the parent thereof, to assume expressly and agree to perform the obligations and satisfy and discharge the liabilities under this Agreement in the same manner and to the same extent that Sempra Energy would have been required to perform the obligations and satisfy and discharge the liabilities under this Agreement, if such subsidiary had not ceased to be part of the Sempra Energy Control Group, and, upon such assumption, Sempra Energy shall have no further obligations and liabilities under the Agreement. Upon such assumption, (i) references to Sempra Energy in this Agreement shall be replaced with references to such subsidiary, or such successor or parent thereof, assuming this Agreement, and (ii) subsection (b) of the definition of "Cause" and subsection (b) of the definition of "Good Reason" shall apply thereafter, as if a Change in Control had occurred on the date of such cessation.

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

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

Section 18. Section 409A of the Code.

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

Sections 409A(a)(2), (3) and (4) of the Code, if any provision of the Agreement would cause such compensation, benefits or other payments to fail to so comply, such provision shall not be effective and shall be null and void with respect to such compensation, benefits or other payments to the extent such provision would cause a failure to comply, and such provision shall otherwise remain in full force and effect.

(b) Deferral Elections. As provided in Sections 5(f), 6(h) and 14(d), the Executive may elect to defer the Pre-Change in Control Severance Payment, the Post-Change in Control Severance Payment and the Consulting Payment as follows.

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

Section 19. Miscellaneous.

(a) Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of California, without reference to its principles of conflict of laws. The captions of this Agreement are not part of the provisions hereof and shall have no force or effect. This Agreement may not be amended, modified, repealed, waived, extended or discharged except by an agreement in writing signed by the party against whom enforcement of such amendment, modification, repeal, waiver, extension or discharge is sought. No person, other than pursuant to a resolution of the Board or a committee thereof, shall have authority on behalf of the Company to agree to amend, modify, repeal, waive, extend or discharge any provision of this Agreement or anything in reference thereto.

(b) Notices. All notices and other communications hereunder shall be in writing and shall be given by hand delivery to the other party or by registered or certified mail, return receipt requested, postage prepaid, addressed, in either case, to the Company's headquarters or to such other address as either party shall have furnished to the other in writing in accordance herewith. Notices and communications shall be effective when actually received by the addressee.

(c) Severability. The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement.

(d) Taxes. The Company may withhold from any amounts payable under this Agreement such federal, state or local taxes as shall be required to be withheld pursuant to any applicable law or regulation.

(e) No Waiver. The Executive's or the Company's failure to insist upon strict compliance with any provision hereof or any other provision of this Agreement or the failure to assert any right the Executive or the Company may have hereunder, including, without limitation, the right of the Executive to terminate employment for Good Reason pursuant to Section 1 hereof, or the right of the Company to terminate the Executive's employment for Cause pursuant to Section 1 hereof shall not be deemed to be a waiver of such provision or right or any other provision or right of this Agreement.

(f) Entire Agreement; Exclusive Benefit; Supersession of Prior Agreement. This instrument contains the entire agreement of the Executive, the Company or any predecessor or subsidiary thereof with respect to any severance or termination pay. The Pre-Change in Control Severance Payment, the Post-Change in Control Severance Payment and all other benefits provided hereunder shall be in lieu of any other severance payments to which the Executive is entitled under any other severance plan or program or arrangement sponsored by the Company, as well as pursuant to any individual employment or severance agreement that was entered into by the Executive and the Company, and, upon the Effective Date of this Agreement, all such plans, programs, arrangements and agreements are hereby automatically superseded and terminated.

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

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

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

(j)

Term. The term of this Agreement shall commence on the Effective Date and shall continue until the third (3rd) anniversary of the Effective Date; *provided, however*, that commencing on the second (2nd) anniversary of the Effective Date (and each anniversary of the Effective Date thereafter), the term of this Agreement shall automatically be extended for one (1) additional year, unless at least ninety (90) days prior to such date, the Company or the Executive shall give written notice to the other party that it or he, as the case may be, does not wish to so extend this Agreement. Notwithstanding the foregoing, if the Company gives such written notice to the Executive less than two (2) years after a Change in Control, the term of this Agreement shall be automatically extended until the later of (A) the date that is one (1) year after the anniversary of the Effective Date that follows such written notice or (B) the second (2nd) anniversary of the Change in Control Date.

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

[remainder of page intentionally left blank]

IN WITNESS WHEREOF, the Executive and, pursuant to due authorization from its Board of Directors, the Company have caused this Agreement to be executed as of the day and year first above written.

SEMPRA ENERGY

G. Joyce Rowland
Senior Vice President – Human Resources, Diversity & Inclusion

Date

EXECUTIVE

Steven D. Davis – Vice President,
Investor Relations

Date

GENERAL RELEASE

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

WHEREAS, you and the Company have previously entered into that certain Severance Pay Agreement dated _____, 20____ (the "Severance Pay Agreement"); and

WHEREAS, Section 14(d) of the Severance Pay Agreement provides for the payment of a benefit to you by the Company in consideration for certain covenants, including your execution and non-revocation of a general release of claims by you against the Company and its subsidiaries and affiliates.

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

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

TWO: As a material inducement for the payment of the benefit under Section 14(d) of the Severance Pay Agreement, and except as otherwise provided in this Agreement, you and the Company hereby irrevocably and unconditionally release, acquit and forever discharge the other from any and all Claims either may have against the other. For purposes of this Agreement and the preceding sentence, the words "Releasee" or "Releasees" and "Claim" or "Claims" shall have the meanings set forth below:

(a) The words "Releasee" or "Releasees" shall refer to you and to the Company and each of the Company's owners, stockholders, predecessors, successors, assigns, agents, directors, officers, employees, representatives, attorneys, advisors, parent companies, divisions, subsidiaries, affiliates (and agents, directors, officers, employees, representatives, attorneys and advisors of such parent companies, divisions, subsidiaries and affiliates) and all persons acting by, through, under or in concert with any of them.

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

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

"A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS WHICH THE CREDITOR DOES NOT KNOW OR SUSPECT TO EXIST IN HIS FAVOR AT THE TIME OF EXECUTING THE

RELEASE, WHICH IF KNOWN BY HIM MUST HAVE MATERIALLY AFFECTED HIS SETTLEMENT WITH THE DEBTOR.”

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

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

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

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

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

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

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

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

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

NINE:

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

(b) If you are a party or are threatened to be made a party to any proceeding by reason of the fact that you were an officer or director of the Company, the Company shall indemnify you against any expenses (including reasonable attorneys' fees; *provided*, that counsel has been approved by the Company prior to retention, which approval shall not be unreasonably withheld), judgments, fines, settlements and other amounts actually or reasonably incurred by you in connection with that proceeding; *provided*, that you acted in good faith and in a manner you reasonably believed to be in the best interest of the Company. The limitations of California Corporations Code Section 317 shall apply to this assurance of indemnification.

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

TEN: This Agreement is made and entered into in California. This Agreement shall in all respects be interpreted, enforced and governed by and under the laws of the State of California and applicable Federal law. Any dispute about the validity, interpretation, effect or alleged violation of this Agreement (an “arbitrable dispute”) must be submitted to arbitration in San Diego, California. Arbitration shall take place before an experienced employment arbitrator licensed to practice law in such state and

selected in accordance with the then existing JAMS arbitration rules applicable to employment disputes; *provided, however*, that in any event, the arbitrator shall allow reasonable discovery. Arbitration shall be the exclusive remedy for any arbitrable dispute. The arbitrator in any arbitrable dispute shall not have authority to modify or change the Agreement in any respect. You and the Company shall each be responsible for payment of one-half (1/2) the amount of the arbitrator's fee(s); *provided, however*, that in no event shall you be required to pay any fee or cost of arbitration that is unique to arbitration or exceeds the costs you would have incurred had any arbitrable dispute been pursued in a court of competent jurisdiction. The Company shall make up any shortfall. Should any party to this Agreement institute any legal action or administrative proceeding against the other with respect to any Claim waived by this Agreement or pursue any arbitrable dispute by any method other than arbitration, the prevailing party shall be entitled to recover from the non-prevailing party all damages, costs, expenses and attorneys' fees incurred as a result of that action. The arbitrator's decision and/or award shall be rendered in writing and will be fully enforceable and subject to an entry of judgment by the Superior Court of the State of California for the County of San Diego, or any other court of competent jurisdiction.

ELEVEN: Both you and the Company understand that this Agreement is final and binding eight (8) days after its execution and return. Should you nevertheless attempt to challenge the enforceability of this Agreement as provided in Paragraph TEN or, in violation of that Paragraph, through litigation, as a further limitation on any right to make such a challenge, you shall initially tender to the Company, by certified check delivered to the Company, all monies received pursuant to Section 14(d) of the Severance Pay Agreement, plus interest, and invite the Company to retain such monies and agree with you to cancel this Agreement and void the Company's obligations under Section 14(d) of the Severance Pay Agreement. In the event the Company accepts this offer, the Company shall retain such monies and this Agreement shall be canceled and the Company shall have no obligation under Section 14(d) of the Severance Pay Agreement. In the event the Company does not accept such offer, the Company shall so notify you and shall place such monies in an interest-bearing escrow account pending resolution of the dispute between you and the Company as to whether or not this Agreement and the Company's obligations under Section 14(d) of the Severance Pay Agreement shall be set aside and/or otherwise rendered voidable or unenforceable. Additionally, any consulting agreement then in effect between you and the Company shall be immediately rescinded with no requirement of notice.

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

To Company: [TO COME]

Attn: [TO COME]

To You:

THIRTEEN: You understand and acknowledge that you have been given a period of forty-five (45) days to review and consider this Agreement (as well as statistical data on the persons eligible for similar benefits) before signing it and may use as much of this forty-five (45) day period as you wish prior to signing. You are encouraged, at your personal expense, to consult with an attorney before signing this Agreement. You understand and acknowledge that whether or not you do so is your decision. You may revoke this Agreement within seven (7) days of signing it. If you wish to revoke, the Company's Vice President, Human Resources must receive written notice from you no later than the close of business on the seventh (7th) day after you have signed the Agreement. If revoked, this Agreement shall not be effective and enforceable, and you will not receive payments or benefits under Section 14(d) of the Severance Pay Agreement.

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

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

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

SEVENTEEN: This Agreement may be executed in counterparts.

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

DATED: _____

DATED: _____

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

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

	2010	2011	2012	2013	2014
Fixed charges and preferred stock dividends:					
Interest	\$ 492	\$ 549	\$ 601	\$ 620	\$ 636
Interest portion of annual rentals	3	2	2	2	3
Preferred dividends of subsidiaries (1)	11	10	6	6	1
Total fixed charges	506	561	609	628	640
Preferred dividends for purpose of ratio	-	-	-	-	-
Total fixed charges and preferred dividends for purpose of ratio	<u>\$ 506</u>	<u>\$ 561</u>	<u>\$ 609</u>	<u>\$ 628</u>	<u>\$ 640</u>
Earnings:					
Pretax income from continuing operations before adjustment for income or loss from equity investees	\$ 1,078	\$ 1,747	\$ 1,255	\$ 1,399	\$ 1,443
Add:					
Total fixed charges (from above)	506	561	609	628	640
Distributed income of equity investees	260	96	50	51	61
Less:					
Interest capitalized	74	27	53	23	40
Preferred dividends of subsidiaries (1)	11	10	6	6	1
Total earnings for purpose of ratio	<u>\$ 1,759</u>	<u>\$ 2,367</u>	<u>\$ 1,855</u>	<u>\$ 2,049</u>	<u>\$ 2,103</u>
Ratio of earnings to combined fixed charges and preferred stock dividends	<u>3.48</u>	<u>4.22</u>	<u>3.05</u>	<u>3.26</u>	<u>3.29</u>
Ratio of earnings to fixed charges	<u>3.48</u>	<u>4.22</u>	<u>3.05</u>	<u>3.26</u>	<u>3.29</u>

(1) In computing this ratio, "Preferred dividends of subsidiaries" represents the before-tax earnings necessary to pay such dividends, computed at the effective tax rates for the applicable periods.

EXHIBIT 12.2
SAN DIEGO GAS & ELECTRIC COMPANY
COMPUTATION OF RATIO OF EARNINGS TO COMBINED FIXED CHARGES
AND PREFERRED STOCK DIVIDENDS
(Dollars in millions)

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
Fixed Charges and Preferred Stock Dividends:					
Interest	\$ 153	\$ 193	\$ 220	\$ 231	\$ 238
Interest portion of annual rentals	<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>
Total fixed charges	154	194	221	232	239
Preferred stock dividends (1)	<u>7</u>	<u>7</u>	<u>7</u>	<u>5</u>	<u>-</u>
Combined fixed charges and preferred stock dividends for purpose of ratio	<u>\$ 161</u>	<u>\$ 201</u>	<u>\$ 228</u>	<u>\$ 237</u>	<u>\$ 239</u>
Earnings:					
Pretax income from continuing operations	\$ 531	\$ 692	\$ 705	\$ 626	\$ 797
Total fixed charges (from above)	154	194	221	232	239
Less: Interest capitalized	<u>1</u>	<u>1</u>	<u>-</u>	<u>-</u>	<u>1</u>
Total earnings for purpose of ratio	<u>\$ 684</u>	<u>\$ 885</u>	<u>\$ 926</u>	<u>\$ 858</u>	<u>\$ 1,035</u>
Ratio of earnings to combined fixed charges and preferred stock dividends	<u>4.25</u>	<u>4.40</u>	<u>4.06</u>	<u>3.62</u>	<u>4.33</u>
Ratio of earnings to fixed charges	<u>4.44</u>	<u>4.56</u>	<u>4.19</u>	<u>3.70</u>	<u>4.33</u>

(1) In computing this ratio, "Preferred stock dividends" represents the before-tax earnings necessary to pay such dividends, computed at the effective tax rates for the applicable periods.

EXHIBIT 12.3
SOUTHERN CALIFORNIA GAS COMPANY
COMPUTATION OF RATIO OF EARNINGS TO COMBINED FIXED CHARGES
AND PREFERRED STOCK DIVIDENDS
(Dollars in millions)

	2010	2011	2012	2013	2014
Fixed Charges:					
Interest	\$ 72	\$ 77	\$ 77	\$ 76	\$ 77
Interest portion of annual rentals	<u>2</u>	<u>1</u>	<u>1</u>	<u>1</u>	<u>2</u>
Total fixed charges	74	78	78	77	79
Preferred stock dividends (1)	<u>2</u>	<u>2</u>	<u>2</u>	<u>2</u>	<u>2</u>
Combined fixed charges and preferred stock dividends for purpose of ratio	<u>\$ 76</u>	<u>\$ 80</u>	<u>\$ 80</u>	<u>\$ 79</u>	<u>\$ 81</u>
Earnings:					
Pretax income from continuing operations	\$ 463	\$ 431	\$ 369	\$ 481	\$ 472
Add: Total fixed charges (from above)	74	78	78	77	79
Less: Interest capitalized	<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>
Total earnings for purpose of ratio	<u>\$ 536</u>	<u>\$ 508</u>	<u>\$ 446</u>	<u>\$ 557</u>	<u>\$ 550</u>
Ratio of earnings to combined fixed charges and preferred stock dividends	<u>7.05</u>	<u>6.35</u>	<u>5.58</u>	<u>7.05</u>	<u>6.79</u>
Ratio of earnings to fixed charges	<u>7.24</u>	<u>6.51</u>	<u>5.72</u>	<u>7.23</u>	<u>6.96</u>

(1) In computing this ratio, "Preferred stock dividends" represents the before-tax earnings necessary to pay such dividends, computed at the effective tax rates for the applicable periods.

SEMPRA ENERGY FINANCIAL REPORT

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This Financial Report is a combined report for the following separate companies (each a separate Securities and Exchange Commission registrant):

<i>Sempra Energy</i>	<i>San Diego Gas & Electric Company</i>	<i>Southern California Gas Company</i>
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MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

We provide below:

- § A description of our business
- § An executive summary
- § A discussion and analysis of our operating results for 2012 through 2014
- § Information about our capital resources and liquidity
- § Major factors expected to influence our future operating results
- § A discussion of market risk affecting our businesses
- § A table of accounting policies that we consider critical to our financial condition and results of operations

You should read Management’s Discussion and Analysis of Financial Condition and Results of Operations in conjunction with the Consolidated Financial Statements and the Notes to Consolidated Financial Statements included in this Annual Report, and in “Risk Factors” contained in our 2014 Annual Report on Form 10-K.

OUR BUSINESS

Sempra Energy is a Fortune 500 energy-services holding company whose operating units invest in, develop and operate energy infrastructure, and provide gas and electricity services to their customers in North and South America. Our operations are divided principally between our California Utilities, which are San Diego Gas & Electric Company (SDG&E) and Southern California Gas Company (SoCalGas), and Sempra International and Sempra U.S. Gas & Power. SDG&E and SoCalGas are separate, reportable segments. Sempra International includes two reportable segments – Sempra South American Utilities and Sempra Mexico. Sempra U.S. Gas & Power also includes two reportable segments – Sempra Renewables and Sempra Natural Gas. (See Figure 1.)

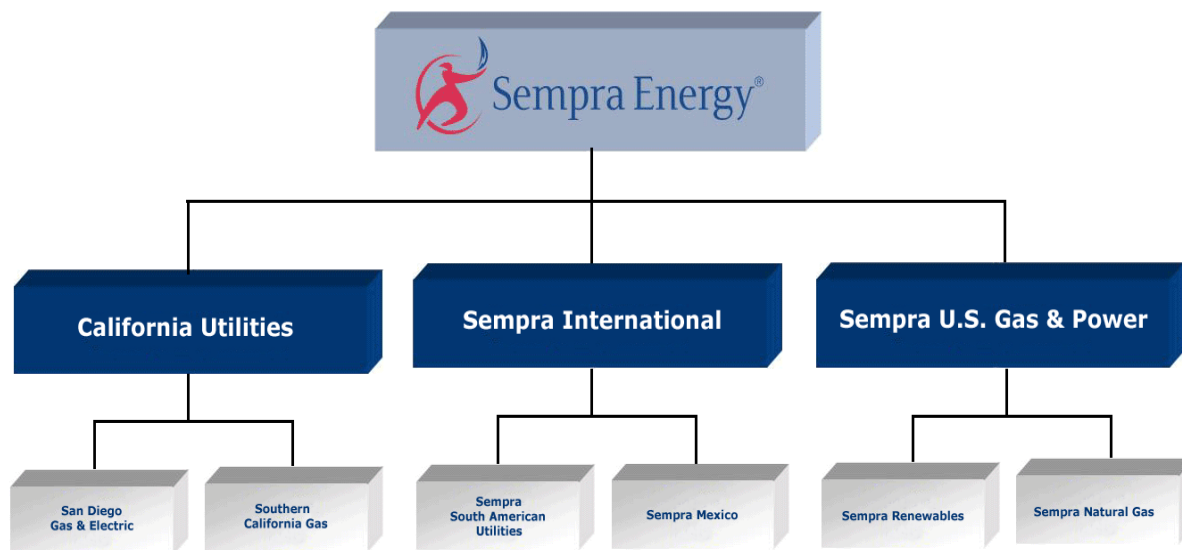


Figure 1: Sempra Energy's Operating Units and Reportable Segments

This report includes information for the following separate registrants:

- § Sempra Energy and its consolidated entities
- § SDG&E
- § SoCalGas

References to “we,” “our” and “Sempra Energy Consolidated” are to Sempra Energy and its consolidated entities, collectively, unless otherwise indicated by its context. All references to “Sempra International” and “Sempra U.S. Gas & Power,” and to their respective principal segments, are not intended to refer to any legal entity with the same or similar name.

In the first quarter of 2013, a Sempra Energy subsidiary, Infraestructura Energética Nova, S.A.B. de C.V. (IEnova), completed a private offering in the U.S. and outside of Mexico and concurrent public offering in Mexico of common stock. IEnova is a separate legal entity, formerly known as Sempra México, S.A. de C.V., comprised primarily of Sempra Energy’s operations in Mexico. IEnova is included within our Sempra Mexico reportable segment, but is not the same in its entirety as the reportable segment. In addition to the IEnova operating companies, the Sempra Mexico segment includes, among other things, certain holding companies and risk management activity. Also, IEnova’s financial results are reported in Mexico under International Financial Reporting Standards (IFRS), as required by the Mexican Stock Exchange (La Bolsa Mexicana de Valores, S.A.B. de C.V., or BMV) where the shares are traded under the symbol IENOVA. We discuss the offerings and IEnova further in Note 1 of the Notes to Consolidated Financial Statements.

Below are summary descriptions of our operating units and their reportable segments.

SEMPRA ENERGY OPERATING UNITS AND REPORTABLE SEGMENTS

CALIFORNIA UTILITIES	MARKET	SERVICE TERRITORY
SAN DIEGO GAS & ELECTRIC COMPANY (SDG&E) A regulated public utility; infrastructure supports electric generation, transmission and distribution, and natural gas distribution	§ Provides electricity to a population of 3.5 million (1.4 million meters) § Provides natural gas to a population of 3.2 million (0.9 million meters)	Serves the county of San Diego, California and an adjacent portion of southern Orange County covering 4,100 square miles
SOUTHERN CALIFORNIA GAS COMPANY (SOCALGAS) A regulated public utility; infrastructure supports natural gas distribution, transmission and storage	§ Residential, commercial, industrial, utility electric generation and wholesale customers § Covers a population of 21.4 million (5.9 million meters)	Southern California and portions of central California (excluding San Diego County, the city of Long Beach and the desert area of San Bernardino County) covering 20,000 square miles

We refer to SDG&E and SoCalGas collectively as the California Utilities, which do not include the utilities in our Sempra International or Sempra U.S. Gas & Power operating units described below.

SDG&E

SDG&E delivers electricity through 1.4 million meters in San Diego County and an adjacent portion of southern Orange County, California, covering a population of 3.5 million. SDG&E's electric energy is purchased from others or generated from its own electric generation facilities and, prior to the second quarter of 2012, its 20-percent interest in the San Onofre Nuclear Generating Station (SONGS). Due to operating issues, SONGS was taken offline in the first quarter of 2012, and in June 2013, Southern California Edison Company (Edison), the majority owner and operator of SONGS, made the decision to permanently retire the facility. We discuss the SONGS retirement and related issues in Note 13 of the Notes to Consolidated Financial Statements. SDG&E's electric generation facilities include Palomar Energy Center, Miramar Energy Center, Desert Star Energy Center and Cuyamaca Peak Energy Plant. SDG&E also delivers natural gas through 0.9 million meters in San Diego County, covering a population of 3.2 million, and transports electricity and natural gas for others. SDG&E's service territory encompasses 4,100 square miles.

Sempra Energy indirectly owns all of the common stock of SDG&E. SDG&E had publicly held preferred stock that was redeemed in October 2013. We discuss the redemption in Note 11 of the Notes to Consolidated Financial Statements.

SDG&E's financial statements include a variable interest entity (VIE), Otay Mesa Energy Center LLC (Otay Mesa VIE), of which SDG&E is the primary beneficiary. As we discuss in Note 1 of the Notes to Consolidated Financial Statements under "Variable Interest Entities," SDG&E has a long-term power purchase agreement with Otay Mesa VIE.

SoCalGas

SoCalGas is the nation's largest natural gas distribution utility. It owns and operates a natural gas distribution, transmission and storage system that supplies natural gas throughout its approximately 20,000 square miles of service territory. Its service territory extends from San Luis Obispo, California in the north to the Mexican border in the south, excluding San Diego County, the city of Long Beach and the desert area of San Bernardino County. SoCalGas provides natural gas service to residential, commercial, industrial, utility electric generation and wholesale customers through 5.9 million meters, covering a population of 21.4 million.

Sempra Energy indirectly owns all of the common stock of SoCalGas. SoCalGas has publicly held preferred stock. The preferred stock has liquidation preferences totaling \$22 million and represents less than 1% of the ordinary voting power of SoCalGas shares.

We provide here descriptions of our Sempra International and Sempra U.S. Gas & Power businesses, primarily operations relating to 2014, 2013 and 2012 earnings. We provide additional information regarding development projects at each of their segments in "Factors Influencing Future Performance" below.

SEMPRA INTERNATIONAL	MARKET	GEOGRAPHIC REGION
SEMPRA SOUTH AMERICAN UTILITIES Infrastructure supports electric transmission and distribution	§ Provides electricity to approximately 2.4 million consumers (approximately 657,000 meters) in Chile and approximately 4.8 million consumers (approximately 1,029,000 meters) in Peru	§ Chile § Peru
SEMPRA MEXICO Develops, owns and operates, or holds interests in: § natural gas transmission pipelines and propane and ethane systems § a natural gas distribution utility § electric generation facilities, including wind § a terminal for the import of liquefied natural gas (LNG) § marketing operations for the purchase of LNG and the purchase and sale of natural gas	§ Natural gas § Wholesale electricity § Liquefied natural gas	§ Mexico

Sempra International

Sempra South American Utilities

Sempra South American Utilities operates electric transmission and distribution utilities in Chile and Peru, and until June 2013, owned interests in utilities in Argentina. We discuss the sale of the two Argentine natural gas utility holding companies in Note 4 of the Notes to Consolidated Financial Statements.

Chilquinta Energía, a wholly owned subsidiary of Sempra South American Utilities, is an electric distribution utility serving approximately 2.4 million consumers through approximately 657,000 meters in the cities of Valparaiso and Viña del Mar in central Chile.

Sempra South American Utilities owns 83.6 percent of Luz del Sur S.A.A. (Luz del Sur), an electric distribution utility that serves approximately 4.8 million consumers through approximately 1,029,000 meters in the southern zone of metropolitan Lima, Peru, and delivers approximately one-third of all power used in the country. The remaining shares of Luz del Sur are held by institutional investors and the general public.

Sempra South American Utilities also owns interests in Tecnored S.A. (Tecnored) in Chile and Tecsur S.A. (Tecsur) in Peru, two energy-services companies that provide electric construction and infrastructure services to Chilquinta Energía and Luz del Sur, as well as third parties. Tecnored also sells electricity to non-regulated customers.

Sempra Mexico

Gas Business

Pipelines. Sempra Mexico develops, owns and operates natural gas transmission pipelines and propane and ethane systems in Mexico. These facilities are contracted under long-term, U.S. dollar-based agreements with Petróleos Mexicanos (or PEMEX, the Mexican state-owned oil company), the Federal Electricity Commission (Comisión Federal de Electricidad, or CFE), Shell México Gas Natural (Shell), Gazprom Marketing & Trading Mexico (Gazprom) and other similar counterparties. Its natural gas pipeline systems had a contracted capacity for up to 5,340 million cubic feet (MMcf) per day in 2014.

Sempra Mexico also owns a 50-percent interest in Gasoductos de Chihuahua, a joint venture with PEMEX that develops and operates an ethane pipeline and several natural gas pipelines and propane systems in Mexico.

Pipeline projects currently under construction by Sempra Mexico that are both regulated by the Comisión Reguladora de Energía (or CRE, the Energy Regulatory Commission) and meet the regulatory accounting requirements of accounting principles generally accepted in the United States of America (U.S. GAAP) record the impact of allowance for funds used during construction (AFUDC) related to equity. Beginning in the fourth quarter of 2013, Sempra Mexico began recording AFUDC equity for its Sonora natural gas pipeline project. Sempra Mexico's joint venture with PEMEX also began recording AFUDC equity for its Los Ramones I Pipeline project in the fourth quarter of 2013.

LNG. Sempra Mexico's Energía Costa Azul LNG terminal in Baja California, Mexico is capable of processing 1 billion cubic feet (Bcf) of natural gas per day. The Energía Costa Azul facility generates revenue under capacity services agreements with Shell and Gazprom, expiring in 2028, that permit them, together, to use one-half of the terminal's capacity.

In connection with Sempra Natural Gas' LNG purchase agreement with Tangguh PSC Contractors (Tangguh PSC), which we discuss below, Sempra Mexico purchases from Sempra Natural Gas the LNG delivered to Energía Costa Azul by Tangguh PSC. Sempra Mexico uses the natural gas produced from this LNG to supply a contract through 2022 for the sale of an average of approximately 150 MMcf per day of natural gas to Mexico's national electric company, the CFE, at prices that are based on the Southern California border index. If LNG volumes received from Tangguh PSC are not sufficient to satisfy the commitment to the CFE, Sempra Mexico may purchase natural gas from Sempra Natural Gas' natural gas marketing operations.

Natural Gas Distribution. Sempra Mexico's natural gas distribution utility, Ecogas México, S. de R.L. de C.V. (Ecogas), operates in three separate areas in Mexico, and had approximately 106,000 meters (serving more than 400,000 consumers) and sales volume of 65 MMcf per day in 2014.

Power Business

Natural Gas-Fired Generation. Sempra Mexico's Termoeléctrica de Mexicali, a 625-megawatt (MW) natural gas-fired power plant, is located in Mexicali, Baja California, Mexico. In January 2013, Sempra Mexico's Termoeléctrica de Mexicali entered into an Energy Management Agreement (EMA), effective January 1, 2012, with our Sempra Natural Gas segment for energy marketing, scheduling and other related services to support its sales of generated power into the California electricity market. Under the EMA, Termoeléctrica de Mexicali pays fees to Sempra Natural Gas for these revenue-generating services. Termoeléctrica de Mexicali also purchases fuel from Sempra Natural Gas. Sempra Mexico records revenue for the sale of power generated by Termoeléctrica de Mexicali, and records cost of sales for the purchases of natural gas and energy management services provided by Sempra Natural Gas.

Wind Power Generation. The Energía Sierra Juárez wind generation project in Baja California is designed to provide up to 1,200 MW of capacity if fully developed. In April 2011, SDG&E entered into a 20-year contract for up to 155 MW of renewable power supplied from the first phase of the project, which we expect to be operational in the first half of 2015. In July 2014, Sempra Mexico completed the sale of a 50-percent interest in the first phase of the project to a wholly owned subsidiary of InterGen N.V. We discuss the equity sale further in Note 3 of the Notes to Consolidated Financial Statements.

SEMPRA U.S. GAS & POWER	MARKET	GEOGRAPHIC REGION
SEMPRA RENEWABLES Develops, owns, operates, or holds interests in renewable energy generation projects	§ Wholesale electricity	§ U.S.A.
SEMPRA NATURAL GAS Develops, owns and operates, or holds interests in:	§ Wholesale electricity	§ U.S.A.
§ natural gas pipelines and storage facilities	§ Natural gas	
§ natural gas distribution utilities	§ Liquefied natural gas	
§ a terminal in the U.S. for the import and export of LNG and sale of natural gas		
§ marketing operations		
§ a natural gas-fired electric generation asset (currently held for sale)		

Sempra U.S. Gas & Power

Sempra Renewables

The following table provides information about the Sempra Renewables wind and solar energy generation facilities that were operational as of December 31, 2014. The generating capacity of these facilities is fully contracted under long-term power purchase agreements (PPA) for the periods indicated in the table.

The majority of Sempra Renewables' wind farm assets also earn production tax credits (PTC) based on the number of megawatt hours of electricity they generate. A PTC is a federal subsidy that effectively pays wind producers a flat rate for making clean energy and enables wind producers like Sempra Renewables to pass on the benefit to its customers. Because PTCs last for ten years after project completion, any wind turbine that was under construction before the end of 2014 will still earn a full decade of PTCs. For each of the years ended December 31, 2014, 2013 and 2012, PTCs represented a large portion of our wind farm earnings, often exceeding earnings from operations.

SEMPRA RENEWABLES OPERATING FACILITIES

Capacity in Megawatts (MW) at December 31, 2014

Name	Generating capacity	PPA term in years	First in service	Location
<i>Wholly owned facility:</i>				
Copper Mountain Solar 1	58	20	2008	Boulder City, Nevada
<i>Jointly owned facilities(1):</i>				
Auwahi Wind	11	20	2012	Maui, Hawaii
Broken Bow 2 Wind	38	25	2014	Custer County, Nebraska
Cedar Creek 2 Wind	125	25	2011	New Raymer, Colorado
Flat Ridge 2 Wind	235	20 and 25	2012	Wichita, Kansas
Fowler Ridge 2 Wind	100	20	2009	Benton County, Indiana
Mehoopany Wind	71	20	2012	Wyoming County, Pennsylvania
Total wind	580			
California solar partnership	55	25	2013	Tulare and Kings Counties, California
Copper Mountain Solar 2	46	25	2012	Boulder City, Nevada
Copper Mountain Solar 3	92 (2)	20	2014	Boulder City, Nevada
Mesquite Solar 1	75	20	2011	Arlington, Arizona
Total solar	268			
Total MW in operation	906			

(1) Sempra Renewables has a 50-percent interest in each of these facilities and accounts for them as equity method investments. The generating capacity represents Sempra Renewables' share only.

(2) Total expected generating capacity for Copper Mountain Solar 3 is 250 MW, of which 125 MW is Sempra Renewables' share. The capacity noted in the above table represents Sempra Renewables' share of capacity that went into service in 2014; remaining capacity is expected to be in service in 2015.

The 92-MW first phase of Copper Mountain Solar 2 was placed in service in November 2012, and the 150-MW Mesquite Solar 1 facility went fully into service in December 2012. In the third quarter of 2013, Sempra Renewables sold 50-percent equity interests in these facilities to Consolidated Edison Development (ConEdison Development).

Construction started on Copper Mountain Solar 3 in March 2013, which will total 250 MW when completed. Copper Mountain Solar 3 will be placed in service as each of the ten blocks of solar panels is installed and is planned to be entirely in service in 2015. In 2014, 184 MW was placed in service. The cities of Los Angeles and Burbank have contracted for all of the solar power at Copper Mountain Solar 3 for 20 years. In March 2014, we completed the sale of 50 percent of our equity in Copper Mountain Solar 3 to ConEdison Development.

In May 2014, Sempra Renewables acquired a 50-percent ownership interest in four, fully operating solar facilities in California, or the California solar partnership, as we discuss in Note 4 of the Notes to Consolidated Financial Statements.

In October 2014, the 75-MW Broken Bow 2 Wind project achieved commercial operation and, in November 2014, Sempra Renewables sold a 50-percent equity interest in Broken Bow 2 Wind to ConEdison Development.

We discuss the equity sales of these facilities and related matters further in Notes 3 through 5 of the Notes to Consolidated Financial Statements. We discuss capacity under development in "Factors Influencing Future Performance" below.

Sempra Natural Gas

Transportation and Storage. Sempra Natural Gas owns and operates, or holds interests in, natural gas underground storage and related pipeline facilities in Alabama, Louisiana and Mississippi. Sempra Natural Gas provides natural gas marketing, trading and risk management services through the utilization and optimization of contracted natural gas supply, transportation and storage capacity, as well as optimizing its assets in the short-term services market.

Sempra Natural Gas, Tallgrass Energy Partners, L.P. (Tallgrass) and Phillips 66 jointly own, through Rockies Express Pipeline LLC (Rockies Express), the Rockies Express pipeline (REX) that links the Rocky Mountain region to the upper Midwest and the eastern United States. Our ownership interest in the pipeline is 25 percent. Tallgrass purchased its 50-percent equity interest in Rockies Express from Kinder Morgan Energy Partners, L.P. (Kinder Morgan or KMP) in November 2012. Sempra Natural Gas has an agreement through November 2019 with Rockies Express for 200 MMcf per day of capacity on REX, which has a total capacity of 1.8 Bcf per day. Sempra Natural Gas has entered and continues to enter into new capacity release arrangements with other third parties, but these agreements may not be sufficient to offset all of our capacity payments to Rockies Express.

In 2012, we recorded a noncash impairment charge of \$239 million after-tax to write down our investment in the partnership that operates REX. We discuss our investment in Rockies Express and the related impairment in Notes 4 and 10 of the Notes to Consolidated Financial Statements.

Distribution. Our Sempra Natural Gas segment owns and operates Mobile Gas Service Corporation (Mobile Gas) and Willmut Gas Company (Willmut Gas), regulated natural gas distribution utilities in southwest Alabama and in Mississippi, respectively. Mobile Gas delivers natural gas through approximately

86,000 meters (serving more than 200,000 consumers), and Willmut Gas delivers natural gas through approximately 19,000 meters (serving over 50,000 consumers). Sempra Natural Gas acquired Willmut Gas in May 2012, as we discuss in Note 3 of the Notes to Consolidated Financial Statements.

LNG. The Cameron LNG, LLC (Cameron LNG) regasification terminal in Hackberry, Louisiana, 100-percent owned by Sempra Natural Gas until October 1, 2014, is capable of processing 1.5 Bcf of natural gas per day. The terminal generates revenue under a terminal services agreement for approximately 3.75 Bcf of natural gas storage and associated send-out rights of approximately 600 MMcf of natural gas per day through 2029. The agreement allows the customer to pay capacity reservation and usage fees to use the facilities to receive, store and regasify the customer's LNG. Sempra Natural Gas also may enter into short-term supply agreements to purchase LNG to be received, stored and regasified at the terminal for sale to other parties.

In August 2014, Sempra Energy and its project partners provided their respective final investment decision with regard to the Cameron LNG Holdings, LLC (Cameron LNG Holdings) joint venture for the development, construction and operation of a natural gas liquefaction export facility at the Cameron LNG terminal. Beginning from the October 1, 2014 joint venture effective date, Cameron LNG is no longer wholly owned, and Sempra Natural Gas accounts for its investment in the new joint venture under the equity method.

The liquefaction facility, on which construction began in the second half of 2014, will utilize Cameron LNG's existing facilities, including two marine berths, three LNG storage tanks, and vaporization capability of 1.5 Bcf per day. The joint venture has authorization to export LNG to both Free Trade Agreement (FTA) countries and to countries that do not have an FTA with the United States. Cameron LNG Holdings has 20-year liquefaction and regasification tolling capacity agreements in place with GDF SUEZ S.A. and affiliates of Mitsubishi Corporation and Mitsui & Co., Ltd., that subscribe the full nameplate capacity of the facility. We discuss activities related to the Cameron LNG export project further in "Factors Influencing Future Performance" below and in Notes 3 and 4 of the Notes to Consolidated Financial Statements.

There is a termination agreement in place related to the terminal services agreement discussed above that will result in the termination of the agreement at the point during construction of the new liquefaction facilities where piping tie-ins to the existing regasification terminal become necessary. Based on the full notice to proceed that was issued to Cameron LNG Holdings' engineering, procurement and construction (EPC) contractor in October 2014, we expect this termination date to occur during the first half of 2017.

Sempra Natural Gas has an LNG purchase agreement with Tangguh PSC for the supply of the equivalent of 500 MMcf of natural gas per day from Tangguh PSC's Indonesian liquefaction facility with delivery to Sempra Mexico's Energía Costa Azul receipt terminal at a price based on the Southern California border index for natural gas. Sempra Natural Gas may also record revenues from non-delivery of cargoes under the provisions of the contract with Tangguh PSC that allow for deliveries to be diverted to other global markets in exchange for cash differential payments.

Generation. Sempra Natural Gas sells electricity under short-term and long-term contracts and into the spot market and other competitive markets. While it may also purchase electricity in the open market to satisfy its contractual obligations, Sempra Natural Gas generally purchases natural gas to fuel its Mesquite Power natural gas-fired power plant, described below, and Sempra Mexico's Termoeléctrica de Mexicali power plant, described above. The Mesquite Power plant is a 1,250-MW facility located in Arlington, Arizona. In February 2013, Sempra Natural Gas sold one 625-MW block of Mesquite Power to the Salt River Project Agricultural Improvement and Power District for \$371 million.

In June 2011, Sempra Natural Gas entered into a 25-year contract with various members of Southwest Public Power Resources Group (SPPR Group), an association of 40 not-for-profit utilities in Arizona and southern Nevada, for 240 MW of electricity from the Mesquite Power plant. This contract was amended in early 2013 to increase the capacity to 271 MW. Under the terms of the agreement, Sempra Natural Gas contracted to provide 21 participating SPPR Group members with firm, day-ahead dispatchable power delivered to the Palo Verde hub beginning in January 2015.

In January 2014, management approved a plan to sell the remaining 625-MW block of the Mesquite Power plant. In October 2014, Sempra Natural Gas entered into a definitive agreement to sell the remaining block and assign the related SPPR Group contract to the buyer. We anticipate the sale will close in the first half of 2015, subject to obtaining third-party consents for the assignment of the SPPR Group contract to the buyer. We discuss the plan to sell the second 625-MW block of Mesquite Power in Note 3 of the Notes to Consolidated Financial Statements.

Sempra Natural Gas also has various power sale transactions intended to hedge its generation capacity. Through 2014, Sempra Natural Gas sold its power to various counterparties. Sempra Natural Gas has sold certain quantities of expected future generation output under long-term contracts. The remaining output of our natural gas-fired generation facilities, including that of Sempra Mexico's Termoeléctrica de Mexicali power plant, is available to be sold into energy markets on a day-to-day basis.

In January 2013, Sempra Natural Gas entered into an EMA, effective January 1, 2012, with Sempra Mexico to provide energy marketing, scheduling and other related services to Sempra Mexico's Termoeléctrica de Mexicali power plant to support its sales of generated power into the California electricity market. We discuss the EMA in "Sempra Mexico – Power Business – Natural Gas-Fired Generation" above.

REGULATION OF OUR UTILITIES

SDG&E and SoCalGas are regulated by federal, state and local governmental agencies. The primary regulatory agency is the California Public Utilities Commission (CPUC). The CPUC regulates the California Utilities' rates and operations in California, except for SDG&E's electric transmission operations. The Federal Energy Regulatory Commission (FERC) regulates SDG&E's electric transmission operations. The FERC also regulates interstate transportation of natural gas and various related matters.

The Nuclear Regulatory Commission (NRC) regulates SONGS, in which SDG&E owns a 20-percent interest. Municipalities and other local authorities may influence decisions affecting the location of utility assets, including natural gas pipelines and electric lines. Some of Sempra Energy's other operating units are also regulated by the FERC, various state commissions and local governmental entities, and similar authorities in countries other than the United States.

Our South American utilities are regulated by federal and local governmental agencies. The National Energy Commission (Comisión Nacional de Energía, or CNE) regulates Chilquinta Energía in Chile. The Energy and Mining Investment Supervisory Body (Organismo Supervisor de la Inversión en Energía y Minería, or OSINERGMIN) of the National Electricity Office under the Ministry of Energy and Mines regulates Luz del Sur in Peru.

Ecogas, our natural gas distribution utility in northern Mexico, is subject to regulation by the CRE and by the labor and environmental agencies of city, state and federal governments in Mexico.

Mobile Gas, our natural gas distribution utility serving southwest Alabama, is regulated by the Alabama Public Service Commission. Willmut Gas, our natural gas distribution utility serving customers in Hattiesburg, Mississippi, is regulated by the Mississippi Public Service Commission.

EXECUTIVE SUMMARY

BUSINESS STRATEGY

Our focus is to increase shareholder value and meet ever evolving customer needs by sustaining the financial strength, operational flexibility and skilled workforce needed to operate a safe, stable and successful portfolio of integrated energy businesses.

The key components of our strategy include the following three disciplined growth platforms:

- § U.S. utilities
- § South American utilities and Mexican midstream
- § U.S. natural gas midstream, including LNG, and renewables

Operating within these areas, we are focused on generating stable, predictable earnings and cash flows by investing in assets that are primarily regulated or contracted long-term. We have a robust capital program over the next several years and will take a disciplined approach to deploying this capital to areas that fit our strategy and are designed to create shareholder value. By doing so, our goal is to deliver long-term growth that is in excess of what you find in the utility space but with a risk profile in line with our utility peers.

KEY EVENTS AND ISSUES IN 2014

Below are key events and issues that affected our business in 2014; some of these may continue to affect our future results. Each event/issue includes the page number you may reference for additional details.

Major Project Updates:

§ Sempra Natural Gas' Joint Venture Formation for Cameron LNG liquefaction project:

- In September 2014, the U.S. Department of Energy (DOE) granted Cameron LNG final authorization to export domestically produced LNG from its Cameron liquefaction project to countries with which the United States does not have agreements for free trade in natural gas (Non-Free Trade Agreement) (page 67).
- Between April and July 2014, Cameron LNG received orders from the FERC authorizing the siting, construction and operation of the three-train liquefaction facility, as well as authorization for Cameron Interstate Pipeline's 21-mile, 42-inch natural gas pipeline expansion, new compressor station and ancillary equipment that will provide natural gas transportation to the Cameron LNG facility (page 68).
- In August 2014, Sempra Natural Gas and its project partners provided their respective final investment decision for the investment in the joint venture (page 68).
- Also in August 2014, Sempra Energy and the project partners executed project financing documents, and Sempra Energy entered into completion guarantees related to the financing agreements (page 68).
- On October 1, 2014, Cameron LNG Holdings, the joint venture partnership among Sempra Energy and three project partners, became effective, and Sempra Natural Gas contributed Cameron LNG to the joint venture (page 68).
- Later in October 2014, the joint venture issued full notice to proceed to the EPC contractor (page 68).

§ Sempra South American Utilities:

- In October 2014, Luz del Sur received regulatory approval for a \$150 million transmission investment plan that includes the development and operation of four substations and their related transmission lines in Lima (page 63).

§ Sempra Mexico's IEnova subsidiary:

- In July 2014, IEnova completed the sale of a 50-percent equity interest in the first phase of the Energía Sierra Juárez wind project to a wholly owned subsidiary of InterGen N.V. (page 64).
- Also in July 2014, IEnova's joint venture with PEMEX and affiliates of PEMEX issued the full notice to proceed with construction of Los Ramones Norte, a natural gas pipeline of approximately 275 miles and two compression stations (page 64).
- In October 2014, IEnova completed construction of a section of the Sonora pipeline, a 500-mile natural gas pipeline network in northern Mexico (page 63).
- In December 2014, IEnova's joint venture with PEMEX completed the 70-mile first phase of the Los Ramones natural gas pipeline (Los Ramones I) (page 63).
- In December 2014, IEnova was awarded a contract for the development, construction and operation of the approximately 127-mile, 42-inch Ojinaga

pipeline, with an estimated cost of \$300 million (page 64).

§ *Sempra Renewables:*

- In March 2014, Sempra Renewables formed a joint venture with ConEdison Development by selling a 50-percent interest in its 250-MW Copper Mountain Solar 3 solar power facility. A total of 184 MW was placed in service in 2014 (page 7).
- In May 2014, Sempra Renewables became a 50-percent partner with ConEdison Development in four solar facilities in California (page 149).
- In July 2014, Sempra Renewables signed a 20-year power sale agreement with Southern California Edison for all of the solar power from the 94-MW Copper Mountain Solar 4 facility beginning in 2020 (page 65).
- In November 2014, Sempra Renewables sold a 50-percent equity interest to ConEdison Development in the 75-MW Broken Bow 2 Wind project, which went into commercial operation in October 2014 (page 145).

Other Key Events and Issues:

§ *California Utilities:*

- In March 2014, the California Independent System Operator (ISO) selected SDG&E to construct the Sycamore-Peñasquitos 230-kilovolt (kV) transmission project, which will provide a 16.7-mile transmission connection between SDG&E's Sycamore Canyon and Peñasquitos substations (page 219).
- In May 2014, the FERC approved a multi-party settlement regarding SDG&E's Electric Transmission Formula Rate filing, establishing among other things, a 10.05 percent rate of return on SDG&E's electric transmission rate base investment through 2018 (page 219).
- In June 2014, the CPUC issued a final decision on SDG&E's and SoCalGas' Pipeline Safety Enhancement Plan (PSEP), authorizing the proposed decision-making framework and balancing accounts for cost recovery, subject to reasonableness review (page 216).
- In November 2014, the CPUC issued a final decision approving a settlement agreement, among SDG&E and other settling parties, to the SONGS Order Instituting Investigation (OII) into the SONGS Outage (SONGS OII) (page 209).
- In November 2014, the California Utilities filed their 2016 General Rate Case (GRC) applications, which included proposed revenue requirement increases of \$133 million and \$256 million for SDG&E and SoCalGas, respectively, over their 2015 revenue requirements (page 214).
- In December 2014, the CPUC approved a one-year extension until April 2016 for SDG&E and SoCalGas to file their next Cost of Capital application, maintaining both companies' current authorized rates of return and capital structure through December 2016 (page 215).

§ *Sempra South American Utilities:*

- In December 2014, we purchased additional Luz del Sur shares for \$74 million, bringing our ownership to 83.6 percent (page 43).

§ *Sempra U.S. Gas & Power:*

- In April 2014, Rockies Express secured binding financial commitments totaling 1.2 Bcf per day of capacity for a 20-year term for east-to-west transportation services originating at or near Clarington, Ohio, expected to be in service by mid-2015. In June 2014, Rockies Express finished constructing the Seneca Lateral, an initial 0.25 Bcf per day capacity project that connects natural gas production sources in Ohio to REX. The Seneca Lateral capacity was increased to 0.6 Bcf per day in January 2015 (page 66).
- In October 2014, Sempra Natural Gas entered into a definitive agreement to sell the remaining 625-MW block of the Mesquite Power plant, subject to receipt of required third-party consents. The sale is expected to close in the first half of 2015 (page 66).

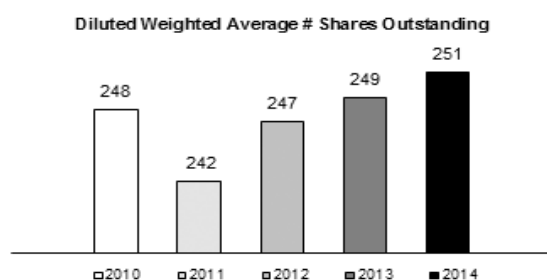
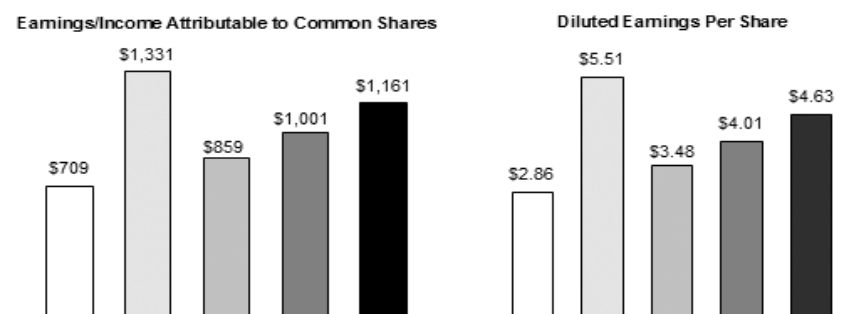
RESULTS OF OPERATIONS

We discuss the following in Results of Operations:

- § Overall results of our operations and factors affecting those results
- § Our segment results
- § Significant changes in revenues, costs and earnings between periods

OVERALL RESULTS OF OPERATIONS OF SEMPRA ENERGY AND FACTORS AFFECTING THE RESULTS

The graphs below show our overall operations from 2010 to 2014.



In 2014, our earnings increased by \$160 million (16%) to \$1.2 billion and our diluted earnings per share increased by \$0.62 per share (15%) to \$4.63 per share. The net increases in our earnings and diluted earnings per share were primarily impacted by the following increases (decreases), by segment:

SDG&E

- § \$119 million charge in 2013 for loss from plant closure associated with SDG&E's investment in SONGS, compared to a \$(21) million charge in 2014 to adjust the total loss from plant closure, as we discuss in Note 13 of the Notes to Consolidated Financial Statements
- § \$24 million higher CPUC base operating margin authorized for 2014 in the 2012 GRC and lower non-refundable operating costs
- § \$15 million favorable resolution of prior years' income tax items in 2014 compared to a \$2 million unfavorable resolution in 2013
- § \$(52) million favorable impact on 2013 earnings from the retroactive application for 2012 of the final decision in the 2012 GRC

SoCalGas

- § \$24 million higher CPUC base operating margin authorized for 2014 in the 2012 GRC, net of higher non-refundable operating costs
- § \$(30) million higher income tax expense primarily due to lower favorable resolution of prior years' income tax items in 2014, higher reversal through book depreciation of previously recognized tax benefits for a certain portion of utility fixed assets and lower deductions for self-developed software expenditures
- § \$(25) million favorable impact on 2013 earnings from the retroactive application for 2012 of the final decision in the 2012 GRC

Sempra South American Utilities

- § \$18 million income tax benefit related to Peru's recent tax reform, offset by \$(6) million income tax expense related to Chilean tax reform

Sempra Mexico

- § \$30 million favorable impact due to the effects on tax-related balances from foreign currency and inflation
- § \$24 million higher AFUDC in 2014 related to equity associated with construction of the natural gas pipeline in Sonora
- § \$14 million gain from the sale of a 50-percent equity interest in the first phase of the Energía Sierra Juárez project in 2014
- § \$13 million income tax expense in 2013 due to Mexican tax reform
- § \$(21) million impact of higher earnings attributable to noncontrolling interests at IEnova (\$47 million in 2014 compared to \$26 million in 2013)

Sempra Renewables

- § \$24 million gains in 2014 from the sale of 50-percent equity interests in Copper Mountain Solar 3 and Broken Bow 2 Wind

§ \$19 million higher deferred income tax benefits, including the benefits from projects placed in service in 2014 and a \$5 million reduction of benefits in 2013 as a result of U.S. Treasury grant sequestration

§ \$(24) million gains in 2013 from the sale of 50-percent equity interests in Mesquite Solar 1 and Copper Mountain Solar 2

Sempra Natural Gas

§ \$25 million tax benefit due to the release in 2014 of a Louisiana valuation allowance against a deferred tax asset associated with Cameron LNG developments

§ \$(44) million gain in 2013 on the sale of one 625-MW block of Sempra Natural Gas' 1,250-MW Mesquite Power natural gas-fired power plant

Parent and Other

§ \$63 million income tax expense in 2013 resulting from a corporate reorganization in connection with the IEnova stock offerings

§ \$(38) million income tax expense in 2014 for repatriation of current year foreign earnings

In 2013 compared to 2012, our earnings increased by \$142 million (17%) to \$1.0 billion and our diluted earnings per share increased by \$0.53 per share (15%) to \$4.01 per share. The net increases in our earnings and diluted earnings per share were primarily impacted by the following increases (decreases), by segment:

SDG&E

§ \$61 million higher earnings from CPUC base operations and electric transmission, including Sunrise Powerlink

§ \$52 million favorable impact on 2013 earnings from the retroactive impact for 2012 of the 2012 GRC, for which a final decision by the CPUC was issued in the second quarter of 2013

§ \$(119) million charge for loss from plant closure associated with SDG&E's investment in the SONGS nuclear facility

§ \$(54) million from an income tax benefit recorded in 2012 related to a change in the income tax treatment of certain repairs expenditures, the lower rate of return authorized in our CPUC cost of capital proceeding and higher interest expense

SoCalGas

§ \$51 million higher operating margin and newly recovered costs as a result of the 2012 GRC

§ \$25 million favorable impact on 2013 earnings from the retroactive impact for 2012 of the 2012 GRC

Sempra Mexico

§ \$(26) million decrease in Sempra Mexico's earnings for earnings attributable to noncontrolling interests at IEnova following its March 2013 offerings of 18.9 percent of its common stock

Sempra Renewables

§ \$24 million gains from the sale of 50-percent equity interests in Mesquite Solar 1 and Copper Mountain Solar 2 in 2013

§ \$(50) million lower deferred income tax benefits, including \$5 million decrease from U.S. Treasury grant sequestration in 2013, as a result of wind and solar generating assets placed in service in 2012

Sempra Natural Gas

§ \$239 million in noncash impairment charges in 2012 to write down our investment in Rockies Express, partially offset by a \$25 million income tax make-whole payment received in 2012 from Kinder Morgan

§ \$44 million gain on the sale of one 625-MW block of Sempra Natural Gas' 1,250-MW Mesquite Power natural gas-fired power plant in the first quarter of 2013

§ \$41 million higher earnings from LNG operations, primarily due to lower of cost or market adjustments in 2012 associated with the timing of cargoes, the impact of higher natural gas prices on marketing operations and lower costs resulting from commercial arrangements entered into with affiliates

Parent and Other

§ \$(63) million income tax expense in 2013 resulting from a corporate reorganization in connection with the IEnova stock offerings

§ \$(54) million income tax benefit in 2012 primarily associated with our decision to hold life insurance contracts kept in support of certain benefit plans to term

Diluted earnings per share for 2013 compared to 2012 were also impacted by an increase in the number of shares outstanding (decrease of \$0.05 per share).

The following table shows our earnings (losses) by segment, which we discuss below in "Segment Results."

SEMPRA ENERGY EARNINGS (LOSSES) BY SEGMENT 2012-2014
(Dollars in millions)

	Years ended December 31,								
	2014		2013		2012				
California Utilities:									
SDG&E(1)	\$	507	44%	\$	404	41%	\$	484	56%
SoCalGas(2)		332	29		364	37		289	34
Sempra International:									
Sempra South American Utilities		172	15		153	15		164	19
Sempra Mexico		192	16		122	12		157	18
Sempra U.S. Gas & Power:									
Sempra Renewables		81	7		62	6		61	7
Sempra Natural Gas		50	4		64	6		(241)	(28)
Parent and other(3)		(173)	(15)		(168)	(17)		(55)	(6)
Earnings	\$	1,161	100%	\$	1,001	100%	\$	859	100%

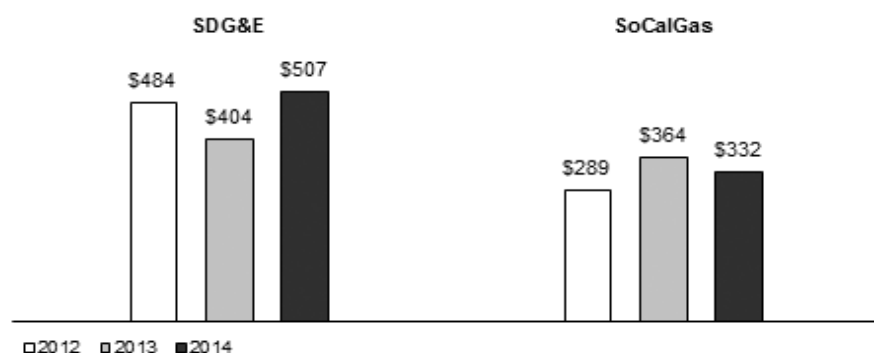
(1) For 2013, amount is after preferred dividends and call premium on preferred stock. For 2012, amount is after preferred dividends.

(2) After preferred dividends.

(3) Includes after-tax interest expense (\$144 million in each of 2014 and 2013 and \$150 million in 2012), intercompany eliminations recorded in consolidation and certain corporate costs.

SEGMENT RESULTS

The following section is a discussion of earnings (losses) by Sempra Energy segment, as presented in the table above. Variance amounts are the after-tax earnings impact (based on applicable statutory tax rates), unless otherwise noted.

EARNINGS BY SEGMENT – CALIFORNIA UTILITIES
(Dollars in millions)

SDG&E

Our SDG&E segment recorded earnings of:

- § \$507 million in 2014
- § \$404 million in 2013 (\$411 million before preferred dividends and call premium)
- § \$484 million in 2012 (\$489 million before preferred dividends)

The increase in earnings of \$103 million (25%) in 2014 was primarily due to:

- § \$119 million charge in 2013 for loss from plant closure associated with SDG&E's investment in SONGS, compared to a \$21 million charge in 2014 to adjust the total loss from plant closure, as we discuss in Note 13 of the Notes to Consolidated Financial Statements;
- § \$24 million higher CPUC base operating margin authorized for 2014 in the 2012 GRC and lower non-refundable operating costs;
- § \$15 million favorable resolution of prior years' income tax items in 2014 compared to a \$2 million unfavorable resolution in 2013; and
- § \$3 million lower legal costs in 2014; **offset by**
- § \$52 million favorable impact on 2013 earnings from the retroactive application for 2012 of the final decision in the 2012 GRC; and
- § \$7 million lower earnings from electric transmission operations primarily due to lower FERC-authorized return on equity.

The decrease of \$80 million (17%) in 2013 compared to 2012 was primarily due to:

- § \$119 million charge for loss from plant closure associated with SDG&E's investment in SONGS;

- § \$22 million income tax benefit recorded in the third quarter of 2012 for full-year 2011 from the change in the income tax treatment of certain repairs expenditures, as we discuss below in “Income Taxes;”
- § \$20 million lower CPUC-authorized rate of return established in the CPUC cost of capital proceeding effective as of January 1, 2013;
- § \$12 million higher interest expense;
- § \$11 million loss of revenue from SONGS due to the early closure of the plant; and
- § \$6 million for the recovery from the DOE in 2012 of incremental costs incurred in prior years for the long-term storage of spent nuclear fuel; **offset by**
- § \$52 million favorable impact on 2013 earnings from the retroactive application for 2012 of the final decision in the 2012 GRC;
- § \$38 million higher CPUC base operating margin as a result of the final 2012 GRC decision, net of operating costs; and
- § \$23 million higher electric transmission margin.

SoCalGas

Our SoCalGas segment recorded earnings of:

- § \$332 million in 2014 (\$333 million before preferred dividends)
- § \$364 million in 2013 (\$365 million before preferred dividends)
- § \$289 million in 2012 (\$290 million before preferred dividends)

The decrease in earnings of \$32 million (9%) in 2014 was primarily due to:

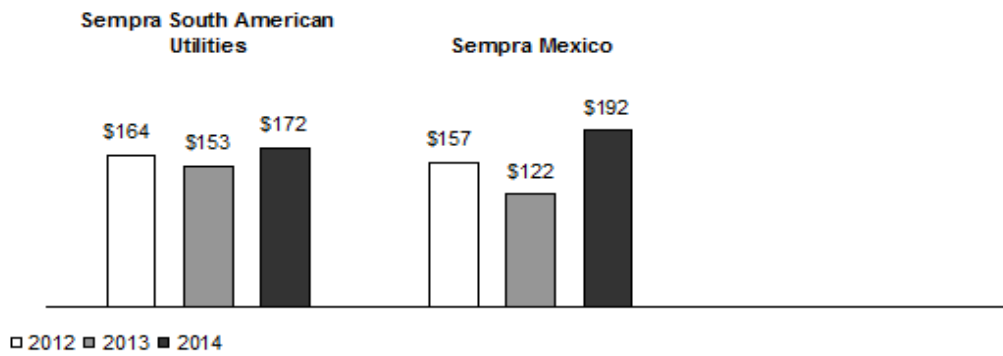
- § \$25 million favorable impact on 2013 earnings from the retroactive application for 2012 of the final decision in the 2012 GRC;
- § \$15 million lower favorable resolution of prior years’ income tax items in 2014;
- § \$15 million increase in income tax expense primarily due to higher reversal through book depreciation of previously recognized tax benefits for a certain portion of utility fixed assets, and from lower deductions for self-developed software expenditures;
- § \$5 million write-off in 2014 of certain costs incurred associated with the PSEP that were disallowed for recovery in the final PSEP decision (as we discuss in Note 14 of the Notes to Consolidated Financial Statements); and
- § \$4 million insurance recovery in 2013 of previously expensed costs; **offset by**
- § \$24 million higher CPUC base operating margin authorized for 2014 in the 2012 GRC, net of higher non-refundable operating costs; and
- § \$9 million from an increase in AFUDC related to equity.

The increase of \$75 million (26%) in 2013 compared to 2012 was primarily due to:

- § \$36 million higher CPUC base operating margin as a result of the final 2012 GRC decision and lower non-refundable operating costs;
- § \$25 million favorable impact on 2013 earnings from the retroactive application for 2012 of the final decision in the 2012 GRC;
- § \$20 million higher favorable resolution of prior years’ income tax issues in 2013; and
- § \$15 million due to costs associated with the Transmission Integrity Management Program (TIMP) being expensed in 2012 now being fully recovered (balanced) in revenues pursuant to the 2012 GRC; **offset by**
- § \$14 million lower CPUC-authorized rate of return established in the CPUC cost of capital proceeding effective as of January 1, 2013.

EARNINGS BY SEGMENT – SEMpra INTERNATIONAL

(Dollars in millions)



Sempra South American Utilities

Our Sempra South American Utilities segment recorded earnings of:

- § \$172 million in 2014
- § \$153 million in 2013
- § \$164 million in 2012

The increase in earnings of \$19 million (12%) in 2014 was primarily due to:

- § \$18 million income tax benefit related to Peru's recent tax reform, offset by \$6 million income tax expense related to Chilean tax reform as we discuss below under "Income Taxes – Tax Reform;"
- § \$12 million higher earnings associated with the relocation of electrical infrastructure projects;
- § \$11 million equity losses in 2013 related to the sale of our investments in two Argentine natural gas utility holding companies; and
- § \$10 million higher earnings from operations mainly due to an increase in volume, primarily from customer growth; **offset by**
- § \$16 million lower earnings from foreign currency effects;
- § \$33 million earnings attributable to noncontrolling interests in 2014 compared to \$28 million in 2013; and
- § \$5 million higher interest expense mainly in Chile related to the inflationary effect on local bonds.

The decrease in earnings of \$11 million (7%) in 2013 compared to 2012 was primarily due to:

- § \$11 million equity losses related to our investments in two Argentine natural gas utility holding companies that were sold in 2013; and
- § \$4 million equity losses from our joint venture in Chile in 2013 resulting from a forward exchange contract to manage foreign currency exchange rate risk; **offset by**
- § \$4 million lower income tax expense from an unfavorable resolution of prior years' tax matters in 2012.

Sempra Mexico

Sempra Mexico recorded earnings of:

- § \$192 million in 2014
- § \$122 million in 2013
- § \$157 million in 2012

The increase in earnings of \$70 million (57%) in 2014 was primarily due to:

- § \$30 million favorable impact (\$29 million benefit in 2014 and \$1 million expense in 2013) primarily due to the effects on tax-related balances from foreign currency and inflation;
- § \$24 million higher earnings from operations mainly due to prior year's scheduled major maintenance and improved results at our Mexicali power plant, and start of operations of a section of the Sonora pipeline;
- § \$24 million higher AFUDC in 2014 related to equity associated with construction of the natural gas pipeline in Sonora;
- § \$14 million gain from the sale of a 50-percent equity interest in the first phase of the Energía Sierra Juárez wind project in July 2014; and

§ \$13 million income tax expense in 2013 due to Mexican tax reform; **offset by**

§ \$47 million earnings attributable to noncontrolling interests at IEnova in 2014 compared to \$26 million in 2013; and

§ \$15 million unfavorable translation effect primarily on Peso-denominated receivables.

The decrease of \$35 million (22%) in 2013 compared to 2012 was primarily due to:

§ \$26 million decrease in Sempra Mexico's earnings for earnings attributable to noncontrolling interests at IEnova following its stock offerings in March 2013;

§ \$13 million increase in deferred income tax liability due to Mexico income tax law enacted in the fourth quarter of 2013 and effective January 1, 2014, as we discuss below in "Income Taxes;"

§ \$10 million lower earnings mainly due to administrative expenses related to the new IEnova public company structure, scheduled plant maintenance at our Mexicali power plant in 2013, and the net impact of changes in affiliate agreements;

§ \$7 million negative translation effect primarily on Peso-denominated tax receivables; and

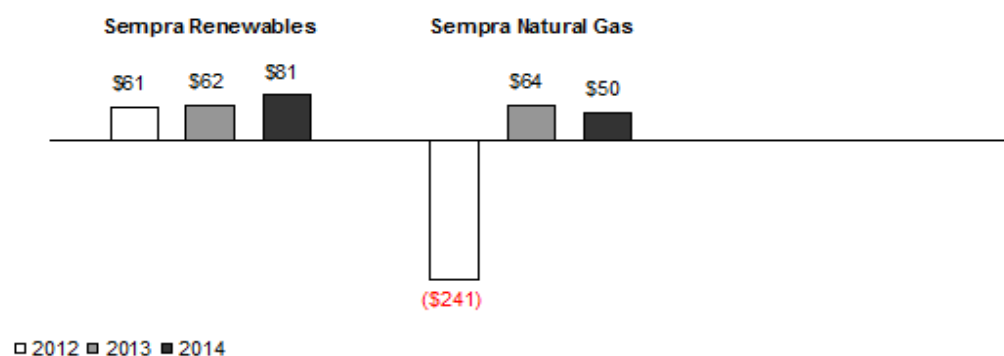
§ \$6 million higher interest expense, including interest associated with the IEnova debt offering in February 2013; **offset by**

§ \$19 million AFUDC related to equity associated with construction of the natural gas pipeline in Sonora; and

§ \$7 million lower income tax expense, including the favorable impact of Mexican currency inflation and translation adjustments in 2013 compared to 2012.

EARNINGS (LOSSES) BY SEGMENT – SEMPRA U.S. GAS & POWER

(Dollars in millions)



Sempra Renewables

Sempra Renewables recorded earnings of:

§ \$81 million in 2014

§ \$62 million in 2013

§ \$61 million in 2012

The increase in earnings of \$19 million (31%) in 2014 was primarily due to:

§ \$24 million gains in 2014 from the sale of 50-percent equity interests in Copper Mountain Solar 3 and Broken Bow 2 Wind; and

§ \$19 million higher deferred income tax benefits, including the benefits of projects placed in service in 2014 and a \$5 million reduction of benefits in 2013 as a result of U.S. Treasury grant sequestration; **offset by**

§ \$24 million gains in 2013 from the sale of 50-percent equity interests in Mesquite Solar 1 and Copper Mountain Solar 2.

The increase in earnings of \$1 million (2%) in 2013 compared to 2012 was primarily due to:

§ \$24 million gains in 2013 from the sale of 50-percent equity interests in Mesquite Solar 1 and Copper Mountain Solar 2;

§ \$16 million higher earnings attributable to our wind assets; and

§ \$13 million higher earnings from our solar assets, including \$6 million from interest rate hedges; **offset by**

§ \$50 million lower deferred income tax benefits, including \$5 million decrease from U.S. Treasury grant sequestration in 2013, as a result of solar and wind generating assets placed in service in 2012.

Sempra Natural Gas

Sempra Natural Gas recorded earnings (losses) of:

- § \$50 million in 2014
- § \$64 million in 2013
- § \$(241) million in 2012

The decrease in earnings of \$14 million (22%) in 2014 was primarily due to:

- § \$44 million gain in 2013 on the sale of a 625-MW block of its Mesquite Power plant, net of related expenses; and
- § \$15 million lower results from gas storage operations and natural gas marketing activities; **offset by**
- § \$25 million tax benefit due to the release in 2014 of a Louisiana valuation allowance against a deferred tax asset associated with Cameron LNG developments;
- § \$10 million lower operating costs at the Mesquite Power plant, primarily depreciation due to the classification of the remaining 625-MW block as an asset held for sale; and
- § \$9 million higher net intercompany interest income.

The change in 2013 compared to 2012 was primarily due to:

- § \$239 million write-down of our investment in Rockies Express in 2012;
- § \$44 million gain in 2013 on the sale of a 625-MW block of the Mesquite Power plant, net of related expenses;
- § \$41 million higher earnings from LNG operations, primarily due to lower of cost or market adjustments in 2012 associated with the timing of cargoes, the impact of higher natural gas prices on marketing operations and lower costs resulting from commercial arrangements entered into with affiliates;
- § \$11 million lower interest expense and operating costs at the Mesquite Power plant due to the sale of one block of the plant in the first quarter of 2013; and
- § \$10 million improved results at our marketing and storage operations primarily driven by sales of natural gas in 2013; **offset by**
- § a \$25 million payment received from Kinder Morgan in 2012 due to tax impacts related to the sale of their interest in Rockies Express; and
- § \$12 million lower earnings due to capacity release contracts related to Rockies Express that expired in 2013.

Parent and Other

Losses for Parent and Other were

- § \$173 million in 2014
- § \$168 million in 2013
- § \$55 million in 2012

The increase in losses of \$5 million (3%) in 2014 was primarily due to:

- § \$38 million income tax expense in 2014 from the repatriation of current year foreign earnings;
- § \$9 million lower investment net gains on dedicated assets in support of our executive retirement and deferred compensation plans;
- § \$9 million higher net interest expense; and
- § \$8 million lower income tax benefits in 2014, excluding income tax items discussed separately; **offset by**
- § \$63 million income tax expense in 2013 resulting from a corporate reorganization in connection with the IEnova stock offerings.

The increase in losses of \$113 million in 2013 compared to 2012 was primarily due to:

- § \$63 million income tax expense resulting from a corporate reorganization in connection with the IEnova stock offerings;

§ \$54 million income tax benefit in 2012 primarily associated with our decision to hold life insurance contracts kept in support of certain benefit plans to term, as we discuss below in “Income Taxes;” and

§ \$42 million higher net interest expense primarily due to lower intercompany interest income from a debt restructuring at Sempra Natural Gas and increased borrowings from Sempra Renewables; **offset by**

§ \$42 million higher income tax benefits, excluding income tax items discussed above, primarily due to higher favorable resolution of prior years’ income tax issues and the timing of a change in tax law. We discuss this law, the American Taxpayer Relief Act of 2012, in “Income Taxes” below.

CHANGES IN REVENUES, COSTS AND EARNINGS

This section contains a discussion of the differences between periods in the specific line items of the Consolidated Statements of Operations for Sempra Energy, SDG&E and SoCalGas.

Utilities Revenues

Our utilities revenues include

Natural gas revenues at:

§ SDG&E

§ SoCalGas

§ Sempra Mexico’s Ecogas México, S. de R.L. de C.V. (Ecogas)

§ Sempra Natural Gas’ Mobile Gas Service Corporation (Mobile Gas) and Willmut Gas Company (Willmut Gas)

Electric revenues at:

§ SDG&E

§ Sempra South American Utilities’ Chilquinta Energía and Luz del Sur

Intercompany revenues included in the separate revenues of each utility are eliminated in the Sempra Energy Consolidated Statements of Operations.

The California Utilities

The current regulatory framework for SoCalGas and SDG&E permits the cost of natural gas purchased for core customers (primarily residential and small commercial and industrial customers) to be passed through to customers in rates substantially as incurred. However, SoCalGas’ gas cost incentive mechanism provides SoCalGas the opportunity to share in the savings and/or costs from buying natural gas for its core customers at prices below or above monthly market-based benchmarks. This mechanism permits full recovery of costs incurred when average purchase costs are within a price range around the benchmark price. Any higher costs incurred or savings realized outside this range are shared between the core customers and SoCalGas. We provide further discussion in Notes 1 and 14 of the Notes to Consolidated Financial Statements.

The regulatory framework also permits SDG&E to recover the actual cost incurred to generate or procure electricity based on annual estimates of the cost of electricity supplied to customers. The differences in cost between estimates and actual are recovered in the next year through rates.

The table below summarizes revenues and cost of sales for our utilities, net of intercompany activity:

UTILITIES REVENUES AND COST OF SALES 2012-2014

(Dollars in millions)

	Years ended December 31,		
	2014	2013	2012
Electric revenues:			
SDG&E	\$ 3,785	\$ 3,537	\$ 3,226
Sempra South American Utilities	1,434	1,383	1,349
Eliminations and adjustments	(10)	(9)	(7)
Total	5,209	4,911	4,568
Natural gas revenues:			
SoCalGas	3,855	3,736	3,282
SDG&E	544	529	468
Sempra Mexico	109	97	75
Sempra Natural Gas	113	109	96
Eliminations and adjustments	(72)	(73)	(48)
Total	4,549	4,398	3,873
Total utilities revenues	\$ 9,758	\$ 9,309	\$ 8,441
Cost of electric fuel and purchased power:			
SDG&E	\$ 1,309	\$ 1,019	\$ 892
Sempra South American Utilities	972	913	868

Total	\$	2,281	\$	1,932	\$	1,760
Cost of natural gas:						
SoCalGas	\$	1,449	\$	1,362	\$	1,074
SDG&E		208		204		151
Sempra Mexico		74		63		45
Sempra Natural Gas		44		35		25
Eliminations and adjustments		(17)		(18)		(5)
Total	\$	1,758	\$	1,646	\$	1,290

Sempra Energy Consolidated

Electric Revenues

Our electric revenues increased by \$298 million (6%) to \$5.2 billion in 2014 primarily due to:

§ \$248 million increase at SDG&E, including:

- \$290 million increase in cost of electric fuel and purchased power, which we discuss below,
- \$39 million increase in authorized revenues from 2014 attrition, and
- \$32 million higher authorized revenues from electric transmission, *offset by*
- \$61 million favorable impact on 2013 revenues from the retroactive application of the 2012 GRC decision for the period from January 2012 through December 2012, and
- \$47 million lower recovery of costs associated with CPUC-authorized refundable programs, which revenues are fully offset in operation and maintenance expenses; and

§ \$51 million increase at our South American utilities primarily due to higher rates and volumes at both Luz del Sur and Chilquinta Energía, offset by foreign currency exchange rate effects.

In 2013 compared to 2012, our electric revenues increased by \$343 million (8%) to \$4.9 billion primarily due to:

§ \$311 million increase at SDG&E, including:

- \$140 million higher authorized revenues from electric transmission,
- \$127 million increase in cost of electric fuel and purchased power, which we discuss below,
- \$94 million higher authorized revenue from implementation of the 2012 GRC decision and 2013 attrition. Due to the delay in the issuance of the 2012 GRC decision by the CPUC, 2012 authorized revenue was essentially unchanged from the 2011 authorized revenue, and
- \$61 million increase due to the retroactive application in 2013 of the 2012 GRC decision for the period from January 2012 through December 2012, *offset by*
- \$40 million lower recovery of costs associated with CPUC-authorized refundable programs, which revenues are fully offset in operation and maintenance expenses,
- \$33 million loss of revenue from SONGS due to the early closure of the plant, and
- \$30 million lower CPUC-authorized rate of return established in the CPUC cost of capital proceeding effective as of January 1, 2013; and

§ \$34 million increase at our South American utilities primarily due to higher volumes, net of foreign currency exchange rate effects.

Our utilities' cost of electric fuel and purchased power increased by \$349 million (18%) to \$2.3 billion in 2014 primarily due to:

§ \$290 million increase at SDG&E, which we discuss below; and

§ \$59 million increase at our South American utilities driven primarily by higher rates and volumes at both Luz del Sur and Chilquinta Energía, offset by foreign currency exchange rate effects.

Our utilities' cost of electric fuel and purchased power increased by \$172 million (10%) to \$1.9 billion in 2013 compared to 2012 primarily due to:

§ \$127 million increase in SDG&E's cost of electric fuel and purchased power primarily due to the incremental cost and purchases of renewable energy, and increased cost of other purchased power primarily due to higher power prices, slightly offset by lower demand driven by an overall cooler summer in 2013 compared to 2012; and

§ \$45 million increase at our South American utilities driven primarily by higher volumes and higher costs of purchased power, net of foreign currency exchange rate effects.

We discuss the changes in electric revenues and the cost of electric fuel and purchased power for SDG&E in more detail below.

Natural Gas Revenues

In 2014, Sempra Energy's natural gas revenues increased by \$151 million (3%) to \$4.5 billion, and the cost of natural gas increased by \$112 million (7%) to \$1.8 billion. The increase in natural gas revenues included

- § increases in cost of natural gas sold at both SoCalGas and SDG&E, as we discuss below;
- § increases of \$52 million and \$8 million at SoCalGas and SDG&E, respectively, in authorized revenues from 2014 attrition; and
- § \$30 million higher revenues from the advanced metering infrastructure project at SoCalGas; **offset by**
- § \$30 million favorable impact on the California Utilities' 2013 revenues from the retroactive application of the 2012 GRC decision, recorded in the second quarter of 2013, for the period from January 2012 through December 2012; and
- § \$18 million lower recovery of costs at SoCalGas associated with CPUC-authorized refundable programs, which revenues are fully offset in operation and maintenance expenses.

In 2013 compared to 2012, Sempra Energy's natural gas revenues increased by \$525 million (14%) to \$4.4 billion, and the cost of natural gas increased by \$356 million (28%) to \$1.6 billion. The increase in natural gas revenues included

- § an increase in cost of natural gas sold at both SoCalGas and SDG&E, as we discuss below;
- § increases of \$64 million and \$20 million at SoCalGas and SDG&E, respectively, primarily due to higher authorized revenues from implementation of the 2012 GRC decision and 2013 attrition. Due to the delay in the issuance of the 2012 GRC decision by the CPUC, 2012 authorized revenue was essentially unchanged from the 2011 authorized revenue;
- § higher recovery of costs at SoCalGas associated with CPUC-authorized refundable programs, which revenues are fully offset in operation and maintenance expenses; and
- § \$30 million increase due to the retroactive application in 2013 of the 2012 GRC decision for the period from January 2012 through December 2012.

We discuss the changes in revenues and cost of natural gas individually for SDG&E and SoCalGas below.

SDG&E: Electric Revenues and Cost of Electric Fuel and Purchased Power

The table below shows electric revenues for SDG&E. Because the cost of electricity is substantially recovered in rates, changes in the cost are reflected in the changes in revenues. In addition to the change in cost, electric revenues recorded during a period are impacted by customer billing cycles causing a difference between customer billings and recorded or authorized costs. These differences are required to be balanced over time, resulting in over- and undercollected regulatory balancing accounts. We discuss balancing accounts and their effects further in Note 1 of the Notes to Consolidated Financial Statements.

SDG&E

ELECTRIC DISTRIBUTION AND TRANSMISSION 2012-2014

(Volumes in millions of kilowatt-hours, dollars in millions)

Customer class	Years ended December 31,					
	2014		2013		2012	
	Volumes	Revenue	Volumes	Revenue	Volumes	Revenue
Residential	7,338	\$ 1,370	7,392	\$ 1,283	7,587	\$ 1,242
Commercial	6,974	1,418	6,722	1,080	6,902	1,017
Industrial	2,067	342	1,962	257	2,042	249
Direct access(1)	3,648	205	3,593	151	3,399	148
Street and highway lighting	88	15	87	12	95	13
	20,115	3,350	19,756	2,783	20,025	2,669
CAISO shared transmission revenue - net(2)		162		268		64
Other revenues		205		172		134
Balancing accounts		68		314		359
Total(3)		\$ 3,785		\$ 3,537		\$ 3,226

- (1) The Direct Access (DA) program, which offered all customers the option to purchase their electric commodity services from a third-party Energy Service Provider (ESP) instead of continuing to receive these services from SDG&E, was implemented in 1998 and suspended in 2001. In 2009, Senate Bill 695 required the CPUC to develop a process and rules for a limited re-opening of DA to be phased in over a period of time. In 2010, the CPUC adopted the process and rules for the limited re-opening of DA for non-residential customers under a 4-year phase-in schedule. The 2013 tranche of non-residential customers switching to DA resulted in higher volumes in 2013. The increase in revenues from the higher volumes was offset by lower tariffs in 2013 compared to 2012. The phase-in program ended in 2013. Tariffs in 2014 increased from 2013.
- (2) California Independent System Operator (CAISO). CAISO shared transmission revenue changes in 2014 are primarily due to timing differences between billed amounts and recorded or authorized costs, which are offset by corresponding changes in balancing accounts. Shared transmission revenue increased in 2013 compared to 2012 due to the Sunrise Powerlink transmission line being placed in service in June 2012.
- (3) Includes sales to affiliates of \$10 million in 2014, \$9 million in 2013 and \$7 million in 2012.

SDG&E's electric revenues increased by \$248 million (7%) to \$3.8 billion in 2014 primarily due to:

- § \$290 million increase in cost of electric fuel and purchased power, including:
 - an increase in purchased power primarily due to the incremental purchase of renewable energy at higher prices, *offset by*
 - a decrease in cost of electric fuel primarily due to planned outages at SDG&E-owned generation facilities;
- § \$39 million increase in authorized revenues from 2014 attrition; and

Total(2)	\$	468
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(1) Lower electric generation plants revenue in 2014 compared to 2013 is due to refunds of previous overcollections to adjust forecasted rates to actual.

(2) Includes sales to affiliates of \$3 million in both 2014 and 2013 and \$2 million in 2012.

In 2014, SDG&E's natural gas revenues increased by \$15 million (3%) to \$544 million, and the cost of natural gas increased by \$4 million (2%) to \$208 million. The increase in revenues was primarily due to:

§ higher cost of natural gas sold, offset by lower volumes, as we discuss below; and

§ \$8 million increase in authorized revenues from 2014 attrition; **offset by**

§ \$5 million favorable impact from the retroactive application of the 2012 GRC decision, recorded in the second quarter of 2013, for the period from January 2012 through December 2012.

In 2013 compared to 2012, SDG&E's natural gas revenues increased by \$61 million (13%) to \$529 million, and the cost of natural gas increased by \$53 million (35%) to \$204 million. The increase in revenues was primarily due to:

§ higher cost of natural gas sold, as we discuss below;

§ \$20 million higher authorized revenue from implementation of the 2012 GRC decision and 2013 attrition. Due to the delay in the issuance of the 2012 GRC decision by the CPUC, SDG&E's 2012 authorized revenue was essentially unchanged from the 2011 authorized revenue; and

§ \$5 million increase from the retroactive application in 2013 of the 2012 GRC decision for the period from January 2012 through December 2012; **offset by**

§ \$5 million lower recovery of costs associated with CPUC-authorized refundable programs, which revenues are fully offset in operation and maintenance expenses.

SDG&E's average cost of natural gas was \$5.44 per thousand cubic feet (Mcf) for 2014, \$4.49 per Mcf for 2013 and \$3.62 per Mcf for 2012. In 2014, the 21-percent increase of \$0.95 per Mcf resulted in higher revenues and cost of \$36 million compared to 2013. The increase in the cost of natural gas sold was offset by lower demand for natural gas primarily from a warmer winter in 2014 compared to the same period in 2013, which resulted in lower revenues and cost of \$32 million.

In 2013, the 24-percent increase of \$0.87 per Mcf resulted in higher revenues and cost of \$40 million compared to 2012.

SOCALGAS NATURAL GAS SALES AND TRANSPORTATION 2012-2014

(Volumes in billion cubic feet, dollars in millions)

Customer class	Natural Gas Sales		Transportation		Total	
	Volumes	Revenue	Volumes	Revenue	Volumes	Revenue
2014:						
Residential	195	\$ 2,170	3	\$ 16	198	\$ 2,186
Commercial and industrial	92	743	293	260	385	1,003
Electric generation plants	—	—	211	42	211	42
Wholesale	—	—	150	24	150	24
	287	\$ 2,913	657	\$ 342	944	3,255
Other revenues						103
Balancing accounts						497
Total(1)						\$ 3,855
2013:						
Residential	234	\$ 2,204	2	\$ 8	236	\$ 2,212
Commercial and industrial	100	691	293	242	393	933
Electric generation plants	—	—	200	44	200	44
Wholesale	—	—	170	27	170	27
	334	\$ 2,895	665	\$ 321	999	3,216
Other revenues						101
Balancing accounts						419
Total(1)						\$ 3,736
2012:						
Residential	234	\$ 1,963	2	\$ 8	236	\$ 1,971
Commercial and industrial	101	608	283	240	384	848
Electric generation plants	—	—	231	39	231	39
Wholesale	—	—	175	24	175	24
	335	\$ 2,571	691	\$ 311	1,026	2,882
Other revenues						91
Balancing accounts						309
Total(1)						\$ 3,282

(1) Includes sales to affiliates of \$69 million in 2014, \$70 million in 2013 and \$46 million in 2012.

In 2014, SoCalGas' natural gas revenues increased by \$119 million (3%) to \$3.9 billion, and the cost of natural gas increased by \$87 million (6%) to \$1.4 billion. The revenue increase included

§ an increase in the market price of natural gas purchased, offset by lower volumes, as we discuss below;

§ \$52 million increase in authorized revenues from 2014 attrition; and

§ \$30 million higher revenues from the advanced metering infrastructure project; **offset by**

§ \$25 million favorable impact from the retroactive application of the 2012 GRC decision, recorded in the second quarter of 2013, for the period from January 2012 through December 2012; and

§ \$18 million lower recovery of costs associated with CPUC-authorized refundable programs, which revenues are fully offset in operation and maintenance expenses.

In 2013 compared to 2012, SoCalGas' natural gas revenues increased by \$454 million (14%) to \$3.7 billion, and the cost of natural gas increased by \$288 million (27%) to \$1.4 billion. The revenue increase included

§ an increase in cost of natural gas sold from higher natural gas prices, as we discuss below;

§ \$76 million higher recovery of costs associated with CPUC-authorized refundable programs, which revenues are fully offset in operation and maintenance expenses;

§ \$64 million increase primarily due to higher authorized revenue from implementation of the 2012 GRC decision and 2013 attrition. Due to the delay in the issuance of the 2012 GRC decision by the CPUC, SoCalGas' 2012 authorized revenue was essentially unchanged from the 2011 authorized revenue; and

§ \$25 million increase due to the retroactive application in 2013 of the 2012 GRC decision for the period from January 2012 through December 2012.

SoCalGas' average cost of natural gas was \$5.06 per Mcf for 2014, \$4.08 per Mcf for 2013 and \$3.21 per Mcf for 2012. In 2014, the 24-percent increase of \$0.98 per Mcf resulted in higher revenues and cost of \$280 million compared to 2013. The increase in the average cost of natural gas sold was offset by lower demand for natural gas primarily from a warmer winter in 2014 compared to the same period in 2013, which resulted in lower revenues and cost of \$193 million.

In 2013, the 27-percent increase of \$0.87 per Mcf resulted in higher revenues and cost of \$291 million compared to 2012.

Other Utilities: Revenues and Cost of Sales

Revenues generated by Chilquinta Energía and Luz del Sur are based on tariffs that are set by government agencies in their respective countries based on an efficient model distribution company defined by those agencies. The basis for the tariffs do not meet the requirement necessary for treatment under applicable U.S. GAAP for regulatory accounting. We discuss revenue recognition further for Chilquinta Energía and Luz del Sur in Note 1 of the Notes to Consolidated Financial Statements.

Operations of Mobile Gas, Willmut Gas and Ecogas qualify for regulatory accounting treatment under applicable U.S. GAAP, similar to the California Utilities.

The table below summarizes natural gas and electric revenue for our utilities outside of California:

OTHER UTILITIES NATURAL GAS AND ELECTRIC REVENUES 2012-2014 (Dollars in millions)						
	Years ended December 31,					
	2014		2013		2012	
	Volumes	Revenue	Volumes	Revenue	Volumes	Revenue
Natural Gas Sales (billion cubic feet):						
Sempra Mexico - Ecogas	24	\$ 109	24	\$ 97	23	\$ 75
Sempra Natural Gas:						
Mobile Gas	38	89	40	88	43	86
Willmut Gas(1)	3	24	3	21	1	10
Total	65	\$ 222	67	\$ 206	67	\$ 171
Electric Sales (million kilowatt hours):						
Sempra South American Utilities:						
Luz del Sur	7,287	\$ 854	6,984	\$ 785	6,668	\$ 759
Chilquinta Energía	2,944	530	2,856	537	2,698	533
	10,231	1,384	9,840	1,322	9,366	1,292
Other service revenues		50		61		57
Total		\$ 1,434		\$ 1,383		\$ 1,349

(1) We acquired Willmut Gas in May 2012.

Energy-Related Businesses: Revenues and Cost of Sales

The table below shows revenues and cost of sales for our energy-related businesses.

ENERGY-RELATED BUSINESSES: REVENUES AND COST OF SALES 2012-2014 (Dollars in millions)

	2014		2013		2012	
REVENUES						
Sempra South American Utilities	\$ 100	8%	\$ 112	9%	\$ 92	8%
Sempra Mexico	709	55	578	46	530	44
Sempra Renewables	35	3	82	7	68	6
Sempra Natural Gas	866	68	799	64	835	69
Intersegment revenues, adjustments and eliminations(1)	(433)	(34)	(323)	(26)	(319)	(27)
Total revenues	\$ 1,277	100%	\$ 1,248	100%	\$ 1,206	100%
COST OF SALES(2)						
Sempra South American Utilities	\$ 11	2%	\$ —	—%	\$ —	—%
Sempra Mexico	350	63	253	58	197	41
Sempra Renewables	—	—	3	1	3	—
Sempra Natural Gas	617	112	497	114	581	121
Adjustments and eliminations(1)	(426)	(77)	(318)	(73)	(300)	(62)
Total cost of natural gas, electric fuel and purchased power	\$ 552	100%	\$ 435	100%	\$ 481	100%
Sempra South American Utilities	\$ 68	42%	\$ 84	47%	\$ 66	41%
Sempra Mexico	14	8	10	6	21	13
Sempra Natural Gas	89	55	91	51	90	57
Adjustments and eliminations(1)	(8)	(5)	(7)	(4)	(18)	(11)
Total other cost of sales	\$ 163	100%	\$ 178	100%	\$ 159	100%

(1) Includes eliminations of intercompany activity.

(2) Excludes depreciation and amortization, which are shown separately on the Consolidated Statements of Operations.

Revenues from our energy-related businesses increased by \$29 million (2%) to \$1.3 billion in 2014. The increase included

- § \$131 million higher revenues at Sempra Mexico primarily due to higher natural gas and power prices and volumes, and higher transportation revenues from the start of operations of a section of the Sonora natural gas pipeline; and
- § \$67 million increase at Sempra Natural Gas mainly from the favorable impact of higher natural gas prices and volumes in 2014 from its LNG marketing operations, offset by lower revenues from its natural gas marketing activities; **offset by**
- § \$110 million higher intercompany eliminations primarily associated with sales between Sempra Natural Gas and Sempra Mexico; and
- § \$47 million lower revenues at Sempra Renewables mainly due to the deconsolidation of Mesquite Solar 1 and Copper Mountain Solar 2 in 2013.

In 2013 compared to 2012, revenues from our energy-related businesses increased by \$42 million (3%) to \$1.2 billion in 2013. The increase included

- § \$48 million increase at Sempra Mexico primarily due to higher natural gas and power prices, partially offset by the net impact of changes in affiliate agreements;
- § \$20 million increase at Sempra South American Utilities primarily due to higher electric construction service and energy distribution revenues at Tecnoed; and
- § \$14 million increase at Sempra Renewables mainly from revenues generated by our solar assets placed in service during 2012; **offset by**
- § \$36 million decrease at Sempra Natural Gas primarily due to lower power production at Mesquite Power, a portion of which was due to the sale of one 625-MW block of the natural gas-fired power plant, and expiring capacity release contracts related to Rockies Express, offset by higher physical gas sales at natural gas marketing and storage operations, and the impact of higher natural gas prices on LNG marketing operations.

The cost of natural gas, electric fuel and purchased power for our energy-related businesses increased by \$117 million (27%) to \$552 million in 2014 primarily due to:

- § \$120 million increase at Sempra Natural Gas primarily due to higher natural gas costs and volumes; and
- § \$97 million increase at Sempra Mexico primarily due to higher natural gas costs and volumes; **offset by**
- § \$108 million higher intercompany eliminations of costs primarily associated with sales between Sempra Natural Gas and Sempra Mexico.

The cost of natural gas, electric fuel and purchased power for our energy-related businesses decreased by \$46 million (10%) to \$435 million in 2013 compared to 2012 primarily due to:

- § \$84 million decrease at Sempra Natural Gas primarily due to lower natural gas costs as a result of lower power production at Mesquite Power, as discussed above, and a decrease at its LNG operations primarily due to lower natural gas sales and lower costs resulting from commercial arrangements entered into with affiliates; **offset by**
- § \$56 million increase at Sempra Mexico primarily due to higher natural gas prices and costs associated with greenhouse gas allowances.

In 2013 compared to 2012, other cost of sales from our energy-related businesses increased by \$19 million (12%) to \$178 million primarily due to costs associated with higher service revenues at Tecnoed and Tecsur, including those related to electric construction and generation projects.

Operation and Maintenance

In the table below, we provide a breakdown of our operation and maintenance expenses by segment.

OPERATION AND MAINTENANCE 2012-2014

(Dollars in millions)

	Years ended December 31,								
	2014		2013		2012				
California Utilities:									
SDG&E	\$	1,076	37%	\$	1,157	39%	\$	1,154	39%
SoCalGas		1,321	45		1,324	44		1,304	44
Sempra International:									
Sempra South American Utilities		173	6		170	6		177	6
Sempra Mexico		121	4		124	4		94	3
Sempra U.S. Gas & Power:									
Sempra Renewables		50	2		46	1		34	1
Sempra Natural Gas		181	6		167	6		168	6
Parent and other(1)		13	—		7	—		25	1
Total operation and maintenance	\$	2,935	100%	\$	2,995	100%	\$	2,956	100%

(1) Includes intercompany eliminations recorded in consolidation.

Sempra Energy Consolidated

Our operation and maintenance expenses decreased by \$60 million (2%) to \$2.9 billion in 2014 primarily due to:

- § \$81 million decrease at SDG&E, which we discuss below; and
- § \$3 million decrease at SoCalGas, which we discuss below; **offset by**
- § \$14 million increase at Sempra Natural Gas primarily due to higher operating expenses at its LNG operations.

While our operation and maintenance expenses remained approximately the same at \$3.0 billion in 2013 compared to 2012, it included the following activities:

- § \$30 million higher expenses at Sempra Mexico mainly due to higher administrative expenses from the new IEnova public company structure and scheduled plant maintenance at the Mexicali power plant in 2013;
- § \$20 million increase at SoCalGas, which we discuss below; and
- § \$12 million increase at Sempra Renewables primarily due to higher corporate allocations, land lease costs for Copper Mountain Solar 3, and operating expenses of Copper Mountain Solar 2 and Mesquite Solar 1 prior to the projects' deconsolidation in the third quarter of 2013; **offset by**
- § \$18 million decrease at Parent and Other mainly due to higher eliminations of intersegment operating costs.

SDG&E

SDG&E's operation and maintenance expenses decreased by \$81 million (7%) to \$1.1 billion in 2014 primarily due to:

- § \$44 million lower expenses associated with CPUC-authorized refundable programs, including \$61 million due to lower operation and maintenance expenses at SONGS, for which all costs incurred are fully recovered in revenue (refundable program expenses);
- § \$23 million lower operation and maintenance costs, including labor, contract services and administrative and support costs (non-refundable operating costs); and
- § \$8 million lower legal costs.

SDG&E's operation and maintenance expenses remained approximately the same at \$1.2 billion in 2013 compared to 2012 and included the following activities:

- § \$36 million higher non-refundable operating costs, including:
 - \$10 million recovery from the DOE in 2012 of incremental costs incurred in prior years for the long-term storage of spent nuclear fuel, and
 - \$4 million increase in liability insurance premiums for wildfire coverage in 2013;
- § \$7 million higher legal costs; and
- § \$5 million higher operation and maintenance expenses at Otay Mesa VIE; **offset by**
- § \$45 million lower refundable program expenses.

SoCalGas

Operation and maintenance expenses at SoCalGas decreased in 2014 by \$3 million, remaining at \$1.3 billion, primarily due to:

§ \$18 million lower expenses associated with CPUC-authorized refundable programs for which all costs incurred are fully recovered in revenue (refundable program expenses); **offset by**

§ \$9 million higher operation and maintenance costs, including labor, contract services and administrative and support costs (non-refundable operating costs); and

§ \$7 million insurance recovery in 2013 of previously expensed costs.

SoCalGas' operation and maintenance expenses increased by \$20 million (2%) to \$1.3 billion in 2013 compared to 2012 primarily due to:

§ \$76 million higher refundable program expenses; **offset by**

§ \$49 million lower non-refundable operating costs; and

§ \$7 million insurance recovery in 2013 of previously expensed costs.

Depreciation and Amortization

Sempra Energy Consolidated

Our depreciation and amortization expense was

§ \$1,156 million in 2014

§ \$1,113 million in 2013

§ \$1,090 million in 2012

The increase of \$43 million (4%) in 2014 was primarily due to:

§ \$33 million higher depreciation and amortization at SoCalGas from higher utility plant base;

§ \$18 million net increase in depreciation and amortization at SDG&E mainly from higher utility plant base, offset by lower depreciation from the retirement of SONGS; and

§ lower depreciation and amortization in 2013 of \$18 million at SDG&E and \$15 million at SoCalGas due to the retroactive application to the period of January 1 to December 2012 of the extension of the useful lives of depreciable assets as adopted in the 2012 GRC; **offset by**

§ \$16 million lower depreciation at Sempra Renewables mainly related to the deconsolidation of Mesquite Solar 1 and Copper Mountain Solar 2 in 2013; and

§ \$20 million lower depreciation expense at Sempra Natural Gas largely due to the classification of the second block of the Mesquite Power plant as an asset held for sale in January 2014.

The increase of \$23 million (2%) in 2013 compared to 2012 included

§ \$36 million higher depreciation and amortization at SoCalGas from higher utility plant base; and

§ \$22 million net increase in depreciation and amortization at SDG&E mainly from Sunrise Powerlink going into service in June 2012 and higher amortization of legacy meters, offset by lower depreciation from the retirement of SONGS; **offset by**

§ lower depreciation and amortization of \$18 million at SDG&E and \$15 million at SoCalGas due to the retroactive application to the period of January 1 to December 2012 of the extension of the useful lives of depreciable assets as adopted in the 2012 GRC; and

§ \$12 million lower depreciation expense at Sempra Natural Gas largely due to the sale of one block of the Mesquite Power plant in February 2013.

Plant Closure Loss

SDG&E has a 20-percent ownership interest in SONGS, a nuclear generating facility near San Clemente, California. SONGS' Units 2 and 3 were shut down in early 2012 due to steam generator issues and, in June 2013, Edison, the majority owner and operator of SONGS, made the decision to permanently retire these two units. In the second quarter of 2013, SDG&E recorded a pretax charge of \$200 million (\$119 million after-tax), which represents the portion of SDG&E's investment in SONGS and associated costs that management estimated may not be recovered in rates based on prior CPUC precedent. In 2014, SDG&E recorded a \$6 million charge (\$4 million after-tax, not including a \$17 million charge to reduce certain tax regulatory assets that we discuss in "Income Taxes" below) to adjust the total loss from plant closure (in addition to the amount recorded in 2013), based on a settlement agreement (approved by the CPUC in November 2014) to the SONGS OII into the SONGS Outage. We discuss SONGS further in Notes 13 and 15 of the Notes to Consolidated Financial Statements.

Gain on Sale of Equity Interests and Assets

Gain on sale of equity interests and assets in 2013 included the \$74 million gain (\$44 million after-tax) from the sale of one 625-MW block of the Mesquite Power natural gas-fired power plant.

Also included in this line item are gains on the sale of 50-percent equity interests in 2014 and 2013 as follows:

2014:

- § \$27 million (\$16 million after-tax) for Copper Mountain Solar 3
- § \$19 million (\$14 million after-tax) for the first phase of the Energía Sierra Juárez Wind project
- § \$14 million (\$8 million after-tax) for the Broken Bow 2 Wind project

2013:

- § \$36 million (\$22 million after-tax) for Mesquite Solar 1
- § \$4 million (\$2 million after-tax) for Copper Mountain Solar 2

Equity Earnings (Losses), Before Income Tax

Equity earnings (losses) from our equity method investments were

- § \$81 million in 2014
- § \$31 million in 2013
- § \$(319) million in 2012

The increase in equity earnings in 2014 was primarily due to:

- § \$20 million equity earnings in 2014 compared to \$12 million equity losses in 2013 from investments at Sempra Renewables, including Mesquite Solar 1, the California solar partnership, Fowler Ridge 2 Wind and Copper Mountain Solar 2; and
- § \$13 million higher equity earnings from Rockies Express.

Equity losses in 2012 included a write-down of our investment in Rockies Express of \$400 million, offset by a \$41 million make-whole income tax provision payment received from our previous joint venture partner, Kinder Morgan.

We provide further details about equity method investments in Note 4 and the impairment of our investment in Rockies Express in Note 10 of the Notes to Consolidated Financial Statements.

Other Income, Net

Sempra Energy Consolidated

Other income, net, was

- § \$137 million in 2014
- § \$140 million in 2013
- § \$172 million in 2012

Other income, net, includes equity-related AFUDC at the California Utilities and regulated entities at Sempra Mexico and Sempra Natural Gas; interest on regulatory balancing accounts; gains and losses from our investments and interest rate swaps; foreign currency gains and losses; electrical infrastructure relocation income in Peru; and other, sundry amounts. The investment activity is on dedicated assets in support of certain executive benefit plans, as we discuss in Note 7 of the Notes to Consolidated Financial Statements.

Other income, net, decreased by \$3 million (2%) to \$137 million in 2014 and included the following activity:

- § \$15 million losses on interest rate and foreign exchange instruments in 2014 compared to \$17 million gains in 2013;
- § \$12 million higher foreign currency losses, primarily at Sempra Mexico; and
- § \$12 million lower investment gains on dedicated assets in support of our executive retirement and deferred compensation plans; **offset by**
- § \$31 million increase in equity-related AFUDC, including:
 - \$24 million increase at Sempra Mexico related to construction of the Sonora natural gas pipeline, and

□ \$9 million increase at SoCalGas; and

§ \$17 million higher income from relocation of electrical infrastructure in Peru.

In 2013 compared to 2012, other income, net, decreased by \$32 million (19%) to \$140 million primarily due to:

§ \$21 million decrease in equity-related AFUDC, including:

□ \$32 million decrease at SDG&E primarily due to completion of construction on the Sunrise Powerlink project in June 2012, and

□ \$8 million decrease at SoCalGas, *offset by*

□ \$19 million increase at Sempra Mexico related to construction of the Sonora natural gas pipeline; and

§ \$9 million foreign currency gains in 2012.

We provide further details of the components of other income, net, in Note 1 of the Notes to Consolidated Financial Statements.

Interest Expense

The table below shows the interest expense for Sempra Energy Consolidated, SDG&E and SoCalGas.

INTEREST EXPENSE 2012-2014

(Dollars in millions)

	Years ended December 31,					
	2014		2013		2012	
Sempra Energy Consolidated	\$	554	\$	559	\$	493
SDG&E		202		197		173
SoCalGas		69		69		68

Sempra Energy Consolidated

In 2013 compared to 2012, our interest expense increased primarily due to:

§ \$46 million decrease in capitalized interest mainly due to projects placed in service, including: SDG&E's Sunrise Powerlink, which was placed in service in June 2012; Sempra Renewables' wind and solar projects, which went online in the fourth quarter of 2012; and additional capacity at Sempra Natural Gas' Mississippi Hub, LLC (Mississippi Hub) facility, which went online in September 2012; and

§ \$20 million net increase in interest expense primarily related to long-term debt issuances, including:

□ the IEnova debt offering in February 2013,

□ long-term debt issuances in 2012 and 2013 and remarketing of industrial development bonds in 2012 from floating to fixed rates at SDG&E,

□ long-term debt issuances of \$1.6 billion in March and September 2012 and November 2013 at Parent and Other, offset by lower interest expense associated with the maturity of \$650 million of notes in February and November 2013, and

□ project financing of selected projects at Sempra Renewables.

SDG&E

In 2013 compared to 2012, SDG&E's interest expense increased by \$24 million (14%) primarily due to lower AFUDC debt as a result of the Sunrise Powerlink project going into service in June 2012, the issuances of long-term debt in 2012 and 2013 and the remarketing of industrial development bonds from floating to fixed rates in 2012.

Income Taxes

The table below shows the income tax expense and effective income tax rates for Sempra Energy, SDG&E and SoCalGas.

INCOME TAX EXPENSE AND EFFECTIVE INCOME TAX RATES 2012-2014

(Dollars in millions)

	Years ended December 31,								
	2014		2013		2012				
	Income tax expense	Effective income tax rate	Income tax expense	Effective income tax rate	Income tax expense	Effective income tax rate			
Sempra Energy Consolidated	\$	300	20%	\$	366	26%	\$	59	6%
SDG&E		270	34		191	31		190	27
SoCalGas		139	29		116	24		79	21

Sempra Energy Consolidated

Sempra Energy's income tax expense decreased in 2014 due to a lower effective income tax rate, offset by higher pretax income. The lower effective income tax rate was primarily due to:

- § \$63 million income tax expense recorded in the first quarter of 2013 resulting from a corporate reorganization in connection with the IEnova stock offerings. We discuss the stock offerings further in Note 1 of the Notes to Consolidated Financial Statements;
- § higher income tax benefit in 2014 from foreign currency translation and inflation adjustments;
- § a \$25 million tax benefit due to the release in 2014 of a Louisiana valuation allowance against a deferred tax asset associated with Cameron LNG developments; and
- § higher deferred income tax benefits related to renewable energy projects; **offset by**
- § a \$38 million U.S. tax on the repatriation of a portion of current year earnings from certain non-U.S. subsidiaries in Mexico and Peru; and
- § a \$17 million charge to reduce certain tax regulatory assets attributed to SDG&E's investment in SONGS pursuant to a settlement agreement to resolve the SONGS OII that we discuss in Note 13 of the Notes to Consolidated Financial Statements.

Sempra Energy's income tax expense increased in 2013 compared to 2012 due to higher pretax income and a higher effective income tax rate. The higher effective income tax rate was primarily due to:

- § \$63 million income tax expense recorded in the first quarter of 2013 resulting from a corporate reorganization in connection with the IEnova stock offerings;
- § a \$62 million income tax benefit recorded in 2012 for life insurance contracts, of which \$54 million was primarily associated with our decision in the second quarter of 2012 to hold life insurance contracts kept in support of certain benefit plans to term. Previously, we took the position that we might cash in or sell these contracts before maturity, which required that we record deferred income taxes on unrealized gains on investments held within the insurance contracts;
- § lower deferred income tax benefits related to renewable energy projects;
- § lower income tax benefit in 2013 relating to certain repairs expenditures that are capitalized for financial statement purposes, including \$22 million income tax benefit recorded in 2012 for 2011 resulting from a favorable change made in the third quarter of 2012, as we discuss below;
- § lower favorable impact of exclusions from taxable income of the equity portion of AFUDC; and
- § lower deductions for self-developed software expenditures; **offset by**
- § a lower unfavorable impact on our effective tax rate in 2013 from the reversal through book depreciation of previously recognized tax benefits for a certain portion of utility fixed assets; and
- § favorable adjustments to prior years' income tax items in 2013, primarily at SoCalGas.

We use the deferral method of accounting for investment tax credits (ITC). For certain wind and solar generating assets being placed into service during 2012, we elected to seek cash grants rather than ITC for which the projects also qualify. Accordingly, cash grant accounting was applied. Grant accounting for cash grants is very similar to the deferral method of accounting for ITC, the primary difference being the recording of a cash grant receivable instead of an income tax receivable. We discuss our accounting for ITC and cash grants further in Note 6 of the Notes to Consolidated Financial Statements.

The results for Sempra Energy Consolidated and SDG&E include Otay Mesa VIE, which is consolidated, and therefore, Sempra Energy Consolidated's and SDG&E's effective income tax rates are impacted by the VIE's stand-alone effective income tax rate, as we discuss in Note 1 of the Notes to Consolidated Financial Statements. For 2014, 2013 and 2012, the impacts on the Sempra Energy Consolidated and SDG&E effective income tax rates shown above were not material.

We report as part of our pretax results the income or loss attributable to noncontrolling interests. However, we do not record income taxes for a portion of this income or loss, as some of our entities with noncontrolling interests are currently treated as partnerships for income tax purposes and thus we are only liable for income taxes on the portion of the earnings that are allocated to us. As our entities with noncontrolling interests grow, and as we may continue to invest in such entities, the impact on our effective income tax rate may become more significant.

In 2015, we anticipate that Sempra Energy Consolidated's effective income tax rate will be approximately 29 percent compared to 20 percent in 2014. This increase is primarily due to a forecasted increase in pretax book income and because we are not currently anticipating similar significant events as incurred in 2014.

In the years 2016 through 2019, we anticipate that Sempra Energy Consolidated's effective income tax rate will range from 30 percent to 33 percent primarily due to forecasted increases in pretax book income in jurisdictions with higher tax rates, primarily from anticipated commencement of operations at the Cameron LNG Holdings joint venture.

SDG&E

SDG&E's income tax expense increased in 2014 due to a higher effective tax rate and higher pretax income. Pretax income in 2013 included a \$200 million loss from the early closure of SONGS, offset by the favorable impact of the retroactive application of the 2012 GRC in 2013. The higher effective tax rate

was primarily due to:

- § the \$17 million charge to reduce certain tax regulatory assets attributed to SDG&E's investment in SONGS discussed above; **offset by**
- § higher favorable adjustments to prior years' income tax items in 2014.

SDG&E's income tax expense increased in 2013 compared to 2012 due to a higher effective tax rate, offset by lower pretax income. The higher effective tax rate was primarily due to:

- § \$22 million income tax benefit recorded in 2012 for 2011 resulting from a favorable change made in the third quarter of 2012 in the income tax treatment of certain repairs expenditures that are capitalized for book purposes; and
- § lower favorable impact of exclusions from taxable income of the equity portion of AFUDC.

In 2015, we anticipate that SDG&E's effective income tax rate will be approximately 37 percent compared to 34 percent in 2014. This increase is primarily due to a forecasted increase in pretax book income without a proportional increase in the forecasted flow-through deductions. Flow-through deductions are subject to review by the CPUC and, at the CPUC's discretion, the flow-through benefits of these items could be changed, which could have a material adverse impact on Sempra Energy's and SDG&E's earnings, financial condition and cash flow.

In the years 2016 through 2019, we anticipate that SDG&E's effective income tax rate will range from 37 percent to 38 percent.

SoCalGas

SoCalGas' income tax expense increased in 2014 due to a higher effective tax rate, offset by slightly lower pretax income. The higher effective tax rate was primarily due to:

- § \$15 million lower favorable adjustments to prior years' income tax items in 2014;
- § higher unfavorable impact on our effective tax rate in 2014 from the reversal through book depreciation of previously recognized tax benefits for a certain portion of utility fixed assets; and
- § lower deductions for self-developed software expenditures.

SoCalGas' income tax expense increased in 2013 compared to 2012 due to higher pretax income and a higher effective tax rate. The higher effective tax rate was primarily due to:

- § lower income tax benefit in 2013 relating to certain repairs expenditures for gas assets that are capitalized for financial statement purposes; and
- § lower deductions for self-developed software expenditures; **offset by**
- § higher favorable adjustments to prior years' income tax items in 2013.

In 2015, we anticipate that SoCalGas' effective income tax rate will be approximately 31 percent compared to 29 percent in 2014. This increase is primarily due to a forecasted increase in pretax book income without a proportional increase in the forecasted flow-through deductions. Flow-through deductions are subject to review by the CPUC and, at the CPUC's discretion, the flow-through benefits of these items could be changed, which could have a material adverse impact on Sempra Energy's and SoCalGas' earnings, financial condition and cash flow.

In the years 2016 through 2019, we anticipate that SoCalGas' effective income tax rate will range from 31 percent to 33 percent, primarily due to forecasted increases in pretax book income without a proportional increase in the forecasted flow-through deductions.

The following items are subject to flow-through treatment at the California Utilities:

- § repairs expenditures related to a certain portion of utility plant assets
- § the equity portion of AFUDC
- § a portion of the cost of removal of utility plant assets
- § self-developed software expenditures
- § depreciation on a certain portion of utility plant assets

The AFUDC related to equity recorded for regulated construction projects at Sempra Mexico and Sempra Natural Gas has similar flow-through treatment.

Tax Reform

Peru. On December 31, 2014, the Peruvian government passed a tax reform law, effective on January 1, 2015. Among other changes, the new law imposes a gradual decrease in the corporate income tax rate from 30 percent in 2014 to 26 percent in 2019 and beyond, as well as a gradual increase in the dividend withholding tax rate from 4.1 percent in 2014 to 9.3 percent in 2019 and beyond. To reflect the impact of the decrease to the Peruvian corporate income tax rate, we remeasured our Peruvian deferred tax balances, resulting in an additional \$18 million of deferred tax benefit that was recorded in the fourth quarter of 2014. There is no immediate impact of the increase to the Peruvian dividend withholding tax rate, because the withholding tax will be accrued at the shareholder level when Peruvian earnings are actually distributed.

Chile. The 2014 Chilean Tax Reform Bill (Tax Reform Bill) became effective on September 29, 2014. Taxpayers have an option of being taxed under two approaches. For the approach that we intend to select, the corporate income tax rates will increase gradually, between 2014 and 2017, from 21 percent to 27 percent. To reflect the impact of the change in tax law, we remeasured our Chilean deferred tax balances, which resulted in an additional \$6 million of deferred tax expense that was recorded in the third quarter of 2014. The Tax Reform Bill also imposes a tax on earnings distributed to non-Chilean shareholders. However, since Sempra Energy intends to indefinitely reinvest the cumulative Chilean earnings, there is no impact from the Tax Reform Bill's shareholder level income tax.

Mexico. In December 2013, the Mexican Congress passed tax reform legislation with the following impacts on Sempra Energy and our Sempra Mexico segment:

§ **Higher Corporate Tax Rate:** The new corporate income tax rate is 30 percent for 2014 and future years. In 2013, we recorded \$13 million additional income tax expense related to the revaluation of deferred tax liabilities.

§ **Tax Consolidation:** The consolidation rules under the previous income tax law were replaced with new rules under which tax benefits are recaptured in three years instead of five years. However, as a result of the IEnova corporate reorganization, we were required to make a prepayment of approximately \$81 million against future income tax liability in 2014. Of the \$81 million, \$23 million was utilized in 2014. The remaining prepayment expires between 2016 and 2022. We currently believe that we will fully utilize the \$58 million remaining prepayment before it expires.

§ **10-Percent Dividends Tax:** A new "corporate" tax on dividends is payable by the Mexican entity that distributes the dividend to its foreign shareholder, which increased Mexico's income tax rate to an effective 37 percent. Under the law, this tax is reduced or offset in accordance with bilateral tax treaties. The dividends from our Mexican entities to Sempra Energy will be to a country which has a bilateral tax treaty with Mexico that we expect will fully offset the tax. Accordingly, we do not expect this rule to have a material financial impact.

United States. In December 2014, the Tax Increase Prevention Act of 2014 (2014 Tax Act) was signed into law. The 2014 Tax Act included a one-year retroactive extension of certain business income tax provisions that had expired at the end of 2013, including 50 percent bonus depreciation and the research credit. The effects of these changes in the tax law have resulted in a tax benefit for the research credit. The impact of bonus depreciation is discussed below.

In January 2013, the American Taxpayer Relief Act of 2012 (2012 Tax Act) was signed into law. The 2012 Tax Act included retroactive extensions from January 1, 2012 through December 31, 2013 of certain business income tax provisions that had expired at the end of 2011, including the look-through rule. The look-through rule allows, under certain situations, for certain non-operating income (e.g., dividend income, royalty income, interest income, rental income, etc.), of a greater than 50-percent owned non-U.S. subsidiary, to not be taxed under U.S. federal income tax law. The retroactive application of the look-through rule to 2012 resulted in a \$6 million income tax benefit. However, as the 2012 Tax Act was not signed into law as of December 31, 2012, the extension of the look-through rule has been treated as a 2013 event, and the related income tax benefit for 2012 was recorded in the first quarter of 2013. The 2012 Tax Act also extended the 50 percent bonus depreciation for qualified property placed in service before January 1, 2014, the impact of which we discuss below.

In December 2010, the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 (2010 Tax Act) was signed into law. The 2010 Tax Act included the extension of bonus depreciation for U.S. federal income tax purposes for years 2010 through 2012 and an increase in the rate of bonus depreciation from 50 percent to 100 percent. This increased rate only applies to certain investments made after September 8, 2010 through December 31, 2012. Self-constructed property, where the construction period exceeds one year, construction started between December 31, 2007 and January 1, 2013, and the property is placed in service by December 31, 2013, qualified for bonus depreciation in 2013 at either the original or increased rate.

Due to the extension of bonus depreciation, Sempra Energy generated a U.S. federal net operating loss (NOL) in 2011, 2012, 2013 and 2014. We currently project that the total NOL will not be fully utilized until approximately 2019. Because of the carryforward of NOL and U.S. federal income tax credits discussed below, Sempra Energy made no U.S. federal income tax payments in 2014 and expects no such payments in years 2015 through 2019. Because bonus depreciation only creates a temporary difference between Sempra Energy's U.S. federal income tax return and its U.S. GAAP financial statements, it does not impact Sempra Energy's effective income tax rate. We expect larger U.S. federal income tax payments in the future as these temporary differences reverse.

SDG&E and SoCalGas both generated a large U.S. federal NOL in 2011 and 2012 primarily due to bonus depreciation. SDG&E and SoCalGas expect these NOL carryforwards, on a stand-alone basis, to be fully utilized in 2015. Because bonus depreciation only creates a temporary difference between SDG&E's and SoCalGas' U.S. federal income tax returns and U.S. GAAP financial statements, it does not impact SDG&E's and SoCalGas' effective income tax rates. We expect larger U.S. federal income tax payments in the future as these temporary differences reverse.

Bonus depreciation, in addition to impacting Sempra Energy's and SDG&E's U.S. federal income tax payments, will also have a temporary impact on their ability to utilize their U.S. federal income tax credits, which primarily are investment tax credits and production tax credits generated by current and future renewable energy investments. However, based on current projections, Sempra Energy and SDG&E do not expect, based on more-likely-than-not criteria required under U.S. GAAP, any of these income tax credits to expire prior to the end of their 20-year carryforward period, as allowed under current U.S. federal income tax law. Bonus depreciation increases the deferred income tax liability component of SDG&E's and SoCalGas' rate base, which reduces rate base.

We had planned to begin repatriating a portion of earnings beginning in 2013 from certain of our non-U.S. subsidiaries in Mexico and Peru. Due to the income tax expense resulting from a corporate reorganization in connection with the IEnova stock offerings that we discuss in Note 1 of the Notes to Consolidated Financial Statements, we made a distribution in 2013 of approximately \$200 million from our non-U.S. subsidiaries. This distribution was from previously taxed income and was not subject to additional U.S. federal income tax. We revised our plan in 2013 to begin repatriating a portion of earnings in 2014.

Currently, all repatriated earnings from January 1, 2014 forward (reduced for previously taxed income) are subject to U.S. income tax (with credits for foreign income taxes), and repatriation from Peru is subject to local country withholding tax. We made distributions of \$288 million from our non-U.S. subsidiaries in 2014. Approximately \$100 million of this distribution was from previously taxed income and will not be subject to additional U.S. federal income tax. We intend to continue to indefinitely reinvest our cumulative undistributed non-U.S. earnings through December 31, 2014. Therefore, we do not intend to use these cumulative undistributed earnings as a source of funding for U.S. operations.

Foreign Currency Exchange Rate and Inflation Impact on Income Taxes and Related Economic Hedging Activity

Our Mexican subsidiaries have U.S. dollar denominated cash balances, receivables and payables (monetary assets and liabilities) that give rise to Mexican currency exchange rate movements for Mexican income tax purposes. They also have deferred income tax assets and liabilities that are denominated in the Mexican peso, which must be translated to U.S. dollars for financial reporting purposes. In addition, monetary assets and liabilities are adjusted for Mexican inflation for Mexican income tax purposes.

The fluctuations in both the currency exchange rate for the Mexican peso against the U.S. dollar, with regard to Mexican monetary assets and liabilities, and Mexican inflation are subject to Mexican income tax and thus may expose us to fluctuations in our income tax expense. The income tax expense of Sempra Mexico is impacted by these factors. From time to time, we may utilize short-term foreign currency derivatives at our subsidiaries and at the consolidated level as a means to manage these exposures.

The income tax expense of our South American subsidiaries is similarly impacted by the factors we discuss above. Such impact was not material in 2014, 2013 or 2012.

For Sempra Energy Consolidated, the impacts at Sempra Mexico in 2012-2014 related to the factors described above are as follows:

MEXICAN CURRENCY IMPACT ON INCOME TAXES AND RELATED ECONOMIC HEDGING ACTIVITY

(Dollars in millions)

	Years ended December 31,		
	2014	2013	2012
Income tax benefit (expense) on currency exchange rate movement of monetary assets and liabilities	\$ 22	\$ (6)	\$ (6)
Translation of non-U.S. deferred income tax balances	15	1	(2)
Income tax expense on inflation	(3)	—	(2)
Total impact included in Income Tax Benefit (Expense)	34	(5)	(10)
After-tax (losses) gains on Mexican peso exchange rate instruments (included in Other Income, Net)	(17)	4	6
Net impact on Sempra Energy Consolidated Statements of Operations	\$ 17	\$ (1)	\$ (4)

Equity Earnings, Net of Income Tax

Sempra Energy Consolidated

Equity earnings of unconsolidated subsidiaries, net of income tax, which are all from Sempra South American Utilities' and Sempra Mexico's equity method investments, were

§ \$38 million in 2014

§ \$24 million in 2013

§ \$36 million in 2012

The increase in 2014 was primarily due to \$11 million equity losses in 2013 related to our investments in two Argentine natural gas utility holding companies, as we discuss in Note 4 of the Notes to Consolidated Financial Statements.

The decrease in 2013 compared to 2012 was primarily due to:

§ \$11 million equity losses related to our investments in two Argentine natural gas utility holding companies, including \$7 million noncash impairment charge in the first quarter of 2013 and \$4 million loss from the sale of the investments in the second quarter of 2013, as we discuss in Note 4 of the Notes to Consolidated Financial Statements; and

§ \$4 million of equity losses in 2013 from our Eletrans S.A. and Eletrans II S.A. (collectively, Eletrans) joint ventures in Chile resulting from a forward exchange contract to manage foreign currency exchange rate risk; **offset by**

§ \$3 million higher earnings in 2013 from Sempra Mexico's joint-venture interest in pipeline assets.

Earnings Attributable to Noncontrolling Interests

Sempra Energy Consolidated

Earnings attributable to noncontrolling interests were \$100 million for 2014 compared to \$79 million for the same period in 2013. The net change of \$21 million included

§ \$21 million increase in earnings attributable to noncontrolling interests of IEnova in 2014; and

§ \$5 million increase in earnings attributable to noncontrolling interests at Sempra South American Utilities; **offset by**

§ \$4 million decrease in earnings attributable to noncontrolling interest at Otay Mesa VIE in 2014.

Earnings attributable to noncontrolling interests were \$79 million for 2013 compared to \$55 million for the same period in 2012. The net change of \$24 million included

§ \$26 million earnings attributable to noncontrolling interests of IEnova in 2013; **offset by**

§ \$2 million lower earnings attributable to noncontrolling interest at Otay Mesa VIE in 2013.

SDG&E

Earnings attributable to noncontrolling interest at Otay Mesa VIE decreased by \$4 million (17%) to \$20 million in 2014.

In 2013 compared to 2012, earnings attributable to noncontrolling interest at Otay Mesa VIE decreased by \$2 million (8%) to \$24 million.

Earnings

We summarize variations in overall earnings in “Overall Results of Operations of Sempra Energy and Factors Affecting the Results” above. We discuss variations in earnings (losses) by segment above in “Segment Results.”

TRANSACTIONS WITH AFFILIATES

We provide information about our related party transactions in Note 1 of the Notes to Consolidated Financial Statements.

BOOK VALUE PER SHARE

Sempra Energy’s book value per share on the last day of each year was

§ \$45.98 in 2014

§ \$45.03 in 2013

§ \$42.43 in 2012

The increases in 2014 and 2013 were primarily the result of comprehensive income exceeding dividends. In 2013, the increase was also attributable to the IEnova public offerings.

CAPITAL RESOURCES AND LIQUIDITY

OVERVIEW

We expect our cash flows from operations to fund a substantial portion of our capital expenditures and dividends. In addition, we may meet our cash requirements through the issuance of securities, including short-term and long-term debt securities, distributions from our equity method investments, and project financing.

Sempra Energy Consolidated cash and cash equivalents decreased \$334 million in 2014 to \$570 million. Cash flows from operations were \$2.2 billion. Significant investing and financing activity affecting capital resources, liquidity and cash flows in 2014 was

§ \$148 million cash proceeds from Sempra Renewables’ sale of 50-percent equity interests in Copper Mountain Solar 3 (\$66 million) and Broken Bow 2 Wind (\$58 million) and Sempra Mexico’s sale of a 50-percent equity interest in the first phase of the Energía Sierra Juárez wind generation project (\$24 million)

§ \$(121) million cash paid to acquire a 50-percent equity interest in four California solar projects

§ long-term debt issuances of \$3.3 billion, including \$500 million at Sempra Energy, \$100 million at SDG&E, \$750 million at SoCalGas, and \$1.8 billion issuances of credit facility borrowings with maturities greater than 90 days at Sempra Energy, Sempra South American Utilities and Sempra Mexico

§ \$(2) billion of long-term debt retirements and paydowns, including debt retirements of \$800 million at Sempra Energy and \$250 million at SoCalGas, and \$948 million paydown of credit facility borrowings with maturities greater than 90 days at Sempra Energy and Sempra South American Utilities

§ \$(3.1) billion in expenditures for property, plant and equipment, including \$1.1 billion at each of SDG&E and SoCalGas

§ \$(598) million common dividends paid

§ \$(167) million in net advances to unconsolidated affiliates

We discuss these events in more detail later in this section.

Our lines of credit provide liquidity and support commercial paper. As we discuss in Note 5 of the Notes to Consolidated Financial Statements, Sempra Energy, Sempra Global (the holding company for our subsidiaries not subject to California utility regulation) and the California Utilities each have five-year revolving credit facilities, expiring in 2017. At Sempra Energy and the California Utilities, the agreements are syndicated broadly among 24 different lenders and at Sempra Global, among 25 different lenders. No single lender has greater than a 7-percent share in any agreement. The table below shows the amount of available funds at year-end 2014 on these three credit facilities:

AVAILABLE FUNDS AT DECEMBER 31, 2014*(Dollars in millions)*

	Sempra Energy					
	Consolidated		SDG&E	SoCalGas		
Unrestricted cash and cash equivalents(1)	\$	570	\$	8	\$	85
Available unused credit(2)		2,469		312		481

(1) Amounts at Sempra Energy Consolidated include \$469 million held in non-U.S. jurisdictions that are unavailable to fund U.S. operations unless repatriated, as we discuss below.

(2) Available credit is the total available on Sempra Energy's, Sempra Global's and the California Utilities' credit facilities that we discuss in Note 5 of the Notes to Consolidated Financial Statements. Borrowings on the shared line of credit at SDG&E and SoCalGas are limited to \$658 million for each utility and a combined total of \$877 million. SDG&E's and SoCalGas' available funds reflect commercial paper outstanding of \$346 million and \$50 million, respectively, supported by the line. SoCalGas' availability reflects the impact of SDG&E's use as of December 31, 2014 of the combined credit available on the line. Some of Sempra Energy's subsidiaries, primarily our foreign operations, have additional general purpose credit facilities, aggregating \$865 million at December 31, 2014. Available unused credit on these lines totaled \$536 million at December 31, 2014.

Sempra Energy Consolidated

We believe that these available funds and cash flows from operations, distributions from equity method investments and securities issuances, and project financing and partnering in joint ventures, combined with current cash and cash equivalents balances, will be adequate to fund operations, including to:

- § finance capital expenditures
- § meet liquidity requirements
- § fund shareholder dividends
- § fund new business acquisitions or start-ups
- § repay maturing long-term debt

Sempra Energy and the California Utilities have ready access to the long-term debt markets and are not currently constrained in their ability to borrow at reasonable rates. However, changing economic conditions could affect the availability and cost of both short-term and long-term financing. Also, cash flows from operations may be impacted by the timing of completion of large projects at Sempra International and Sempra U.S. Gas & Power. If cash flows from operations were to be significantly reduced or we were unable to borrow under acceptable terms, we would likely first reduce or postpone discretionary capital expenditures (not related to safety) and investments in new businesses. If these measures were necessary, they would primarily impact certain of our Sempra International and Sempra U.S. Gas & Power businesses before we would reduce funds necessary for the ongoing needs of our utilities. We continuously monitor our ability to finance the needs of our operating, investing and financing activities in a manner consistent with our intention to maintain strong, investment-grade credit ratings and capital structure.

At December 31, 2014 and 2013, our cash and cash equivalents held in non-U.S. jurisdictions that were unavailable to fund U.S. operations unless repatriated were \$469 million and \$814 million, respectively. As we discuss in "Results of Operations – Changes in Revenues, Costs and Earnings – Income Taxes" above, we made distributions of approximately \$288 million and \$200 million in 2014 and 2013, respectively, from our non-U.S. subsidiaries. Approximately \$100 million of the 2014 distribution, and all of the 2013 distribution, was from previously taxed income and will not be subject to additional U.S. federal income tax. We intend to continue to indefinitely reinvest our cumulative undistributed non-U.S. earnings through December 31, 2014. Therefore, we do not intend to use these cumulative undistributed earnings as a source of funding for U.S. operations.

We have significant investments in several trusts to provide for future payments of pensions and other postretirement benefits, and nuclear decommissioning. Changes in asset values, which are dependent on the activity in the equity and fixed income markets, have not affected the trust funds' abilities to make required payments. However, changes in asset values may, along with a number of other factors such as changes to discount rates, assumed rates of returns, mortality tables, and regulations, impact funding requirements for pension and other postretirement benefit plans and SDG&E's nuclear decommissioning trusts. At the California Utilities, funding requirements are generally recoverable in rates.

On February 20, 2015, our board of directors approved an increase to Sempra Energy's quarterly common stock dividend to \$0.70 per share (\$2.80 annually), an increase of \$0.04 per share (\$0.16 annually) from \$0.66 per share (\$2.64 annually) authorized in February 2014. Declarations of dividends on our common stock are made at the discretion of the board. While we view dividends as an integral component of shareholder return, the amount of future dividends will depend upon earnings, cash flows, financial and legal requirements, and other relevant factors at that time.

On February 21, 2014, our board of directors approved an increase to Sempra Energy's quarterly common stock dividend to \$0.66 per share (\$2.64 annually), an increase of \$0.03 per share (\$0.12 annually) from \$0.63 per share (\$2.52 annually) authorized in February 2013. We provide further information regarding dividends and dividend restrictions in "Dividends" below and under "Restricted Net Assets" in Note 1 of the Notes to Consolidated Financial Statements.

Short-Term Borrowings

Our short-term debt is primarily used to meet liquidity requirements, fund shareholder dividends, temporarily finance capital expenditures, and fund new business acquisitions or start-ups. Our corporate short-term, unsecured promissory notes, or commercial paper, were our primary sources of short-term debt funding in 2014. At our California Utilities, short-term debt is used to meet working capital needs and temporarily finance capital expenditures.

The following table shows selected statistics for our commercial paper borrowings for 2014:

COMMERCIAL PAPER STATISTICS*(Dollars in millions)*

	Sempra Energy					
	Consolidated		SDG&E	SoCalGas		
Amount outstanding at December 31, 2014	\$	1,564	\$	246	\$	50
Weighted average interest rate at December 31, 2014		0.59%		0.27%		0.25%

Maximum month-end amount outstanding during 2014(1)	\$	1,935	\$	246	\$	129
Monthly weighted average amount outstanding during 2014	\$	1,264	\$	56	\$	24
Monthly weighted average interest rate during 2014		0.59%		0.16%		0.17%

(1) *The largest amount outstanding at the end of the last day of any month during the year.*

Significant cash flows impacting commercial paper levels at Sempra Energy during 2014 included

- § debt retirements (\$800 million);
- § common stock dividend payments (\$598 million) by Sempra Energy;
- § acquisition of a 50-percent equity interest in four California solar projects (\$121 million); and
- § interest payments on debt (approximately \$200 million); **offset by**
- § long-term debt issuance at Sempra Energy (\$500 million);
- § repatriated funds received from non-U.S. subsidiaries (\$288 million);
- § common stock dividends received from SDG&E (\$200 million) and SoCalGas (\$100 million);
- § cash proceeds from the sale of 50-percent equity interests in Broken Bow 2 Wind (\$58 million) and Copper Mountain Solar 3 (\$66 million); and
- § cash proceeds from a construction loan related to Copper Mountain Solar 3 (\$84 million, net of financing costs).

California Utilities

SDG&E and SoCalGas expect that available funds, cash flows from operations and debt issuances will continue to be adequate to meet their working capital and capital expenditure requirements.

SoCalGas declared and paid common stock dividends of \$100 million in 2014, \$50 million in 2013 and \$250 million in 2012. As a result of the increase in SoCalGas' capital investment programs over the next few years, and an increase in SoCalGas' authorized common equity weighting effective January 1, 2013 as approved by the CPUC in the most recent cost of capital proceeding, SoCalGas' dividends on common stock declared on an annual historical basis may not be indicative of future declarations, or may be temporarily suspended over the next few years to maintain SoCalGas' authorized capital structure during the periods of high capital investments.

SDG&E declared and paid common stock dividends of \$200 million in 2014. As a result of SDG&E's large capital investment program over the past few years, SDG&E did not pay common dividends to Sempra Energy in 2013 or 2012. However, due to the completion of construction of the Sunrise Powerlink transmission power line in June 2012, SDG&E has resumed the declaration and payment of common stock dividends in 2014.

In October 2013, SDG&E redeemed all of its outstanding preferred stock for \$83 million (including call premium and accrued dividends), which we discuss further in Note 11 of the Notes to Consolidated Financial Statements.

SDG&E uses the Energy Resource Recovery Account (ERRA) balancing account to record the net of its actual cost incurred for electric fuel and purchased power and the amount billed to customers in rates. Primarily as a result of delays in the CPUC issuing final decisions on SDG&E's ERRA-related filings, as of December 31, 2014, SDG&E's ERRA balance is undercollected by \$280 million. In February 2014, the CPUC issued a decision granting SDG&E authority to increase rates to recover an ERRA Trigger revenue requirement of \$221 million, which rate increase was effective on April 1, 2014 and will continue through December 31, 2015. In May 2014, the CPUC issued a final decision approving SDG&E's proposed 2014 ERRA revenue requirement of \$1.23 billion, an increase of \$242 million, which rate increase was effective on August 1, 2014. With these rate changes, and assuming that actual energy resource costs incurred approximate what was assumed in the approved 2014 ERRA revenue requirement, management expects the undercollected balance in ERRA to decrease between now and the end of 2015. We discuss the ERRA Trigger and the status of the ERRA filings further in Note 14 of the Notes to Consolidated Financial Statements and provide information on how the increasing undercollected balance in ERRA has impacted SDG&E in our discussion of "Cash Flows From Operating Activities" below.

Sempra South American Utilities

We expect projects at Chilquinta Energía and Luz del Sur to be funded by available funds, funds internally generated by those businesses and by external borrowings. In 2014, we purchased additional shares in Luz del Sur for \$74 million, increasing our ownership from 79.8 percent to 83.6 percent. Also, as of December 31, 2014, Chilquinta Energía has loaned \$40 million to an affiliate to finance development projects. We discuss these transactions in Note 1 of the Notes to Consolidated Financial Statements.

Sempra Mexico

We expect projects in Mexico to be funded through a combination of available funds, funds internally generated by the Mexico businesses, securities issuances, project financing and partnering in joint ventures. In June and August 2014, IEnova entered into two three-year term, corporate revolving credit facility agreements providing \$200 million and \$100 million, respectively, to finance working capital and for general corporate purposes. In 2014, IEnova drew down \$145 million from the first facility and \$51 million from the second facility. In June 2014, IEnova also entered into a \$240 million loan to finance the construction of the first phase of Energía Sierra Juárez, as we discuss in Note 5 of the Notes to Consolidated Financial Statements. The loan agreement provides for a \$31.7 million letter of credit facility. IEnova also entered into a separate, Peso-denominated credit facility for up to \$35 million U.S. dollar equivalent to fund the value added tax of the project. In June 2014, Sempra Mexico drew down \$82 million from the loan.

In July 2014, Sempra Mexico sold a 50-percent equity interest in the first phase of Energía Sierra Juárez to a wholly owned subsidiary of InterGen N.V. for cash proceeds of \$24 million, net of \$2 million cash sold. Sempra Mexico's interest in Energía Sierra Juárez is now accounted for under the equity method, and the \$82 million of long-term debt was deconsolidated at the time of sale, as we discuss in Notes 3 and 4 of the Notes to Consolidated Financial Statements.

In 2014, Sempra Mexico loaned \$123 million to affiliates of its joint venture with PEMEX to finance projects, as we discuss in Note 1 of the Notes to Consolidated Financial Statements.

Sempra Renewables

We expect Sempra Renewables to require funds for the development of and investment in electric renewable energy projects. Projects at Sempra Renewables may be financed through a combination of operating cash flow, project financing, funds from the parent, partnering in joint ventures, and other forms of equity sales. The Sempra Renewables projects have planned in-service dates through 2016. In March 2014, Sempra Renewables entered into a \$356 million construction loan facility related to Copper Mountain Solar 3. Copper Mountain Solar 3 made an initial draw-down on the loan of \$97 million. Later in March 2014, Sempra Renewables sold a 50-percent equity interest in Copper Mountain Solar 3 to ConEdison Development. Sempra Renewables' interest in Copper Mountain Solar 3 is now accounted for under the equity method and its long-term debt was deconsolidated upon the sale. Sempra Renewables received \$66 million in net cash from the sale. In May 2014, Sempra Renewables invested \$121 million (as adjusted for financial position at closing) to become a 50-percent partner with ConEdison Development in four solar projects in California (the California solar partnership). In October 2014, Sempra Renewables received \$72 million in proceeds from a private notes offering related to Broken Bow 2 Wind. In November 2014, Sempra Renewables sold a 50-percent equity interest in Broken Bow 2 Wind to ConEdison Development. Sempra Renewables' interest in Broken Bow 2 Wind is now accounted for under the equity method, and its long-term debt was deconsolidated upon the sale. Sempra Renewables received \$58 million in cash from the sale. We discuss these financings and transactions in Notes 3 and 5 of the Notes to Consolidated Financial Statements.

Sempra Natural Gas

We expect Sempra Natural Gas to require funding for the development and expansion of its portfolio of projects, which may be financed through a combination of operating cash flow, funding from the parent and project financing. Sempra Natural Gas expects to invest approximately \$110 million in Rockies Express to repay project debt maturing in early 2015.

In January 2014, management approved a plan to sell the remaining 625-MW block of the Mesquite Power plant. In October 2014, Sempra Natural Gas entered into a definitive agreement to sell the remaining block of the plant. We anticipate the sale will close in the first half of 2015, subject to obtaining third-party consents for the assignment of an associated 25-year power sales contract to the buyer. We discuss the sale further in Note 3 of the Notes to Consolidated Financial Statements.

Sempra Natural Gas, through the Cameron LNG Holdings joint venture, is developing a natural gas liquefaction export facility at the Cameron LNG terminal. The majority of the liquefaction project is project-financed for 16 years under three debt facilities provided by the Japan Bank for International Cooperation (JBIC) and 29 international commercial banks, some of which will benefit from insurance coverage provided by Nippon Export and Investment Insurance (NEXI), with most or all of the remainder of the capital requirements to be provided by the project partners, including Sempra Energy, through equity contributions under a joint venture agreement. On October 1, 2014, the effective date of the formation of the joint venture, we contributed our share of equity to the joint venture through the contribution of Cameron LNG at its historical value. We expect that our remaining equity requirements to complete the project will be met by a combination of our share of cash generated from each liquefaction train as it comes on line and additional cash contributions. As of October 1, 2014, Sempra Natural Gas began accounting for its investment in the joint venture under the equity method.

On August 6, 2014, Sempra Energy and its project partners executed the project financing documents. Under the financing agreements, Sempra Energy signed completion guarantees for 50.2 percent of the debt, which corresponds to \$3.7 billion of the total \$7.4 billion principal amount of the debt committed under the financing agreements. The project financing and completion guarantees became effective on October 1, 2014, the effective date of the joint venture formation. The completion guarantees will terminate upon satisfaction of certain conditions, including all three trains achieving commercial operation and meeting certain operational performance tests. The completion guarantees are anticipated to be terminated in the second half of 2019.

We discuss the Cameron LNG Holdings joint venture and joint venture financing further in Notes 3 and 4 of the Notes to Consolidated Financial Statements.

Some of Sempra Natural Gas' long-term power sale contracts contain collateral requirements which require its affiliates and/or the counterparty to post cash or other acceptable collateral to the other party for exposure in excess of established thresholds. Sempra Natural Gas may be required to provide collateral when the fair value of the contract with our counterparty exceeds established thresholds. We have no collateral receivables or payables with our counterparties at December 31, 2014.

CASH FLOWS FROM OPERATING ACTIVITIES

CASH PROVIDED BY OPERATING ACTIVITIES

(Dollars in millions)

	2014		2014 change		2013		2013 change		2012			
Sempra Energy Consolidated	\$	2,161	\$	377	21%	\$	1,784	\$	(234)	(12)%	\$	2,018
SDG&E		1,097		378	53		719		(382)	(35)		1,101
SoCalGas		765		84	12		681		(165)	(20)		846

Sempra Energy Consolidated

Cash provided by operating activities at Sempra Energy increased in 2014 primarily due to:

§ \$277 million increase in net undercollected regulatory balancing accounts in 2014 at the California Utilities (including long-term amounts included in regulatory assets) compared to a \$411 million increase in 2013. Over- and undercollected regulatory balancing accounts reflect the difference between

customer billings and recorded or CPUC-authorized costs. These differences are required to be balanced over time. See further discussion of changes in regulatory balances at both SDG&E and SoCalGas below;

- § \$44 million decrease in accounts receivable in 2014 compared to a \$273 million increase in 2013; the change was mainly due to a \$30 million decrease at SoCalGas in 2014 compared to a \$113 million increase in 2013, primarily due to a decrease in physical gas sales in December 2014 compared to December 2013, and a \$39 million decrease in natural gas sales at Sempra Natural Gas in 2014 compared to a \$69 million increase in 2013;
- § \$109 million increase in accounts payable in 2014 compared to a \$28 million decrease in 2013, mainly due to an increase in 2014 related to natural gas purchased at SoCalGas; and
- § \$82 million decrease in settlement payments and associated legal fees for wildfire claims at SDG&E in 2014 compared to 2013; **offset by**
- § \$133 million increase in inventory in 2014 compared to a \$116 million decrease in 2013; the 2014 increase was mainly due to a \$113 million increase at SoCalGas, primarily due to higher natural gas storage volume; and
- § \$86 million lower net income, adjusted for noncash items included in earnings, in 2014.

Cash provided by operating activities at Sempra Energy decreased in 2013 compared to 2012 due to:

- § \$110 million decrease in net overcollected regulatory balancing accounts in 2013 at SoCalGas (including long-term amounts included in regulatory assets) compared to a \$31 million increase in net overcollected regulatory balancing accounts in 2012;
- § \$273 million increase in accounts receivable in 2013, primarily due to a \$60 million increase at SoCalGas as a result of an increase in billing rates in 2013, and a \$69 million increase in natural gas sales at Sempra Natural Gas in 2013;
- § \$375 million of funds received from wildfire litigation settlements at SDG&E in 2012; and
- § \$85 million payment received by SDG&E in 2012 for third party transmission line access (which we discuss in Note 15 of the Notes to Consolidated Financial Statements); **offset by**
- § \$259 million higher net income, adjusted for noncash items included in earnings, in 2013;
- § a \$203 million decrease in settlement payments and associated legal fees in 2013 for wildfire claims at SDG&E; and
- § \$116 million decrease in inventory in 2013 (including an \$82 million decrease at SoCalGas) compared to a \$78 million increase in 2012.

SDG&E

Cash provided by operating activities at SDG&E increased in 2014 primarily due to:

- § \$47 million increase in net undercollected regulatory balancing accounts in 2014 (including long-term amounts included in regulatory assets) compared to a \$301 million increase in 2013, as follows:
 - the increase in 2014 in the net undercollected regulatory balancing accounts was primarily due to:
 - § \$89 million increase for electric transmission,
 - § \$88 million increase for amounts associated with electric rate design,
 - § \$76 million increase for natural gas transportation, and
 - § \$24 million increase for electric distribution, *offset by*
 - § \$162 million decrease associated with the delayed decision in the 2012 GRC,
 - § \$42 million decrease for electric commodity, and
 - § \$29 million increase in overcollected balancing accounts associated with public purpose programs.
 - the increase in 2013 in the net undercollected regulatory balancing accounts was primarily due to:
 - § \$105 million increase for electric commodity,
 - § \$103 million increase associated with the delayed decision in the 2012 GRC,
 - § \$60 million increase for electric distribution, and
 - § \$27 million increase associated with electric rate design, *offset by*
 - § \$29 million decrease in the undercollected balance for electric transmission; and
- § \$82 million decrease in settlement payments and associated legal fees for wildfire claims in 2014 compared to 2013.

Cash provided by operating activities at SDG&E decreased in 2013 compared to 2012 primarily due to:

- § \$375 million of funds received from wildfire litigation settlements in 2012;
- § \$85 million payment received in 2012 for third party transmission line access; and
- § \$50 million increase in income taxes receivable in 2013 compared to an \$85 million decrease in 2012; **offset by**
- § \$301 million increase in net undercollected regulatory balancing accounts in 2013 (including long-term amounts included in regulatory assets) compared to a \$322 million increase in 2012, as follows:
 - the increase in the net undercollected balancing accounts in 2013 was primarily due to:
 - § \$103 million increase in the net undercollected balance due to the adoption of the 2012 GRC in 2013, and
 - § \$204 million increase in the undercollected balancing account for electric resource cost.
 - the increase in net undercollected regulatory balancing accounts in 2012 was primarily due to:
 - § \$214 million undercollection of electric resource costs, and
 - § \$71 million return of prior year's overcollection to customers and \$83 million of unrecovered current year spending for advanced metering infrastructure costs, *offset by*
 - § \$54 million reduction of prior year's undercollected electric distribution fixed costs;
- § \$40 million higher net income, adjusted for noncash items included in earnings, in 2013; and
- § \$203 million decrease in settlement payments and associated legal fees in 2013 for wildfire claims.

SoCalGas

Cash provided by operating activities at SoCalGas increased in 2014 primarily due to:

- § \$156 million increase in accounts payable in 2014 compared to a \$54 million decrease in 2013, primarily due to a \$75 million increase in natural gas purchases in 2014 compared to a \$65 million decrease in 2013;
- § \$30 million decrease in accounts receivable in 2014 compared to a \$113 million increase in 2013, primarily due to a decrease in physical gas sales in December 2014 compared to December 2013; and
- § \$27 million higher net income, adjusted for noncash items included in earnings, in 2014 compared to 2013; **offset by**
- § \$230 million decrease in net overcollected regulatory balancing accounts in 2014 (including long-term amounts included in regulatory assets) compared to \$110 million decrease in 2013:
 - the decrease in 2014 in the net overcollected regulatory balancing accounts was primarily due to:
 - § \$216 million increase in the undercollected position associated with the fixed cost balancing accounts, and
 - § \$35 million decrease in the overcollected balancing accounts associated with the public purpose programs, *offset by*
 - § \$52 million decrease in the undercollected balance associated with the delayed decision in the 2012 GRC.
 - the decrease in 2013 in the net overcollected balancing accounts was primarily due to:
 - § \$26 million increase in the net undercollected balancing accounts associated with the adoption of the 2012 GRC in 2013, and
 - § \$86 million change in the balancing account for fixed costs associated with core customer activities. In 2013, this account changed from a \$36 million overcollected balance to a \$50 million undercollected balance at year-end; and
- § \$113 million increase in inventory in 2014 compared to an \$82 million decrease in 2013, primarily due to higher volume of natural gas added to storage in 2014 compared to 2013 as a result of colder than normal weather in the fourth quarter of 2013, which left a lower volume of natural gas in storage at the end of 2013 compared to the end of 2012, combined with higher gas prices in 2014.

Cash provided by operating activities at SoCalGas decreased in 2013 compared to 2012 primarily due to:

- § \$110 million decrease in overcollected regulatory balancing accounts in 2013 (including long-term amounts included in regulatory assets) compared to a \$31 million increase in 2012. The decrease in the net overcollected balancing accounts in 2013 was primarily due to:
 - \$26 million increase in the net undercollected balancing accounts due to the adoption of the 2012 GRC in 2013, and

- \$86 million change in the balancing account for fixed costs associated with core customer activities. In 2013, this account changed from a \$36 million overcollected balance to a \$50 million undercollected balance at year-end;
- § \$113 million increase in accounts receivable in 2013, primarily due to a \$60 million increase in trade accounts receivable and a \$30 million increase in physical gas sales. The \$60 million increase in trade accounts receivable is primarily due to the increase in billing rates in 2013 compared to 2012; and
- § \$54 million decrease in accounts payable in 2013 compared to a \$54 million increase in 2012; **offset by**
- § \$92 million higher net income, adjusted for noncash items included in earnings, in 2013; and
- § \$82 million decrease in inventory in 2013 compared to \$1 million increase in 2012, due to higher net withdrawal volume and higher rate of natural gas withdrawn in 2013.

The table below shows the contributions to pension and other postretirement benefit plans for each of the past three years.

CONTRIBUTIONS TO PENSION AND OTHER POSTRETIREMENT BENEFIT PLANS 2012-2014

(Dollars in millions)

	Pension benefits			Other postretirement benefits		
	2014	2013	2012	2014	2013	2012
Sempra Energy Consolidated	\$ 128	\$ 133	\$ 123	\$ 16	\$ 27	\$ 39
SDG&E	56	51	45	14	14	13
SoCalGas	39	59	47	—	9	23

The passage of the Highway and Transportation Funding Act of 2014 decreased the minimum contributions required for single employer defined benefit plans for 2014 and future years, impacting each of the domestic pension plans.

CASH FLOWS FROM INVESTING ACTIVITIES

CASH USED IN INVESTING ACTIVITIES

(Dollars in millions)

	2014	2014 change		2013	2013 change		2012
Sempra Energy Consolidated	\$ (3,342)	\$ 1,653	98%	\$ (1,689)	\$ (1,469)	(47)%	\$ (3,158)
SDG&E	(1,126)	153	16	(973)	(262)	(21)	(1,235)
SoCalGas	(1,104)	376	52	(728)	85	13	(643)

Sempra Energy Consolidated

Cash used in investing activities at Sempra Energy increased in 2014 primarily due to:

- § \$551 million increase in capital expenditures;
- § \$371 million of proceeds received in 2013 from Sempra Natural Gas' sale of a block of its Mesquite Power plant;
- § \$214 million invested in Sempra Renewables' joint venture partnerships in 2014;
- § \$238 million U.S. Treasury grant proceeds received in 2013;
- § \$153 million increase in net advances to affiliates in 2014; and
- § \$50 million distribution in 2013 from RBS Sempra Commodities LLP (RBS Sempra Commodities).

Cash used in investing activities at Sempra Energy decreased in 2013 compared to 2012 primarily due to:

- § \$384 million decrease in capital expenditures;
- § \$371 million proceeds received from Sempra Natural Gas' 2013 sale of a block of its Mesquite Power plant;
- § \$373 million invested in wind assets in 2012, including \$291 million in the Flat Ridge 2 Wind;
- § \$238 million U.S. Treasury grant proceeds;
- § \$103 million proceeds received from the sale of a 50-percent equity interest in Mesquite Solar 1; and
- § \$72 million proceeds received from the sale of a 50-percent equity interest in Copper Mountain Solar 2; **offset by**
- § \$55 million lower distributions from investments, including a \$50 million distribution in 2013 from RBS Sempra Commodities.

SDG&E

Cash used in investing activities at SDG&E increased in 2014 primarily due to a \$122 million increase in capital expenditures.

In 2013 compared to 2012, cash used in investing activities at SDG&E decreased primarily due to a \$259 million decrease in capital expenditures, primarily due to the completion of the Sunrise Powerlink project in June 2012.

SoCalGas

Cash used in investing activities at SoCalGas increased in 2014 due to:

- § \$342 million increase in capital expenditures; and
- § \$34 million decrease in advances to Sempra Energy in 2013.

Cash used in investing activities at SoCalGas increased in 2013 compared to 2012 due to:

- § \$123 million increase in capital expenditures; **offset by**
- § \$34 million decrease in advances to Sempra Energy in 2013 compared to a \$4 million increase in advances to Sempra Energy in 2012.

CAPITAL EXPENDITURES AND INVESTMENTS

The table below shows our expenditures for property, plant and equipment, and for investments. We provide capital expenditure information by segment in Note 16 of the Notes to Consolidated Financial Statements.

SEMPRA ENERGY CONSOLIDATED			
CAPITAL EXPENDITURES AND INVESTMENTS/ACQUISITIONS			
<i>(Dollars in millions)</i>			
	Property, plant and equipment		Investments and acquisition of businesses
2014	\$	3,123	\$ 240
2013		2,572	22
2012		2,956	445
2011		2,844	941
2010		2,062	611

Capital Expenditures

California Utilities

The California Utilities' capital expenditures for property, plant and equipment were

<i>(Dollars in millions)</i>	2014		2013		2012	
SDG&E	\$	1,100	\$	978	\$	1,237
SoCalGas		1,104		762		639

Capital expenditures at the California Utilities in 2014 consisted primarily of:

SDG&E

- § \$554 million of improvements to natural gas and electric distribution systems
- § \$458 million of improvements to electric transmission systems
- § \$37 million for substation expansions (transmission)
- § \$51 million for electric generation plants and equipment

SoCalGas

- § \$859 million of improvements to distribution and transmission systems and storage facilities, and for pipeline safety
- § \$230 million for advanced metering infrastructure
- § \$15 million for other natural gas projects

Sempra South American Utilities

Sempra South American Utilities had capital expenditures at its utilities of \$174 million in 2014, \$200 million in 2013 and \$183 million in 2012, related to distribution infrastructure and generation projects, including Santa Teresa, a 100-MW hydroelectric power plant in Peru.

Sempra Mexico

Total capital expenditures in 2014 and 2013 were \$325 million and \$371 million, respectively, primarily for the development of wind and natural gas pipeline projects. Total capital expenditures in 2012 were \$45 million.

Sempra Renewables

Capital expenditures at Sempra Renewables included construction costs for wind and solar projects as follows:

In 2014:

§ \$114 million for construction of Broken Bow 2 Wind

§ \$74 million for construction of Copper Mountain Solar 3

In 2013:

§ \$93 million for Copper Mountain Solar 3

§ \$46 million for Mesquite Solar 1

§ \$26 million for Broken Bow 2 Wind

§ \$9 million for Copper Mountain Solar 2

In 2012:

§ \$399 million for Mesquite Solar 1

§ \$315 million for Copper Mountain Solar 2

Sempra Natural Gas

In 2014, 2013 and 2012, Sempra Natural Gas had \$135 million, \$36 million and \$48 million, respectively, of capital expenditures and development costs related to the Cameron LNG terminal and liquefaction project.

Capital expenditures at Sempra Natural Gas storage facilities were

§ \$58 million in 2014 primarily for additional capacity at Bay Gas Storage Company, Ltd. (Bay Gas) and at Mississippi Hub

§ \$29 million in 2013 primarily for development of approximately 13 Bcf of additional capacity at Bay Gas and Mississippi Hub

§ \$61 million in 2012 primarily to increase operational working natural gas storage capacity by approximately 7 Bcf at Mississippi Hub and for the development of approximately 13 Bcf of additional capacity at Bay Gas and Mississippi Hub.

Sempra Energy Consolidated Investments and Acquisitions

During the years ended December 31, 2014, 2013 and 2012, Sempra Energy made investments in various joint ventures and other businesses, summarized in the following table.

EXPENDITURES FOR INVESTMENTS AND ACQUISITION OF BUSINESSES(1) (Dollars in millions)

	Years ended December 31,		
	2014	2013	2012
Sempra Renewables:			
Auwahi Wind	\$ —	\$ 1	\$ 62
Broken Bow 2 Wind	—	11	—
California solar partnership	121	—	—
Copper Mountain Solar 2	3	—	—
Copper Mountain Solar 3	86	—	—
Flat Ridge 2 Wind	—	4	291
Mehoopany Wind	4	1	20
Sempra Natural Gas:			
Cameron LNG Holdings	18	—	—
Mississippi Hub LLC(2)	—	3	53
Willmut Gas Company	—	2	19
Parent and other	8	—	—
Total	\$ 240	\$ 22	\$ 445

(1) Net of cash acquired.

(2) Investment in industrial development bonds.

Sempra Energy Consolidated Distributions From Investments

Sempra Energy's Distributions From Investments in 2014, 2013 and 2012 are primarily the return of investment from equity method and other investments at Sempra Renewables and Sempra Natural Gas. Distributions of earnings from equity method investments, which are not included in the table below, are

included in cash flows from operations.

During the years ended December 31, 2014, 2013 and 2012, Sempra Energy received distributions from investments in various joint ventures and other investments as summarized by segment in the following table.

DISTRIBUTIONS FROM INVESTMENTS

(Dollars in millions)

	Years ended December 31,					
	2014		2013		2012	
Sempra Renewables(1)(2)	\$	11	\$	67	\$	167
Sempra Natural Gas		—		31		37
Parent and other(3)		2		54		3
Total	\$	13	\$	152	\$	207

(1) Distributions in 2013 include \$15 million related to U.S. Treasury grant proceeds received at the Auwahi Wind joint venture.

(2) Distributions in 2012 include \$165 million related to return of capital as a result of joint ventures entering into loans to finance projects.

(3) Distributions in 2013 include \$50 million from RBS Sempra Commodities LLP.

Purchase and Sale of Bonds Issued by Unconsolidated Affiliate

In November 2009, Sempra Energy, at Parent and Other, purchased \$50 million of 2.75-percent bonds issued by Chilquinta Energía S.A., a then unconsolidated affiliate, that were adjusted for Chilean inflation. In October 2012, these bonds were sold for \$59 million.

FUTURE CONSTRUCTION EXPENDITURES AND INVESTMENTS

The amounts and timing of capital expenditures are generally subject to approvals by various regulatory and other governmental and environmental bodies, including the CPUC and the FERC. However, in 2015, we expect to make capital expenditures and investments of approximately \$3.3 billion. These expenditures include

§ \$2.4 billion at the California Utilities for capital projects and plant improvements (\$1.1 billion at SDG&E and \$1.3 billion at SoCalGas)

§ \$0.9 billion at our other subsidiaries for capital projects in Mexico and South America, and development of LNG, natural gas and renewable generation projects

The California Utilities' 2015 planned capital expenditures and investments include

SDG&E

§ \$700 million for improvements to natural gas and electric distribution systems

§ \$400 million for improvements to electric transmission systems

§ \$10 million for electric generation plants and equipment

SoCalGas

§ \$1.1 billion for improvements to distribution, transmission and storage systems, and for pipeline safety

§ \$190 million for advanced metering infrastructure

§ \$30 million for other natural gas projects

The California Utilities expect to finance these expenditures and investments with cash flows from operations and debt issuances.

Over the next five years, 2015 through 2019, and subject to a number of factors including those described below which could cause these estimates to vary substantially, the California Utilities expect to make capital expenditures and investments of:

§ \$5.8 billion at SDG&E

§ \$6.0 billion at SoCalGas

In 2015, the expected capital expenditures and investments of approximately \$0.9 billion (excluding amounts expended by joint ventures and net of anticipated project financing and joint venture structures as noted below) at our other subsidiaries include

Sempra South American Utilities

§ approximately \$220 million for capital projects in South America (approximately \$170 million in Peru and approximately \$50 million in Chile)

Sempra Mexico

§ approximately \$300 million for capital projects in Mexico, net of project financing, including approximately \$180 million and \$80 million for the development of the Sonora pipeline and Ojinaga pipeline projects, respectively, both developed solely by Sempra Mexico

Sempra Renewables

§ approximately \$30 million for the development of renewable projects

Sempra Natural Gas

§ approximately \$290 million for development of LNG and natural gas transportation projects, including approximately \$110 million equity investment in Rockies Express to pay down project debt

Parent & Other

§ approximately \$40 million related to the build-to-suit lease for Sempra Energy's future headquarters

Over the next five years, 2015 through 2019, and subject to the factors described below which could cause these estimates to vary substantially, Sempra Energy expects to make aggregate capital expenditures at its other subsidiaries of approximately \$2.8 billion.

Capital expenditure amounts include capitalized interest. At the California Utilities, the amounts also include the portion of AFUDC related to debt, but exclude the portion of AFUDC related to equity. At Sempra Mexico and Sempra Natural Gas, the amounts also exclude AFUDC related to equity. We provide further details about AFUDC in Note 1 of the Notes to Consolidated Financial Statements.

Periodically, we review our construction, investment and financing programs and revise them in response to changes in regulation, economic conditions, competition, customer growth, inflation, customer rates, the cost and availability of capital, and environmental requirements. We discuss these considerations in more detail in Notes 13, 14 and 15 of the Notes to Consolidated Financial Statements and in "Factors Influencing Future Performance" below.

Our level of capital expenditures and investments in the next few years may vary substantially and will depend on the cost and availability of financing, regulatory approvals, changes in U.S. federal tax law and business opportunities providing desirable rates of return. We intend to finance our capital expenditures in a manner that will maintain our investment-grade credit ratings and capital structure.

CASH FLOWS FROM FINANCING ACTIVITIES

CASH FLOWS FROM FINANCING ACTIVITIES

(Dollars in millions)

	2014	2014 change	2013	2013 change	2012
Sempra Energy Consolidated	\$ 854	\$ 516	\$ 338	\$ (1,017)	\$ 1,355
SDG&E	10	(184)	194	2	192
SoCalGas	397	406	(9)	147	(156)

Sempra Energy Consolidated

Cash provided by financing activities at Sempra Energy increased in 2014 primarily due to:

§ \$1.2 billion higher issuances of debt, including an increase in issuances of long-term debt of \$373 million (\$2 billion in 2014 compared to \$1.6 billion in 2013) and an increase in commercial paper and other short-term debt with maturities greater than 90 days of \$818 million (\$1.3 billion increase in 2014 compared to \$445 million in 2013); and

§ \$412 million increase in short-term debt in 2014 compared to \$256 million in 2013; **offset by**

§ \$574 million net proceeds received in 2013 from the sale of noncontrolling interests at Sempra Mexico; and

§ \$246 million higher payments on debt, including higher payments of long-term debt of \$219 million (\$1.2 billion in 2014 compared to \$984 million in 2013), and higher payments of commercial paper and other short-term debt with maturities greater than 90 days of \$27 million (\$831 million in 2014 compared to \$804 million in 2013).

Cash provided by financing activities in 2013 compared to 2012 decreased due to:

§ \$1 billion lower issuances of debt, including a decrease in issuances of long-term debt of \$631 million (\$1.6 billion in 2013 compared to \$2.2 billion in 2012) and a decrease in issuances of commercial paper and other short-term debt with maturities greater than 90 days of \$385 million (\$445 million in 2013 compared to \$830 million in 2012);

§ \$661 million higher payments on long-term debt (\$984 million in 2013 compared to \$323 million in 2012), excluding amounts related to commercial paper with maturities greater than 90 days;

§ \$83 million redemption of SDG&E's outstanding preferred stock (including call premium and accrued dividends); and

§ \$56 million increase in common stock dividends paid primarily due to an increase in the dividend rate; **offset by**

§ \$574 million net proceeds received from the sale of noncontrolling interests at Sempra Mexico; and

§ \$256 million increase in short-term debt in 2013 compared to \$47 million decrease in 2012.

SDG&E

The cash provided by financing activities at SDG&E decreased in 2014 primarily due to:

- § \$350 million lower issuance of long-term debt; and
- § \$200 million common stock dividends paid in 2014; **offset by**
- § \$175 million lower payments on long-term debt; and
- § \$128 million higher increase in short-term debt.

Cash provided by financing activities at SDG&E increased in 2013 compared to 2012 primarily due to:

- § \$201 million higher issuances of long-term debt;
- § \$59 million increase in short-term debt in 2013; and
- § \$14 million reduction in capital distributions made by Otay Mesa VIE (\$26 million in 2013 compared to \$40 million in 2012); **offset by**
- § \$83 million redemption of outstanding preferred stock (including call premium and accrued dividends); and
- § \$189 million higher payments on long-term debt.

SoCalGas

At SoCalGas, financing activities were a net source of cash in 2014 compared to a use of cash in 2013, primarily due to:

- § \$747 million net proceeds from the issuance of long-term debt in 2014; **offset by**
- § \$250 million payment of long-term debt in 2014;
- § \$50 million increase in common stock dividends paid (\$100 million in 2014 compared to \$50 million in 2013); and
- § \$34 million lower increase in short-term debt.

Cash used by financing activities at SoCalGas in 2013 compared to 2012 decreased primarily due to:

- § \$250 million repayment of long-term debt in 2012;
- § \$200 million reduction in common stock dividends paid (\$50 million in 2013 compared to \$250 million in 2012); and
- § \$42 million increase in short-term debt in 2013; **offset by**
- § \$348 million issuance of long-term debt in 2012.

LONG-TERM DEBT

Long-term debt balances at December 31 were

LONG-TERM DEBT(1)

(Dollars in millions)

	At December 31,					
	2014		2013		2012	
Sempra Energy Consolidated	\$	12,636	\$	12,400	\$	12,346
SDG&E		4,684		4,554		4,308
SoCalGas		1,906		1,411		1,413

(1) Includes the current portion of long-term debt.

At December 31, 2014, the following information applies to long-term debt:

	Sempra Energy Consolidated	SDG&E	SoCalGas
Weighted average life to maturity, in years	12.8	16.1	18.7
Weighted average interest rate	4.79%	4.71%	4.39%

Issuances of Long-Term Debt

Major public issuances of long-term debt over the last three years include the following:

ISSUANCES OF LONG-TERM DEBT

(Dollars in millions)

	Amount	Rate	Maturing
Sempra Energy			
Notes, June 2014	\$ 500	3.55%	2024
Notes, November 2013	500	4.05	2023
Notes, September 2012	500	2.875	2022
Notes, March 2012	600	2.30	2017
Sempra Mexico			
Notes, February 2013	100	2.66	2018
Notes, February 2013	298	4.12	2023
SDG&E			
366-day commercial paper, May 2014	100	0.40	2015
First mortgage bonds, September 2013	450	3.60	2023
First mortgage bonds, March 2012	250	4.30	2042
SoCalGas			
First mortgage bonds, September 2014	500	3.15	2024
First mortgage bonds, March 2014	250	4.45	2044
First mortgage bonds, September 2012	350	3.75	2042

Sempra Energy used the proceeds from its issuances of long-term debt primarily for general corporate purposes and to repay commercial paper. We discuss issuances of long-term debt further in Note 5 of the Notes to Consolidated Financial Statements.

The California Utilities used the proceeds from their issuances of long-term debt:

- § for general working capital purposes;
- § to support their electric (at SDG&E) and natural gas (SDG&E and SoCalGas) procurement programs;
- § to redeem all outstanding shares of SDG&E's preferred stock;
- § to repay commercial paper at SDG&E; and
- § to replenish amounts expended and fund future expenditures for the expansion and improvement of their utility plants.

Payments on Long-Term Debt

Payments on long-term debt in 2014 included

- § \$500 million of Sempra Energy's 2-percent notes due in 2014
- § \$300 million of Sempra Energy's notes at variable rates (1.01 percent at December 31, 2013) due in 2014
- § \$250 million of SoCalGas' 5.5-percent notes due in 2014
- § \$62 million of 5.1-percent to 6.75-percent Luz del Sur bank loans maturing in 2015 and 2016
- § \$54 million of 5.72-percent to 6.47-percent Series A Luz del Sur notes maturing in 2014

Payments on long-term debt in 2013 included

- § \$400 million of Sempra Energy's 6-percent notes due in 2013
- § \$250 million of Sempra Energy's 8.9-percent notes due in 2013, including \$200 million at variable rates after fixed-to-floating interest rate swaps
- § \$60 million of SDG&E's 5.85-percent Pollution Control Revenue Bonds (PCRBs) due in 2021
- § \$115 million of SDG&E's 5.9-percent PCRBs due in 2014
- § \$14 million of SDG&E's 6.8-percent PCRBs due in 2015
- § \$86 million of 2.75-percent Series A Chilean public bonds maturing in 2014

Payments on long-term debt in 2012 included \$250 million of SoCalGas 4.8-percent first mortgage bonds at maturity in October 2012.

In Note 5 of the Notes to Consolidated Financial Statements, we provide information about our lines of credit and additional information about debt activity.

CAPITAL STOCK TRANSACTIONS

Sempra Energy

Cash provided by employee stock option exercises and newly issued shares for our dividend reinvestment and 401(k) saving plans was

§ \$56 million in 2014

§ \$62 million in 2013

§ \$78 million in 2012

SDG&E

In 2013, SDG&E redeemed all of its outstanding preferred stock for \$83 million (including call premium and accrued dividends). We discuss the redemption in Note 11 of the Notes to Consolidated Financial Statements.

DIVIDENDS

Sempra Energy

Sempra Energy paid cash dividends on common stock of:

§ \$598 million in 2014

§ \$606 million in 2013

§ \$550 million in 2012

In 2014, dividends declared increased due to an increase in the per-share quarterly dividend from \$0.63 in 2013 to \$0.66 in 2014. Offsetting this increase was a decrease in cash paid to fund dividends in 2014 compared to 2013 due to the issuance of new common shares to fund the dividend requirements of our savings plans and common stock purchase plan. The increase in 2013 was due to an increase in the per-share quarterly dividend from \$0.60 in 2012 to \$0.63 in 2013.

On December 9, 2014, Sempra Energy declared a quarterly dividend of \$0.66 per share of common stock that was paid on January 15, 2015. We provide additional information about Sempra Energy dividends above in “Capital Resources and Liquidity – Overview – Sempra Energy Consolidated.”

SDG&E

In 2014, SDG&E paid dividends to Enova and Enova paid corresponding dividends to Sempra Energy of \$200 million. SDG&E did not pay any common dividends to Sempra Energy in 2013 or 2012 to preserve cash to fund its capital expenditures program, which included the Sunrise Powerlink.

Enova, a wholly owned subsidiary of Sempra Energy, owns all of SDG&E’s outstanding common stock. Accordingly, dividends paid by SDG&E to Enova and dividends paid by Enova to Sempra Energy are both eliminated in Sempra Energy’s Consolidated Financial Statements.

SoCalGas

SoCalGas paid dividends to Pacific Enterprises (PE) and PE paid corresponding dividends to Sempra Energy of:

§ \$100 million in 2014

§ \$50 million in 2013

§ \$250 million in 2012

PE, a wholly owned subsidiary of Sempra Energy, owns all of SoCalGas’ outstanding common stock. Accordingly, dividends paid by SoCalGas to PE and dividends paid by PE to Sempra Energy are both eliminated in Sempra Energy’s Consolidated Financial Statements.

DIVIDEND RESTRICTIONS

The board of directors for each of Sempra Energy, SDG&E and SoCalGas has the discretion to determine the payment and amount of future dividends by each such entity. The CPUC’s regulation of SDG&E’s and SoCalGas’ capital structures limits the amounts that are available for loans and dividends to Sempra Energy. At December 31, 2014, based upon these regulations, Sempra Energy could have received combined loans and dividends of approximately \$755 million from SoCalGas and approximately \$640 million from SDG&E.

We provide additional information about restricted net assets in Note 1 of the Notes to Consolidated Financial Statements.

CAPITALIZATION

TOTAL CAPITALIZATION AND DEBT-TO-CAPITALIZATION RATIOS

(Dollars in millions)

	December 31, 2014					
	Sempra Energy Consolidated(1)		SDG&E(1)		SoCalGas	
Total capitalization	\$	26,469	\$	9,922	\$	4,737
Debt-to-capitalization ratio		54%		50%		41%

	December 31, 2013					
	Sempra Energy Consolidated(1)		SDG&E(1)		SoCalGas	
Total capitalization	\$	24,795	\$	9,332	\$	4,002
Debt-to-capitalization ratio		52%		49%		36%

(1) Includes noncontrolling interest and debt of Otay Mesa Energy Center LLC with no significant impact.

Significant changes during 2014 that affected capitalization include the following:

- § Sempra Energy Consolidated: net increases in debt, primarily commercial paper borrowings, partially offset by comprehensive income exceeding dividends
- § SDG&E: increase in both long-term and short-term debt, partially offset by comprehensive income exceeding dividends
- § SoCalGas: an increase in long-term debt, partially offset by comprehensive income exceeding dividends

We provide additional information about these significant changes in Notes 1 and 5 of the Notes to Consolidated Financial Statements.

COMMITMENTS

The following tables summarize principal contractual commitments, primarily long-term, at December 31, 2014 for Sempra Energy Consolidated, SDG&E and SoCalGas. We provide additional information about commitments above and in Notes 5, 7 and 15 of the Notes to Consolidated Financial Statements.

PRINCIPAL CONTRACTUAL COMMITMENTS OF SEMPRA ENERGY CONSOLIDATED

(Dollars in millions)

	2015	2016 and 2017	2018 and 2019	Thereafter	Total
Long-term debt	\$ 456	\$ 1,543	\$ 1,881	\$ 8,467	\$ 12,347
Interest on long-term debt(1)	583	1,059	874	5,082	7,598
Operating leases	73	129	107	271	580
Capital leases	6	8	10	211	235
Purchased-power contracts	674	1,351	1,468	7,363	10,856
Natural gas contracts	432	801	492	253	1,978
LNG contract(2)	381	1,168	1,375	7,603	10,527
Construction commitments	721	139	11	6	877
Build-to-suit lease	4	20	20	267	311
SONGS decommissioning	116	137	119	341	713
Sunrise Powerlink wildfire mitigation fund	3	7	7	302	319
Other asset retirement obligations	26	59	49	1,343	1,477
Pension and other postretirement benefit obligations(3)	42	276	388	959	1,665
Environmental commitments	29	22	3	11	65
Other	42	31	23	64	160
Totals	\$ 3,588	\$ 6,750	\$ 6,827	\$ 32,543	\$ 49,708

(1) We calculate expected interest payments using the stated interest rate for fixed-rate obligations, including floating-to-fixed interest rate swaps. We calculate expected interest payments for variable-rate obligations, including fixed-to-floating interest rate swaps, based on forward rates in effect at December 31, 2014.

(2) Sempra Natural Gas has a purchase agreement with a major international company for the supply of LNG to the Energia Costa Azul terminal. The multi-year agreement is priced using a predetermined formula based on natural gas market indices. The expected payments under the contract are based on forward prices of the applicable market index from 2015 to 2024 and an estimated one percent escalation per year after 2024. We provide more information about this contract in Note 15 of the Notes to Consolidated Financial Statements.

(3) Amounts represent expected company contributions to the plans for the next 10 years.

PRINCIPAL CONTRACTUAL COMMITMENTS OF SDG&E

(Dollars in millions)

	2015	2016 and 2017	2018 and 2019	Thereafter	Total
Long-term debt	\$ 360	\$ 20	\$ 456	\$ 3,625	\$ 4,461
Interest on long-term debt(1)	204	385	368	2,468	3,425
Operating leases	24	46	34	75	179
Capital leases	5	8	10	211	234
Purchased-power contracts	494	987	1,005	6,318	8,804
Construction commitments	229	94	11	6	340
SONGS decommissioning	116	137	119	341	713

Sunrise Powerlink wildfire mitigation fund	3	7	7	302	319
Other asset retirement obligations	4	6	6	144	160
Pension and other postretirement benefit obligations(2)	12	65	106	238	421
Environmental commitments	13	4	1	9	27
Totals	\$ 1,464	\$ 1,759	\$ 2,123	\$ 13,737	\$ 19,083

(1) SDG&E calculates expected interest payments using the stated interest rate for fixed-rate obligations, including floating-to-fixed interest rate swaps.

(2) Amounts represent expected company contributions to the plans for the next 10 years.

PRINCIPAL CONTRACTUAL COMMITMENTS OF SOCALGAS

(Dollars in millions)

	2015	2016 and 2017	2018 and 2019	Thereafter	Total
Long-term debt	\$ —	\$ 8	\$ 250	\$ 1,655	\$ 1,913
Interest on long-term debt(1)	84	167	144	1,193	1,588
Natural gas contracts	149	243	142	123	657
Operating leases	39	70	64	156	329
Capital leases	1	—	—	—	1
Construction commitments	218	42	—	—	260
Environmental commitments	4	17	1	2	24
Pension and other postretirement benefit obligations(2)	2	167	224	605	998
Asset retirement obligations	21	53	43	1,159	1,276
Totals	\$ 518	\$ 767	\$ 868	\$ 4,893	\$ 7,046

(1) SoCalGas calculates interest payments using the stated interest rate for fixed-rate obligations.

(2) Amounts represent expected company contributions to the plans for the next 10 years.

The tables exclude

- § contracts between consolidated affiliates
- § intercompany debt
- § individual contracts that have annual cash requirements less than \$1 million
- § employment contracts

The tables also exclude income tax liabilities of

- § \$48 million for Sempra Energy Consolidated
- § \$14 million for SDG&E
- § \$19 million for SoCalGas

These liabilities relate to uncertain tax positions and were excluded from the tables because we are unable to reasonably estimate the timing of future payments due to uncertainties in the timing of the effective settlement of tax positions. We provide additional information about unrecognized tax benefits in Note 6 of the Notes to Consolidated Financial Statements.

OFF-BALANCE SHEET ARRANGEMENTS

The maximum aggregated amount of guarantees provided by Sempra Energy on behalf of related parties at December 31, 2014 is \$4.5 billion. We discuss these guarantees in Notes 4, 5 and 15 of the Notes to Consolidated Financial Statements.

SDG&E has entered into power purchase arrangements which are variable interests. We discuss variable interests in Note 1 of the Notes to Consolidated Financial Statements.

CREDIT RATINGS

The credit ratings of Sempra Energy, SDG&E and SoCalGas remained at investment grade levels in 2014. At December 31, 2014, Sempra Energy's unsecured debt rating remained at BBB+ with a stable outlook. In January 2014, Moody's increased SDG&E's and SoCalGas' unsecured debt rating to A1 with a stable outlook.

Sempra Energy, SDG&E and SoCalGas have committed lines of credit to provide liquidity and to support commercial paper and variable-rate demand notes. Borrowings under these facilities bear interest at benchmark rates plus a margin that varies with market index rates and each borrower's credit rating. Each facility also requires a commitment fee on available unused credit.

Under these committed lines, if Sempra Energy were to experience a ratings downgrade from its current level, the rate at which borrowings bear interest would increase by 25 to 50 basis points, depending on the severity of the downgrade. The commitment fee on available unused credit would also increase 5 to 10 basis points, depending on the severity of the downgrade.

Under these committed lines, if SDG&E or SoCalGas were to experience a ratings downgrade from its current level, the rate at which borrowings bear interest would increase by 12.5 to 87.5 basis points, depending on the severity of the downgrade. The commitment fee on available unused credit would also increase 2.5 to 20 basis points, depending on the severity of the downgrade. The January 2014 upgrade of the California Utilities' credit ratings reduced the interest rate and commitment fee rate on committed lines of credit by 12.5 basis points and 2.5 basis points, respectively.

For Sempra Energy and SDG&E, their credit ratings may affect credit limits related to derivative instruments, as we discuss in Note 9 of the Notes to Consolidated Financial Statements.

FACTORS INFLUENCING FUTURE PERFORMANCE

CALIFORNIA UTILITIES

Overview

The California Utilities' operations have historically provided relatively stable earnings and liquidity.

The California Utilities' performance will depend primarily on the ratemaking and regulatory process, environmental regulations, economic conditions, actions by the California legislature and the changing energy marketplace. Their performance will also depend on the successful completion of capital projects that we discuss in various sections of this report and below. We discuss certain regulatory matters below and in Notes 13 and 14 of the Notes to Consolidated Financial Statements.

Joint Matters

Natural Gas Pipeline Operations Safety Assessments

Pending the outcome of the various regulatory agency evaluations of natural gas pipeline safety regulations, practices and procedures, Sempra Energy, including the California Utilities, may incur incremental expense and capital investment associated with its natural gas pipeline operations and investments. In August 2011, SoCalGas, SDG&E, Pacific Gas and Electric (PG&E) and Southwest Gas filed implementation plans with the CPUC to test or replace natural gas transmission pipelines located in populated areas that have not been pressure tested, as we discuss in Note 14 of the Notes to Consolidated Financial Statements. In their 2011 filing with the CPUC, the California Utilities estimated the total cost for Phase 1 of the two-phase plan to be \$3.1 billion (\$2.5 billion for SoCalGas and \$600 million for SDG&E) over the 10-year period of 2012 to 2022. As a result of on-going efforts since this original filing, the California Utilities have been able to eliminate over two hundred miles of pipeline from the testing scope and have revised their total estimated cost for Phase 1 to \$2.1 billion (\$1.6 billion for SoCalGas and \$500 million for SDG&E). The California Utilities requested that the incremental capital investment required as a result of any approved plan be included in rate base and that cost recovery be allowed for any other incremental cost not eligible for rate-base recovery. The costs that are the subject of these plans were outside the scope of the 2012 General Rate Case proceedings concluded in 2013.

In June 2014, the CPUC issued a final decision in the Triennial Cost Allocation Proceeding (TCAP) addressing SDG&E's and SoCalGas' PSEP that approved the utilities' model for implementing PSEP, and established the criteria to determine the amounts related to PSEP that may be recovered from ratepayers and the processes for recovery of such amounts, including providing that such costs are subject to a reasonableness review.

As a result of this decision, SoCalGas recorded an after-tax earnings charge of \$5 million in 2014 for costs incurred in prior periods for which SoCalGas was disallowed recovery. After taking the amounts disallowed for recovery into consideration, as of December 31, 2014, SDG&E and SoCalGas have recorded PSEP costs of \$2 million and \$85 million, respectively, in the CPUC-authorized regulatory account. In October 2014, SDG&E and SoCalGas filed a request with the CPUC for authority to recover PSEP costs from customers as incurred, subject to refund pending the results of a reasonableness review by the CPUC. In December 2014, SDG&E and SoCalGas filed an application with the CPUC for recovery of \$0.1 million and \$46 million, respectively, in costs recorded in the regulatory account through June 11, 2014. We requested a decision in 2015.

In July 2014, the CPUC Office of Ratepayer Advocates (ORA) and The Utility Reform Network (TURN) filed a joint application for rehearing of the CPUC's June 2014 final decision. The ORA and TURN alleged that the CPUC made a legal error in directing that ratepayers, not shareholders, be responsible for the costs associated with testing or replacing transmission pipelines that were installed between January 1, 1956 and July 1, 1961 for which the California Utilities do not have a record of a pressure test. In November 2014, the CPUC denied the ORA and TURN request for rehearing of the decision adopting the PSEP. In December 2014, ORA and TURN sought rehearing of the CPUC's decision on rehearing. In late December 2014, SoCalGas and SDG&E filed their opposition to this second application for rehearing, and are continuing to implement PSEP in accordance with the June 2014 CPUC decision.

If the CPUC were to decide as part of any future reasonableness review that rate recovery not be allowed for certain gas pipeline safety costs incurred by SDG&E and SoCalGas, or if the CPUC were to decide in favor of the ORA/TURN joint application for rehearing, it could materially adversely affect the respective company's cash flows, financial condition, results of operations and prospects in implementing the PSEP.

We provide additional information in Note 14 of the Notes to Consolidated Financial Statements.

Safety Enforcement

California Senate Bill (SB) 291, enacted in October 2013, requires the CPUC to develop and implement a safety enforcement program that includes procedures for monitoring, data tracking and analysis, and investigations, as well as delegating citation authority to CPUC staff personnel under the direction of the CPUC Executive Director. SB 291 requires the CPUC to implement the enforcement program for gas safety by July 1, 2014 and for electric safety by January 1, 2015. In exercising the citation authority, the CPUC staff will take into account voluntary reporting of potential violations, voluntary resolution efforts undertaken, prior history of violations, the gravity of the violation, and the degree of culpability. In December 2014, the CPUC adopted an electric safety enforcement program whereby electric utilities may be cited by CPUC staff for violations of the CPUC's safety requirements or federal standards.

In December 2011, the CPUC adopted a gas safety citation program whereby natural gas distribution companies can be cited by CPUC staff for violations of the CPUC's safety standards. In September 2013, the CPUC's safety and enforcement division issued its Standard Operating Procedures setting forth its

principles and management process for the natural gas safety citation program.

Under each enforcement program, each day of an ongoing violation may be counted as an additional offense. The maximum penalty is \$50,000 per offense. Citations under either program may be appealed to the CPUC. The CPUC plans to make further refinements to the electric and gas safety enforcement programs in 2015.

SDG&E Matters

2007 Wildfire Litigation

In regard to the 2007 wildfire litigation, SDG&E's payments for claims settlements plus funds estimated to be required for settlement of outstanding claims and legal fees have exceeded its liability insurance coverage and amounts recovered from third parties. However, SDG&E has concluded that it is probable that it will be permitted to recover in rates a substantial portion of the reasonably incurred costs of resolving wildfire claims in excess of its liability insurance coverage and amounts recovered from third parties. Consequently, Sempra Energy and SDG&E expect no significant earnings impact from the resolution of the remaining wildfire claims. At December 31, 2014, Sempra Energy's and SDG&E's Consolidated Balance Sheets include assets of \$373 million in Other Regulatory Assets (long-term), of which \$366 million is related to CPUC-regulated operations and \$7 million is related to FERC-regulated operations, for costs incurred and the estimated settlement of pending claims. Recovery of these costs in rates will require future regulatory approval, and a failure to obtain substantial or full recovery, or any negative assessment of the likelihood of recovery, would likely have a material adverse effect on Sempra Energy's and SDG&E's financial condition, cash flows and results of operations.

SDG&E will continue to gather information to evaluate and assess the remaining wildfire claims and the likelihood, amount and timing of recoveries in rates and will make appropriate adjustments to wildfire reserves and the related regulatory assets as additional information becomes available.

Should SDG&E conclude that recovery of excess wildfire costs in rates is no longer probable, at that time SDG&E will record a charge against earnings. If SDG&E had concluded that the recovery of regulatory assets related to CPUC-regulated operations was no longer probable or was less than currently estimated, at December 31, 2014, the resulting after-tax charge against earnings would have been up to approximately \$217 million. We discuss how we assess the probability of recovery of our regulatory assets in Note 1 of the Notes to Consolidated Financial Statements.

We provide additional information concerning these matters in Notes 14 and 15 of the Notes to Consolidated Financial Statements.

SONGS

We discuss regulatory and other matters related to SONGS in the Notes to Consolidated Financial Statements as follows:

In Note 13:

- § SONGS Outage and Retirement
- § Settlement Agreement to Resolve the CPUC's Order Instituting Investigation (OII) into the SONGS Outage (SONGS OII)
- § Nuclear Regulatory Commission Proceedings
- § Nuclear Decommissioning and Funding
- § Nuclear Decommissioning Trusts

In Note 15:

- § Legal Proceedings – SDG&E – Lawsuit Against Mitsubishi Heavy Industries, Ltd.
- § Environmental Issues
- § Nuclear Insurance
- § U.S. Department of Energy (DOE) Nuclear Fuel Disposal

We also discuss SONGS in "Risk Factors" in our 2014 Annual Report on Form 10-K.

Investment in Wind Farm

In 2011, the CPUC and FERC approved SDG&E's estimated \$285 million tax equity investment in the Rim Rock wind farm project. SDG&E and the project developer are in dispute regarding whether all conditions precedent in the contribution agreement have been achieved by the developer of the project. As a result, SDG&E has not made the investment, and the project developer and SDG&E are in dispute regarding SDG&E's contractual obligation to invest in the project, as we discuss in Note 15 of the Notes to Consolidated Financial Statements.

Electric Rate Reform – State of California Assembly Bill 327

In October 2013, the Governor of California signed Assembly Bill (AB) 327. This bill became law on January 1, 2014. This new law restores the authority to establish electric residential rates for electric utility companies in California to the CPUC and removes the rate caps established in AB 1X adopted in early 2001 during California's energy crisis, as well as SB 695 adopted in 2009. Additionally, the bill provides the CPUC the authority to adopt up to a \$10.00 monthly fixed charge for all non-CARE (California Alternate Rates for Energy) residential customers and up to a \$5.00 monthly fixed charge for CARE customers. Beginning January 1, 2016, the maximum allowable fixed charge may be adjusted by no more than the annual percentage increase in the Consumer Price Index for the prior calendar year. In February 2014, SDG&E filed comprehensive proposals with the CPUC that provide a roadmap to

reforming electric residential rate design beginning in 2015 and continuing through 2018, consistent with the provisions of AB 327. We expect a CPUC decision in the first half of 2015.

In July 2014, the CPUC initiated a rulemaking proceeding to develop a successor tariff to the state's existing net energy metering (NEM) program pursuant to the provisions of AB 327 that require the CPUC to establish a revised NEM tariff or similar program by December 31, 2015. The NEM program is an electric billing tariff mechanism designed to promote the installation of on-site renewable generation. It was originally established in California in 1995 with the adoption of SB 656, as codified in Section 2827 of the Public Utilities Code. Currently, customers who install and operate eligible renewable generation facilities of one megawatt or less may choose to participate in the NEM program. Under NEM, customer-generators receive a full retail-rate bill credit for the power they generate that is fed back to the utility's power grid during times when the customer's generation exceeds their own energy usage.

Meaningful rate reform is necessary to ensure that SDG&E is authorized to recover, from NEM customers, the costs incurred in providing services to NEM customers due to, among other issues, the increased power supply from renewable energy sources and the growth in distributed and local power generation. If the CPUC fails to reform SDG&E's rate structures to allow it to recover costs associated with the services provided to NEM customers and better align electric residential rates with the costs that are incurred to provide service, such failure could have a material adverse effect on SDG&E's business, cash flows, financial condition, results of operations and/or prospects. For additional discussion, see "Risk Factors" in the 2014 Annual Report on Form 10-K.

Industry Developments and Capital Projects

We describe capital projects, electric and natural gas regulation and rates, and other pending proceedings and investigations that affect the California Utilities in Note 14 of the Notes to Consolidated Financial Statements.

SEMPRA INTERNATIONAL

As we discuss in "Cash Flows From Investing Activities," our investments will significantly impact our future performance. In addition to the discussion below, we provide information about these investments in "Capital Resources and Liquidity."

Sempra South American Utilities

Overview

In April 2011, Sempra South American Utilities increased its investment in two utilities in South America, Chilquinta Energía and Luz del Sur. In connection with our increased interests in these utilities, Sempra Energy has \$834 million in goodwill on its Consolidated Balance Sheet at December 31, 2014. Goodwill is subject to impairment testing, annually and under other potential circumstances, which may cause its fair value to vary if differing estimates and assumptions are used in the valuation techniques applied as indicated by changing market or other conditions.

Sempra South American Utilities is also expected to provide earnings from construction projects when completed and from other investments, but will require substantial funding for these investments.

Sempra South American Utilities has historically provided relatively stable earnings and liquidity, and its performance will depend primarily on the ratemaking and regulatory process, environmental regulations, foreign currency rate fluctuations and economic conditions.

Revenues at Chilquinta Energía are based on tariffs set by the National Energy Commission (Comisión Nacional de Energía, or CNE) every four years. Rates for four-year periods related to distribution and sub-transmission are reviewed separately on an alternating basis every two years. In late 2011, Chilquinta Energía initiated the process to establish its distribution rates for the period from November 2012 to October 2016. This process was completed in November 2012, with rates published in April 2013, and tariff adjustments going into effect retroactively from November 2012. This resulted in a 3.2 percent decrease in rates.

In April 2013, the CNE completed the process to establish sub-transmission rates for the period January 2011 to December 2014, with tariff adjustments going into effect retroactively from January 2011. This resulted in immaterial changes in rates. The sub-transmission rates period has been extended for one year, for one time only, to December 2015, due to a change in law issued in December 2014. Accordingly, the next review process for sub-transmission rates will be in January 2016, covering the period from January 2016 to December 2019.

Luz del Sur serves primarily regulated customers in Peru and revenues are based on rates set by the Energy and Mining Investment Supervisory Body (Organismo Supervisor de la Inversión en Energía y Minería, or OSINERGMIN). The rates are reviewed and adjusted every four years. OSINERGMIN's final distribution rate setting resolution for the 2013-2017 period was published in October 2013 and went into effect on November 1, 2013. There was no material change in the rates.

In September 2014, tax reform legislation was passed in Chile. The main amendments established in the tax reform include, among others, a gradual increase in the corporate income tax rate and the introduction of two options to pay the secondary tax (shareholder tax) on corporate profits (either immediate payment of tax or deferral of tax until earnings are distributed) with different impacts to the total income tax burden. We discuss this tax reform above in "Results of Operations – Changes in Revenues, Costs and Earnings – Income Taxes."

In December 2014, the Peruvian government passed a tax reform law. Among other changes, the new law gradually reduces the 30 percent corporate tax rate in 2014 to 26 percent by 2019 with an offsetting increase in the withholding tax rate on dividends. We discuss this tax reform above in "Results of Operations – Changes in Revenues, Costs and Earnings – Income Taxes."

Santa Teresa

Luz del Sur is in the final stages of construction of Santa Teresa, a 100-MW hydroelectric power plant in Peru's Cusco region. It is scheduled to be completed in the first half of 2015.

Transmission Projects

Chilquinta Energía. Chilquinta Energía has 50-percent ownership in two joint ventures, Eletrans S.A. and Eletrans II S.A., with Sociedad Austral de Electricidad Sociedad Anónima (SAESA) to construct transmission lines in Chile.

In May 2012, Eletrans S.A. was awarded two 220-kV transmission lines in Chile. The transmission lines will extend 150 miles, and we estimate the projects will cost approximately \$150 million in total and be completed in 2016 and 2017.

In June 2013, Eletrans II S.A. was awarded two 220-kV transmission lines in Chile. The transmission lines will extend approximately 60 miles, and we estimate the projects will cost approximately \$80 million in total and be completed in 2018.

Sempra South American Utilities has a U.S. dollar-denominated loan to Eletrans S.A. totaling \$40 million at December 31, 2014 to provide project financing for the construction of transmission lines. Eletrans S.A. is an affiliate of Chilquinta Energía. We discuss this loan in Note 1 of the Notes to Consolidated Financial Statements.

The projects will be financed by the joint venture partners. Other financing may be pursued upon completion of the projects.

Luz del Sur. Luz del Sur has received regulatory approval for an amended transmission investment plan that includes the development and operation of four substations and their related transmission lines in Lima. We estimate that the project will cost approximately \$150 million and be in service in 2016 and 2017 as portions are completed. Once in operation, the capitalized cost will earn the regulated return for 30 years. The project will be financed through Luz del Sur's existing debt program in Peru's capital markets.

Sempra Mexico

Overview

Sempra Mexico is expected to provide earnings from construction projects when completed and from other investments. We expect projects in Mexico to be funded through a combination of available funds, funds internally generated by the Mexico businesses, securities issuances, project financing, and partnering in joint ventures.

In March 2013, Sempra Mexico sold common shares of IEnova in a private placement in the U.S. and outside of Mexico and, concurrently, in a registered public offering in Mexico, as we discuss in Note 1 of the Notes to Consolidated Financial Statements. The shares sold represent approximately 18.9 percent of the ownership interests in IEnova, which reduces our earnings from Sempra Mexico and has a dilutive effect on our earnings per share. The earnings attributable to IEnova's noncontrolling interests were \$47 million and \$26 million for the years ended December 31, 2014 and 2013, respectively.

In June and August 2014, IEnova entered into three-year term corporate revolving credit facility agreements for \$200 million and \$100 million, respectively, to finance working capital and for other general corporate purposes. IEnova drew down \$145 million in 2014 from the first facility, and \$51 million in 2014 from the second facility. We discuss the credit facilities further in Note 5 of the Notes to Consolidated Financial Statements.

We discuss the impact of Mexican tax reform in "Results of Operations – Changes in Revenues, Costs and Earnings – Income Taxes" above.

Pipeline Projects

In October 2012, IEnova was awarded two contracts by the Federal Electricity Commission (Comisión Federal de Electricidad, or CFE) to build and operate an approximately 500-mile pipeline network (Sonora pipeline) to transport natural gas from the U.S.-Mexico border south of Tucson, Arizona through the Mexican state of Sonora to the northern part of the Mexican state of Sinaloa along the Gulf of California. The network will be comprised of two segments that will interconnect to the U.S. interstate pipeline system. We estimate it will cost approximately \$1 billion. A section of the project was completed in October 2014. We expect to complete the remaining sections in stages in 2015 and 2016. The capacity is fully contracted by the CFE under two 25-year contracts denominated in U.S. dollars. IEnova continues to monitor CFE project opportunities and carefully analyze CFE bids in order to participate in those that fit its overall growth strategy.

In December 2012, through its joint venture with PEMEX, the Mexican state-owned oil company, IEnova executed an ethane transportation services agreement with PEMEX to construct and operate an approximately 140-mile pipeline (Ethane Pipeline) to transport ethane from Tabasco, Mexico to Veracruz, Mexico. We estimate it will cost approximately \$330 million and be funded by the joint venture without additional capital contributions from the partners. It is expected to be completed in the first half of 2015. PEMEX has fully contracted the capacity under a 21-year contract denominated in U.S. dollars.

In January 2013, PEMEX announced that the first phase of the Los Ramones pipeline project was assigned to and would be developed by IEnova's joint venture with PEMEX. The project is a 70-mile natural gas pipeline with two compression stations, from the northern portion of the state of Tamaulipas bordering the United States to Los Ramones in the Mexican state of Nuevo León. The capacity is fully contracted under a 25-year transportation services agreement with PEMEX denominated in Mexican pesos, with a contract rate based on the U.S. dollar investment, adjusted annually for inflation and fluctuation of the exchange rate. The pipeline began operations at the end of 2014.

In addition, in 2014, IEnova's joint venture with PEMEX and affiliates of PEMEX executed agreements for the development of Los Ramones Norte, a natural gas pipeline of approximately 275 miles and two compression stations, which will connect with the first phase of Los Ramones and run to the vicinity of San Luis Potosi, with an estimated cost of approximately \$1.3 billion to \$1.5 billion. IEnova's joint venture with PEMEX has a 50-percent interest in the project. In June 2014, the project executed an engineering, procurement and construction contract, and in July 2014, the project issued the full notice to proceed. We expect expenditures for the project to be funded by the joint venture's cash flows from operations and project financing, plus additional contributions from its partners. The pipeline's capacity is fully contracted under a 25-year transportation services agreement with PEMEX denominated in Mexican pesos, with a contract rate based on the U.S. dollar investment, adjusted annually for inflation and fluctuation of the exchange rate.

In 2014, Sempra Mexico made loans to affiliates of its joint venture with PEMEX totaling \$123 million at December 31, 2014. We discuss these loans in Note 1 of the Notes to Consolidated Financial Statements.

In December 2014, Sempra Mexico entered into the Ojinaga pipeline natural gas transportation services agreement with CFE for a 25-year term. CFE contracted 100-percent of the transport capacity of the Ojinaga pipeline, equal to 1.4 Bcf per day. Sempra Mexico will be responsible for the development,

construction and operation of the approximately 127-mile, 42-inch pipeline, with an estimated cost of \$300 million. We expect the pipeline to begin operations in the first half of 2017.

Energía Sierra Juárez

In October 2013, Sempra Mexico started construction on the 155-MW first phase of the Energía Sierra Juárez wind generation project, which first phase is fully contracted by SDG&E. The Energía Sierra Juárez project is designed to provide up to 1,200 MW of capacity if fully developed.

In June 2014, the Energía Sierra Juárez wind project entered into an 18-year, \$240 million loan to project finance the construction and drew down \$82 million under the loan agreement, as we discuss in Note 5 of the Notes to Consolidated Financial Statements. The loan agreement also provides for a \$31.7 million letter of credit facility. Energía Sierra Juárez also entered into a separate Peso-denominated credit facility for up to \$35 million U.S. dollar equivalent to fund the value added tax of the project.

In July 2014, after obtaining the required regulatory approvals in Mexico and the U.S., we consummated the sale of a 50-percent equity interest in the first phase of Energía Sierra Juárez to a wholly owned subsidiary of InterGen N.V. for \$24 million, net of \$2 million cash returned in the project, as we discuss in Note 3 of the Notes to Consolidated Financial Statements. Upon consummation of the sale, the debt under the credit facilities was deconsolidated.

Future expansion of Energía Sierra Juárez will depend, among other factors, on the ability to obtain additional power purchase contracts.

Energía Costa Azul LNG Terminal

In February 2015, Sempra Natural Gas, IEnova, and a subsidiary of PEMEX entered into a Memorandum of Understanding (MOU) to collaborate in the development of a natural gas liquefaction project at IEnova's existing regasification terminal at Energía Costa Azul. The MOU defines the basis for the parties to explore PEMEX's participation in this potential liquefaction project, including joining efforts on its development and structuring agreements that would allow opportunities for PEMEX to become a customer, natural gas supplier and investor.

SEMPRA U.S. GAS & POWER

Sempra Renewables

Overview

Sempra Renewables is developing and investing in renewable energy generation projects that have long-term contracts with electric load serving entities, which provide electric service to end-users and wholesale customers. The renewable energy projects have planned in-service dates through 2016. These projects require construction financing which may come from a variety of sources including operating cash flow, project financing, funds from the parent, partnering in joint ventures and, potentially, other forms of equity sales. The varying costs of these alternative financing sources impact the projects' returns.

Sempra Renewables' future performance and the demand for renewable energy is impacted by various market factors, most notably state mandated requirements to deliver a portion of total energy load from renewable energy sources. The rules governing these requirements are generally known as Renewables Portfolio Standards (RPS). Additionally, the phase out or extension of U.S. federal income tax incentives, primarily investment tax credits and production tax credits, and grant programs could significantly impact future renewable energy resource availability and investment decisions.

Broken Bow 2 Wind Project

In September 2013, Sempra Renewables acquired the rights to develop the Broken Bow 2 Wind project in Custer County, Nebraska. Sempra Renewables began construction on the 75-MW wind farm in 2013, and the facility achieved commercial operation in October 2014. Nebraska Public Power District has contracted for all of the wind energy from the project for 25 years. In October 2014, Sempra Renewables completed a private offering of an aggregate of \$72 million in principal amount of 4.82-percent fixed-rate notes maturing in 2039. Proceeds from this offering were used to finance this project. In November 2014, we completed a sale of 50 percent of our equity in Broken Bow 2 Wind to ConEdison Development and the debt was deconsolidated as we discuss in Notes 3, 4 and 5 of the Notes to Consolidated Financial Statements.

California Solar Partnership with ConEdison Development

In May 2014, Sempra Renewables and ConEdison Development consummated an agreement to partner in four solar projects in California. The joint venture includes ConEdison Development's CED California Holdings, LLC portfolio, which consists of the 50-MW Alpaugh 50, the 20-MW Alpaugh North and the 20-MW White River 1 facilities in Tulare County, and the 20-MW Corcoran 1 facility in Kings County. The renewable power from all of the projects has been sold under long-term contracts. Sempra Renewables and ConEdison Development each own a 50-percent interest in the four fully operating solar facilities. We discuss the joint venture further in Notes 3 and 4 of the Notes to Consolidated Financial Statements.

Copper Mountain Solar

Copper Mountain Solar is a photovoltaic generation facility operated and under development by Sempra Renewables in Boulder City, Nevada. When fully developed, the project will be capable of producing up to approximately 550 MW of solar power; it is being developed in multiple phases as power sales become contracted. Copper Mountain Solar is comprised of four separate projects.

Copper Mountain Solar 1 is a 58-MW photovoltaic generation facility currently in operation, which is fully contracted for 20 years to PG&E.

Copper Mountain Solar 2 began construction in December 2011 and will total 150 MW when completed. Copper Mountain Solar 2 is divided into two phases, with the first phase of 92 MW placed in service in November 2012 and the remaining 58 MW planned to be placed in service in 2015. PG&E has contracted for all of the solar power at Copper Mountain Solar 2 for 25 years. In July 2013, we completed the sale of 50 percent of our equity in Copper Mountain Solar 2 to ConEdison Development as we discuss in Notes 3 and 4 of the Notes to Consolidated Financial Statements.

Copper Mountain Solar 3 started construction in March 2013 and will total 250 MW when completed. Copper Mountain Solar 3 will be placed in service as each of the ten blocks of solar panels is installed and is planned to be entirely in service in 2015. The cities of Los Angeles and Burbank have contracted for all of the solar power at Copper Mountain Solar 3 for 20 years. In addition to solar power, the power sales agreement provides the cities of Los Angeles and

Burbank the option to purchase the Copper Mountain Solar 3 facility at years 10, 15 and 20 of the contract term, or upon earlier termination of the agreement. In March 2014, we completed the sale of 50 percent of our equity in Copper Mountain Solar 3 to ConEdison Development, as we discuss in Notes 3, 4 and 5 of the Notes to Consolidated Financial Statements.

In July 2014, Sempra Renewables signed a 20-year power sale agreement with Southern California Edison for all of the solar power from Copper Mountain Solar 4 beginning in 2020. We expect Copper Mountain Solar 4 to be in service in 2016, marketing its output prior to the commencement of the power sale agreement. Copper Mountain Solar 4 will total 94 MW when completed. The power sale agreement is subject to approval by the CPUC.

Mesquite Solar

Mesquite Solar is a photovoltaic generation facility under development by Sempra Renewables in Maricopa County, Arizona. If fully developed, the project will be capable of producing up to approximately 700 MW of solar power. Construction on the first phase (Mesquite Solar 1) of 150 MW, which is fully contracted for 20 years to PG&E, was completed in December 2012. In September 2013, we completed the sale of 50 percent of our equity in Mesquite Solar 1 to ConEdison Development, as we discuss in Notes 3 and 4 of the Notes to Consolidated Financial Statements.

Sempra Natural Gas

Mesquite Power Natural Gas-Fired Plant

In June 2011, Sempra Natural Gas entered into a 25-year power contract with various members of SPPR Group, an association of 40 not-for-profit utilities in Arizona and southern Nevada. The contract was expanded to a total of 271 MW in February 2013. Under the terms of the agreement, Sempra Natural Gas will provide 21 participating SPPR Group members with firm, day-ahead dispatchable power from its Mesquite Power plant or other sources delivered to the Palo Verde hub beginning in January 2015.

In February 2013, Sempra Natural Gas completed the sale of one 625-MW block of its Mesquite Power plant to the Salt River Project Agricultural Improvement and Power District for \$371 million in cash. Sempra Natural Gas retained ownership of the second block of the Mesquite Power plant that will support the contract with the participating SPPR Group members.

In January 2014, management approved a plan to market and sell the remaining 625-MW block of the plant. In October 2014, Sempra Natural Gas entered into a definitive agreement to sell the remaining block of the power plant and assign the SPPR Group contract to the buyer. We anticipate the sale will close in the first half of 2015, subject to obtaining third-party consents for the assignment of the SPPR Group contract. We discuss the plan to sell the second 625-MW block of Mesquite Power in Note 3 of the Notes to Consolidated Financial Statements.

Rockies Express

Sempra Natural Gas owns a 25-percent interest in Rockies Express Pipeline LLC (Rockies Express), a partnership that operates a natural gas pipeline, the Rockies Express pipeline (REX), which links the Rocky Mountains region to the upper Midwest and the eastern United States. All of REX's original capacity sales provide for west-to-east service. Sempra Natural Gas has an agreement for such capacity on REX through November 2019. The capacity costs are offset by revenues from releases of the capacity contracted to third parties. Certain capacity release commitments totaling \$22 million concluded during 2013. Contracting activity related to that capacity has not been sufficient to offset all of our capacity payments to Rockies Express.

In November 2013, FERC issued a decision ruling that east-to-west service offerings within a single REX rate zone would not result in potential rate reductions under provisions in the original customers' west-to-east contracts ("most favored nation" provisions). In December 2013, certain west-to-east customers sought rehearing of that decision. In 2014, Rockies Express reached settlements with three west-to-east customers, with one customer continuing to seek rehearing. The triggering of these provisions would result in significantly reduced revenue to REX from these west-to-east contracts.

In April 2014, prior to the launching of an open season, Rockies Express had secured binding financial commitments with four shippers totaling 1.2 Bcf per day of capacity for east-to-west transportation services at a rate of \$0.50 per dekatherm for a term of 20 years originating at or near Clarington, Ohio. We expect the capacity to be in service by mid-2015. In June 2014, Rockies Express finished constructing the Seneca Lateral, an initial 0.25 Bcf per day capacity project that connects natural gas production sources in Ohio to REX. The lateral's capability was further expanded to 0.6 Bcf per day of capacity in January 2015. The lateral is fully contracted through September 2021. Rockies Express has also conducted a non-binding open season to assess further expansion of its facilities for east-to-west service. The expansion would require additional capital investment and would be subject to regulatory approval.

Sempra Natural Gas expects to invest approximately \$110 million in Rockies Express to repay project debt maturing in early 2015.

Our carrying value in Rockies Express at December 31, 2014 is \$340 million. We recorded noncash, after-tax impairment charges totaling \$239 million in 2012 to write down our investment in the partnership. We discuss our investment in Rockies Express and the impairment charges in Notes 4 and 10 of the Notes to Consolidated Financial Statements.

REX experienced a rupture on January 29, 2015. There were no injuries, nor was fire involved. This incident occurred near Bowling Green, Missouri, which is the western end of REX Zone 3 in Segment 300. It has been determined that a weld failed, the cause of which is still under investigation. Rockies Express returned Segment 300 to service on February 8, 2015, and is fully cooperating with the Pipeline and Hazardous Materials Safety Administration.

Natural Gas Storage

Our natural gas storage assets include operational and development assets at Bay Gas in Alabama and Mississippi Hub in Mississippi, as well as our development project, LA Storage, LLC (LA Storage) in Louisiana. LA Storage could be positioned to support LNG export from Cameron and other liquefaction projects, if anticipated cash flows support further investment. However, changes in the U.S. natural gas market could also lead to diminished natural gas storage values.

Historically, the value of natural gas storage services has positively correlated with the difference between the seasonal prices of natural gas, among other factors. In general, over the past several years, seasonal differences in natural gas prices have declined, which have contributed to lower prices for storage services. As our legacy (higher rate) sales contracts mature at Bay Gas and Mississippi Hub, replacement sales contract rates could be lower than has historically been the case. Lower sales revenues may not be offset by cost reductions, which could lead to depressed asset values. In addition, our LA Storage development project may be unable to attract cash flow commitments sufficient to support further investment, or unable to extend its FERC construction

permit beyond its expiration date of June 2015. The LA Storage project also includes an existing 23.3-mile pipeline header system, the LA Storage Pipeline, that is uncontracted. We perform recovery testing of our recorded asset values when market conditions indicate that such values may not be recoverable. In the event such values are not recoverable, we would consider the fair value of these assets relative to their recorded value. To the extent the book value is in excess of the fair value, we would record a non-cash impairment charge. The book value of our equity in natural gas storage assets at December 31, 2014 is \$1.3 billion, excluding intercompany loans to the projects totaling approximately \$250 million.

After placing additional capacity in service at Bay Gas and Mississippi Hub in June 2014, Sempra Natural Gas has 42 Bcf of operational working natural gas storage capacity (20 Bcf at Bay Gas and 22 Bcf at Mississippi Hub). Sempra Natural Gas may, over the long term, develop additional storage capacity at its facilities.

Sempra Natural Gas' natural gas storage facilities and projects include

- § Bay Gas, a facility located 40 miles north of Mobile, Alabama, that provides underground storage and delivery of natural gas. Sempra Natural Gas owns 91 percent of the project. It is the easternmost salt dome storage facility on the Gulf Coast, with direct service to the Florida market and markets across the Southeast, Mid-Atlantic and Northeast regions.
- § Mississippi Hub, located 45 miles southeast of Jackson, Mississippi, an underground salt dome natural gas storage project with access to shale basins of East Texas and Louisiana, traditional gulf supplies and LNG, with multiple interconnections to serve the Southeast and Northeast regions.
- § LA Storage, a salt cavern development project in Cameron Parish, Louisiana. Sempra Natural Gas owns 75 percent of the project and ProLiance Transportation LLC owns the remaining 25 percent. The project's location provides access to several LNG facilities in the area.

Cameron Liquefaction Project

In 2012, Sempra Natural Gas signed commercial development agreements with Mitsubishi Corporation, Mitsui & Co., Ltd., and a subsidiary of GDF SUEZ S.A. to develop a natural gas liquefaction export facility at the Cameron LNG terminal. The Cameron liquefaction project will utilize the terminal's existing facilities, including two marine berths, three LNG storage tanks, and vaporization capability of 1.5 Bcf per day. The current project is comprised of three liquefaction trains designed to a nameplate capacity of 13.5 million tonnes per annum (Mtpa) of LNG with an expected export capability of 12 Mtpa of LNG, or approximately 1.7 Bcf per day. We expect the project to achieve commercial operation of all three trains in 2018, and have the first year of full operations in 2019. The anticipated incremental investment in the three-train liquefaction project is estimated to be approximately \$7 billion, including the cost of the lump-sum, turnkey construction contract, development engineering costs and permitting costs, but excluding capitalized interest and other financing costs. The majority of the incremental investment will be project-financed and the balance provided by the project partners through the joint-venture agreements we discuss below. The total cost of the facility, including the cost of our original facility plus interest during construction, financing costs and required reserves, is estimated to be approximately \$10 billion.

In May 2013, we signed a joint venture agreement with affiliates of GDF SUEZ S.A., Mitsubishi Corporation (through a related company jointly established with Nippon Yusen Kabushiki Kaisha (NYK)), and Mitsui & Co., Ltd., providing for each of them to acquire a 16.6 percent equity interest in Cameron LNG Holdings, the joint venture holding company for the liquefaction project, and for Sempra Energy to retain a 50.2-percent equity interest in the joint venture. As we discuss below, on October 1, 2014, we contributed our share of equity to the joint venture through the contribution of Cameron LNG. We expect that our remaining equity requirements to complete the project will be met by a combination of our share of cash generated from each liquefaction train as it comes on line and additional cash contributions. If construction, financing or other project costs are higher than we currently expect, we may have to contribute additional cash.

Also in May 2013, Cameron LNG signed 20-year liquefaction and regasification tolling capacity agreements with GDF SUEZ S.A. and affiliates of Mitsubishi Corporation and Mitsui & Co., Ltd. which subscribe the full nameplate capacity of the facility. Each tolling agreement is for one third of the total production of the first three trains.

In June and November 2013, Sempra Natural Gas signed agreements totaling 1.45 Bcf per day of firm natural gas transportation service to the Cameron LNG facilities on the Cameron Interstate Pipeline with GDF SUEZ S.A. and affiliates of Mitsubishi Corporation and Mitsui & Co., Ltd. The terms of these agreements are concurrent with the liquefaction and regasification tolling capacity agreements.

In January 2012, the DOE approved Cameron LNG's application for authorization to export LNG to Free Trade Agreement countries. In September 2014, the DOE granted Cameron LNG final authorization to export from its Cameron liquefaction project approximately 1.7 Bcf per day of domestically produced LNG to countries with which the United States does not have agreements for free trade in natural gas (Non-Free Trade Agreement). This authorization is for a 20-year term commencing on the earlier of the date of first commercial export or seven years from the date of the authorization. Under the terms of the authorization, Cameron LNG is authorized to export LNG either on its own behalf or as agent for the customers of the project.

In March 2014, an EPC contract was signed with a joint venture between CB&I Shaw Constructors, Inc., a wholly owned subsidiary of Chicago Bridge & Iron Company N.V., and Chiyoda International Corporation, a wholly owned subsidiary of Chiyoda Corporation.

Between April and July 2014, FERC issued the Final Environmental Impact Statement for the project and issued orders authorizing the siting, construction and operation of the three-train liquefaction facility, as well as Cameron Interstate Pipeline's 21-mile, 42-inch natural gas pipeline expansion, new compressor station and ancillary equipment that will provide natural gas transportation to the Cameron LNG facility. The joint venture issued full notice to proceed to the contractor in October 2014.

On August 6, 2014, Sempra Energy and each of the project partners provided their respective final investment decision with respect to the Cameron LNG Holdings joint venture, and the effective date of the joint venture occurred on October 1, 2014 after satisfaction of various conditions, including receipt of final regulatory approval and satisfaction of conditions precedent to the first disbursement of the project financing. Following the joint venture effective date, Cameron LNG is no longer wholly owned by Sempra Energy, and as of October 1, 2014, Sempra Energy began accounting for its investment in the joint venture under the equity method.

Also on August 6, 2014, Sempra Energy and the project partners executed project financing documents for senior secured debt in an initial aggregate principal amount up to \$7.4 billion for the purpose of financing the cost of development and construction of the Cameron LNG liquefaction project. Concurrently, Sempra Energy entered into completion guarantees under which it has severally guaranteed 50.2 percent of the debt, or a maximum of \$3.7 billion. The project financing and completion guarantees became effective on October 1, 2014, and will terminate upon financial completion of the project,

which will occur upon satisfaction of certain conditions, including all three trains achieving commercial operation and meeting certain operational performance tests. We expect the project to achieve financial completion and the completion guarantees to be terminated in the second half of 2019.

Large-scale construction projects like the design, development and construction of the Cameron LNG liquefaction facility involve numerous risks and uncertainties, including among others, the potential for unforeseen engineering problems, substantial construction delays and increased costs. As noted above, Cameron LNG Holdings has entered into a turnkey EPC contract with a joint venture between CB&I Shaw Constructors, Inc. and Chiyoda International Corporation. If the contractor becomes unwilling or unable to perform according to the terms and timetable of the EPC contract, Cameron LNG Holdings would be required to engage a substitute contractor, which would result in project delays and increased costs, which could be significant. For a discussion of these risks and other risks relating to the development of the Cameron LNG liquefaction project that could adversely affect our future performance, see “Risk Factors” in our Annual Report on Form 10-K.

Cameron LNG Holdings has a terminal services agreement with one customer that requires the customer to pay capacity reservation and usage fees to use the Cameron LNG facilities to receive, store and regasify the customer’s LNG. There is a termination agreement in place that will result in the termination of this services agreement at the point during construction of the new liquefaction facilities where piping tie-ins to the existing regasification terminal become necessary. Based on the full notice to proceed that was issued to Cameron LNG’s EPC contractor on October 9, 2014, we expect this termination date to occur during the first half of 2017.

In December 2014, Cameron LNG Holdings filed with the DOE for authorization to match the total export volumes allowed to be exported to FTA countries under the FERC permit. This would allow for increased export from the three-train facility of up to 2.95 Mtpa. Cameron LNG Holdings expects to file the corresponding DOE Non-FTA permit application in the first quarter of 2015. Cameron LNG Holdings is also pursuing the permitting to expand the current configuration from the current three liquefaction trains. The expansion project is expected to include two additional liquefaction trains, capable of increasing LNG production capacity by approximately 9 Mtpa to 10 Mtpa, and one additional full containment LNG storage tank; a fourth tank was permitted with the base liquefaction project but not built. In February 2015, Cameron LNG Holdings filed the DOE FTA application and the pre-filing application at FERC for the two additional trains and one containment tank. The joint venture expects to file a corresponding DOE Non-FTA permit application before the end of 2015. Under the Cameron LNG financing agreements, expansion of the Cameron LNG facilities beyond the first three trains is subject to certain restrictions and conditions, including among others, timing restrictions on expansion of the project unless appropriate prior consent is obtained from lenders. Cameron LNG Holdings faces other risks and challenges with respect to a potential expansion of the facility, which are described in the “Risk Factors” section of our Annual Report on Form 10-K.

We discuss the deconsolidation of Cameron LNG, the Cameron LNG Holdings project financing obligations and Sempra Energy’s completion guarantee further in Notes 3 and 4 of the Notes to Consolidated Financial Statements.

Other LNG Liquefaction Development

Design, regulatory and commercial activities are ongoing for potential LNG liquefaction developments at Sempra Mexico’s Energía Costa Azul facility and at our Port Arthur, Texas site. For these development projects, we have been meeting with potential customers and continue to see demand for LNG supplies in the 2020 to 2023 time frame.

We discuss Sempra Natural Gas’ participation in potential LNG liquefaction development at Sempra Mexico’s Energía Costa Azul facility above under “Sempra Mexico – Energía Costa Azul LNG Terminal.”

RBS Sempra Commodities

In three separate transactions in 2010 and one in early 2011, we and The Royal Bank of Scotland plc (RBS), our partner in the RBS Sempra Commodities joint venture, sold substantially all of the businesses and assets of our commodities-marketing partnership. The investment balance of \$71 million at December 31, 2014 reflects remaining distributions expected to be received from the partnership as it is dissolved. The amount of distributions may be impacted by the matters we discuss related to RBS Sempra Commodities under “Other Litigation” in Note 15 of the Notes to Consolidated Financial Statements. In addition, amounts may be retained by the partnership for an extended period of time to help offset unanticipated future general and administrative costs necessary to complete the dissolution of the partnership. We provide additional information in Notes 4 and 15 of the Notes to Consolidated Financial Statements.

OTHER SEMPRA ENERGY MATTERS

We may be further impacted by depressed and rapidly changing economic conditions. Moreover, the dollar may fluctuate significantly compared to some foreign currencies, especially in Mexico and South America where we have significant operations. We discuss foreign currency rate risk further under “Market Risk – Foreign Currency Rate Risk” below. North American natural gas prices, when in decline, negatively affect profitability at Sempra Renewables and Sempra Natural Gas. In addition, an extended decline in current and forward projections of crude oil prices, coupled with slow economic growth, could cause a corresponding reduction in projected global demand for LNG. This could result in increased competition among those working on projects in an environment of declining LNG demand, such as the Sempra Energy-sponsored export initiatives. For a discussion of these risks and other risks involving changing natural gas and crude oil prices, see “Risk Factors” in our Annual Report on Form 10-K.

In July 2010, federal legislation to reform financial markets was enacted that significantly alters how over-the-counter (OTC) derivatives are regulated, which may impact all of our businesses. The law increased regulatory oversight and transparency requirements of OTC energy derivatives, including (1) requiring standardized OTC derivatives to be traded on registered exchanges regulated by the U.S. Commodity Futures Trading Commission (CFTC), (2) imposing new and potentially higher capital and margin requirements and (3) authorizing the establishment of overall volume and position limits, the latter of which is pending final approval in 2015. The law gives the CFTC authority to exempt end users of energy commodities which could reduce, but not eliminate, the applicability of these measures to us and other end users. These requirements could cause our OTC transactions to be more costly and have a material adverse effect on our liquidity due to additional capital requirements. In addition, as these reforms aim to standardize OTC products, they could limit the effectiveness and extent of our hedging programs, because we would have less ability to tailor OTC derivatives to match the precise risk we are seeking to mitigate and may be restricted on the size of our hedging program.

Our future performance depends substantially on the timing and success of our business development efforts and our construction, maintenance and capital projects. We discuss this and additional matters that could affect our future performance in Notes 14 and 15 of the Notes to Consolidated Financial Statements and in “Risk Factors” in our 2014 Annual Report on Form 10-K.

LITIGATION

We describe legal proceedings that could adversely affect our future performance in Note 15 of the Notes to Consolidated Financial Statements.

MARKET RISK

Market risk is the risk of erosion of our cash flows, earnings, asset values and equity due to adverse changes in market prices, and interest and foreign currency rates.

Risk Policies

Sempra Energy has policies governing its market risk management and trading activities. Sempra Energy and the California Utilities maintain separate and independent risk management committees, organizations and processes for the California Utilities and for all non-CPUC regulated affiliates to provide oversight of these activities. The committees consist of senior officers who establish policy, oversee energy risk management activities, and monitor the results of trading and other activities to ensure compliance with our stated energy risk management and trading policies. These activities include, but are not limited to, daily monitoring of market positions that create credit, liquidity and market risk. The respective oversight organizations and committees are independent from the energy procurement departments.

Along with other tools, we use Value at Risk (VaR) and liquidity metrics to measure our exposure to market risk associated with the commodity portfolios. VaR is an estimate of the potential loss on a position or portfolio of positions over a specified holding period, based on normal market conditions and within a given statistical confidence interval. A liquidity metric is intended to monitor the amount of financial resources needed for meeting potential margin calls as forward market prices move. VaR and liquidity risk metrics are calculated independently by the respective risk management oversight organizations.

The California Utilities use power and natural gas derivatives to manage natural gas and electric price risk associated with servicing load requirements. The use of power and natural gas derivatives is subject to certain limitations imposed by company policy and is in compliance with risk management and trading activity plans that have been filed with and approved by the CPUC. Any costs or gains/losses associated with the use of power and natural gas derivatives are considered to be commodity costs. Commodity costs are generally passed on to customers as incurred. However, SoCalGas is subject to incentive mechanisms that reward or penalize the utility for commodity costs below or above certain benchmarks.

We discuss revenue recognition in Note 1 of the Notes to Consolidated Financial Statements and the additional market-risk information regarding derivative instruments in Note 9 of the Notes to Consolidated Financial Statements.

We have exposure to changes in commodity prices, interest rates and foreign currency rates and exposure to counterparty nonperformance. The following discussion of these primary market-risk exposures as of December 31, 2014 includes a discussion of how these exposures are managed.

Commodity Price Risk

Market risk related to physical commodities is created by volatility in the prices and basis of certain commodities. Our various subsidiaries are exposed, in varying degrees, to price risk, primarily to prices in the natural gas and electricity markets. Our policy is to manage this risk within a framework that considers the unique markets and operating and regulatory environments of each subsidiary.

Segments within our Sempra International and Sempra U.S. Gas & Power operating units are generally exposed to commodity price risk indirectly through their LNG, natural gas pipeline and storage, and power generating assets and their power purchase agreements. Those segments may utilize commodity transactions in the course of optimizing these assets. These transactions are typically priced based on market indices, but may also include fixed price purchases and sales of commodities. Any residual exposure is monitored as described above.

The California Utilities' market-risk exposure is limited due to CPUC-authorized rate recovery of the costs of commodity purchases, interstate and intrastate transportation, and storage activity. However, SoCalGas may, at times, be exposed to market risk as a result of incentive mechanisms that reward or penalize the utility for commodity costs below or above certain benchmarks for SoCalGas' gas cost incentive mechanism, which we discuss in Note 14 of the Notes to Consolidated Financial Statements. If commodity prices were to rise too rapidly, it is likely that volumes would decline. This decline would increase the per-unit fixed costs, which could lead to further volume declines. The California Utilities manage their risk within the parameters of their market risk management framework. As of and for the year ended December 31, 2014, the total VaR of the California Utilities' natural gas and electric positions was not material, and the procurement activities were in compliance with the procurement plans filed with and approved by the CPUC.

A hypothetical 10% unfavorable change in commodity prices would not have resulted in a material change in the fair value of our commodity-based financial derivatives as of December 31, 2014 and 2013. The impact of a change in energy commodity prices on our commodity-based financial derivative instruments at a point in time is not necessarily representative of the results that will be realized when the contracts are ultimately settled. Also, the impact of a change in energy commodity prices on our commodity-based financial derivative instruments does not typically include the generally offsetting impact of our underlying asset positions.

Interest Rate Risk

We are exposed to fluctuations in interest rates primarily as a result of our having issued short- and long-term debt. Subject to regulatory constraints, we periodically enter into interest rate swap agreements to moderate our exposure to interest rate changes and to lower our overall costs of borrowing.

The table below shows the nominal amount and the one-year VaR for long-term debt at December 31, 2014 and 2013:

NOMINAL AMOUNT AND ONE-YEAR VALUE AT RISK OF LONG-TERM DEBT(1)

(Dollars in millions)

	Consolidated		SDG&E		SoCalGas	
	Nominal debt	One-year VaR(2)	Nominal debt	One-year VaR(2)	Nominal debt	One-year VaR(2)
At December 31, 2014						
California Utilities fixed-rate	\$ 6,049	\$ 502	\$ 4,136	\$ 341	\$ 1,913	\$ 161
California Utilities variable-rate	325	13	325	13	—	—
All other, fixed-rate and variable-rate	5,973	306	—	—	—	—
At December 31, 2013						
California Utilities fixed-rate	\$ 5,464	\$ 531	\$ 4,051	\$ 407	\$ 1,413	\$ 124
California Utilities variable-rate	335	15	335	15	—	—
All other, fixed-rate and variable-rate	6,211	308	—	—	—	—

(1) Excluding commercial paper classified as long-term debt at Sempra Energy, capital lease obligations, build-to-suit lease and interest rate swaps, and before reductions/increases for unamortized discount/premium.

(2) After the effects of interest rate swaps.

We provide further information about interest rate swap transactions in Note 9 of the Notes to Consolidated Financial Statements.

We also are subject to the effect of interest rate fluctuations on the assets of our pension plans, other postretirement benefit plans, and SDG&E's nuclear decommissioning trusts. However, we expect the effects of these fluctuations, as they relate to the California Utilities, to be passed on to customers.

Credit Risk

Credit risk is the risk of loss that would be incurred as a result of nonperformance of our counterparties' contractual obligations. We monitor credit risk through a credit-approval process and the assignment and monitoring of credit limits. We establish these credit limits based on risk and return considerations under terms customarily available in the industry.

As with market risk, we have policies governing the management of credit risk that are administered by the respective credit departments for each of the California Utilities and, on a combined basis, for all non-CPUC regulated affiliates and overseen by their separate risk management committees.

This oversight includes calculating current and potential credit risk on a daily basis and monitoring actual balances in comparison to approved limits. We avoid concentration of counterparties whenever possible, and we believe our credit policies significantly reduce overall credit risk. These policies include an evaluation of:

- § prospective counterparties' financial condition (including credit ratings)
- § collateral requirements
- § the use of standardized agreements that allow for the netting of positive and negative exposures associated with a single counterparty
- § downgrade triggers

We believe that we have provided adequate reserves for counterparty nonperformance.

When development projects at Sempra International and Sempra U.S. Gas & Power become operational, they rely significantly on the ability of their suppliers to perform on long-term agreements and on our ability to enforce contract terms in the event of nonperformance. Also, the factors that we consider in evaluating a development project include negotiating customer and supplier agreements and, therefore, we rely on these agreements for future performance. We also may base our decision to go forward on development projects on these agreements.

As noted above under "Interest Rate Risk," we periodically enter into interest rate swap agreements to moderate exposure to interest rate changes and to lower the overall cost of borrowing. We would be exposed to interest rate fluctuations on the underlying debt should a counterparty to the swap fail to perform.

Foreign Currency Rate Risk

We have investments in entities whose functional currency is not the U.S. dollar, exposing us to foreign exchange movements, primarily in currencies in Chile and Peru.

We discuss our foreign currency exposure at our Mexican subsidiaries in "Management's Discussion and Analysis of Financial Condition and Results of Operations – Income Taxes – Foreign Currency Exchange Rate and Inflation Impact on Income Taxes and Related Economic Hedging Activity."

Our primary objective in reducing foreign currency risk is to preserve the economic value of our foreign investments and to reduce earnings volatility that would otherwise occur due to exchange rate fluctuations. We may offset material cross-currency transactions and net income exposure through various means, including financial instruments and short-term investments. Because we do not hedge our net investment in foreign countries, we are susceptible to volatility in other comprehensive income caused by exchange rate fluctuations.

The hypothetical effects for every one percent appreciation in the U.S. dollar from year-end 2014 levels against the currencies of Mexico, Chile and Peru in which we have operations and investments are as follows:

(Dollars in millions)	Hypothetical effects
Translation of 2014 earnings to U.S. dollars	\$ (2)
Transactional exposure	(6)
Translation of net assets of foreign subsidiaries and investment in foreign entities	(20)

Foreign Inflation Risk

Monetary assets and liabilities at our Mexican subsidiaries that are denominated in U.S. dollars may fluctuate significantly throughout the year. Based on a net monetary liability position of \$243 million at December 31, 2014, the hypothetical effect on Sempra Energy for every one percent increase in the Mexican inflation rate is approximately \$0.7 million of additional income tax expense at our Mexican subsidiaries.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES, AND KEY NONCASH PERFORMANCE INDICATORS

Management views certain accounting policies as critical because their application is the most relevant, judgmental, and/or material to our financial position and results of operations, and/or because they require the use of material judgments and estimates.

We describe our significant accounting policies in Note 1 of the Notes to Consolidated Financial Statements. We discuss choices among alternative accounting policies that are material to our financial statements and information concerning significant estimates with the audit committee of the Sempra Energy board of directors.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

SEMPRA ENERGY, SDG&E AND SOCALGAS

CONTINGENCIES

Assumptions & Approach Used

We accrue losses for the estimated impacts of various conditions, situations or circumstances involving uncertain outcomes. For loss contingencies, we accrue the loss if an event has occurred on or before the balance sheet date and:

- § information available through the date we file our financial statements indicates it is probable that a loss has been incurred, given the likelihood of uncertain future events, and
- § the amount of the loss can be reasonably estimated.

We do not accrue contingencies that might result in gains. We continuously assess contingencies for litigation claims, environmental remediation and other events.

Effect if Different Assumptions Used

Details of our issues in this area are discussed in Note 15 of the Notes to Consolidated Financial Statements.

REGULATORY ACCOUNTING

Assumptions & Approach Used

As regulated entities, the California Utilities' rates, as set and monitored by regulators, are designed to recover the cost of providing service and provide the opportunity to earn a competitive return on their investments. The California Utilities record regulatory assets, which are generally costs that would otherwise be charged to expense, if it is probable that, through the ratemaking process, the utility will recover that asset from customers in future rates. Similarly, regulatory liabilities are recorded for amounts recovered in rates in advance or in excess of costs incurred. The California Utilities assess probabilities of future rate recovery associated with regulatory account balances at the end of each reporting period and whenever new and/or unusual events occur, such as:

- § changes in the regulatory and political environment or the utility's competitive position
- § issuance of a regulatory commission order
- § passage of new legislation

To the extent that circumstances associated with regulatory balances change, the regulatory balances are adjusted accordingly.

Effect if Different Assumptions Used

Adverse legislative or regulatory actions could materially impact the amounts of such regulatory assets and liabilities and could materially adversely impact our financial statements. Details of the California Utilities' regulatory assets and liabilities and additional factors that management considers when assessing probabilities associated with regulatory balances are discussed in Notes 1, 13, 14 and 15 of the Notes to Consolidated Financial Statements.

SEMPRA ENERGY, SDG&E AND SOCALGAS (CONTINUED)

INCOME TAXES

Assumptions & Approach Used

Our income tax expense and related balance sheet amounts involve significant management estimates and judgments. Amounts of deferred income tax assets and liabilities, as well as current and noncurrent accruals, involve judgments and estimates of the timing and probability of recognition of income and deductions by taxing authorities. When we evaluate the anticipated resolution of income tax issues, we consider

- § past resolutions of the same or similar issue
- § the status of any income tax examination in progress
- § positions taken by taxing authorities with other taxpayers with similar issues

The likelihood of deferred tax recovery is based on analyses of the deferred tax assets and our expectation of future taxable income, based on our strategic planning.

Effect if Different Assumptions Used

Actual income taxes could vary from estimated amounts because of:

- § future impacts of various items, including changes in tax laws, regulations, interpretations and rulings
- § our financial condition in future periods
- § the resolution of various income tax issues between us and taxing authorities

We discuss details of our issues in this area in Note 6 of the Notes to Consolidated Financial Statements.

Assumptions & Approach Used

For an uncertain position to qualify for benefit recognition, the position must have at least a "more likely than not" chance of being sustained (based on the position's technical merits) upon challenge by the respective authorities. The term "more likely than not" means a likelihood of more than 50 percent. If we do not have a more likely than not position with respect to a tax position, then we do not recognize any of the potential tax benefit associated with the position. A tax position that meets the "more likely than not" recognition is measured as the largest amount of tax benefit that is greater than 50 percent likely of being realized upon the effective resolution of the tax position.

Effect if Different Assumptions Used

Unrecognized tax benefits involve management's judgment regarding the likelihood of the benefit being sustained. The final resolution of uncertain tax positions could result in adjustments to recorded amounts and may affect our results of operations, financial position and cash flows.

We discuss additional information related to accounting for uncertainty in income taxes in Note 6 of the Notes to Consolidated Financial Statements.

SEMPRA ENERGY, SDG&E AND SOCALGAS (CONTINUED)

DERIVATIVES

Assumptions & Approach Used

We value derivative instruments at fair value on the balance sheet. Depending on the purpose for the contract and the applicability of hedge accounting, the impact of instruments may be offset in earnings, on the balance sheet, or in other comprehensive income. We also use normal purchase or sale accounting for certain contracts. As discussed elsewhere in this report, whenever possible, we use exchange quotations or other third-party pricing to estimate fair values; if no such data is available, we use internally developed models and other techniques. The assumed collectability of derivative assets and receivables considers

- § events specific to a given counterparty
- § the tenor of the transaction
- § the credit-worthiness of the counterparty

Effect if Different Assumptions Used

The application of hedge accounting to certain derivatives and the normal purchase or sale accounting election is made on a contract-by-contract basis. Using hedge accounting or the normal purchase or sale election in a different manner could materially impact Sempra Energy's results of operations. However, such alternatives would not have a significant impact on the California Utilities' results of operations because of regulatory accounting principles. We provide details of our financial instruments in Note 9 of the Notes to Consolidated Financial Statements.

DEFINED BENEFIT PLANS

Assumptions & Approach Used

To measure our pension and other postretirement obligations, costs and liabilities, we rely on several assumptions. We consider current market conditions, including interest rates, in making these assumptions. We annually review these assumptions prior to the beginning of each year and update when appropriate.

The critical assumptions used to develop the required estimates include the following key factors:

- § discount rates
- § expected return on plan assets
- § health care cost trend rates
- § mortality rates
- § rate of compensation increases
- § termination and retirement rates
- § utilization of postretirement welfare benefits
- § payout elections (lump sum or annuity)
- § lump sum interest rates

SEMPRA ENERGY, SDG&E AND SOCALGAS (CONTINUED)

DEFINED BENEFIT PLANS (CONTINUED)

Effect if Different Assumptions Used

The actuarial assumptions we use may differ materially from actual results due to:

- § return on plan assets
- § changing market and economic conditions
- § higher or lower withdrawal rates
- § longer or shorter participant life spans
- § more or fewer lump sum versus annuity payout elections made by plan participants
- § retirement rates

These differences, other than those related to the California Utilities' plans, where rate recovery offsets any effects of the assumptions on earnings, may result in a significant impact to the amount of pension and postretirement benefit expense we

record. For the remaining plans, the approximate annual effect on earnings of a 100 basis point increase or decrease in the assumed discount rate would be less than \$3 million and the effect of a 100 basis point increase or decrease in the assumed rate of return on plan assets would be less than \$2 million.

We provide additional information, including the impact of increases and decreases in the health care cost trend rate, in Note 7 of the Notes to Consolidated Financial Statements.

SEMPRA ENERGY AND SDG&E

ASSET RETIREMENT OBLIGATIONS

Assumptions & Approach Used SDG&E's legal asset retirement obligations (AROs) related to the decommissioning of SONGS are recorded at fair value based on a site specific study performed no less than every three years. The fair value of the obligations includes

- § estimated decommissioning costs, including labor, equipment, material and other disposal costs
- § inflation adjustment applied to estimated cash flows
- § discount rate based on a credit-adjusted risk-free rate
- § expected initiation and duration of decommissioning activities

Effect if Different Assumptions Used Changes in the estimated decommissioning costs, or in the assumptions and judgments made by management underlying these estimates, could cause revisions to the estimated total cost associated with retiring the assets. SDG&E's nuclear decommissioning expenses are subject to rate recovery and, therefore, rate-making accounting treatment is applied to SDG&E's nuclear decommissioning activities. SDG&E recognizes a regulatory asset, or liability, to the extent that its SONGS ARO exceeds, or is less than, the amount collected from customers and the amount earned in SDG&E's Nuclear Decommissioning Trusts.

We provide additional detail in Notes 13 and 15 of the Notes to the Consolidated Financial Statements.

SEMPRA ENERGY

IMPAIRMENT TESTING OF LONG-LIVED ASSETS

Assumptions & Approach Used Whenever events or changes in circumstances indicate that an asset's carrying amount may not be recoverable, we consider if the estimated future undiscounted cash flows are less than the carrying amount of the assets. If so, we estimate the fair value of these assets to determine the extent to which cost exceeds fair value. For these estimates, we may consider data from multiple valuation methods, including data from market participants. We exercise judgment to estimate the future cash flows and the useful lives of long-lived assets and to determine our intent to use the assets. Our intent to use or dispose of assets is subject to re-evaluation and can change over time.

Effect if Different Assumptions Used If an impairment test is required, the fair value of long-lived assets can vary if differing estimates and assumptions are used in the valuation techniques applied as indicated by changing market or other conditions. We discuss impairment of long-lived assets in Note 1 of the Notes to Consolidated Financial Statements.

IMPAIRMENT TESTING OF GOODWILL

Assumptions & Approach Used On an annual basis or whenever events or changes in circumstances necessitate an evaluation, we consider whether goodwill may be impaired. For our annual goodwill impairment testing, we have the option to first make a qualitative assessment of whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount before applying the two-step, quantitative goodwill impairment test. If we elect to perform the qualitative assessment, we evaluate relevant events and circumstances, including but not limited to, macroeconomic conditions, industry and market considerations, cost factors, changes in key personnel and the overall financial performance of the reporting unit. If, after assessing these qualitative factors, we determine that it is more likely than not that the fair value of a reporting unit is less than its carrying amount, then we perform the two-step goodwill impairment test. When we perform the two-step, quantitative goodwill impairment test, we exercise judgment to develop estimates of the fair value of the reporting unit and compare that to the carrying value. Our fair value estimates are developed from the perspective of a knowledgeable market participant. We consider observable transactions in the marketplace for similar investments, if available, as well as an income-based approach such as discounted cash flow analysis. A discounted cash flow analysis may be based directly on anticipated future revenues and expenses and may be performed based on free cash flows generated within the reporting unit. Critical assumptions that affect our estimates of fair value may include

- § consideration of market transactions
- § future cash flows
- § the appropriate risk-adjusted discount rate
- § country risk
- § entity risk

Effect if Different Assumptions Used When we choose to make a qualitative assessment as discussed above, the two-step, quantitative goodwill impairment test is not required if we determine that it is not more likely than not that the fair value of a reporting unit is less than its carrying amount. If we conclude that it is more likely than not that the fair value of a reporting unit is less than its carrying amount or when we choose to proceed directly to the two-step, quantitative goodwill impairment test, the test requires us to first determine if the carrying value of a reporting unit exceeds its fair value and if so, to measure the amount of goodwill impairment, if any. When determining if goodwill is impaired, the fair value of the reporting unit and goodwill can vary if differing estimates and assumptions are used in the valuation techniques applied as indicated by changing market or other conditions. As a result, recognizing a goodwill impairment may or may not be required. Sempra Energy has \$931 million of goodwill on its Consolidated Balance Sheet at December 31, 2014, of which \$834 million is attributable to our operations in South America. Based on our qualitative assessment, we determined that it is more likely than not that the estimated fair values of the reporting units to which this goodwill was allocated substantially exceeded their carrying values as of October 1, 2014, our most recent goodwill impairment testing date. We discuss goodwill in Note 1 of the Notes to Consolidated Financial Statements.

SEMPRA ENERGY

CARRYING VALUE OF EQUITY METHOD INVESTMENTS

Assumptions & Approach Used We generally account for investments under the equity method when we have significant influence over, but do not have control of, these entities.

We consider whether the fair value of each equity investment as a whole, not the underlying net assets, has declined and whether that decline is other than temporary. To help evaluate whether a decline in fair value below cost has occurred and if the decline is other than temporary, we may develop fair value estimates for the investment. Our fair value estimates are developed from the perspective of a knowledgeable market participant. In the absence of observable transactions in the marketplace for similar investments, we consider an income-based approach such as discounted cash flow analysis or, with less weighting, the replacement cost of the underlying net assets. A discounted cash flow analysis may be based directly on anticipated future distributions from the investment, or may be performed based on free cash flows generated within the entity and adjusted for our ownership share total. When calculating estimates of fair or realizable values, we also consider whether we intend to hold or sell the investment. For certain held investments, critical assumptions may include

- § equity sale offer price for the investment
- § transportation rates for natural gas
- § the appropriate risk-adjusted discount rate
- § the availability and costs of natural gas and liquefied natural gas
- § competing fuels (primarily propane) and electricity
- § estimated future power generation and associated production tax credits
- § renewable power price expectations

For investments that we hold for sale, we consider comparable sales values or indicative offers, executed sales transactions or indications of value determined by cash and affiliate receivables within the entity when determining our estimates of fair value.

Effect if Different Assumptions Used

The risk assumptions applied by other market participants to value the investments could vary significantly or the appropriate approaches could be weighted differently. These differences could impact whether or not the fair value of the investment is less than its cost, and if so, whether that condition is other than temporary. This could result in an impairment charge or a different amount of impairment charge, and, in cases where an impairment charge has been recorded, additional loss or gain upon sale.

We provide additional details in Notes 4 and 10 of the Notes to Consolidated Financial Statements.

KEY NONCASH PERFORMANCE INDICATORS

A discussion of key noncash performance indicators related to each segment follows:

California Utilities

Key noncash performance indicators include number of customers, and natural gas volumes and electricity sold. Additional noncash performance indicators include goals related to safety, customer service, customer reputation, environmental considerations, on-time and on-budget completion of major projects and initiatives, and in the case of SDG&E, electric reliability. We discuss natural gas volumes and electricity sold in “Results of Operations – Changes in Revenues, Costs and Earnings” above.

Sempra South American Utilities

Key noncash performance indicators for our South American distribution operations are customer count and consumption. We discuss these above in “Our Business.” Additional noncash performance indicators include goals related to safety, environmental considerations, electric reliability, and regulatory compliance.

Sempra Mexico

Key noncash performance indicators for Sempra Mexico include natural gas sales volume, facility availability, capacity utilization and, for its distribution operations, customer count and consumption. Additional noncash performance indicators include goals related to safety, environmental considerations and regulatory performance. We discuss these above in “Our Business.”

Sempra Natural Gas

Key noncash performance indicators at Sempra Natural Gas include natural gas sales volume, facility availability, capacity utilization and, for its distribution operations, customer count and consumption. Additional noncash performance indicators include goals related to safety, environmental considerations and regulatory compliance. We discuss these above in “Our Business.”

Electric Generation Facilities (Sempra Mexico, Sempra Renewables and Sempra Natural Gas)

Key noncash performance indicators include plant availability and capacity factors and sales volume at our renewable energy facilities and natural gas-fired generating plants. For competitive reasons, we do not disclose plant availability factors. We discuss the other indicators above in “Our Business” and “Factors Influencing Future Performance.” Additional noncash performance indicators include goals related to safety, environmental considerations, and compliance with reliability standards.

LNG Facilities (Sempra Mexico and Sempra Natural Gas)

Key noncash performance indicators include plant availability and capacity utilization. We discuss these above in “Our Business” and “Factors Influencing Future Performance.” Additional noncash performance indicators include goals related to safety, environmental considerations, regulatory compliance, and on-time and on-budget completion of development projects.

NEW ACCOUNTING STANDARDS

We discuss the relevant pronouncements that have recently become effective and have had or may have a significant effect on our financial statements in Note 2 of the Notes to Consolidated Financial Statements.

INFORMATION REGARDING FORWARD-LOOKING STATEMENTS

We make statements in this report that are not historical fact and constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements are necessarily based upon assumptions with respect to the future, involve risks and uncertainties, and are not guarantees of performance. These forward-looking statements represent our estimates and assumptions only as of the filing date of this report. We assume no obligation to update or revise any forward-looking statement as a result of new information, future events or other factors.

In this report, when we use words such as “believes,” “expects,” “anticipates,” “plans,” “estimates,” “projects,” “forecasts,” “contemplates,” “intends,” “depends,” “should,” “could,” “would,” “will,” “confident,” “may,” “potential,” “target,” “pursue,” “goals,” “outlook,” “maintain,” or similar expressions, or when we discuss our guidance, strategy, plans, goals, opportunities, projections, initiatives, objectives or intentions, we are making forward-looking statements.

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

- § local, regional, national and international economic, competitive, political, legislative and regulatory conditions and developments;
- § actions and the timing of actions, including issuances of permits to construct and licenses for operation, by the California Public Utilities Commission, California State Legislature, U.S. Department of Energy, Federal Energy Regulatory Commission, Nuclear Regulatory Commission, Atomic Safety and Licensing Board, California Energy Commission, U.S. Environmental Protection Agency, California Air Resources Board, and other regulatory, governmental and environmental bodies in the United States and other countries in which we operate;
- § the timing and success of business development efforts and construction, maintenance and capital projects, including risks in obtaining, maintaining or extending permits, licenses, certificates and other authorizations on a timely basis and risks in obtaining adequate and competitive financing for such projects;
- § energy markets, including the timing and extent of changes and volatility in commodity prices, and the impact of any protracted reduction in oil prices from historical averages;
- § the impact on the value of our natural gas storage assets from low natural gas prices, low volatility of natural gas prices and the inability to procure favorable long-term contracts for natural gas storage services;
- § delays in the timing of costs incurred and the timing of the regulatory agency authorization to recover such costs in rates from customers;
- § capital markets conditions, including the availability of credit and the liquidity of our investments;
- § inflation, interest and currency exchange rates;
- § the impact of benchmark interest rates, generally Moody’s A-rated utility bond yields, on our California Utilities’ cost of capital;
- § the availability of electric power, natural gas and liquefied natural gas, and natural gas pipeline and storage capacity, including disruptions caused by failures in the North American transmission grid, pipeline explosions and equipment failures and the decommissioning of San Onofre Nuclear Generating Station (SONGS);
- § cybersecurity threats to the energy grid, natural gas storage and pipeline infrastructure, the information and systems used to operate our businesses and the confidentiality of our proprietary information and the personal information of our customers, terrorist attacks that threaten system operations and critical infrastructure, and wars;
- § the ability to win competitively bid infrastructure projects against a number of strong competitors willing to aggressively bid for these projects;
- § weather conditions, conservation efforts, natural disasters, catastrophic accidents, and other events that may disrupt our operations, damage our facilities and systems, and subject us to third-party liability for property damage or personal injuries;
- § risks that our partners or counterparties will be unable or unwilling to fulfill their contractual commitments;
- § risks posed by decisions and actions of third parties who control the operations of investments in which we do not have a controlling interest;
- § risks inherent with nuclear power facilities and radioactive materials storage, including the catastrophic release of such materials, the disallowance of the recovery of the investment in, or operating costs of, the nuclear facility due to an extended outage and facility closure, and increased regulatory oversight;
- § business, regulatory, environmental and legal decisions and requirements;
- § expropriation of assets by foreign governments and title and other property disputes;

- § the impact on reliability of San Diego Gas & Electric Company's (SDG&E) electric transmission and distribution system due to increased amount and variability of power supply from renewable energy sources;
- § the impact on competitive customer rates of the growth in distributed and local power generation and the corresponding decrease in demand for power delivered through SDG&E's electric transmission and distribution system;
- § the inability or determination not to enter into long-term supply and sales agreements or long-term firm capacity agreements due to insufficient market interest, unattractive pricing or other factors;
- § the resolution of litigation; and
- § other uncertainties, all of which are difficult to predict and many of which are beyond our control.

We caution you not to rely unduly on any forward-looking statements. You should review and consider carefully the risks, uncertainties and other factors that affect our business as described herein and in our Annual Report on Form 10-K and other reports that we file with the Securities and Exchange Commission.

COMMON STOCK DATA

SEMPRA ENERGY COMMON STOCK

Our common stock is traded on the New York Stock Exchange. At February 20, 2015, there were approximately 31,765 record holders of our common stock.

The following table shows Sempra Energy quarterly common stock data:

QUARTERLY COMMON STOCK DATA

		First quarter		Second quarter		Third quarter		Fourth quarter
2014								
Market price								
High	\$	97.48	\$	105.25	\$	107.81	\$	116.30
Low	\$	86.73	\$	95.15	\$	96.13	\$	98.34
2013								
Market price								
High	\$	80.21	\$	84.85	\$	89.46	\$	93.00
Low	\$	70.61	\$	78.11	\$	78.67	\$	84.55

We declared dividends of \$0.66 per share and \$0.63 per share in each quarter of 2014 and 2013, respectively. On February 20, 2015, our board of directors approved an increase to our quarterly common stock dividend to \$0.70 per share (\$2.80 annually), an increase of \$0.04 per share (\$0.16 annually) from \$0.66 per share (\$2.64 annually) authorized in February 2014.

SOCALGAS AND SDG&E COMMON STOCK

Pacific Enterprises, a wholly owned subsidiary of Sempra Energy, owns all of SoCalGas' outstanding common stock. Enova Corporation, a wholly owned subsidiary of Sempra Energy, owns all of SDG&E's issued and outstanding common stock.

Information concerning dividend declarations for SoCalGas and SDG&E is included in their Statements of Changes in Shareholders' Equity and Statements of Changes in Equity, respectively, set forth in the Consolidated Financial Statements.

DIVIDEND RESTRICTIONS

The payment and the amount of future dividends for Sempra Energy, SDG&E, and SoCalGas are within the discretion of their boards of directors. The CPUC's regulation of the California Utilities' capital structures limits the amounts that the California Utilities can pay us in the form of loans and dividends. We discuss these matters in Note 1 of the Notes to the Consolidated Financial Statements under "Restricted Net Assets" and in "Management's Discussion and Analysis of Financial Condition and Results of Operations – Capital Resources and Liquidity" in the "Overview – Sempra Energy Consolidated," "Overview – California Utilities" and "Dividends" sections.

PERFORMANCE GRAPH -- COMPARATIVE TOTAL SHAREHOLDER RETURNS

The following graph (Figure 2) compares the percentage change in the cumulative total shareholder return on Sempra Energy common stock for the five-year period ending December 31, 2014, with the performance over the same period of the Standard & Poor's (S&P) 500 Index and the Standard & Poor's 500 Utilities Index.

These returns were calculated assuming an initial investment of \$100 in our common stock, the S&P 500 Index and the S&P 500 Utilities Index on December 31, 2009, and the reinvestment of all dividends.

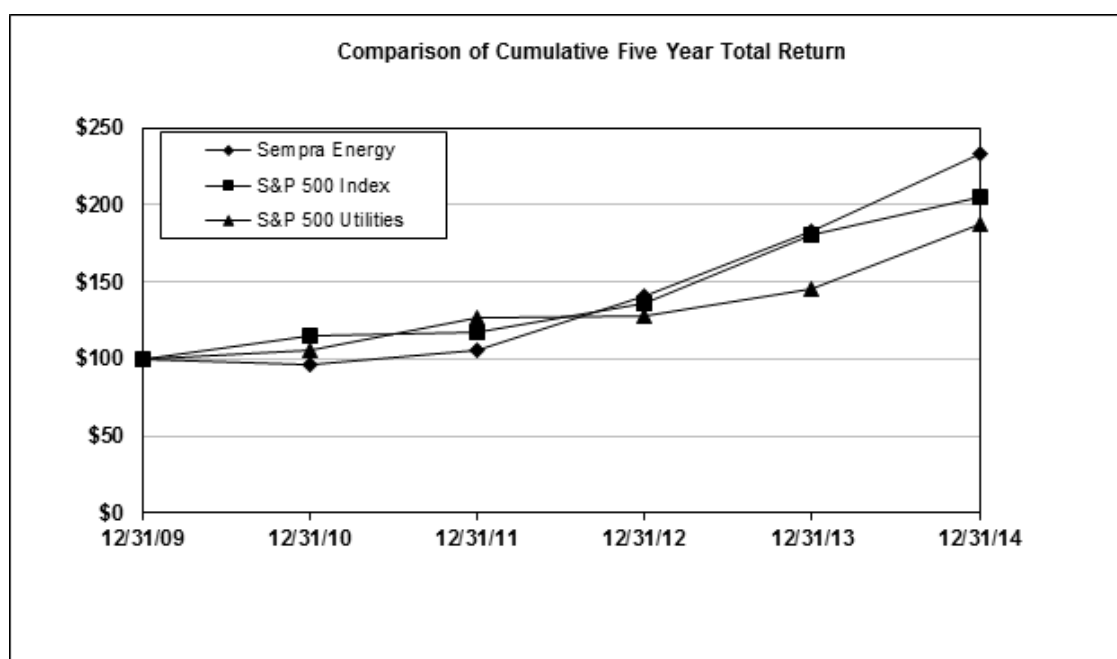


Figure 2: Comparison of Cumulative Five-Year Total Return

FIVE-YEAR SUMMARIES

The following tables present selected financial data of Sempra Energy, SDG&E and SoCalGas for the five years ended December 31, 2014. The data is derived from the audited consolidated financial statements of each company. You should read this information in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and the consolidated financial statements and notes contained in this Annual Report.

FIVE-YEAR SUMMARY OF SELECTED FINANCIAL DATA FOR SEMPR ENERGY

(In millions, except per share amounts)

	At December 31 or for the years then ended				
	2014	2013	2012	2011	2010
Sempra Energy Consolidated:					
Revenues					
Utilities:					
Electric	\$ 5,209	\$ 4,911	\$ 4,568	\$ 3,833	\$ 2,528
Natural gas	4,549	4,398	3,873	4,489	4,491
Energy-related businesses	1,277	1,248	1,206	1,714	1,984
Total revenues	<u>\$ 11,035</u>	<u>\$ 10,557</u>	<u>\$ 9,647</u>	<u>\$ 10,036</u>	<u>\$ 9,003</u>
Income from continuing operations	\$ 1,262	\$ 1,088	\$ 920	\$ 1,381	\$ 703
(Earnings) losses from continuing operations attributable to noncontrolling interests	(100)	(79)	(55)	(42)	16
Call premium on preferred stock of subsidiary	—	(3)	—	—	—
Preferred dividends of subsidiaries	(1)	(5)	(6)	(8)	(10)
Earnings/Income from continuing operations attributable to common shares	<u>\$ 1,161</u>	<u>\$ 1,001</u>	<u>\$ 859</u>	<u>\$ 1,331</u>	<u>\$ 709</u>
Attributable to common shares:					
Earnings/Income from continuing operations					
Basic	\$ 4.72	\$ 4.10	\$ 3.56	\$ 5.55	\$ 2.90
Diluted	\$ 4.63	\$ 4.01	\$ 3.48	\$ 5.51	\$ 2.86
Dividends declared per common share	\$ 2.64	\$ 2.52	\$ 2.40	\$ 1.92	\$ 1.56
Return on common equity	10.4%	9.4%	8.6%	14.2%	7.9%
Effective income tax rate	20%	26%	6%	23%	17%
Price range of common shares:					
High	\$ 116.30	\$ 93.00	\$ 72.87	\$ 55.97	\$ 56.61
Low	\$ 86.73	\$ 70.61	\$ 54.70	\$ 44.78	\$ 43.91

Weighted average rate base:

SDG&E	\$	7,253	\$	7,244	\$	6,295	\$	5,071	\$	4,697
SoCalGas	\$	3,879	\$	3,499	\$	3,178	\$	2,948	\$	2,860

AT DECEMBER 31

Current assets	\$	4,184	\$	3,997	\$	3,695	\$	2,332	\$	3,363
Total assets	\$	39,732	\$	37,244	\$	36,499	\$	33,249	\$	30,231
Current liabilities	\$	5,069	\$	4,369	\$	4,258	\$	4,152	\$	3,786
Long-term debt (excludes current portion)	\$	12,167	\$	11,253	\$	11,621	\$	10,078	\$	8,980
Short-term debt(1)	\$	2,202	\$	1,692	\$	1,271	\$	785	\$	507
Contingently redeemable preferred stock of subsidiary(2)	\$	—	\$	—	\$	79	\$	79	\$	79
Sempra Energy shareholders' equity	\$	11,326	\$	11,008	\$	10,282	\$	9,775	\$	8,990
Common shares outstanding		246.3		244.5		242.4		239.9		240.4
Book value per share	\$	45.98	\$	45.03	\$	42.43	\$	40.74	\$	37.39

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

(2) SDG&E redeemed all series of its outstanding shares of contingently redeemable stock in 2013, as we discuss in Note 11 of the Notes to Consolidated Financial Statements.

On October 1, 2014, Cameron LNG Holdings, a joint venture between Sempra Natural Gas and its partners in the Cameron LNG liquefaction project, became effective. Sempra Natural Gas is accounting for its investment in the joint venture under the equity method. We discuss Cameron LNG Holdings further in Notes 3 and 4 of the Notes to Consolidated Financial Statements.

In the first quarter of 2013, a Sempra Energy subsidiary, IEnova, completed a private offering in the U.S. and outside of Mexico and a concurrent public offering in Mexico of common stock. We discuss the offerings and IEnova further in Note 1 of the Notes to Consolidated Financial Statements.

In June 2013, we recorded a \$200 million pretax loss from plant closure related to SDG&E's investment in SONGS. We discuss this loss further in Note 13 of the Notes to Consolidated Financial Statements.

In 2012, we recorded \$239 million in after-tax impairment charges related to our investment in the Rockies Express joint venture. We discuss Rockies Express further in Notes 4 and 10 of the Notes to Consolidated Financial Statements.

We discuss the impact of natural gas prices on revenues in 2014, 2013 and 2012 and the changes in our effective income tax rate in 2014 and 2013 in "Management's Discussion and Analysis of Financial Condition and Results of Operations — Changes in Revenues, Costs and Earnings."

On April 6, 2011, we increased our interests in two South American utilities, which are now consolidated. Prior to the acquisition, we accounted for our investments in these entities as equity method investments. In conjunction with the transaction, we recorded a \$277 million gain (both pretax and after-tax) related to the remeasurement of equity method investments.

On April 1, 2008, we sold our commodities-marketing businesses into a joint venture, and began accounting for these businesses under the equity method. In 2010 and early 2011, we and RBS sold substantially all of the businesses and assets of the joint venture. In 2010, we recorded a \$139 million after-tax impairment charge related to our remaining investment in the joint venture.

We discuss litigation and other contingencies in Note 15 of the Notes to Consolidated Financial Statements.

FIVE-YEAR SUMMARIES OF SELECTED FINANCIAL DATA FOR SDG&E AND SOCIALGAS

(Dollars in millions)

	At December 31 or for the years then ended									
	2014	2013	2012	2011	2010					
SDG&E:										
Statement of Operations Data:										
Operating revenues	\$	4,329	\$	4,066	\$	3,694	\$	3,373	\$	3,049
Operating income		959		782		809		755		657
Dividends on preferred stock		—		4		5		5		5
Earnings attributable to common shares		507		404		484		431		369
Balance Sheet Data:										
Total assets	\$	16,296	\$	15,377	\$	14,744	\$	13,555	\$	12,077
Long-term debt (excludes current portion)		4,319		4,525		4,292		4,058		3,479
Short-term debt(1)		611		88		16		19		19
Contingently redeemable preferred stock(2)		—		—		79		79		79
SDG&E shareholder's equity		4,932		4,628		4,222		3,739		3,108
SoCalGas:										
Statement of Operations Data:										
Operating revenues	\$	3,855	\$	3,736	\$	3,282	\$	3,816	\$	3,822
Operating income		521		539		420		486		516
Dividends on preferred stock		1		1		1		1		1
Earnings attributable to common shares		332		364		289		287		286
Balance Sheet Data:										
Total assets	\$	10,461	\$	9,147	\$	9,071	\$	8,475	\$	7,986
Long-term debt (excludes current portion)		1,906		1,159		1,409		1,064		1,320
Short-term debt(1)		50		294		4		257		262
SoCalGas shareholders' equity		2,781		2,549		2,235		2,193		1,955

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

(2) SDG&E redeemed all series of its outstanding shares of contingently redeemable stock in 2013, as we discuss in Note 11 of the Notes to Consolidated Financial Statements.

In June 2013, SDG&E recorded a \$200 million pretax loss from plant closure related to its investment in SONGS.

We discuss the impact of natural gas prices on revenues in 2014, 2013 and 2012 in “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Changes in Revenues, Costs and Earnings.” We do not provide per-share data for SDG&E and SoCalGas because their common stock is indirectly wholly owned by Sempra Energy.

We discuss litigation and other contingencies in Note 15 of the Notes to Consolidated Financial Statements.

CONTROLS AND PROCEDURES

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

SEMPRA ENERGY, SDG&E, SOCALGAS

Sempra Energy, SDG&E and SoCalGas have designed and maintain disclosure controls and procedures to ensure that information required to be disclosed in their respective reports is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission and is accumulated and communicated to the management of each company, including each respective Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure. In designing and evaluating these controls and procedures, the management of each company recognizes that any system of controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives; therefore, the management of each company applies judgment in evaluating the cost-benefit relationship of other possible controls and procedures.

Under the supervision and with the participation of management, including the Chief Executive Officers and Chief Financial Officers of Sempra Energy, SDG&E and SoCalGas, each company evaluated the effectiveness of the design and operation of its disclosure controls and procedures as of December 31, 2014, the end of the period covered by this report. Based on these evaluations, the Chief Executive Officers and Chief Financial Officers of Sempra Energy, SDG&E and SoCalGas concluded that their respective company’s disclosure controls and procedures were effective at the reasonable assurance level.

MANAGEMENT’S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

SEMPRA ENERGY, SDG&E, SOCALGAS

The respective management of each company is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Exchange Act Rules 13a-15(f). Under the supervision and with the participation of the management of each company, including each company’s principal executive officer and principal financial officer, the effectiveness of each company’s internal control over financial reporting was evaluated based on the framework in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on the evaluations, each company concluded that its internal control over financial reporting was effective as of December 31, 2014. Deloitte & Touche LLP audited the effectiveness of each company’s internal control over financial reporting as of December 31, 2014, as stated in their reports, which are included in this Annual Report.

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

CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

REPORTS OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

SEMPRA ENERGY

To the Board of Directors and Shareholders of Sempra Energy:

We have audited the internal control over financial reporting of Sempra Energy and subsidiaries (the “Company”) as of December 31, 2014, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The

Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on the criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended December 31, 2014 of the Company and our report dated February 26, 2015 expressed an unqualified opinion on those financial statements.

/s/ DELOITTE & TOUCHE LLP

San Diego, California
February 26, 2015

To the Board of Directors and Shareholders of Sempra Energy:

We have audited the accompanying consolidated balance sheets of Sempra Energy and subsidiaries (the "Company") as of December 31, 2014 and 2013, and the related consolidated statements of operations, comprehensive income, changes in equity, and cash flows for each of the three years in the period ended December 31, 2014. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Sempra Energy and subsidiaries as of December 31, 2014 and 2013, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2014, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2014, based on the criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 26, 2015 expressed an unqualified opinion on the Company's internal control over financial reporting.

/s/ DELOITTE & TOUCHE LLP

San Diego, California
February 26, 2015

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

We have audited the internal control over financial reporting of San Diego Gas & Electric Company (the “Company”) as of December 31, 2014, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company’s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company’s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company’s internal control over financial reporting is a process designed by, or under the supervision of, the company’s principal executive and principal financial officers, or persons performing similar functions, and effected by the company’s board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on the criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended December 31, 2014 of the Company and our report dated February 26, 2015 expressed an unqualified opinion on those financial statements.

/s/ DELOITTE & TOUCHE LLP

San Diego, California
February 26, 2015

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

We have audited the accompanying consolidated balance sheets of San Diego Gas & Electric Company (the “Company”) as of December 31, 2014 and 2013, and the related consolidated statements of operations, comprehensive income, changes in equity, and cash flows for each of the three years in the period ended December 31, 2014. These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of San Diego Gas & Electric Company as of December 31, 2014 and 2013, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2014, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company’s internal control over financial reporting as of December 31, 2014, based on the criteria established in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 26, 2015 expressed an unqualified opinion on the Company’s internal control over financial reporting.

/s/ DELOITTE & TOUCHE LLP

San Diego, California
February 26, 2015

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

We have audited the internal control over financial reporting of Southern California Gas Company and subsidiaries (the "Company") as of December 31, 2014, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on the criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended December 31, 2014 of the Company and our report dated February 26, 2015 expressed an unqualified opinion on those financial statements.

/s/ DELOITTE & TOUCHE LLP

San Diego, California
February 26, 2015

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

We have audited the accompanying consolidated balance sheets of Southern California Gas Company and subsidiaries (the "Company") as of December 31, 2014 and 2013, and the related consolidated statements of operations, comprehensive income, changes in shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2014. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Southern California Gas Company and subsidiaries as of December 31, 2014 and 2013, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2014, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2014, based on the criteria established in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 26, 2015 expressed an unqualified opinion on the Company's internal control over financial reporting.

/s/ DELOITTE & TOUCHE LLP

San Diego, California
February 26, 2015

SEMPRA ENERGY
CONSOLIDATED STATEMENTS OF OPERATIONS

(Dollars in millions, except per share amounts)

	Years ended December 31,		
	2014	2013	2012
REVENUES			
Utilities	\$ 9,758	\$ 9,309	\$ 8,441
Energy-related businesses	1,277	1,248	1,206
Total revenues	11,035	10,557	9,647
EXPENSES AND OTHER INCOME			
Utilities:			
Cost of natural gas	(1,758)	(1,646)	(1,290)
Cost of electric fuel and purchased power	(2,281)	(1,932)	(1,760)
Energy-related businesses:			
Cost of natural gas, electric fuel and purchased power	(552)	(435)	(481)
Other cost of sales	(163)	(178)	(159)
Operation and maintenance	(2,935)	(2,995)	(2,956)
Depreciation and amortization	(1,156)	(1,113)	(1,090)
Franchise fees and other taxes	(408)	(374)	(359)
Plant closure loss	(6)	(200)	—
Gain on sale of equity interests and assets	62	114	7
Equity earnings (losses), before income tax	81	31	(319)
Other income, net	137	140	172
Interest income	22	20	24
Interest expense	(554)	(559)	(493)
Income before income taxes and equity earnings of certain unconsolidated subsidiaries	1,524	1,430	943
Income tax expense	(300)	(366)	(59)
Equity earnings, net of income tax	38	24	36
Net income	1,262	1,088	920
Earnings attributable to noncontrolling interests	(100)	(79)	(55)
Call premium on preferred stock of subsidiary	—	(3)	—
Preferred dividends of subsidiaries	(1)	(5)	(6)
Earnings	\$ 1,161	\$ 1,001	\$ 859
Basic earnings per common share	\$ 4.72	\$ 4.10	\$ 3.56
Weighted-average number of shares outstanding, basic (thousands)	245,891	243,863	241,347
Diluted earnings per common share	\$ 4.63	\$ 4.01	\$ 3.48
Weighted-average number of shares outstanding, diluted (thousands)	250,655	249,332	246,693

See Notes to Consolidated Financial Statements.

SEMPRA ENERGY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Dollars in millions)

	Years ended December 31, 2014, 2013 and 2012				
	Sempra Energy shareholders' equity				
	Pretax amount	Income tax (expense) benefit	Net-of-tax amount	Noncontrolling interests (after-tax)	Total
2014:					
Net income	\$ 1,462	\$ (300)	\$ 1,162	\$ 100	\$ 1,262
Other comprehensive loss:					
Foreign currency translation adjustments	(193)	—	(193)	(20)	(213)
Pension and other postretirement benefits	(20)	8	(12)	—	(12)
Financial instruments	(106)	42	(64)	(1)	(65)
Total other comprehensive loss	(319)	50	(269)	(21)	(290)
Comprehensive income	1,143	(250)	893	79	972
Preferred dividends of subsidiary	(1)	—	(1)	—	(1)
Comprehensive income, after preferred dividends of subsidiary	\$ 1,142	\$ (250)	\$ 892	\$ 79	\$ 971
2013:					
Net income	\$ 1,375	\$ (366)	\$ 1,009	\$ 79	\$ 1,088
Other comprehensive income (loss):					
Foreign currency translation adjustments	111	—	111	(27)	84
Pension and other postretirement benefits	47	(19)	28	—	28
Financial instruments	13	(4)	9	19	28
Total other comprehensive income (loss)	171	(23)	148	(8)	140
Comprehensive income	1,546	(389)	1,157	71	1,228
Preferred dividends of subsidiaries	(5)	—	(5)	—	(5)

Comprehensive income, after preferred dividends of subsidiaries	\$	1,541	\$	(389)	\$	1,152	\$	71	\$	1,223
2012:										
Net income	\$	924	\$	(59)	\$	865	\$	55	\$	920
Other comprehensive income (loss):										
Foreign currency translation adjustments		119		—		119		15		134
Pension and other postretirement benefits		(4)		2		(2)		—		(2)
Financial instruments		(6)		2		(4)		(11)		(15)
Total other comprehensive income		109		4		113		4		117
Comprehensive income		1,033		(55)		978		59		1,037
Preferred dividends of subsidiaries		(6)		—		(6)		—		(6)
Comprehensive income, after preferred dividends of subsidiaries	\$	1,027	\$	(55)	\$	972	\$	59	\$	1,031

See Notes to Consolidated Financial Statements.

SEMPRA ENERGY CONSOLIDATED BALANCE SHEETS

(Dollars in millions)

	December 31, 2014	December 31, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 570	\$ 904
Restricted cash	11	24
Trade accounts receivable, net	1,242	1,308
Other accounts and notes receivable, net	152	214
Due from unconsolidated affiliates	38	4
Income taxes receivable	45	85
Deferred income taxes	305	301
Inventories	396	287
Regulatory balancing accounts – undercollected	746	556
Fixed-price contracts and other derivatives	93	106
Asset held for sale, power plant	293	—
Other	293	208
Total current assets	<u>4,184</u>	<u>3,997</u>
Investments and other assets:		
Restricted cash	29	25
Due from unconsolidated affiliates	188	14
Regulatory assets	3,031	2,548
Nuclear decommissioning trusts	1,131	1,034
Investments	2,848	1,575
Goodwill	931	1,024
Other intangible assets	415	426
Dedicated assets in support of certain benefit plans	512	506
Sundry	561	635
Total investments and other assets	<u>9,646</u>	<u>7,787</u>
Property, plant and equipment:		
Property, plant and equipment	35,407	34,407
Less accumulated depreciation and amortization	<u>(9,505)</u>	<u>(8,947)</u>
Property, plant and equipment, net (\$410 and \$438 at December 31, 2014 and 2013, respectively, related to VIE)	25,902	25,460
Total assets	<u>\$ 39,732</u>	<u>\$ 37,244</u>

See Notes to Consolidated Financial Statements.

SEMPRA ENERGY CONSOLIDATED BALANCE SHEETS (CONTINUED)

(Dollars in millions)

	December 31, 2014	December 31, 2013
LIABILITIES AND EQUITY		
Current liabilities:		
Short-term debt	\$ 1,733	\$ 545
Accounts payable – trade	1,198	1,088
Accounts payable – other	155	127
Due to unconsolidated affiliate	2	—
Dividends and interest payable	282	271
Accrued compensation and benefits	373	376
Regulatory balancing accounts – overcollected	—	91
Current portion of long-term debt	469	1,147
Fixed-price contracts and other derivatives	55	55
Customer deposits	153	154
Other	649	515

Total current liabilities	5,069	4,369
Long-term debt (\$315 and \$325 at December 31, 2014 and 2013, respectively, related to VIE)	12,167	11,253
Deferred credits and other liabilities:		
Customer advances for construction	144	155
Pension and other postretirement benefit obligations, net of plan assets	1,064	667
Deferred income taxes	3,003	2,804
Deferred investment tax credits	37	42
Regulatory liabilities arising from removal obligations	2,741	2,623
Asset retirement obligations	2,048	2,084
Fixed-price contracts and other derivatives	255	228
Deferred credits and other	1,104	1,169
Total deferred credits and other liabilities	10,396	9,772
Commitments and contingencies (Note 15)		
Equity:		
Preferred stock (50 million shares authorized; none issued)	—	—
Common stock (750 million shares authorized; 246 million and 244 million shares outstanding at December 31, 2014 and 2013, respectively; no par value)	2,484	2,409
Retained earnings	9,339	8,827
Accumulated other comprehensive income (loss)	(497)	(228)
Total Sempra Energy shareholders' equity	11,326	11,008
Preferred stock of subsidiary	20	20
Other noncontrolling interests	754	822
Total equity	12,100	11,850
Total liabilities and equity	\$ 39,732	\$ 37,244

See Notes to Consolidated Financial Statements.

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

	Years ended December 31,		
	2014	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	\$ 1,262	\$ 1,088	\$ 920
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	1,156	1,113	1,090
Deferred income taxes and investment tax credits	146	334	(43)
Gain on sale of equity interests and assets	(62)	(114)	(7)
Plant closure loss	6	200	—
Equity (earnings) losses	(119)	(55)	324
Fixed-price contracts and other derivatives	(25)	(21)	(26)
Other	108	13	41
Net change in other working capital components	(375)	(620)	(630)
Changes in other assets	19	(171)	219
Changes in other liabilities	45	17	130
Net cash provided by operating activities	2,161	1,784	2,018
CASH FLOWS FROM INVESTING ACTIVITIES			
Expenditures for property, plant and equipment	(3,123)	(2,572)	(2,956)
Expenditures for investments and acquisition of businesses, net of cash acquired	(240)	(22)	(445)
Proceeds from sale of equity interests and assets, net of cash sold	149	570	74
Proceeds from U.S. Treasury grants	—	238	—
Distributions from investments	13	152	207
Purchases of nuclear decommissioning and other trust assets	(613)	(697)	(738)
Proceeds from sales by nuclear decommissioning and other trusts	601	695	733
Decrease in restricted cash	155	329	196
Increase in restricted cash	(152)	(356)	(218)
Advances to unconsolidated affiliates	(185)	(14)	—
Repayments of advances to unconsolidated affiliate	18	—	—
Other	35	(12)	(11)
Net cash used in investing activities	(3,342)	(1,689)	(3,158)
CASH FLOWS FROM FINANCING ACTIVITIES			
Common dividends paid	(598)	(606)	(550)
Redemption of preferred stock of subsidiary	—	(82)	—
Preferred dividends paid by subsidiaries	(1)	(5)	(6)
Issuances of common stock	56	62	78
Repurchases of common stock	(38)	(45)	(16)
Issuances of debt (maturities greater than 90 days)	3,272	2,081	3,097
Payments on debt (maturities greater than 90 days)	(2,034)	(1,788)	(1,112)
Proceeds from sale of noncontrolling interests, net of \$25 in offering costs	—	574	—

Increase (decrease) in short-term debt, net	412	256	(47)
Purchase of noncontrolling interests	(74)	—	(7)
Net distributions to noncontrolling interests	(104)	(69)	(61)
Other	(37)	(40)	(21)
Net cash provided by financing activities	854	338	1,355
Effect of exchange rate changes on cash and cash equivalents	(7)	(4)	8
(Decrease) increase in cash and cash equivalents	(334)	429	223
Cash and cash equivalents, January 1	904	475	252
Cash and cash equivalents, December 31	\$ 570	\$ 904	\$ 475

See Notes to Consolidated Financial Statements.

SEMPRA ENERGY
CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
(Dollars in millions)

	Years ended December 31,		
	2014	2013	2012
CHANGES IN OTHER WORKING CAPITAL COMPONENTS			
(Excluding cash and cash equivalents, and debt due within one year)			
Accounts and notes receivable	\$ 44	\$ (273)	\$ 36
Income taxes receivable, net	62	(38)	(29)
Inventories	(133)	116	(78)
Regulatory balancing accounts	(317)	(198)	(291)
Regulatory assets and liabilities	8	1	(6)
Other current assets	(10)	15	180
Accounts and notes payable	109	(28)	3
Other current liabilities	(138)	(215)	(445)
Net change in other working capital components	\$ (375)	\$ (620)	\$ (630)
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION			
Interest payments, net of amounts capitalized	\$ 536	\$ 544	\$ 458
Income tax payments, net of refunds	102	120	130
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES			
Acquisition of businesses:			
Assets acquired	\$ —	\$ 13	\$ 29
Cash paid, net of cash acquired	—	(11)	(19)
Liabilities assumed	\$ —	\$ 2	\$ 10
Nuclear facility plant reclassified to regulatory asset, net of depreciation and amortization	\$ —	\$ 512	\$ —
Accrued capital expenditures	433	437	357
Increase in capital lease obligations for investment in property, plant and equipment	60	—	—
Financing of build-to-suit property	61	14	—
Capital expenditures recoverable by U.S. Treasury grants receivable(1)	—	3	213
Sequestration of U.S. Treasury grants receivable	—	(23)	—
Dividends declared but not paid	166	157	150

(1) Cash grants; the 2012 amount excludes \$45 million previously recorded in 2011 as investment tax credits.
See Notes to Consolidated Financial Statements.

SEMPRA ENERGY
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(Dollars in millions)

	Years ended December 31, 2014, 2013 and 2012						
	Common stock	Retained earnings	Deferred compensation relating to ESOP	Accumulated other comprehensive income (loss)	Sempra Energy shareholders' equity	Non-controlling interests	Total equity
Balance at December 31, 2011	\$ 2,104	\$ 8,162	\$ (2)	\$ (489)	\$ 9,775	\$ 403	\$ 10,178
Net income		865			865	55	920
Other comprehensive income				113	113	4	117
Share-based compensation expense	44				44		44
Common stock dividends declared		(580)			(580)		(580)
Preferred dividends of subsidiaries		(6)			(6)		(6)
Issuance of common stock	78				78		78
Repurchases of common stock	(16)				(16)		(16)
Common stock released from ESOP	7		2		9		9
Distributions to noncontrolling interests						(62)	(62)
Equity contributed by noncontrolling interests						8	8
Purchase of noncontrolling interests in subsidiary						(7)	(7)
Balance at December 31, 2012	2,217	8,441	—	(376)	10,282	401	10,683

Net income		1,009			1,009	79	1,088
Other comprehensive income (loss)			148		148	(8)	140
Share-based compensation expense	40				40		40
Common stock dividends declared		(615)			(615)		(615)
Preferred dividends of subsidiaries		(5)			(5)		(5)
Issuance of common stock	62				62		62
Repurchases of common stock	(45)				(45)		(45)
Sale of noncontrolling interests, net of offering costs	135				135	439	574
Distributions to noncontrolling interests						(69)	(69)
Call premium on preferred stock of subsidiary		(3)			(3)		(3)
Balance at December 31, 2013	2,409	8,827	—	(228)	11,008	842	11,850
Net income		1,162			1,162	100	1,262
Other comprehensive loss			(269)		(269)	(21)	(290)
Share-based compensation expense	48				48		48
Common stock dividends declared		(649)			(649)		(649)
Preferred dividends of subsidiary		(1)			(1)		(1)
Issuance of common stock	97				97		97
Repurchases of common stock	(38)				(38)		(38)
Distributions to noncontrolling interests						(107)	(107)
Equity contributed by noncontrolling interests						1	1
Purchase of noncontrolling interests in subsidiary	(32)				(32)	(41)	(73)
Balance at December 31, 2014	\$ 2,484	\$ 9,339	\$ —	\$ (497)	\$ 11,326	\$ 774	\$ 12,100

See Notes to Consolidated Financial Statements.

SAN DIEGO GAS & ELECTRIC COMPANY CONSOLIDATED STATEMENTS OF OPERATIONS (Dollars in millions)

	Years ended December 31,		
	2014	2013	2012
Operating revenues			
Electric	\$ 3,785	\$ 3,537	\$ 3,226
Natural gas	544	529	468
Total operating revenues	<u>4,329</u>	<u>4,066</u>	<u>3,694</u>
Operating expenses			
Cost of electric fuel and purchased power	1,309	1,019	892
Cost of natural gas	208	204	151
Operation and maintenance	1,076	1,157	1,154
Depreciation and amortization	530	494	490
Franchise fees and other taxes	241	210	198
Plant closure loss	6	200	—
Total operating expenses	<u>3,370</u>	<u>3,284</u>	<u>2,885</u>
Operating income	959	782	809
Other income, net	40	40	69
Interest income	—	1	—
Interest expense	(202)	(197)	(173)
Income before income taxes	797	626	705
Income tax expense	(270)	(191)	(190)
Net income	527	435	515
Earnings attributable to noncontrolling interest	(20)	(24)	(26)
Earnings	507	411	489
Call premium on preferred stock	—	(3)	—
Preferred dividend requirements	—	(4)	(5)
Earnings attributable to common shares	<u>\$ 507</u>	<u>\$ 404</u>	<u>\$ 484</u>

See Notes to Consolidated Financial Statements.

SAN DIEGO GAS & ELECTRIC COMPANY CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Dollars in millions)

	Years ended December 31, 2014, 2013 and 2012				
	SDG&E shareholder's equity				
	Pretax amount	Income tax expense	Net-of-tax amount	Noncontrolling interest (after-tax)	Total
2014:					
Net income	\$ 777	\$ (270)	\$ 507	\$ 20	\$ 527
Other comprehensive income (loss):					
Pension and other postretirement benefits	(5)	2	(3)	—	(3)

Financial instruments	—	—	—	2	2
Total other comprehensive income (loss)	(5)	2	(3)	2	(1)
Comprehensive income	\$ 772	\$ (268)	\$ 504	\$ 22	\$ 526
2013:					
Net income	\$ 602	\$ (191)	\$ 411	\$ 24	\$ 435
Other comprehensive income:					
Pension and other postretirement benefits	3	(1)	2	—	2
Financial instruments	—	—	—	17	17
Total other comprehensive income	3	(1)	2	17	19
Comprehensive income	\$ 605	\$ (192)	\$ 413	\$ 41	\$ 454
2012:					
Net income	\$ 679	\$ (190)	\$ 489	\$ 26	\$ 515
Other comprehensive loss:					
Pension and other postretirement benefits	(1)	—	(1)	—	(1)
Financial instruments	—	—	—	(11)	(11)
Total other comprehensive loss	(1)	—	(1)	(11)	(12)
Comprehensive income	\$ 678	\$ (190)	\$ 488	\$ 15	\$ 503

See Notes to Consolidated Financial Statements.

SAN DIEGO GAS & ELECTRIC COMPANY CONSOLIDATED BALANCE SHEETS

(Dollars in millions)

	December 31, 2014	December 31, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 8	\$ 27
Restricted cash	8	6
Accounts receivable – trade, net	285	266
Accounts receivable – other, net	35	28
Due from unconsolidated affiliates	1	1
Income taxes receivable	—	32
Deferred income taxes	—	103
Inventories	73	86
Regulatory balancing accounts – undercollected	711	556
Regulatory assets	54	29
Fixed-price contracts and other derivatives	44	61
Other	125	75
Total current assets	1,344	1,270
Other assets:		
Restricted cash	11	25
Deferred taxes recoverable in rates	824	788
Regulatory assets	1,086	1,160
Nuclear decommissioning trusts	1,131	1,034
Sundry	282	254
Total other assets	3,334	3,261
Property, plant and equipment:		
Property, plant and equipment	15,478	14,346
Less accumulated depreciation and amortization	(3,860)	(3,500)
Property, plant and equipment, net (\$410 and \$438 at December 31, 2014 and 2013, respectively, related to VIE)	11,618	10,846
Total assets	\$ 16,296	\$ 15,377

See Notes to Consolidated Financial Statements.

SAN DIEGO GAS & ELECTRIC COMPANY CONSOLIDATED BALANCE SHEETS (CONTINUED)

(Dollars in millions)

	December 31, 2014	December 31, 2013
LIABILITIES AND EQUITY		
Current liabilities:		
Short-term debt	\$ 246	\$ 59
Accounts payable	441	420
Due to unconsolidated affiliates	21	39
Income taxes payable	30	—
Deferred income taxes	53	—
Interest payable	40	39
Accrued compensation and benefits	124	113
Current portion of long-term debt	365	29
Asset retirement obligation	120	51
Fixed-price contracts and other derivatives	40	38
Customer deposits	71	71

Other	237	220
Total current liabilities	1,788	1,079
Long-term debt (\$315 and \$325 at December 31, 2014 and 2013, respectively, related to VIE)	4,319	4,525
Deferred credits and other liabilities:		
Customer advances for construction	41	34
Pension and other postretirement benefit obligations, net of plan assets	216	132
Deferred income taxes	2,121	2,021
Deferred investment tax credits	22	24
Regulatory liabilities arising from removal obligations	1,557	1,403
Asset retirement obligations	754	861
Fixed-price contracts and other derivatives	153	175
Deferred credits and other	333	404
Total deferred credits and other liabilities	5,197	5,054
Commitments and contingencies (Note 15)		
Equity:		
Common stock (255 million shares authorized; 117 million shares outstanding; no par value)	1,338	1,338
Retained earnings	3,606	3,299
Accumulated other comprehensive income (loss)	(12)	(9)
Total SDG&E shareholder's equity	4,932	4,628
Noncontrolling interest	60	91
Total equity	4,992	4,719
Total liabilities and equity	\$ 16,296	\$ 15,377

See Notes to Consolidated Financial Statements.

SAN DIEGO GAS & ELECTRIC COMPANY CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in millions)

	Years ended December 31,		
	2014	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	\$ 527	\$ 435	\$ 515
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	530	494	490
Deferred income taxes and investment tax credits	223	171	285
Plant closure loss	6	200	—
Fixed-price contracts and other derivatives	(6)	(8)	(12)
Other	(23)	(37)	(63)
Changes in other assets	191	(150)	201
Changes in other liabilities	18	19	129
Changes in working capital components:			
Accounts receivable	(47)	(40)	12
Due to/from affiliates, net	(10)	38	29
Inventories	4	(14)	—
Other current assets	(16)	7	208
Income taxes	35	(50)	85
Accounts payable	(23)	50	(42)
Regulatory balancing accounts	(208)	(140)	(322)
Interest payable	—	4	5
Other current liabilities	(104)	(260)	(419)
Net cash provided by operating activities	1,097	719	1,101
CASH FLOWS FROM INVESTING ACTIVITIES			
Expenditures for property, plant and equipment	(1,100)	(978)	(1,237)
Purchases of nuclear decommissioning trust assets	(609)	(692)	(732)
Proceeds from sales by nuclear decommissioning trusts	601	685	723
Proceeds from sale of assets	—	11	—
Decrease in restricted cash	96	82	92
Increase in restricted cash	(84)	(81)	(81)
Expenditures related to long-term service agreement	(30)	—	—
Net cash used in investing activities	(1,126)	(973)	(1,235)
CASH FLOWS FROM FINANCING ACTIVITIES			
Common dividends paid	(200)	—	—
Redemption of preferred stock	—	(82)	—
Preferred dividends paid	—	(5)	(5)
Issuances of long-term debt	100	450	249
Payments on long-term debt	(24)	(199)	(10)
Capital distributions made by Otay Mesa VIE	(53)	(26)	(40)
Increase in short-term debt, net	187	59	—
Other	—	(3)	(2)

Net cash provided by financing activities	10	194	192
(Decrease) increase in cash and cash equivalents	(19)	(60)	58
Cash and cash equivalents, January 1	27	87	29
Cash and cash equivalents, December 31	\$ 8	\$ 27	\$ 87

See Notes to Consolidated Financial Statements.

SAN DIEGO GAS & ELECTRIC COMPANY CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

(Dollars in millions)

	Years ended December 31,		
	2014	2013	2012
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION			
Interest payments, net of amounts capitalized	\$ 196	\$ 187	\$ 162
Income tax (refunds) payments, net	(4)	84	(242)
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES			
Nuclear facility plant reclassified to regulatory asset, net of depreciation and amortization	\$ —	\$ 512	\$ —
Accrued capital expenditures	217	182	153
Increase in capital lease obligations for investment in property, plant and equipment	60	—	—
Dividends declared but not paid	—	—	1

See Notes to Consolidated Financial Statements.

SAN DIEGO GAS & ELECTRIC COMPANY CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(Dollars in millions)

	Years ended December 2014, 2013 and 2012					
	Common stock	Retained earnings	Accumulated other comprehensive income (loss)	SDG&E shareholder's equity	Noncontrolling interest	Total equity
Balance at December 31, 2011	\$ 1,338	\$ 2,411	\$ (10)	\$ 3,739	\$ 102	\$ 3,841
Net income		489		489	26	515
Other comprehensive loss			(1)	(1)	(11)	(12)
Preferred stock dividends declared		(5)		(5)		(5)
Distributions to noncontrolling interest					(41)	(41)
Balance at December 31, 2012	1,338	2,895	(11)	4,222	76	4,298
Net income		411		411	24	435
Other comprehensive income			2	2	17	19
Preferred stock dividends declared		(4)		(4)		(4)
Distributions to noncontrolling interest					(26)	(26)
Call premium on preferred stock		(3)		(3)		(3)
Balance at December 31, 2013	1,338	3,299	(9)	4,628	91	4,719
Net income		507		507	20	527
Other comprehensive (loss) income			(3)	(3)	2	(1)
Common stock dividends declared		(200)		(200)		(200)
Distributions to noncontrolling interest					(53)	(53)
Balance at December 31, 2014	\$ 1,338	\$ 3,606	\$ (12)	\$ 4,932	\$ 60	\$ 4,992

See Notes to Consolidated Financial Statements.

SOUTHERN CALIFORNIA GAS COMPANY CONSOLIDATED STATEMENTS OF OPERATIONS

(Dollars in millions)

	Years ended December 31,		
	2014	2013	2012
Operating revenues	\$ 3,855	\$ 3,736	\$ 3,282
Operating expenses			
Cost of natural gas	1,449	1,362	1,074
Operation and maintenance	1,321	1,324	1,304
Depreciation and amortization	431	383	362
Franchise fees and other taxes	133	128	122
Total operating expenses	3,334	3,197	2,862
Operating income	521	539	420
Other income, net	20	11	17
Interest expense	(69)	(69)	(68)
Income before income taxes	472	481	369

Income tax expense	(139)	(116)	(79)
Net income	333	365	290
Preferred dividend requirements	(1)	(1)	(1)
Earnings attributable to common shares	\$ 332	\$ 364	\$ 289

See Notes to Consolidated Financial Statements.

SOUTHERN CALIFORNIA GAS COMPANY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Dollars in millions)

	Years ended December 31, 2014, 2013 and 2012		
	Pretax amount	Income tax (expense) benefit	Net-of-tax amount
2014:			
Net Income/Comprehensive income	\$ 472	\$ (139)	\$ 333
2013:			
Net income	\$ 481	\$ (116)	\$ 365
Other comprehensive income (loss):			
Pension and other postretirement benefits	(2)	1	(1)
Financial instruments	1	—	1
Total other comprehensive loss	(1)	1	—
Comprehensive income	\$ 480	\$ (115)	\$ 365
2012:			
Net income	\$ 369	\$ (79)	\$ 290
Other comprehensive income:			
Pension and other postretirement benefits	5	(3)	2
Financial instruments	2	(1)	1
Total other comprehensive income	7	(4)	3
Comprehensive income	\$ 376	\$ (83)	\$ 293

See Notes to Consolidated Financial Statements.

SOUTHERN CALIFORNIA GAS COMPANY
CONSOLIDATED BALANCE SHEETS

(Dollars in millions)

	December 31, 2014	December 31, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 85	\$ 27
Accounts receivable – trade, net	586	595
Accounts receivable – other, net	51	97
Due from unconsolidated affiliates	4	21
Income taxes receivable	5	25
Inventories	181	69
Regulatory balancing accounts – undercollected	35	—
Regulatory assets	5	5
Other	36	34
Total current assets	988	873
Other assets:		
Regulatory assets arising from pension obligations	617	326
Other regulatory assets	472	262
Other postretirement benefit assets, net of plan liabilities	4	95
Sundry	136	124
Total other assets	1,229	807
Property, plant and equipment:		
Property, plant and equipment	12,886	11,831
Less accumulated depreciation and amortization	(4,642)	(4,364)
Property, plant and equipment, net	8,244	7,467
Total assets	\$ 10,461	\$ 9,147

See Notes to Consolidated Financial Statements.

SOUTHERN CALIFORNIA GAS COMPANY
CONSOLIDATED BALANCE SHEETS (CONTINUED)

(Dollars in millions)

	December 31, 2014	December 31, 2013
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Short-term debt	\$ 50	\$ 42
Accounts payable – trade	532	346
Accounts payable – other	88	79
Due to unconsolidated affiliate	13	16

Deferred income taxes	53	45
Accrued compensation and benefits	129	141
Regulatory balancing accounts – overcollected	—	91
Current portion of long-term debt	—	252
Customer deposits	75	75
Other	149	125
Total current liabilities	1,089	1,212
Long-term debt	1,906	1,159
Deferred credits and other liabilities:		
Customer advances for construction	102	108
Pension obligation, net of plan assets	633	339
Deferred income taxes	1,212	993
Deferred investment tax credits	16	18
Regulatory liabilities arising from removal obligations	1,167	1,205
Asset retirement obligations	1,255	1,182
Deferred credits and other	300	382
Total deferred credits and other liabilities	4,685	4,227
Commitments and contingencies (Note 15)		
Shareholders' equity:		
Preferred stock	22	22
Common stock (100 million shares authorized; 91 million shares outstanding; no par value)	866	866
Retained earnings	1,911	1,679
Accumulated other comprehensive income (loss)	(18)	(18)
Total shareholders' equity	2,781	2,549
Total liabilities and shareholders' equity	\$ 10,461	\$ 9,147

See Notes to Consolidated Financial Statements.

SOUTHERN CALIFORNIA GAS COMPANY
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in millions)

	Years ended December 31,		
	2014	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	\$ 333	\$ 365	\$ 290
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	431	383	362
Deferred income taxes and investment tax credits	130	117	128
Other	(7)	(5)	(12)
Changes in other assets	(131)	(52)	14
Changes in other liabilities	29	(4)	4
Changes in working capital components:			
Accounts receivable	30	(113)	37
Inventories	(113)	82	(1)
Other current assets	(3)	3	(6)
Accounts payable	156	(54)	54
Income taxes	17	51	(83)
Due to/from affiliates, net	(1)	(57)	51
Regulatory balancing accounts	(109)	(58)	31
Customer deposits	—	(1)	1
Other current liabilities	3	24	(24)
Net cash provided by operating activities	765	681	846
CASH FLOWS FROM INVESTING ACTIVITIES			
Expenditures for property, plant and equipment	(1,104)	(762)	(639)
Decrease (increase) in loans to affiliate, net	—	34	(4)
Net cash used in investing activities	(1,104)	(728)	(643)
CASH FLOWS FROM FINANCING ACTIVITIES			
Common dividends paid	(100)	(50)	(250)
Preferred dividends paid	(1)	(1)	(1)
Issuances of long-term debt	747	—	348
Payments on long-term debt	(250)	—	(250)
Debt issuance costs	(7)	—	(3)
Increase in short-term debt, net	8	42	—
Net cash provided by (used in) financing activities	397	(9)	(156)
Increase (decrease) in cash and cash equivalents	58	(56)	47
Cash and cash equivalents, January 1	27	83	36
Cash and cash equivalents, December 31	\$ 85	\$ 27	\$ 83

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Interest payments, net of amounts capitalized	\$	62	\$	65	\$	62
Income tax (refunds) payments, net		(10)		(52)		16

SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING ACTIVITY

Accrued capital expenditures	\$	168	\$	130	\$	115
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See Notes to Consolidated Financial Statements.

**SOUTHERN CALIFORNIA GAS COMPANY
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**

(Dollars in millions)

	Years ended December 31, 2014, 2013 and 2012					Accumulated other comprehensive income (loss)	Total shareholders' equity
	Preferred stock		Common stock		Retained earnings		
Balance at December 31, 2011	\$	22	\$	866	\$	1,326	\$ (21) 2,193
Net income					290		290
Other comprehensive income						3	3
Preferred stock dividends declared					(1)		(1)
Common stock dividends declared					(250)		(250)
Balance at December 31, 2012		22		866		1,365	(18) 2,235
Net income					365		365
Preferred stock dividends declared					(1)		(1)
Common stock dividends declared					(50)		(50)
Balance at December 31, 2013		22		866		1,679	(18) 2,549
Net income					333		333
Preferred stock dividends declared					(1)		(1)
Common stock dividends declared					(100)		(100)
Balance at December 31, 2014	\$	22	\$	866	\$	1,911	\$ (18) 2,781

See Notes to Consolidated Financial Statements.

SEMPRA ENERGY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES AND OTHER FINANCIAL DATA

PRINCIPLES OF CONSOLIDATION

Sempra Energy

Sempra Energy's Consolidated Financial Statements include the accounts of Sempra Energy, a California-based Fortune 500 energy-services holding company, and its consolidated subsidiaries and variable interest entities (VIEs). Sempra Energy's principal operating units are

- § San Diego Gas & Electric Company (SDG&E) and Southern California Gas Company (SoCalGas), which are separate, reportable segments;
- § Sempra International, which includes our Sempra South American Utilities and Sempra Mexico reportable segments; and
- § Sempra U.S. Gas & Power, which includes our Sempra Renewables and Sempra Natural Gas reportable segments.

We provide descriptions of each of our segments in Note 16.

We refer to SDG&E and SoCalGas collectively as the California Utilities, which do not include the utilities in our Sempra International and Sempra U.S. Gas & Power operating units. Sempra Global is the holding company for most of our subsidiaries that are not subject to California utility regulation. All references in these Notes to "Sempra International," "Sempra U.S. Gas & Power" and their respective reportable segments are not intended to refer to any legal entity with the same or similar name.

Our Sempra Mexico segment includes the operating companies of our subsidiary, Infraestructura Energética Nova, S.A.B. de C.V. (IEnova), as well as certain holding companies and risk management activity. We discuss IEnova below under "Noncontrolling Interests – Sale of Noncontrolling Interests."

Sempra Energy uses the equity method to account for investments in affiliated companies over which we have the ability to exercise significant influence, but not control. We discuss our investments in unconsolidated entities in Notes 3 and 4.

SDG&E

SDG&E's Consolidated Financial Statements include its accounts and the accounts of a VIE of which SDG&E is the primary beneficiary, as we discuss below under "Variable Interest Entities." SDG&E's common stock is wholly owned by Enova Corporation, which is a wholly owned subsidiary of Sempra Energy.

SoCalGas

SoCalGas' Consolidated Financial Statements include its accounts and the de minimis accounts of inactive subsidiaries. SoCalGas' common stock is wholly owned by Pacific Enterprises (PE), which is a wholly owned subsidiary of Sempra Energy.

BASIS OF PRESENTATION

This is a combined report of Sempra Energy, SDG&E and SoCalGas. We provide separate information for SDG&E and SoCalGas as required. References in this report to "we," "our" and "Sempra Energy Consolidated" are to Sempra Energy and its consolidated entities, unless otherwise indicated by the context. We have eliminated intercompany accounts and transactions within the consolidated financial statements of each reporting entity.

Regulated Operations

Sempra South American Utilities has controlling interests in two electric distribution utilities in South America, Chilquinta Energía S.A. (Chilquinta Energía) in Chile and Luz del Sur S.A.A. (Luz del Sur) in Peru and their subsidiaries. Sempra Natural Gas owns Mobile Gas Service Corporation (Mobile Gas) in southwest Alabama and Willmut Gas Company (Willmut Gas) in Mississippi, and Sempra Mexico owns Ecogas México, S. de R.L. de C.V. (Ecogas) in northern Mexico, all natural gas distribution utilities. The California Utilities, Sempra Natural Gas' Mobile Gas and Willmut Gas, and Sempra Mexico's Ecogas prepare their financial statements in accordance with the provisions of accounting principles generally accepted in the United States of America (U.S. GAAP) governing regulated operations, as we discuss below under "Regulatory Matters." We discuss revenue recognition at our utilities in "Revenues—Utilities" below.

Use of Estimates in the Preparation of the Financial Statements

We have prepared our Consolidated Financial Statements in conformity with U.S. GAAP. This requires us to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes, including the disclosure of contingent assets and liabilities at the date of the financial statements. Although we believe the estimates and assumptions are reasonable, actual amounts ultimately may differ significantly from those estimates.

Subsequent Events

We evaluated events and transactions that occurred after December 31, 2014 through the date the financial statements were issued, and in the opinion of management, the accompanying statements reflect all adjustments necessary for a fair presentation.

REGULATORY MATTERS

Effects of Regulation

The accounting policies of our regulated utility subsidiaries in California, SDG&E and SoCalGas, conform with U.S. GAAP for regulated enterprises and reflect the policies of the California Public Utilities Commission (CPUC) and the Federal Energy Regulatory Commission (FERC).

The California Utilities prepare their financial statements in accordance with U.S. GAAP provisions governing regulated operations. Under these provisions, a regulated utility records regulatory assets, which are generally costs that would otherwise be charged to expense, if it is probable that, through the ratemaking process, the utility will recover those assets from customers. To the extent that recovery is no longer probable, the related regulatory assets are written off. Regulatory liabilities generally represent amounts collected from customers in advance of the actual expenditure by the utility. If the actual expenditures are less than amounts previously collected from ratepayers, the excess would be refunded to customers, generally by reducing future rates. Regulatory liabilities may also arise from other transactions such as unrealized gains on fixed price contracts and other derivatives or certain deferred income tax benefits that are passed through to customers in future rates. In addition, the California Utilities record regulatory liabilities when the CPUC or the FERC requires a refund to be made to customers or has required that a gain or other transaction of net allowable costs be given to customers over future periods.

Determining probability of recovery requires significant judgment by management and may include, but is not limited to, consideration of:

- § the nature of the event giving rise to the assessment;
- § existing statutes and regulatory code;
- § legal precedents;
- § regulatory principles and analogous regulatory actions;
- § testimony presented in regulatory hearings;

- § proposed regulatory decisions;
- § final regulatory orders;
- § a commission-authorized mechanism established for the accumulation of costs;
- § status of applications for rehearings or state court appeals;
- § specific approval from a commission; and
- § historical experience.

Our other natural gas distribution utilities, Mobile Gas, Willmut Gas and Ecogas, also apply U.S. GAAP for regulated utilities to their operations.

We provide information concerning regulatory assets and liabilities below in “Regulatory Balancing Accounts” and “Regulatory Assets and Liabilities” and in Notes 13 and 14.

Regulatory Balancing Accounts

The following table summarizes our regulatory balancing accounts at December 31.

SUMMARY OF REGULATORY BALANCING ACCOUNTS AT DECEMBER 31

(Dollars in millions)

	Sempra Energy Consolidated		SDG&E		SoCalGas	
	2014	2013	2014	2013	2014	2013
Current:						
Overcollected	\$ (1,730)	\$ (1,077)	\$ (1,195)	\$ (645)	\$ (535)	\$ (432)
Undercollected	2,476	1,542	1,906	1,201	570	341
Net current receivable (payable)(1)	746	465	711	556	35	(91)
Noncurrent:						
Undercollected(2)	173	213	—	161	173	52
Total net receivable (payable)(1)	\$ 919	\$ 678	\$ 711	\$ 717	\$ 208	\$ (39)

(1) At December 31, 2013, the net receivable at SDG&E and the net payable at SoCalGas are shown separately on Sempra Energy's Consolidated Balance Sheet.

(2) Long-term undercollected balance included in Regulatory Assets (long-term) on the Consolidated Balance Sheets.

Over- and undercollected regulatory balancing accounts reflect the difference between customer billings and recorded or CPUC-authorized costs, primarily commodity costs. Amounts in the balancing accounts are recoverable (receivable) or refundable (payable) in future rates, subject to CPUC approval. Balancing account treatment eliminates the impact on earnings from variances in the covered costs from authorized amounts. Absent balancing account treatment, variations in the cost of fuel supply and certain operating and maintenance costs from amounts approved by the CPUC would increase volatility in utility earnings.

We provide additional information about regulatory matters in Notes 13, 14 and 15.

Regulatory Assets and Liabilities

We show the details of regulatory assets and liabilities in the following table, and discuss each of them separately below.

REGULATORY ASSETS (LIABILITIES) AT DECEMBER 31

(Dollars in millions)

	2014	2013
SDG&E:		
Fixed-price contracts and other derivatives	\$ 76	\$ 58
Costs related to SONGS plant closure	308	303
Costs related to wildfire litigation	373	330
Deferred taxes recoverable in rates	824	788
Pension and other postretirement benefit obligations	171	106
Removal obligations(1)	(1,557)	(1,403)
Unamortized loss on reacquired debt	12	14
Environmental costs	27	20
Legacy meters	47	62
Sunrise Powerlink fire mitigation	116	115
Other	10	15
Total SDG&E	407	408
SoCalGas:		
Pension and other postretirement benefit obligations	613	231
Employee benefit costs	52	51
Removal obligations(1)	(1,167)	(1,205)
Deferred taxes recoverable in rates	195	110
Unamortized loss on reacquired debt	12	14
Environmental costs	22	14

Workers' compensation						23	26
Total SoCalGas						(250)	(759)
Other Sempra Energy:							
Sempra Natural Gas						(17)	(11)
Sempra Mexico						23	8
Total Other Sempra Energy						6	(3)
Total Sempra Energy Consolidated						\$ 163	\$ (354)

(1) Related to obligations discussed below in "Asset Retirement Obligations."

NET REGULATORY ASSETS (LIABILITIES) AS PRESENTED ON THE CONSOLIDATED BALANCE SHEETS AT DECEMBER 31

(Dollars in millions)

	2014			2013		
	Sempra Energy		SoCalGas	Sempra Energy		SoCalGas
	Consolidated	SDG&E		Consolidated	SDG&E	
Current regulatory assets(1)	\$ 59	\$ 54	\$ 5	\$ 38	\$ 29	\$ 5
Noncurrent regulatory assets(2)	2,858	1,910	916	2,335	1,787	536
Current regulatory liabilities(3)	(7)	—	—	(7)	(5)	—
Noncurrent regulatory liabilities(4)	(2,747)	(1,557)	(1,171)	(2,720)	(1,403)	(1,300)
Total	\$ 163	\$ 407	\$ (250)	\$ (354)	\$ 408	\$ (759)

(1) At Sempra Energy Consolidated, included in Other Current Assets.

(2) Excludes long-term undercollected balancing accounts at December 31, 2014 and 2013, of \$173 million and \$213 million at Sempra Energy, none and \$161 million at SDG&E, and \$173 million and \$52 million at SoCalGas, respectively, recorded in Regulatory Assets (long-term).

(3) Included in Other Current Liabilities.

(4) At December 31, 2014 and 2013, \$6 million and \$97 million, respectively, at Sempra Energy Consolidated and \$4 million and \$95 million, respectively, at SoCalGas is included in Deferred Credits and Other.

In the tables above:

- § Regulatory assets arising from fixed-price contracts and other derivatives are offset by corresponding liabilities arising from purchased power and natural gas commodity and transportation contracts. The regulatory asset is increased/decreased based on changes in the fair market value of the contracts. It is also reduced as payments are made for commodities and services under these contracts.
- § Regulatory assets arising from the San Onofre Nuclear Generating Station (SONGS) plant closure are associated with SDG&E's investment in SONGS as of the plant closure date and the cost of operations since Units 2 and 3 were taken offline, as we discuss further in Note 13.
- § Regulatory assets arising from costs related to wildfire litigation are costs in excess of liability insurance coverage and amounts recovered from third parties, as we discuss in Note 14 under "Excess Wildfire Claims Cost Recovery" and Note 15 under "SDG&E — 2007 Wildfire Litigation."
- § Deferred taxes recoverable in rates are based on current regulatory ratemaking and income tax laws. SDG&E and SoCalGas expect to recover net regulatory assets related to deferred income taxes over the lives of the assets that give rise to the accumulated deferred income tax liabilities.
- § Regulatory assets/liabilities related to pension and other postretirement benefit obligations are offset by corresponding liabilities/assets and are being recovered in rates as the plans are funded.
- § Regulatory assets related to unamortized losses on reacquired debt are recovered over the remaining amortization periods of the losses on reacquired debt. These periods range from 5 months to 13 years for SDG&E and from 7 years to 11 years for SoCalGas.
- § Regulatory assets related to environmental costs represent the portion of our environmental liability recognized at the end of the period in excess of the amount that has been recovered through rates charged to customers. We expect this amount to be recovered in future rates as expenditures are made.
- § The regulatory asset related to the legacy meters removed from service and replaced under the Smart Meter Program is their undepreciated value. SDG&E is recovering this asset over a remaining 3-year period in ratebase.
- § The regulatory asset related to Sunrise Powerlink fire mitigation is offset by a corresponding liability for the funding of a trust to cover the mitigation costs. SDG&E expects to recover the regulatory asset in rates as the trust is funded over a remaining 55-year period. We discuss the trust further in Note 15.

FAIR VALUE MEASUREMENTS

We apply recurring fair value measurements to certain assets and liabilities, primarily nuclear decommissioning and benefit plan trust assets and other miscellaneous derivatives. "Fair value" is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price).

A fair value measurement reflects the assumptions market participants would use in pricing an asset or liability based on the best available information. These assumptions include the risk inherent in a particular valuation technique (such as a pricing model) and the risks inherent in the inputs to the model. Also, we consider an issuer's credit standing when measuring its liabilities at fair value.

We establish a fair value hierarchy that prioritizes the inputs used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurement). The three levels of the fair value hierarchy are as follows:

Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions for the asset or liability occur in sufficient frequency and volume to provide pricing information on an ongoing basis. Our Level 1 financial instruments primarily consist of listed equities, U.S. government treasury securities and exchange-traded derivatives.

Level 2 – Pricing inputs are other than quoted prices in active markets included in Level 1, which are either directly or indirectly observable as of the reporting date. Level 2 includes those financial instruments that are valued using models or other valuation methodologies. These models are primarily industry-standard models that consider various assumptions, including:

- § quoted forward prices for commodities
- § time value
- § current market and contractual prices for the underlying instruments
- § volatility factors
- § other relevant economic measures

Substantially all of these assumptions are observable in the marketplace throughout the full term of the instrument, can be derived from observable data or are supported by observable levels at which transactions are executed in the marketplace. Our financial instruments in this category include domestic corporate bonds, municipal bonds and other foreign bonds, primarily in the Nuclear Decommissioning Trusts and in our pension and postretirement benefit plans, and non-exchange-traded derivatives such as interest rate instruments and over-the-counter (OTC) forwards and options.

Level 3 – Pricing inputs include significant inputs that are generally less observable from objective sources. These inputs may be used with internally developed methodologies that result in management’s best estimate of fair value from the perspective of a market participant. Substantially all of our Level 3 financial instruments are related to congestion revenue rights (CRRs) at SDG&E.

CASH AND CASH EQUIVALENTS

Cash equivalents are highly liquid investments with maturities of three months or less at the date of purchase.

RESTRICTED CASH

Restricted cash at Sempra Energy, including amounts at SDG&E discussed below, was \$40 million and \$49 million at December 31, 2014 and 2013, respectively. Of this, \$11 million and \$24 million was classified as current and \$29 million and \$25 million was classified as noncurrent at December 31, 2014 and 2013, respectively.

SDG&E had \$19 million and \$31 million of restricted cash at December 31, 2014 and 2013, respectively, which represents funds held by a trustee for Otay Mesa VIE (see “Variable Interest Entities—Otay Mesa VIE” below) to pay certain operating costs. Of this, \$8 million and \$6 million was classified as current and \$11 million and \$25 million was classified as noncurrent at December 31, 2014 and 2013, respectively.

Sempra Mexico had restricted cash of \$18 million classified as noncurrent and \$12 million classified as current at December 31, 2014 and 2013, respectively, representing funds to pay for rights of way, license fees, permits, topographic surveys and other costs pursuant to trust agreements related to a pipeline project.

Sempra Renewables had restricted cash of \$3 million and \$6 million classified as current at December 31, 2014 and 2013, respectively, primarily representing funds held in accordance with debt agreements at Copper Mountain Solar 1.

COLLECTION ALLOWANCES

We record allowances for the collection of trade and other accounts and notes receivable, which include allowances for doubtful customer accounts and for other receivables. We show the changes in these allowances in the table below:

COLLECTION ALLOWANCES

(Dollars in millions)

	Years ended December 31,		
	2014	2013	2012
Sempra Energy Consolidated			
Allowances for collection of receivables at January 1	\$ 29	\$ 31	\$ 29
Provisions for uncollectible accounts	25	16	21
Write-offs of uncollectible accounts	(20)	(18)	(19)
Allowances for collection of receivables at December 31	\$ 34	\$ 29	\$ 31
SDG&E			
Allowances for collection of receivables at January 1	\$ 5	\$ 6	\$ 6
Provisions for uncollectible accounts	7	4	5
Write-offs of uncollectible accounts	(5)	(5)	(5)
Allowances for collection of receivables at December 31	\$ 7	\$ 5	\$ 6
SoCalGas			
Allowances for collection of receivables at January 1	\$ 12	\$ 14	\$ 12
Provisions for uncollectible accounts	15	7	12
Write-offs of uncollectible accounts	(10)	(9)	(10)
Allowances for collection of receivables at December 31	\$ 17	\$ 12	\$ 14

We evaluate accounts receivable collectibility using a combination of factors, including past due status based on contractual terms, trends in write-offs, the age of the receivable, counterparty creditworthiness, economic conditions and specific events, such as bankruptcies. Adjustments to the allowance for doubtful accounts are made when necessary based on the results of analysis, the aging of receivables, and historical and industry trends.

We write off accounts receivable in the period in which we deem the receivable to be uncollectible. We record recoveries of accounts receivable previously written off when it is known that they will be received.

INVENTORIES

The California Utilities value natural gas inventory by the last-in first-out (LIFO) method. As inventories are sold, differences between the LIFO valuation and the estimated replacement cost are reflected in customer rates. Materials and supplies at the California Utilities are generally valued at the lower of average cost or market.

Sempra South American Utilities, Sempra Mexico and Sempra Natural Gas value natural gas inventory and materials and supplies at the lower of average cost or market. Sempra Mexico and Sempra Natural Gas value liquefied natural gas (LNG) inventory by the first-in first-out method.

The components of inventories by segment are as follows:

INVENTORY BALANCES AT DECEMBER 31

(Dollars in millions)

	Natural Gas		LNG		Materials and supplies		Total	
	2014	2013	2014	2013	2014	2013	2014	2013
SDG&E	\$ 8	\$ 3	\$ —	\$ —	\$ 65	\$ 83	\$ 73	\$ 86
SoCalGas	155	42	—	—	26	27	181	69
Sempra South American Utilities	—	—	—	—	33	40	33	40
Sempra Mexico	—	—	9	3	9	9	18	12
Sempra Renewables	—	—	—	—	2	2	2	2
Sempra Natural Gas	83	68	5	5	1	5	89	78
Sempra Energy Consolidated	\$ 246	\$ 113	\$ 14	\$ 8	\$ 136	\$ 166	\$ 396	\$ 287

U.S. TREASURY GRANTS

At December 31, 2012, we had receivables for U.S. Treasury grants based on eligible costs at certain of our renewable generating facilities. During the first quarter of 2013, the federal government imposed automatic federal budget cuts, known as “sequestration,” as required by The Budget Control Act of 2011. As a result, we recorded a reduction to our grants receivable of \$23 million and a reversal of income tax benefit of \$5 million during the first quarter of 2013. Later in 2013, we received \$238 million in cash for the remaining grants receivable.

INCOME TAXES

Income tax expense includes current and deferred income taxes from operations during the year. We record deferred income taxes for temporary differences between the book and the tax basis of assets and liabilities. Investment tax credits from prior years are amortized to income by the California Utilities over the estimated service lives of the properties as required by the CPUC. At our other businesses, we reduce the book basis of the related asset by the amount of investment tax credit earned. At Sempra Renewables, production tax credits are recognized in income tax expense as earned.

The California Utilities, Mobile Gas and Willmut Gas recognize

§ regulatory assets to offset deferred tax liabilities if it is probable that the amounts will be recovered from customers; and

§ regulatory liabilities to offset deferred tax assets if it is probable that the amounts will be returned to customers.

We currently do not record deferred income taxes for basis differences between financial statement and income tax investment amounts in non-U.S. subsidiaries and non-U.S. joint ventures because their cumulative undistributed earnings are indefinitely reinvested.

When there are uncertainties related to potential income tax benefits, in order to qualify for recognition, the position we take has to have at least a “more likely than not” chance of being sustained (based on the position’s technical merits) upon challenge by the respective authorities. The term “more likely than not” means a likelihood of more than 50 percent. Otherwise, we may not recognize any of the potential tax benefit associated with the position. We recognize a benefit for a tax position that meets the “more likely than not” criterion at the largest amount of tax benefit that is greater than 50 percent likely of being realized upon its effective resolution.

Unrecognized tax benefits involve management’s judgment regarding the likelihood of the benefit being sustained. The final resolution of uncertain tax positions could result in adjustments to recorded amounts and may affect our results of operations, financial position and cash flows.

We provide additional information about income taxes in Note 6.

GREENHOUSE GAS ALLOWANCES

The California Utilities, Sempra Mexico and Sempra Natural Gas are required by California Assembly Bill 32 to acquire greenhouse gas allowances for every metric ton of carbon dioxide equivalent emitted into the atmosphere during electric generation and natural gas transportation. We record greenhouse gas allowances at the lower of weighted average cost or market, and include them in Other Current Assets and Sundry on the Consolidated Balance Sheets based on the dates that they are required to be surrendered. We measure the compliance obligation, which is based on emissions, at the carrying value of allowances held plus the fair value of additional allowances necessary to satisfy the obligation. We include the obligation in Other Current Liabilities and Deferred Credits on the Consolidated Balance Sheets based on the dates that the allowances will be surrendered. We remove the assets and liabilities from the balance sheets as the allowances are surrendered.

The California Utilities expect that costs and revenues associated with the greenhouse gas program will be recorded through Regulatory Balancing Accounts on the Consolidated Balance Sheets.

RENEWABLE ENERGY CERTIFICATES

Renewable energy certificates (RECs) represent property rights established by governmental agencies for the environmental, social, and other nonpower qualities of renewable electricity generation. A REC, and its associated attributes and benefits, can be sold separately from the underlying physical electricity associated with a renewable-based generation source in certain markets.

Retail sellers of electricity obtain RECs through renewable power purchase agreements, internal generation or separate purchases in the market to comply with renewable portfolio standards established by the governmental agencies. RECs are the mechanism used to verify renewable portfolio standards compliance. The cost of RECs is recorded in Cost of Electric Fuel and Purchased Power, which is recoverable in rates, on the Consolidated Statements of Operations.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment primarily represents the buildings, equipment and other facilities used by the California Utilities to provide natural gas and electric utility services, and by Sempra International and Sempra U.S. Gas & Power, including construction work in progress at these operating units. Property, plant and equipment also includes lease improvements and other equipment at Parent, as well as property acquired under a build-to-suit lease included in construction work in progress.

Our plant costs include

- § labor
- § materials and contract services
- § expenditures for replacement parts incurred during a major maintenance outage of a generating plant

In addition, the cost of our utility plant and selected non-utility regulated projects at Sempra Mexico and Sempra Natural Gas includes an allowance for funds used during construction (AFUDC). We discuss AFUDC below. The cost of non-utility plant includes capitalized interest.

Maintenance costs are expensed as incurred. The cost of most retired depreciable utility plant minus salvage value is charged to accumulated depreciation.

We discuss assets pledged as security for loans in Note 5.

PROPERTY, PLANT AND EQUIPMENT BY MAJOR FUNCTIONAL CATEGORY

(Dollars in millions)

	Property, plant and equipment at December 31,		Depreciation rates for years ended December 31,		
	2014	2013	2014	2013	2012
SDG&E:					
Natural gas operations	\$ 1,535	\$ 1,454	2.72%	2.35%	3.20%
Electric distribution	5,795	5,492	3.79	3.36	4.15
Electric transmission(1)	4,525	3,932	2.59	2.58	2.63
Electric generation(2)	1,862	1,768	3.86	3.76	4.68
Other electric(3)	851	759	7.09	7.58	7.92
Construction work in progress(1)	910	941	NA	NA	NA
Total SDG&E	15,478	14,346			
SoCalGas:					
Natural gas operations(4)	12,098	11,394	3.89	3.70	3.74
Other non-utility	120	118	2.88	1.56	1.36
Construction work in progress	668	319	NA	NA	NA
Total SoCalGas	12,886	11,831			
Other operating units and parent(5):					
Land and land rights	290	276	26 to 55 years(6)		41
Machinery and equipment:					
Utility electric distribution operations	1,434	1,440	10 to 46 years		41
Generating plants	596	993	30 to 50 years		32
LNG terminals	1,122	2,094	5 to 43 years		43
Pipelines and storage	2,003	1,638	3 to 55 years		46
Other	213	212	1 to 50 years		13
Construction work in progress	1,053	1,283	NA		NA
Other	332	294	1 to 80 years		27
	7,043	8,230			
Total Sempra Energy Consolidated	\$ 35,407	\$ 34,407			

(1) At December 31, 2014, includes \$365 million in electric transmission assets and \$12 million in construction work in progress related to SDG&E's 91-percent interest in the Southwest Powerlink (SWPL) transmission line, jointly owned by SDG&E with other utilities. SDG&E, and each of the other owners, holds its undivided interest as a tenant in common in the property. Each owner is responsible for its share of the project and participates in decisions concerning operations and capital expenditures.

(2) Includes capital lease assets of \$243 million and \$183 million at December 31, 2014 and 2013, respectively, primarily related to variable interest entities of which SDG&E is not the primary beneficiary.

- (3) Includes capital lease assets of \$19 million and \$23 million at December 31, 2014 and 2013, respectively.
(4) Includes capital lease assets of \$27 million and \$33 million at December 31, 2014 and 2013, respectively.
(5) December 31, 2014 balances include \$150 million, \$191 million and \$24 million of utility plant, primarily pipelines and other distribution assets, at Ecogas, Mobile Gas and Willmut Gas, respectively. December 31, 2013 balances include \$155 million, \$180 million and \$22 million of utility plant, primarily pipelines and other distribution assets, at Ecogas, Mobile Gas and Willmut Gas, respectively.
(6) Estimated useful lives are for land rights.

Depreciation expense is based on the straight-line method over the useful lives of the assets or, for the California Utilities, a shorter period prescribed by the CPUC. Depreciation expense is computed using the straight-line method over the asset's estimated original composite useful life, the CPUC-prescribed period or the remaining term of the site leases, whichever is shortest. Depreciation expense for Sempra Energy for the years ended December 31, 2014, 2013 and 2012, was \$1,146 million, \$1,103 million and \$1,080 million, respectively. Depreciation expense for SDG&E for the years ended December 31, 2014, 2013 and 2012, was \$530 million, \$494 million and \$490 million, respectively. Depreciation expense for SoCalGas for the years ended December 31, 2014, 2013 and 2012, was \$431 million, \$383 million and \$362 million, respectively.

Accumulated depreciation on our Consolidated Balance Sheets is as follows:

ACCUMULATED DEPRECIATION		December 31,	
<i>(Dollars in millions)</i>		2014	2013
SDG&E:			
Accumulated depreciation:			
Electric(1)		\$ 3,192	\$ 2,861
Natural gas		668	639
Total SDG&E		<u>3,860</u>	<u>3,500</u>
SoCalGas:			
Accumulated depreciation of natural gas utility plant in service(2)		4,555	4,279
Accumulated depreciation – other non-utility		87	85
Total SoCalGas		<u>4,642</u>	<u>4,364</u>
Other operating units and parent:			
Accumulated depreciation – other(3)		824	938
Accumulated depreciation of utility electric distribution operations		179	145
		<u>1,003</u>	<u>1,083</u>
Total Sempra Energy Consolidated		<u>\$ 9,505</u>	<u>\$ 8,947</u>

- (1) Includes accumulated depreciation for assets under capital lease of \$28 million and \$26 million at December 31, 2014 and 2013, respectively. Includes \$211 million at December 31, 2014 related to SDG&E's 91-percent interest in the SWPL transmission line, jointly owned by SDG&E and other utilities.
(2) Includes accumulated depreciation for assets under capital lease of \$27 million and \$31 million at December 31, 2014 and 2013, respectively.
(3) December 31, 2014 balances include \$37 million, \$29 million and \$2 million of accumulated depreciation for utility plant at Ecogas, Mobile Gas and Willmut Gas, respectively. December 31, 2013 balances include \$38 million, \$25 million and \$2 million of accumulated depreciation for utility plant at Ecogas, Mobile Gas and Willmut Gas, respectively.

The California Utilities finance their construction projects with borrowed funds and equity funds. The CPUC and the FERC allow the recovery of the cost of these funds by the capitalization of AFUDC, calculated using rates authorized by the CPUC and the FERC, as a cost component of property, plant and equipment. The California Utilities earn a return on the capitalized AFUDC after the utility property is placed in service and recover the AFUDC from their customers over the expected useful lives of the assets.

Pipeline projects currently under construction by Sempra Mexico and Sempra Natural Gas that are both subject to certain regulation and meet U.S. GAAP regulatory accounting requirements record the impact of AFUDC related to equity. Beginning in the fourth quarter of 2013, Sempra Mexico began recording AFUDC equity for its Sonora Pipeline project, totaling \$43 million and \$19 million for the years ended December 31, 2014 and 2013, respectively.

Sempra International and Sempra U.S. Gas & Power businesses capitalize interest costs incurred to finance capital projects and interest on equity method investments that have not commenced planned principal operations. The California Utilities also capitalize certain interest costs.

CAPITALIZED FINANCING COSTS		Years ended December 31,		
<i>(Dollars in millions)</i>		2014	2013	2012
Sempra Energy Consolidated:				
AFUDC related to debt		\$ 22	\$ 22	\$ 38
AFUDC related to equity		106	75	96
Other capitalized financing costs		39	22	52
Total Sempra Energy Consolidated		<u>\$ 167</u>	<u>\$ 119</u>	<u>\$ 186</u>
SDG&E:				
AFUDC related to debt		\$ 15	\$ 16	\$ 30
AFUDC related to equity		37	39	71
Total SDG&E		<u>\$ 52</u>	<u>\$ 55</u>	<u>\$ 101</u>
SoCalGas:				
AFUDC related to debt		\$ 7	\$ 6	\$ 8
AFUDC related to equity		26	17	25
Other capitalized financing costs		1	1	1
Total SoCalGas		<u>\$ 34</u>	<u>\$ 24</u>	<u>\$ 34</u>

GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill

Goodwill is the excess of the purchase price over the fair value of the identifiable net assets of acquired companies measured at the time of acquisition. Goodwill is not amortized but is tested for impairment annually on October 1 or whenever events or changes in circumstances necessitate an evaluation. Impairment of goodwill occurs when the carrying amount (book value) of goodwill exceeds its implied fair value. If the carrying value of the reporting unit, including goodwill, exceeds its fair value, and the book value of goodwill is greater than its fair value on the test date, we record a goodwill impairment loss.

For our annual goodwill impairment testing, under current U.S. GAAP guidance we have the option to first make a qualitative assessment of whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount before applying the two-step, quantitative goodwill impairment test. If we elect to perform the qualitative assessment, we evaluate relevant events and circumstances, including but not limited to, macroeconomic conditions, industry and market considerations, cost factors, changes in key personnel and the overall financial performance of the reporting unit. If, after assessing these qualitative factors, we determine that it is more likely than not that the fair value of a reporting unit is less than its carrying amount, then we perform the two-step goodwill impairment test. When we perform the two-step, quantitative goodwill impairment test, we exercise judgment to develop estimates of the fair value of the reporting unit and the corresponding goodwill. Our fair value estimates are developed from the perspective of a knowledgeable market participant. We consider observable transactions in the marketplace for similar investments, if available, as well as an income-based approach such as discounted cash flow analysis. A discounted cash flow analysis may be based directly on anticipated future revenues and expenses and may be performed based on free cash flows generated within the reporting unit. Critical assumptions that affect our estimates of fair value may include

- § consideration of market transactions
- § future cash flows
- § the appropriate risk-adjusted discount rate
- § country risk
- § entity risk

Goodwill included on the Sempra Energy Consolidated Balance Sheets is as follows:

GOODWILL							
<i>(Dollars in millions)</i>							
	Sempra South American Utilities		Sempra Mexico		Sempra Natural Gas		Total
Balance at December 31, 2012	\$	1,014	\$	25	\$	72	\$ 1,111
Foreign currency translation(1)		(87)		—		—	(87)
Balance at December 31, 2013		927		25		72	1,024
Foreign currency translation(1)		(93)		—		—	(93)
Balance at December 31, 2014	\$	834	\$	25	\$	72	\$ 931

(1) We record the offset of this fluctuation to other comprehensive income.

We provide additional information concerning goodwill related to our equity method investments and the impairment of investments in unconsolidated subsidiaries in Note 4.

Other Intangible Assets

Other Intangible Assets primarily represent storage and development rights related to the natural gas storage facilities of Bay Gas Storage Company, Ltd. (Bay Gas) and Mississippi Hub, LLC (Mississippi Hub), which are being amortized over their estimated useful lives as shown in the table below.

Other Intangible Assets included on the Sempra Energy Consolidated Balance Sheets are as follows:

OTHER INTANGIBLE ASSETS				
<i>(Dollars in millions)</i>				
	Amortization period (years)	December 31,		
		2014	2013	
Storage rights	46	\$ 138	\$ 138	138
Development rights	50	322	322	322
Other	10 years to indefinite	18	18	19
		478	478	479
Less accumulated amortization:				
Storage rights		(19)	(19)	(16)
Development rights		(40)	(40)	(34)
Other		(4)	(4)	(3)
		(63)	(63)	(53)
		\$ 415	\$ 415	426

Amortization expense for such intangible assets was \$10 million in each of 2014, 2013 and 2012. We estimate the amortization expense for the next five years to be \$10 million per year.

LONG-LIVED ASSETS

We test long-lived assets for recoverability whenever events or changes in circumstances have occurred that may affect the recoverability or the estimated useful lives of long-lived assets. Long-lived assets include intangible assets subject to amortization, but do not include investments in unconsolidated subsidiaries. Events or changes in circumstances that indicate that the carrying amount of a long-lived asset may not be recoverable may include

- § significant decreases in the market price of an asset
- § a significant adverse change in the extent or manner in which we use an asset or in its physical condition
- § a significant adverse change in legal or regulatory factors or in the business climate that could affect the value of an asset
- § a current period operating or cash flow loss combined with a history of operating or cash flow losses or a projection of continuing losses associated with the use of a long-lived asset
- § a current expectation that, more likely than not, a long-lived asset will be sold or otherwise disposed of significantly before the end of its previously estimated useful life

Impairment of long-lived assets occurs when the estimated future undiscounted cash flows are less than the carrying amount of the assets. If that comparison indicates that the assets' carrying value may not be recoverable, the impairment is measured based on the difference between the carrying amount and the fair value of the assets. This evaluation is performed at the lowest level for which separately identifiable cash flows exist.

VARIABLE INTEREST ENTITIES (VIE)

We consolidate a VIE if we are the primary beneficiary of the VIE. Our determination of whether we are the primary beneficiary is based upon qualitative and quantitative analyses, which assess

- § the purpose and design of the VIE;
- § the nature of the VIE's risks and the risks we absorb;
- § the power to direct activities that most significantly impact the economic performance of the VIE; and
- § the obligation to absorb losses or right to receive benefits that could be significant to the VIE.

SDG&E

Tolling Agreements

SDG&E has agreements under which it purchases power generated by facilities for which it supplies all of the natural gas to fuel the power plant (i.e., tolling agreements). SDG&E's obligation to absorb natural gas costs may be a significant variable interest. In addition, SDG&E has the power to direct the dispatch of electricity generated by these facilities. Based upon our analysis, the ability to direct the dispatch of electricity may have the most significant impact on the economic performance of the entity owning the generating facility because of the associated exposure to the cost of natural gas, which fuels the plants, and the value of electricity produced. To the extent that SDG&E (1) is obligated to purchase and provide fuel to operate the facility, (2) has the power to direct the dispatch, and (3) purchases all of the output from the facility for a substantial portion of the facility's useful life, SDG&E may be the primary beneficiary of the entity owning the generating facility. SDG&E determines if it is the primary beneficiary in these cases based on a qualitative approach in which we consider the operational characteristics of the facility, including its expected power generation output relative to its capacity to generate and the financial structure of the entity, among other factors. If we determine that SDG&E is the primary beneficiary, SDG&E and Sempra Energy consolidate the entity that owns the facility as a VIE, as we discuss below.

Otay Mesa VIE

SDG&E has an agreement to purchase power generated at the Otay Mesa Energy Center (OMEC), a 605-megawatt (MW) generating facility. In addition to tolling, the agreement provides SDG&E with the option to purchase the power plant at the end of the contract term in 2019, or upon earlier termination of the purchased-power agreement, at a predetermined price subject to adjustments based on performance of the facility. If SDG&E does not exercise its option, under certain circumstances, it may be required to purchase the power plant at a predetermined price, which we refer to as the put option.

The facility owner, Otay Mesa Energy Center LLC (OMEC LLC), is a VIE (Otay Mesa VIE), of which SDG&E is the primary beneficiary. SDG&E has no OMEC LLC voting rights and does not operate OMEC. In addition to the risks absorbed under the tolling agreement, SDG&E absorbs separately through the put option a significant portion of the risk that the value of Otay Mesa VIE could decline. Accordingly, SDG&E and Sempra Energy have consolidated Otay Mesa VIE. Otay Mesa VIE's equity of \$60 million at December 31, 2014 and \$91 million at December 31, 2013 is included on the Consolidated Balance Sheets in Other Noncontrolling Interests for Sempra Energy and in Noncontrolling Interest for SDG&E.

OMEC LLC has a loan outstanding of \$325 million at December 31, 2014, the proceeds of which were used for the construction of OMEC. The loan is with third party lenders and is secured by OMEC's property, plant and equipment. SDG&E is not a party to the loan agreement and does not have any additional implicit or explicit financial responsibility to OMEC LLC. The loan fully matures in April 2019 and bears interest at rates varying with market rates. In addition, OMEC LLC has entered into interest rate swap agreements to moderate its exposure to interest rate changes. We provide additional information concerning the interest rate swaps in Note 9.

Cameron LNG Holdings

Sempra Energy's equity-method investment in Cameron LNG Holdings is considered to be a VIE generally due to contractual provisions that transfer certain risks to customers. Sempra Energy is not the primary beneficiary because we do not have the power to direct the most significant activities of Cameron LNG Holdings. We will continue to evaluate Cameron LNG Holdings for any changes that may impact our determination of the primary beneficiary. The carrying

value of our investment in Cameron LNG holdings at December 31, 2014 was \$1,007 million, as we discuss in Note 4. Our maximum exposure to loss includes the carrying value of our investment and the guarantees discussed in Note 4.

Other Variable Interest Entities

SDG&E's power procurement is subject to reliability requirements that may require SDG&E to enter into various power purchase arrangements which include variable interests. SDG&E evaluates the respective entities to determine if variable interests exist and, based on the qualitative and quantitative analyses described above, if SDG&E, and thereby Sempra Energy, is the primary beneficiary. SDG&E has determined that no contracts, other than the one relating to Otay Mesa VIE mentioned above, result in SDG&E being the primary beneficiary at December 31, 2014. In addition to the tolling agreements described above, other variable interests involve various elements of fuel and power costs, including certain construction costs, tax credits, and other components of cash flow expected to be paid to or received by our counterparties. In most of these cases, the expectation of variability is not substantial, and SDG&E generally does not have the power to direct activities that most significantly impact the economic performance of the other VIEs. If our ongoing evaluation of these VIEs were to conclude that SDG&E becomes the primary beneficiary and consolidation by SDG&E becomes necessary, the effects are not expected to significantly affect the financial position, results of operations, or liquidity of SDG&E. In addition, SDG&E is not exposed to losses or gains as a result of these other VIEs, because all such variability would be recovered in rates.

Sempra Energy's other operating units also enter into arrangements which could include variable interests. We evaluate these arrangements and applicable entities based upon the qualitative and quantitative analyses described above. Certain of these entities are service companies that are VIEs. As the primary beneficiary of these service companies, we consolidate them. In all other cases, we have determined that these contracts are not variable interests in a VIE and therefore are not subject to the U.S. GAAP requirements concerning the consolidation of VIEs.

The Consolidated Financial Statements of Sempra Energy and SDG&E include the following amounts associated with Otay Mesa VIE. The amounts are net of eliminations of transactions between SDG&E and Otay Mesa VIE. The financial statements of other consolidated VIEs are not material to the financial statements of Sempra Energy. The captions on the tables below correspond to SDG&E's Consolidated Balance Sheets and Consolidated Statements of Operations.

AMOUNTS ASSOCIATED WITH OTAY MESA VIE

(Dollars in millions)

	December 31,			
	2014		2013	
Cash and cash equivalents	\$	5	\$	17
Restricted cash		8		6
Inventories		3		2
Other		1		1
Total current assets		17		26
Restricted cash		11		25
Sundry		3		4
Property, plant and equipment, net		410		438
Total assets	\$	441	\$	493
Current portion of long-term debt	\$	10	\$	10
Fixed-price contracts and other derivatives		16		16
Other		3		19
Total current liabilities		29		45
Long-term debt		315		325
Fixed-price contracts and other derivatives		31		39
Deferred credits and other		6		(7)
Other noncontrolling interest		60		91
Total liabilities and equity	\$	441	\$	493

	Years ended December 31,			
	2014	2013	2012	
Operating expenses				
Cost of electric fuel and purchased power	\$	(83)	\$	(83)
Operation and maintenance		19		24
Depreciation and amortization		27		28
Total operating expenses		(37)		(38)
Operating income		37		39
Other expense, net		—		—
Interest expense		(17)		(15)
Income before income taxes/Net income		20		24
Earnings attributable to noncontrolling interest		(20)		(24)
Earnings	\$	—	\$	—

ASSET RETIREMENT OBLIGATIONS

For tangible long-lived assets, we record asset retirement obligations for the present value of liabilities of future costs expected to be incurred when assets are retired from service, if the retirement process is legally required and if a reasonable estimate of fair value can be made. We also record a liability if a legal obligation to perform an asset retirement exists and can be reasonably estimated, but performance is conditional upon a future event. We record the estimated retirement cost over the life of the related asset by depreciating the present value of the obligation (measured at the time of the asset's acquisition) and accreting the discount until the liability is settled. Rate-regulated entities, including the California Utilities, record regulatory assets or liabilities as a result of the timing difference between the recognition of costs in accordance with U.S. GAAP and costs recovered through the rate-making process.

We have recorded asset retirement obligations related to various assets, including:

SDG&E and SoCalGas

§ fuel and storage tanks

§ natural gas distribution systems

§ hazardous waste storage facilities

§ asbestos-containing construction materials

SDG&E

§ decommissioning of nuclear power facilities

§ electric distribution and transmission systems

§ site restoration of a former power plant

§ power generation plant (natural gas)

SoCalGas

§ natural gas transmission pipelines

§ underground natural gas storage facilities and wells

Sempra Mexico

§ power generation plant (natural gas)

§ natural gas distribution and transportation systems

§ LNG terminal

Sempra Renewables

§ certain power generation plants (solar)

Sempra Natural Gas

§ power generation plant (natural gas)

§ natural gas distribution and transportation systems

§ underground natural gas storage facilities

The changes in asset retirement obligations are as follows:

CHANGES IN ASSET RETIREMENT OBLIGATIONS

(Dollars in millions)

	Sempra Energy Consolidated		SDG&E		SoCalGas	
	2014	2013	2014	2013	2014	2013
Balance as of January 1(1)	\$ 2,152	\$ 2,056	\$ 913	\$ 741	\$ 1,199	\$ 1,253
Accretion expense	97	97	43	45	52	49
Liabilities incurred	4	4	—	—	—	—
Reclassification(2)	(6)	—	—	—	—	—
Payments	(29)	(49)	(29)	(48)	—	—
Revisions, GRC-related(3)	—	(135)	—	(30)	—	(105)
Revisions, other(4)(5)	(28)	179	(54)	205	25	2
Balance at December 31(1)	\$ 2,190	\$ 2,152	\$ 873	\$ 913	\$ 1,276	\$ 1,199

(1) The current portions of the obligations are included in Other Current Liabilities on the Consolidated Balance Sheets.

(2) Reclassification to liability held for sale - asset retirement obligation which is included in Other Current Liabilities on the Consolidated Balance Sheets, as we discuss in "Asset Held for Sale" in Note 3.

(3) The decreases in asset retirement obligations in 2013 at SDG&E and SoCalGas are due to revised estimates related to the 2012 General Rate Case (GRC) that received final approval in May 2013. At SDG&E, these revisions included increases in asset service lives ranging from 2 percent to 7 percent, and lower estimated cost of removal. At SoCalGas, the decrease includes increases in asset service lives ranging from 4 percent to 6 percent, partially offset by a higher estimated cost of removal.

(4) The decrease in asset retirement obligations in 2014 at SDG&E is due to revised estimates in an updated decommissioning cost study for the San Onofre Nuclear Generating Station, which we discuss in Note 13. The increase in asset retirement obligations in 2014 at SoCalGas is related to a change in estimates.

(5) The increase in asset retirement obligations in 2013 at SDG&E is due to revised estimates recorded in the third quarter of 2013 related to the early decommissioning of SONGS Units 2 and 3 (see Note 13).

CONTINGENCIES

We accrue losses for the estimated impacts of various conditions, situations or circumstances involving uncertain outcomes. For loss contingencies, we accrue the loss if an event has occurred on or before the balance sheet date and:

§ information available through the date we file our financial statements indicates it is probable that a loss has been incurred, given the likelihood of uncertain future events; and

§ the amount of the loss can be reasonably estimated.

We do not accrue contingencies that might result in gains. We continuously assess contingencies for litigation claims, environmental remediation and other events.

LEGAL FEES

Legal fees that are associated with a past event for which a liability has been recorded are accrued when it is probable that fees also will be incurred.

COMPREHENSIVE INCOME

Comprehensive income includes all changes in the equity of a business enterprise (except those resulting from investments by owners and distributions to owners), including:

§ foreign currency translation adjustments

§ changes in unamortized net actuarial gain or loss and prior service cost related to pension and other postretirement benefits plans

§ unrealized gains or losses on available-for-sale securities

§ certain hedging activities

The Consolidated Statements of Comprehensive Income show the changes in the components of other comprehensive income (loss) (OCI), including the amounts attributable to noncontrolling interests. The following tables present the changes in Accumulated Other Comprehensive Income (Loss) (AOCI) by component and amounts reclassified out of AOCI to net income, excluding amounts attributable to noncontrolling interests, for the years ended December 31:

CHANGES IN ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS) BY COMPONENT(1)

SEMPRA ENERGY CONSOLIDATED

(Dollars in millions)

	Foreign currency translation adjustments	Pension and other postretirement benefits		Financial instruments	Total accumulated other comprehensive income (loss)
		Unamortized net actuarial gain (loss)	Unamortized prior service credit (cost)		
2014:					
Balance as of December 31, 2013	\$ (129)	\$ (73)	\$ —	\$ (26)	\$ (228)
Other comprehensive loss before reclassifications	(193)	(24)	(2)	(70)	(289)
Amounts reclassified from accumulated other comprehensive income	—	14	—	6	20
Net other comprehensive loss	(193)	(10)	(2)	(64)	(269)
Balance as of December 31, 2014	\$ (322)	\$ (83)	\$ (2)	\$ (90)	\$ (497)
2013:					
Balance as of December 31, 2012	\$ (240)	\$ (102)	\$ 1	\$ (35)	\$ (376)
Other comprehensive (loss) income before reclassifications	(159)	21	(1)	2	(137)
Amounts reclassified from accumulated other comprehensive income	270 ⁽²⁾	8	—	7	285
Net other comprehensive income (loss)	111	29	(1)	9	148
Balance as of December 31, 2013	\$ (129)	\$ (73)	\$ —	\$ (26)	\$ (228)
2012:					
Balance as of December 31, 2011	\$ (359)	\$ (100)	\$ 1	\$ (31)	\$ (489)
Other comprehensive income (loss) before reclassifications	119	(13)	—	(10)	96
Amounts reclassified from accumulated other comprehensive income	—	11	—	6	17
Net other comprehensive income (loss)	119	(2)	—	(4)	113
Balance as of December 31, 2012	\$ (240)	\$ (102)	\$ 1	\$ (35)	\$ (376)

(1) All amounts are net of income tax, if subject to tax, and exclude noncontrolling interests.

(2) Represents cumulative foreign currency translation adjustment related to the impairment of our Argentine investments in 2006, which is substantially offset by an accrued liability established at that time. We provide additional information about these investments in Note 4.

CHANGES IN ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS) BY COMPONENT(1)

SAN DIEGO GAS & ELECTRIC COMPANY

(Dollars in millions)

	Pension and other postretirement benefits			Total accumulated other comprehensive income (loss)
	Unamortized net actuarial gain (loss)	Unamortized prior service credit		
2014:				
Balance as of December 31, 2013	\$ (10)	\$ 1		\$ (9)
Other comprehensive loss before reclassifications	(5)	—		(5)
Amounts reclassified from accumulated other comprehensive income	2	—		2
Net other comprehensive loss	(3)	—		(3)
Balance as of December 31, 2014	\$ (13)	\$ 1		\$ (12)
2013:				
Balance as of December 31, 2012	\$ (12)	\$ 1		\$ (11)
Amounts reclassified from accumulated other comprehensive income	2	—		2
Net other comprehensive income	2	—		2
Balance as of December 31, 2013	\$ (10)	\$ 1		\$ (9)
2012:				
Balance as of December 31, 2011	\$ (11)	\$ 1		\$ (10)
Other comprehensive loss before reclassifications	(2)	—		(2)
Amounts reclassified from accumulated other comprehensive loss	1	—		1
Net other comprehensive loss	(1)	—		(1)
Balance as of December 31, 2012	\$ (12)	\$ 1		\$ (11)

(1) All amounts are net of income tax, if subject to tax, and exclude noncontrolling interests.

CHANGES IN ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS) BY COMPONENT(1) SOUTHERN CALIFORNIA GAS COMPANY

(Dollars in millions)

	Pension and other postretirement benefits			Financial instruments	Total accumulated other comprehensive income (loss)
	Unamortized net actuarial gain (loss)	Unamortized prior service credit			
2014:					
Balance as of December 31, 2013	\$ (5)	\$ 1	\$ (14)		\$ (18)
Other comprehensive loss before reclassifications	(3)	—	—		(3)
Amounts reclassified from accumulated other comprehensive income	3	—	—		3
Net other comprehensive income	—	—	—		—
Balance as of December 31, 2014	\$ (5)	\$ 1	\$ (14)		\$ (18)
2013:					
Balance as of December 31, 2012	\$ (4)	\$ 1	\$ (15)		\$ (18)
Other comprehensive loss before reclassifications	(2)	—	—		(2)
Amounts reclassified from accumulated other comprehensive income	1	—	1		2
Net other comprehensive (loss) income	(1)	—	1		—
Balance as of December 31, 2013	\$ (5)	\$ 1	\$ (14)		\$ (18)
2012:					
Balance as of December 31, 2011	\$ (6)	\$ 1	\$ (16)		\$ (21)
Other comprehensive income before reclassifications	1	—	—		1
Amounts reclassified from accumulated other comprehensive income	1	—	1		2
Net other comprehensive income	2	—	1		3
Balance as of December 31, 2012	\$ (4)	\$ 1	\$ (15)		\$ (18)

(1) All amounts are net of income tax, if subject to tax, and exclude noncontrolling interests.

RECLASSIFICATIONS OUT OF ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

(Dollars in millions)

Details about accumulated other comprehensive income (loss) components	Amounts reclassified from accumulated other comprehensive income (loss)			Affected line item on consolidated statement of operations
	Years ended December 31,			
	2014	2013	2012	

Sempra Energy Consolidated:

Foreign currency translation adjustments	\$	—	\$	270	\$	—	Equity Earnings, Net of Income Tax(1)
Financial instruments:							
Interest rate and foreign exchange instruments	\$	21	\$	11	\$	9	Interest Expense
Interest rate instruments		(3)		—		—	Gain on Sale of Equity Interests and Assets
Interest rate instruments		10		10		6	Equity Earnings, Before Income Tax
Commodity contracts not subject to rate recovery		(8)		(1)		—	Revenues: Energy-Related Businesses
Total before income tax		20		20		15	
		(3)		(4)		(4)	Income Tax Expense
Net of income tax		17		16		11	
		(11)		(9)		(5)	Earnings Attributable to Noncontrolling Interests
	\$	6	\$	7	\$	6	
Pension and other postretirement benefits:							
Net actuarial gain	\$	—	\$	3	\$	10	(2)
Amortization of actuarial loss		23		10		9	(2)
		(9)		(5)		(8)	Income Tax Expense
Net of income tax	\$	14	\$	8	\$	11	
Total reclassifications for the period, net of tax							
	\$	20	\$	285		17	
SDG&E:							
Financial instruments:							
Interest rate instruments	\$	11	\$	9	\$	5	Interest Expense
		(11)		(9)		(5)	Earnings Attributable to Noncontrolling Interest
	\$	—	\$	—	\$	—	
Pension and other postretirement benefits:							
Net actuarial gain	\$	—	\$	2	\$	1	(2)
Amortization of actuarial loss		3		1		1	(2)
		(1)		(1)		(1)	Income Tax Expense
Net of income tax	\$	2	\$	2	\$	1	
Total reclassifications for the period, net of tax							
	\$	2	\$	2	\$	1	
SoCalGas:							
Financial instruments:							
Interest rate instruments	\$	1	\$	1	\$	2	Interest Expense
		(1)		—		(1)	Income Tax Expense
Net of income tax	\$	—	\$	1	\$	1	
Pension and other postretirement benefits:							
Net actuarial gain	\$	—	\$	—	\$	1	(2)
Amortization of actuarial loss		5		1		1	(2)
		(2)		—		(1)	Income Tax Expense
Net of income tax	\$	3	\$	1	\$	1	
Total reclassifications for the period, net of tax							
	\$	3	\$	2	\$	2	

(1) Represents cumulative foreign currency translation adjustment related to the impairment of our Argentine investments in 2006, which is substantially offset by an accrued liability established at that time. We provide additional information about these investments in Note 4.

(2) Amounts are included in the computation of net periodic benefit cost (see "Net Periodic Benefit Cost, 2012 - 2014" in Note 7).

NONCONTROLLING INTERESTS

Ownership interests that are held by owners other than Sempra Energy and SDG&E in subsidiaries or entities consolidated by them are accounted for and reported as noncontrolling interests. As a result, noncontrolling interests are reported as a separate component of equity on the Consolidated Balance Sheets. Earnings/losses attributable to the noncontrolling interests are separately identified on the Consolidated Statements of Operations, and net income/loss and comprehensive income/loss attributable to the noncontrolling interests are separately identified on the Consolidated Statements of Comprehensive Income and Consolidated Statements of Changes in Equity.

Sale of Noncontrolling Interests

In the first quarter of 2013, Sempra Energy's subsidiary, IEnova, completed a private offering in the U.S. and outside of Mexico and a concurrent public offering in Mexico of common stock. The aggregate shares of common stock sold in the offerings represent approximately 18.9 percent of IEnova's outstanding ownership interest. IEnova is reported within the Sempra Mexico reportable segment.

The proceeds from the offerings, net of offering costs, were approximately \$574 million in U.S. dollar equivalent. IEnova has used the net proceeds of the offerings primarily for general corporate purposes, and for the funding of its investments and ongoing expansion plans. Consistent with applicable accounting guidance, changes in noncontrolling interests that do not result in a change of control are accounted for as equity transactions. When there are changes in noncontrolling interests of a subsidiary that do not result in a change of control, any difference between carrying value and fair value related to the change in ownership is recorded as an adjustment to shareholders' equity. As a result of the offerings, we recorded an increase in Sempra Energy's shareholders' equity of \$135 million in the first quarter of 2013 for the sale of IEnova shares to noncontrolling interests.

IEnova is a separate legal entity, formerly known as Sempra México, S.A. de C.V., comprised primarily of Sempra Energy's operations in Mexico. IEnova is included within our Sempra Mexico reportable segment, but is not the same in its entirety as the reportable segment. In addition to the IEnova operating companies, the Sempra Mexico segment includes, among other things, certain holding companies and risk management activity. Also, IEnova's financial results are reported in Mexico under International Financial Reporting Standards (IFRS), as required by the Mexican Stock Exchange (La Bolsa Mexicana de Valores, S.A.B. de C.V., or BMV) where the shares are traded under the symbol IENOVA.

The private offering was exempt from registration under the U.S. Securities Act of 1933, as amended (the Securities Act), and shares in the private offering were offered and sold only to qualified institutional buyers pursuant to Rule 144A under the Securities Act and to persons outside of the United States, in accordance with Regulation S under the Securities Act. The shares were not registered under the Securities Act or any state securities laws, and may not be offered or sold in the United States absent registration or an applicable exemption from the registration requirements of the Securities Act and applicable securities laws.

Purchase of Noncontrolling Interests

On December 10, 2014, we purchased 18,625,594 Luz del Sur shares for \$74 million, increasing Sempra South American Utilities' ownership from 79.8 percent to 83.6 percent.

Chilquinta Energía owned 85 percent of Luzlinares S.A. (Luzlinares) through October 31, 2012. On November 26, 2012, Chilquinta Energía purchased the remaining 15-percent ownership interest in Luzlinares for \$7 million in cash.

Preferred Stock

The preferred stock at SoCalGas is presented at Sempra Energy as a noncontrolling interest at December 31, 2014 and 2013. The preferred stock of SDG&E at December 31, 2012 was contingently redeemable preferred stock and was fully redeemed in October 2013, as we discuss in Note 11. At Sempra Energy, the preferred stock dividends of SDG&E and SoCalGas are charges against income related to noncontrolling interests. We provide additional information concerning preferred stock in Note 11.

Other Noncontrolling Interests

At December 31, 2014 and 2013, we reported the following noncontrolling ownership interests held by others (not including preferred shareholders) recorded in Other Noncontrolling Interests in Total Equity on Sempra Energy's Consolidated Balance Sheets:

OTHER NONCONTROLLING INTERESTS

(Dollars in millions)

	Percent ownership held by others		December 31,	
	2014	2013	2014	2013
SDG&E:				
Otay Mesa VIE	100%	100%	\$ 60	\$ 91
Sempra South American Utilities:				
Chilquinta Energía subsidiaries(1)	23.6 - 43.4	24.4 - 43.4	23	27
Luz del Sur	16.4	20.2	177	222
Tecsur	9.8	9.8	4	3
Sempra Mexico:				
IEnova, S.A.B. de C.V.	18.9	18.9	452	442
Sempra Natural Gas:				
Bay Gas Storage Company, Ltd.	9.1	9.1	23	22
Liberty Gas Storage, LLC	25.0	25.0	14	14
Southern Gas Transmission Company	49.0	49.0	1	1
Total Sempra Energy			\$ 754	\$ 822

(1) Chilquinta Energía has four subsidiaries with noncontrolling interests held by others. Percentage range reflects the highest and lowest ownership percentages among these subsidiaries.

REVENUES

Utilities

Our California Utilities generate revenues primarily from deliveries to their customers of electricity by SDG&E and natural gas by both SoCalGas and SDG&E and from related services. They record these revenues following the accrual method and recognize them upon delivery and performance. They also record revenue from CPUC-approved incentive awards, some of which require approval by the CPUC prior to being recognized. We provide additional discussion on utility incentive mechanisms in Note 14.

On a monthly basis, SoCalGas accrues natural gas storage contract revenues, which consist of storage reservation and variable charges based on negotiated agreements with terms of up to 15 years.

Our natural gas utilities outside of California (Mobile Gas, Willmut Gas and Ecogas) apply U.S. GAAP for regulated utilities consistent with the California Utilities.

Our electric distribution utilities in South America, Chilquinta Energía and Luz del Sur, serve primarily regulated customers, and their revenues are based on tariffs that are set by the National Energy Commission (Comisión Nacional de Energía, or CNE) in Chile and the Energy and Mining Investment Supervisory

Body (Organismo Supervisor de la Inversión en Energía y Minería, or OSINERGMIN) of the National Electricity Office under the Ministry of Energy and Mines in Peru.

The tariffs charged are based on an efficient model distribution company defined by Chilean law in the case of Chilquinta Energía, and OSINERGMIN in the case of Luz del Sur. The tariffs include operation and maintenance costs, an internal rate of return on the new replacement value of depreciable assets, charges for the use of transmission systems, and a component for the value added by the distributor. Tariffs are designed to provide for a pass-through to customers of the main noncontrollable cost items (mainly power purchases and transmission charges), recovery of reasonable operating and administrative costs, incentives to reduce costs and make needed capital investments and a regulated rate of return on the distributor's regulated asset base. Because the tariffs are based on a model and are intended to cover the costs of the model company, but are not based on the costs of the specific utility and may not result in full cost recovery, they do not meet the requirement necessary for treatment under applicable U.S. GAAP for regulatory accounting.

For Chilquinta Energía, rates for four-year periods related to distribution and sub-transmission are reviewed separately on an alternating basis every two years. In late 2011, Chilquinta Energía initiated the process to establish its distribution rates for the period from November 2012 to October 2016. This process was completed in November 2012, with rates published in April 2013, and tariff adjustments going into effect retroactively from November 2012. The next review process for distribution rates is scheduled to be completed, with tariff adjustments also going into effect, in November 2016.

In April 2013, the CNE completed the process to establish Chilquinta Energía's sub-transmission rates for the period January 2011 to December 2014, with tariff adjustments going into effect retroactively from January 2011. The sub-transmission rates period has been extended for one year, for one time only, to December 2015 due to a change in law issued in December 2014. Accordingly, the next review process for sub-transmission rates will be in January 2016, covering the period from January 2016 to December 2019.

The components of tariffs above for Luz del Sur are reviewed and adjusted every four years. The final distribution rate-setting resolution for the 2013-2017 period was published in October 2013 and went into effect on November 1, 2013.

The table below shows the total utilities revenues in Sempra Energy's Consolidated Statements of Operations for each of the last three years. The revenues include amounts for services rendered but unbilled (approximately one-half month's deliveries) at the end of each year.

TOTAL UTILITIES REVENUES AT SEMPRA ENERGY CONSOLIDATED(1)

(Dollars in millions)

	Years ended December 31,					
	2014		2013		2012	
Electric revenues	\$	5,209	\$	4,911	\$	4,568
Natural gas revenues		4,549		4,398		3,873
Total	\$	9,758	\$	9,309	\$	8,441

(1) Excludes intercompany revenues.

As we discuss in Note 14, the natural gas supply for SDG&E's and SoCalGas' core natural gas customers is purchased by SoCalGas as a combined procurement portfolio managed by SoCalGas. Core customers are primarily residential and small commercial and industrial customers. This core gas procurement function is considered a shared service, therefore amounts related to SDG&E are not included in SoCalGas' Consolidated Statements of Operations.

We provide additional information concerning utility revenue recognition in "Regulatory Matters" above.

Energy-Related Businesses

Sempra South American Utilities

Sempra South American Utilities generates revenues from energy-services companies that provide electric construction services and recognizes these revenues when services are provided in accordance with contractual agreements. The energy-services company in Chile also generates revenue from selling electricity to non-regulated customers.

Sempra Mexico

Sempra Mexico's Termoeléctrica de Mexicali natural gas-fired power plant generates revenues from selling electricity and/or capacity to the California Independent System Operator (ISO) and to governmental, public utility and wholesale power marketing entities. Sempra Mexico recognizes these revenues as the electricity is delivered and capacity is provided. Sempra Mexico's pipeline operations recognize revenues from the sale and transportation of natural gas as deliveries are made and from fixed capacity payments. Sempra Mexico also recognizes revenues from (1) the sale of LNG and natural gas as deliveries are made to counterparties and (2) from reservation and usage fees under terminal capacity agreements, nitrogen injection service agreements and tug service agreements. It reports revenue net of value added taxes in Mexico. Sempra Mexico's revenues also include net realized gains and losses and the net change in the fair value of unrealized gains and losses on derivative contracts for natural gas.

Sempra Renewables

For consolidated entities, Sempra Renewables generates revenues from the sale of solar power pursuant to power purchase agreements, and recognizes these revenues when the power is delivered. It also generates revenues for the management of certain of its solar and wind project joint ventures.

Sempra Natural Gas

Sempra Natural Gas generates revenues from selling electricity and/or capacity from its Mesquite Power facility to the California ISO and to governmental, public utility and wholesale power marketing entities. Sempra Natural Gas recognizes these revenues as the electricity is delivered and capacity is provided. Related to its LNG terminal, prior to October 1, 2014, the effective date of the Cameron LNG Holdings joint venture, Sempra Natural Gas recognized revenues from reservation and usage fees. We discuss the deconsolidation of Cameron LNG, LLC and related assets further in Note 3. Sempra Natural Gas also records revenues from contractual counterparty obligations for non-delivery of LNG cargoes, as well as revenues from the sale of LNG and natural gas as deliveries are made to counterparties. Sempra Natural Gas recognizes revenue on natural gas storage and transportation operations when services are provided

in accordance with contractual agreements for the storage and transportation services. Sempra Natural Gas revenues also include net realized gains and losses and the net change in the fair value of unrealized gains and losses on derivative contracts for power and natural gas.

OTHER COST OF SALES

Other Cost of Sales primarily includes

- § pipeline capacity costs, and pipeline transportation and natural gas marketing costs incurred at Sempra Natural Gas;
- § electric construction services costs incurred by Sempra South American Utilities' energy-services companies; and
- § energy management service fees at Sempra Mexico.

OPERATION AND MAINTENANCE EXPENSES

Operation and Maintenance includes operating and maintenance costs, and general and administrative costs, consisting primarily of personnel costs, purchased materials and services, litigation expense and rent.

FOREIGN CURRENCY TRANSLATION

Our operations in South America and our natural gas distribution utility in Mexico use their local currency as their functional currency. The assets and liabilities of their foreign operations are translated into U.S. dollars at current exchange rates at the end of the reporting period, and revenues and expenses are translated at average exchange rates for the year. The resulting noncash translation adjustments do not enter into the calculation of earnings or retained earnings (unless the operation is being discontinued), but are reflected in Comprehensive Income and in Accumulated Other Comprehensive Income (Loss), a component of shareholders' equity.

Currency transaction (losses) gains in a currency other than the entity's functional currency were \$(15) million, \$(3) million, and \$9 million for the years ended December 31, 2014, 2013, and 2012, respectively, and are included in Other Income, Net, at Sempra Energy.

Cash flows of the consolidated foreign subsidiaries are translated into U.S. dollars using average exchange rates for the period. We report the effect of exchange rate changes on cash balances held in foreign currencies in "Effect of Exchange Rate Changes on Cash and Cash Equivalents" on our Consolidated Statements of Cash Flows.

TRANSACTIONS WITH AFFILIATES

Due to and from Unconsolidated Affiliates – Sempra Energy Consolidated

Sempra South American Utilities has a U.S. dollar-denominated loan to Eletrans S.A. to provide project financing for the construction of transmission lines. Eletrans S.A. is an affiliate of Chilquinta Energía that we discuss in Note 4. At December 31, 2014 and 2013, the principal balance outstanding was \$40 million and \$14 million, plus \$1 million and a negligible amount of accumulated interest outstanding, respectively, at a fixed interest rate of 4 percent.

In the second half of 2014, Sempra Mexico made three four-year and one three-year, U.S. dollar-denominated loans to affiliates of Sempra Mexico's joint venture with Petróleos Mexicanos (or PEMEX, the Mexican state-owned oil company) to finance the Los Ramones Norte pipeline project. At December 31, 2014, these loans have principal balances outstanding aggregating \$79 million and \$44 million, respectively, plus \$2 million of accumulated interest. These loans accrue interest at a variable rate based on a 30-day LIBOR plus 450 basis points (4.66 percent at December 31, 2014).

As we discuss in Note 3, in July 2014, Sempra Mexico sold a 50-percent interest in the first phase of the Energía Sierra Juárez wind project. Upon deconsolidation, the newly formed joint venture repaid a portion, in the amount of \$18 million, of a previous intercompany loan from Sempra Mexico to Energía Sierra Juárez. The joint venture assumed the obligation to Sempra Mexico for the remainder of the loan, which has a principal balance outstanding at December 31, 2014 of \$21 million plus \$1 million of accumulated interest. This loan accrues interest at a variable rate based on a 30-day LIBOR plus 637.5 basis points (6.53 percent at December 31, 2014).

At December 31, 2014 and 2013, Sempra Energy had \$38 million and \$4 million, respectively, in accounts receivable from various Sempra Renewables and Sempra Mexico joint venture investments. Sempra Energy also had a \$2 million contribution payable to Sempra Energy Foundation at December 31, 2014, which was paid in January 2015.

Service Agreements

Sempra Energy, SDG&E and SoCalGas provide certain services to each other and are charged an allocable share of the cost of such services. Also, from time to time, SDG&E and SoCalGas may loan surplus cash to Sempra Energy at interest rates based on one-month commercial paper rates. Amounts due to/from affiliates are as follows:

AMOUNTS DUE TO AND FROM AFFILIATES AT SDG&E AND SOCIALGAS

(Dollars in millions)

	December 31,	
	2014	2013
SDG&E:		
Current:		
Due from various affiliates	\$ 1	\$ 1

Due to Sempra Energy	\$	17	\$	25
Due to SoCalGas		4		—
Due to various affiliates		—		14
	\$	21	\$	39
<hr/>				
Income taxes due from Sempra Energy(1)	\$	16	\$	70
SoCalGas:				
Current:				
Due from SDG&E	\$	4	\$	—
Due from various affiliates		—		21
	\$	4	\$	21
<hr/>				
Due to Sempra Energy	\$	13	\$	16
<hr/>				
Income taxes due from Sempra Energy(1)	\$	9	\$	18
<hr/>				
(1) SDG&E and SoCalGas are included in the consolidated income tax return of Sempra Energy and are allocated income tax expense from Sempra Energy in an amount equal to that which would result from the companies having always filed a separate return.				

Revenues from unconsolidated affiliates at SDG&E and SoCalGas are as follows:

REVENUES FROM UNCONSOLIDATED AFFILIATES AT SDG&E AND SOCIALGAS

(Dollars in millions)

	Years ended December 31,		
	2014	2013	2012
SDG&E	\$ 13	\$ 12	\$ 9
SoCalGas	69	70	46

Transactions with Rockies Express Pipelines LLC

Sempra Natural Gas has an agreement with Rockies Express Pipelines LLC (Rockies Express) for capacity on the Rockies Express pipeline (REX) through November 2019. Sempra Natural Gas recorded cost of sales of \$78 million in each of 2014, 2013 and 2012 related to this agreement. We discuss this agreement further in Note 15.

RESTRICTED NET ASSETS

Sempra Energy Consolidated

As we discuss below, the California Utilities have restrictions on the amount of funds that can be transferred to Sempra Energy by dividend, advance or loan as a result of conditions imposed by various regulators. Additionally, certain other Sempra Energy subsidiaries are subject to various financial and other covenants and other restrictions contained in debt and credit agreements (described in Note 5) and in other agreements that limit the amount of funds that can be transferred to Sempra Energy. At December 31, 2014, Sempra Energy was in compliance with all covenants related to its debt agreements.

At December 31, 2014, the amount of restricted net assets of wholly owned subsidiaries of Sempra Energy, including the California Utilities discussed below, that may not be distributed to Sempra Energy in the form of a loan or dividend is \$6.6 billion. Additionally, the amount of restricted net assets of our unconsolidated entities is \$2.1 billion. Although the restrictions cap the amount of funding that the various operating subsidiaries can provide to Sempra Energy, we do not believe these restrictions will have a significant impact on our ability to access cash to pay dividends.

As we discuss in Note 4, \$187 million of Sempra Energy's consolidated retained earnings balance represents undistributed earnings of equity method investments at December 31, 2014.

California Utilities

The CPUC's regulation of the California Utilities' capital structures limits the amounts available for dividends and loans to Sempra Energy. At December 31, 2014, Sempra Energy could have received combined loans and dividends of approximately \$640 million from SDG&E and approximately \$755 million from SoCalGas.

The payment and amount of future dividends by SDG&E and SoCalGas are at the discretion of their respective boards of directors. The following restrictions limit the amount of retained earnings that may be paid as common stock dividends or loaned to Sempra Energy from either utility:

- § The CPUC requires that SDG&E's and SoCalGas' common equity ratios be no lower than one percentage point below the CPUC-authorized percentage of each entity's authorized capital structure. The authorized percentage at December 31, 2014 is 52 percent at both SDG&E and SoCalGas.
- § The FERC requires SDG&E to maintain a common equity ratio of 30 percent or above.
- § The California Utilities have a combined revolving credit line that requires each utility to maintain a ratio of consolidated indebtedness to consolidated capitalization (as defined in the agreement) of no more than 65 percent, as we discuss in Note 5.

Based on these restrictions, at December 31, 2014, SDG&E's restricted net assets were \$4.3 billion and SoCalGas' restricted net assets were \$2.0 billion, which could not be transferred to Sempra Energy.

Sempra International

Significant restrictions of Sempra International subsidiaries include

- § Peru and Mexico require domestic corporations to maintain minimum legal reserves as a percentage of capital stock, resulting in restricted net assets of \$35 million at Luz del Sur and \$81 million at Sempra Energy's consolidated Mexican subsidiaries at December 31, 2014.
- § Energía Sierra Juárez, a 50-percent owned and unconsolidated joint venture of Sempra Mexico (see Notes 3 and 4), has a long-term debt agreement that requires the establishment and funding of project and reserve accounts to which the proceeds of loans, letter of credit draws, project revenues and other amounts are deposited and applied in accordance with the debt agreement. The long-term debt agreement also limits the joint venture's ability to incur liens, incur additional indebtedness, make acquisitions and undertake certain actions. Also, in connection with a debt agreement for the financing of Mexican value added tax, Energía Sierra Juárez had \$0.8 million of restricted net assets at December 31, 2014.
- § Gasoductos de Chihuahua, Sempra Mexico's joint venture with PEMEX (see Note 4), has a debt agreement that requires the joint venture to maintain a reserve account to pay the debt. Under these restrictions, net assets totaling \$32 million are restricted at December 31, 2014.

Sempra U.S. Gas & Power

Significant restrictions of Sempra U.S. Gas & Power subsidiaries include

- § Wholly owned Copper Mountain Solar 1 has a long-term debt agreement that requires the establishment and funding of project accounts to which the proceeds of loans, project revenues and other amounts are deposited and applied in accordance with the debt agreement. This long-term debt agreement also limits Copper Mountain Solar 1's ability to incur liens, incur additional indebtedness, make acquisitions and undertake certain actions, while also requiring maintenance of certain debt ratios. Under these restrictions, net assets totaling \$9 million are restricted at December 31, 2014.
- § 50-percent owned and unconsolidated joint ventures at Sempra Renewables have debt agreements that require each joint venture to maintain reserve accounts in order to pay the projects' debt service and operation and maintenance requirements. We discuss Sempra Energy guarantees associated with these requirements in Note 5. At December 31, 2014, as a result of these requirements, there were total restricted net assets at our joint ventures of approximately:
 - \$10 million at Broken Bow 2 Wind
 - \$30 million at California solar partnership
 - \$26 million at Cedar Creek 2 Wind (Cedar Creek 2)
 - \$9 million at Copper Mountain Solar 2
 - \$3 million at Copper Mountain Solar 3
 - \$52 million at Flat Ridge 2 Wind (Flat Ridge 2)
 - \$35 million at Fowler Ridge 2 Wind (Fowler Ridge 2)
 - \$16 million at Mehoopany Wind (Mehoopany Wind)
 - \$94 million at Mesquite Solar 1
- § Wholly owned Mobile Gas has long-term debt instruments containing restrictions relating to the payment of dividends and other distributions with respect to capital stock. Under these restrictions, net assets of approximately \$116 million are restricted at December 31, 2014.
- § 91-percent owned Bay Gas has long-term debt instruments containing restrictions relating to the payment of dividends and other distributions if Bay Gas does not maintain a specified debt service coverage ratio. Bay Gas had no restricted net assets at December 31, 2014.
- § Sempra Natural Gas has an equity method investment in the Cameron LNG Holdings joint venture, which has debt agreements that require the establishment and funding of project accounts to which the proceeds of loans, project revenues and other amounts are deposited and applied in accordance with the debt agreements. The debt agreements require the joint venture to maintain reserve accounts in order to pay the project debt service, and also contain restrictions related to the payment of dividends and other distributions to the members of the joint venture. We discuss Sempra Energy guarantees associated with Cameron LNG Holdings' debt agreements in Note 4. Under these restrictions, net assets of Cameron LNG Holdings of approximately \$1.8 billion are restricted at December 31, 2014.

OTHER INCOME, NET

Other Income, Net on the Consolidated Statements of Operations consists of the following:

OTHER INCOME, NET (Dollars in millions)

	Years ended December 31,		
	2014	2013	2012
Sempra Energy Consolidated:			
Allowance for equity funds used during construction	\$ 106	\$ 75	\$ 96
Investment gains(1)	27	39	41
Electrical infrastructure relocation income(2)	21	4	6

(Losses) gains on interest rate and foreign exchange instruments, net	(15)	17	10
Foreign currency (losses) gains	(15)	(3)	9
Regulatory interest, net(3)	6	5	1
Sundry, net	7	3	9
Total	\$ 137	\$ 140	\$ 172
SDG&E:			
Allowance for equity funds used during construction	\$ 37	\$ 39	\$ 71
Regulatory interest, net(3)	6	4	2
Sundry, net	(3)	(3)	(4)
Total	\$ 40	\$ 40	\$ 69
SoCalGas:			
Allowance for equity funds used during construction	\$ 26	\$ 17	\$ 25
Regulatory interest, net(3)	—	1	(1)
Sundry, net	(6)	(7)	(7)
Total	\$ 20	\$ 11	\$ 17

(1) Represents investment gains on dedicated assets in support of our executive retirement and deferred compensation plans. These amounts are partially offset by corresponding changes in compensation expense related to the plans.

(2) Income at Luz del Sur associated with the relocation of electrical infrastructure.

(3) Interest on regulatory balancing accounts.

NOTE 2. NEW ACCOUNTING STANDARDS

We describe below recent pronouncements that have had or may have a significant effect on our financial statements. We do not discuss recent pronouncements that are not anticipated to have an impact on or are unrelated to our financial condition, results of operations, cash flows or disclosures.

SEMPRA ENERGY, SDG&E AND SOCALGAS

Accounting Standards Update (ASU) 2013-11, “Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists” (ASU 2013-11): ASU 2013-11 provides explicit guidance on the financial statement presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. ASU 2013-11 requires an entity to present an unrecognized tax benefit, or a portion of an unrecognized tax benefit, as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward. If a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position or the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purposes, an entity is required to present the unrecognized tax benefit in the financial statements as a liability instead of combined with deferred tax assets.

We adopted ASU 2013-11 on January 1, 2014 as required and it did not significantly affect our financial condition, results of operations or cash flows.

ASU 2014-09, “Revenue from Contracts with Customers” (ASU 2014-09): ASU 2014-09 provides accounting guidance for revenue arising from contracts with customers and affects all entities that enter into contracts to provide goods or services to their customers. The guidance also provides a model for the measurement and recognition of gains and losses on the sale of certain nonfinancial assets, such as property and equipment, including real estate. This guidance must be adopted using either a full retrospective approach for all periods presented in the period of adoption or a modified retrospective approach.

We will adopt ASU 2014-09 on January 1, 2017 as required. We have not yet selected a transition method nor have we determined the effect of the standard on our ongoing financial reporting.

NOTE 3. ACQUISITION AND DIVESTITURE ACTIVITY

We consolidate assets and liabilities acquired as of the purchase date and include earnings from acquisitions in consolidated earnings after the purchase date.

During the years ended December 31, 2014 and 2013, Sempra Energy completed the sale of equity interests in various subsidiaries that were previously wholly owned as well as the contribution of Cameron LNG, LLC to a joint venture in exchange for an equity interest in the joint venture. The following table summarizes the deconsolidation of those subsidiaries, and we discuss each transaction below, along with other acquisition and divestiture activity, by segment.

DECONSOLIDATION OF SUBSIDIARIES

(Dollars in millions)

	Broken	Cameron	Energía	Copper Mountain	Sempra Energy
	Bow 2 Wind	LNG	Sierra Juárez	Solar 3	Consolidated
	At November 5	At October 1	At July 16	At March 13	
2014:					
Proceeds, net of negligible transaction costs	\$ 58	\$ —	\$ 26	\$ 68	\$ 152
Cash	—	(6)	(2)	(2)	(10)
Restricted cash	(5)	—	—	—	(5)
Other current assets	(1)	(11)	(11)	—	(23)
Property, plant and equipment, net	(151)	(1,022)	(137)	(247)	(1,557)
Other assets	(8)	(30)	(16)	(11)	(65)
Accounts payable and accrued expenses	3	93	10	82	188
Due to affiliate	—	—	39	—	39
Long-term debt, including current portion	72	—	82	97	251
Other liabilities	2	—	7	3	12

Accumulated other comprehensive income	—	—	(5)	(2)	(7)
Gain on sale of equity interests(1)	(14)	—	(19)	(27)	(60)
(Increase) in equity method investments upon deconsolidation	\$ (44)	\$ (976)	\$ (26)	\$ (39)	\$ (1,085)

	Mesquite Solar 1	Copper Mountain Solar 2	Sempre Energy Consolidated
	At September 19	At July 11(3)	
2013:			
Proceeds from sale, net of transaction costs(2)	\$ 100	\$ 69	169
Property, plant and equipment, net	(461)	(266)	(727)
Other assets	(72)	(30)	(102)
Long-term debt, including current portion	297	146	443
Other liabilities	31	19	50
Gain on sale of equity interests(1)	(36)	(4)	(40)
(Increase) in equity method investments upon deconsolidation	\$ (141)	\$ (66)	\$ (207)

(1) Included in Gain on Sale of Equity Interests and Assets on our Consolidated Statements of Operations.

(2) Transaction costs were \$3 million at both Mesquite Solar 1 and Copper Mountain Solar 2.

(3) Proceeds from sale, net of transaction costs, was adjusted for financial position at closing in the fourth quarter of 2013.

SEMPRA MEXICO

In July 2014, Sempra Mexico completed the sale of a 50-percent interest in the 155-MW first phase of its Energía Sierra Juárez wind project to a wholly owned subsidiary of InterGen N.V. for cash proceeds of \$24 million, net of \$2 million cash sold. Sempra Mexico recognized a pretax gain on the sale of \$19 million (\$14 million after-tax). The gain on sale included a \$7 million after-tax gain attributable to the remeasurement of the retained investment to fair value. Our remaining 50-percent interest in Energía Sierra Juárez is accounted for under the equity method.

SEMPRA RENEWABLES

In July 2013, Sempra Renewables formed a joint venture with Consolidated Edison Development (ConEdison Development), a nonrelated party, by selling a 50-percent interest in its 150-MW Copper Mountain Solar 2 solar power facility for \$72 million in cash. Sempra Renewables recognized a pretax gain on the sale of \$4 million (\$2 million after-tax).

In September 2013, Sempra Renewables formed a joint venture with ConEdison Development by selling a 50-percent interest in its 150-MW Mesquite Solar 1 solar power facility for \$103 million in cash. Sempra Renewables recognized a pretax gain on the sale of \$36 million (\$22 million after-tax).

In March 2014, Sempra Renewables formed a joint venture with ConEdison Development by selling a 50-percent interest in its 250-MW Copper Mountain Solar 3 solar power facility for \$66 million in cash, net of \$2 million cash sold. Sempra Renewables recognized a pretax gain on the sale of \$27 million (\$16 million after-tax).

In May 2014, Sempra Renewables invested \$121 million (as adjusted for financial position at closing) to become a 50-percent partner with ConEdison Development in four solar projects in California. We discuss our investment in the California solar partnership further in Note 4.

In November 2014, Sempra Renewables formed a joint venture with ConEdison Development by selling a 50-percent interest in the 75-MW Broken Bow 2 Wind project for \$58 million in cash. Sempra Renewables recognized a pretax gain on the sale of \$14 million (\$8 million after-tax). Sempra Renewables acquired the rights to develop the Broken Bow 2 Wind project in September 2013.

Our remaining 50-percent interests in Copper Mountain Solar 2, Mesquite Solar 1, Copper Mountain Solar 3, and Broken Bow 2 Wind are accounted for under the equity method. Based on the nature of the underlying assets, these investments are considered in-substance real estate. Therefore, in accordance with applicable U.S. GAAP, for each of these investment transactions, the equity method investments were measured at their historical cost and no portion of the gains was attributable to a remeasurement of the retained investments to fair value.

SEMPRA NATURAL GAS

Mesquite Power Sale

In February 2013, Sempra Natural Gas sold one 625-MW block of its 1,250-MW Mesquite Power natural gas-fired power plant in Arizona, including a portion related to common plant, for approximately \$371 million in cash to the Salt River Project Agricultural Improvement and Power District (SRP). The asset was classified as held for sale at December 31, 2012 and we recognized a pretax gain on sale of \$74 million (\$44 million after-tax), included in Gain on Sale of Equity Interests and Assets on our Consolidated Statement of Operations in 2013. In connection with the sale, we entered into a 20-year operations and maintenance agreement with SRP on February 28, 2013, whereby SRP assumed plant operations and maintenance of the facility, including our remaining 625-MW block. We provide additional information concerning the operations and maintenance agreement in Note 15 under "Other Commitments – Sempra Natural Gas."

Asset Held For Sale, Power Plant

We classify assets as held for sale when management approves and commits to a formal plan to actively market an asset for sale and we expect the sale to close within the next twelve months. Upon classifying an asset as held for sale, we record the asset at the lower of its carrying value or its estimated fair value reduced for selling costs, and we stop recording depreciation expense on the asset.

In January 2014, management approved a formal plan to market and sell the remaining 625-MW block of the Mesquite Power plant, and in October 2014, Sempra Natural Gas entered into a definitive agreement to sell the remaining block of the plant. We anticipate the sale will close in the first half of 2015,

subject to obtaining third-party consents for the assignment to the buyer of a 25-year power sales contract associated with the plant.

At December 31, 2014, the carrying amount of the major classes of assets and related liability held for sale associated with the plant included the following:

ASSET HELD FOR SALE, POWER PLANT	
<i>(Dollars in millions)</i>	
	December 31,
	2014
Property, plant, and equipment, net	\$ 290
Inventories	3
Total assets held for sale	293
Liability held for sale - asset retirement obligation(1)	(6)
Total	\$ 287

(1) Included in Other Current Liabilities on the Consolidated Balance Sheet.

The estimated fair value, including estimated costs to sell, exceeds the carrying amount at December 31, 2014.

Cameron LNG Holdings Joint Venture

On August 6, 2014, Sempra Natural Gas and its project partners, comprised of affiliates of GDF SUEZ S.A., Mitsui & Co., Ltd., and Mitsubishi Corporation (through a related company jointly established with Nippon Yusen Kabushiki Kaisha), provided their respective final investment decision with regard to the investment in the development, construction and operation of the natural gas liquefaction export facility at the terminal in Hackberry, Louisiana, owned by Cameron LNG, LLC (Cameron LNG). The Cameron liquefaction project utilizes Cameron LNG's existing facilities, including two marine berths, three LNG storage tanks, and vaporization capability of 1.5 billion cubic feet (Bcf) per day. The current Cameron liquefaction project is comprised of three liquefaction trains and is being designed to a nameplate capacity of 13.5 million tonnes per annum (Mtpa) of LNG, with an expected export capability of 12 Mtpa of LNG, or approximately 1.7 Bcf per day. Commercial operation of all three trains is expected to commence in 2018, with the first year of full operations in 2019. The effective date of the Cameron LNG joint venture, Cameron LNG Holdings, LLC (Cameron LNG Holdings), among Sempra Energy and its project partners occurred on October 1, 2014 after satisfaction of various conditions, including receipt of final regulatory approval and satisfaction of conditions precedent to the first disbursement of the project financing.

Our equity in Cameron LNG Holdings was derived from our contribution of Cameron LNG to the joint venture at its historical carrying value. Each of the partners were issued equity interests in Cameron LNG Holdings in an aggregate of 49.8 percent. Cameron LNG thereby ceased to be wholly owned by Sempra Natural Gas, which retained a 50.2 percent interest in Cameron LNG Holdings. As of the October 1, 2014 effective date, Sempra Natural Gas began to account for its investment in Cameron LNG Holdings under the equity method. Sempra Energy did not recognize a gain or loss related to the contribution of Cameron LNG at cost to the joint venture.

Willmut Gas Company

In May 2012, Sempra Natural Gas acquired 100 percent of the outstanding common stock of Willmut Gas, a regulated natural gas distribution utility with 19,000 customer meters in Hattiesburg, Mississippi. Willmut Gas was purchased for \$19 million in cash and the assumption of \$10 million of liabilities. Included in the acquisition was \$17 million in net property, plant and equipment. As a result of the acquisition, we recorded \$10 million of goodwill.

NOTE 4. INVESTMENTS IN UNCONSOLIDATED ENTITIES

We generally account for investments under the equity method when we have significant influence over, but do not have control of, these entities. In these cases, our pro rata shares of the entities' net assets are included in Investments on the Consolidated Balance Sheets. We adjust each investment for our share of each investee's earnings or losses, dividends, and other comprehensive income or loss.

We evaluate the carrying value of unconsolidated entities for impairment under the U.S. GAAP provisions for equity method investments.

We provide the carrying value of our investments and earnings (losses) on these investments below:

EQUITY METHOD AND OTHER INVESTMENT BALANCES		
<i>(Dollars in millions)</i>		
	December 31,	
	2014	2013
Sempra South American Utilities:		
Eletrans(1)	\$ (8)	\$ (3)
Sempra Mexico:		
Energía Sierra Juárez(2)	25	—
Gasoductos de Chihuahua(3)	409	379
Sempra Renewables:		
Wind:		
Auwahi Wind	45	53
Broken Bow 2 Wind	44	—
Cedar Creek 2 Wind	82	92
Flat Ridge 2 Wind	284	292
Fowler Ridge 2 Wind	46	51
Mehoopany Wind	82	85
Solar:		
California solar partnership	125	—
Copper Mountain Solar 2	61	67

Copper Mountain Solar 3	56	—
Mesquite Solar 1	86	67
Sempra Natural Gas:		
Cameron LNG Holdings(4)	1,007	—
Rockies Express Pipeline LLC(5)	340	329
Parent and other:		
RBS Sempra Commodities LLP	71	73
Total equity method investments	2,755	1,485
Other(6)	93	90
Total	\$ 2,848	\$ 1,575

- (1) Includes losses on forward exchange contracts as we discuss below.
- (2) The carrying value of our equity method investment is \$12 million higher than the underlying equity in the net assets of the investee at December 31, 2014 due to the remeasurement of our retained investment to fair value.
- (3) The carrying value of our equity method investment is \$65 million higher than the underlying equity in the net assets of the investee at December 31, 2014 and 2013 due to equity method goodwill.
- (4) The carrying value of our equity method investment is \$94 million higher than the underlying equity in the net assets of the investee at December 31, 2014 primarily due to guarantees as we discuss below.
- (5) The carrying value of our equity method investment is \$369 million and \$382 million lower than the underlying equity in the net assets of the investee at December 31, 2014 and 2013, respectively, due to an impairment charge recorded in 2012.
- (6) Other includes Sempra Natural Gas' \$77 million investment in industrial development bonds at Mississippi Hub at both December 31, 2014 and 2013.

EARNINGS (LOSSES) FROM EQUITY METHOD INVESTMENTS

(Dollars in millions)

	Years ended December 31,		
	2014	2013	2012
Earnings (losses) recorded before income tax:			
Sempra Renewables:			
Wind:			
Auwahi Wind	\$ 4	\$ 4	\$ —
Cedar Creek 2 Wind	(3)	(4)	(4)
Flat Ridge 2 Wind	(7)	(8)	1
Fowler Ridge 2 Wind	2	(3)	(3)
Mehoopany Wind	(1)	(2)	—
Solar:			
California solar partnership	6	—	—
Copper Mountain Solar 2	3	—	—
Copper Mountain Solar 3	2	—	—
Mesquite Solar 1	14	1	—
Sempra Natural Gas:			
Cameron LNG Holdings	2	—	—
Rockies Express Pipeline LLC:			
Impairment	—	—	(400)
Income tax make-whole payment received	—	—	41
Other equity earnings	60	47	47
Parent and other:			
RBS Sempra Commodities LLP	(2)	(3)	—
Other	1	(1)	(1)
	\$ 81	\$ 31	\$ (319)
Earnings (losses) recorded net of income tax(1):			
Sempra South American Utilities:			
Sodigas Pampeana and Sodigas Sur	\$ —	\$ (11)	\$ —
Eletrans	(4)	(4)	—
Sempra Mexico:			
Energía Sierra Juárez	3	—	—
Gasoductos de Chihuahua	39	39	36
	\$ 38	\$ 24	\$ 36

- (1) As the earnings (losses) from these investments are recorded net of income tax, they are presented below the income tax expense line, so as not to impact our effective income tax rate.

Our share of the undistributed earnings of equity method investments was \$187 million and \$129 million at December 31, 2014 and 2013, respectively. The December 31, 2014 and 2013 balances do not include remaining distributions of \$71 million and \$73 million, respectively, associated with our investment in RBS Sempra Commodities LLP (RBS Sempra Commodities) and expected to be received from the partnership as it is dissolved, as we discuss below.

SEMPRA SOUTH AMERICAN UTILITIES

Sempra South American Utilities previously owned 43 percent of two Argentine natural gas utility holding companies, Sodigas Pampeana and Sodigas Sur. In December 2006, we decided to sell these investments and actively pursued their sale since that time. In the first quarter of 2013, we recorded a noncash impairment charge of \$10 million (\$7 million after-tax) to reduce the carrying value of our investments to estimated fair value at that time. The net charge is reported in Equity Earnings, Net of Income Tax on the Consolidated Statement of Operations for the year ended December 31, 2013. In June 2013, we completed the sale of our Argentine investments for \$13 million in cash and recorded an additional \$7 million loss (\$4 million after-tax) on the sale, which is also included in Equity Earnings, Net of Income Tax.

As a result of the devaluation of the Argentine peso at the end of 2001 and subsequent changes in the value of the peso, Sempra South American Utilities had reduced the carrying value of its investments by a cumulative total of \$270 million prior to the sale. These noncash adjustments, based on fluctuations in the value of the Argentine peso, did not affect earnings, but were recorded in Comprehensive Income and Accumulated Other Comprehensive Income (Loss). As

a result of the sale of our investments, this cumulative foreign currency translation adjustment was reclassified to Equity Earnings, Net of Income Tax, where it was substantially offset by the elimination of a \$250 million accrued liability established in 2006.

In 2013, Chilquinta Energía entered into two 50-percent owned joint ventures, Eletrans S.A. and Eletrans II S.A. (collectively, Eletrans), with Sociedad Austral de Electricidad Sociedad Anónima (SAESA) to construct four transmission lines in Chile. In 2013, Eletrans entered into forward exchange contracts to manage the foreign currency exchange rate risk of the Chilean Unidad de Fomento (CLF) relative to the U.S. dollar, related to certain construction commitments that are denominated in CLF. The forward exchange contracts settle based on anticipated payments to vendors, generally monthly, ending in July 2018. We recorded \$4 million of equity losses related to these forward contracts in both 2014 and 2013 in Equity Earnings, Net of Income Tax on the Consolidated Statements of Operations.

SEMPRA MEXICO

Sempra Mexico owns a 50-percent interest in Gasoductos de Chihuahua, a joint venture with Petróleos Mexicanos (or PEMEX, the Mexican state-owned oil company). The joint venture operates several natural gas pipelines and propane systems in Mexico and is developing natural gas pipelines, an ethane transport system and other energy infrastructure. Sempra Mexico acquired its investment in Gasoductos de Chihuahua as part of the purchase of Mexican pipeline and natural gas infrastructure assets in 2010.

In July 2014, Sempra Mexico completed the sale of a 50-percent interest in the 155-MW first phase of its Energía Sierra Juárez wind project to a wholly owned subsidiary of InterGen N.V., as we discuss further in Note 3.

SEMPRA RENEWABLES

With the exception of Copper Mountain Solar 1, which it wholly owns, Sempra Renewables has 50-percent interests in wind and solar energy generation facilities in operation or under construction in Arizona, California, Colorado, Hawaii, Indiana, Kansas, Nebraska, Nevada, and Pennsylvania. The generating capacities of the facilities in operation are contracted under long-term power purchase agreements. These facilities are accounted for under the equity method.

Sempra Renewables formed joint ventures with ConEdison Development by selling 50-percent interests in its Copper Mountain Solar 2 and Mesquite Solar 1 facilities in 2013 and its Copper Mountain Solar 3 and Broken Bow 2 Wind facilities in 2014. We discuss these joint ventures further in Notes 3 and 5.

In May 2014, Sempra Renewables invested \$121 million (as adjusted for financial position at closing) to become a 50-percent partner with ConEdison Development in four fully operating solar facilities in California. The joint venture includes ConEdison Development's CED California Holdings, LLC portfolio, which consists of the 50-MW Alpaugh 50, the 20-MW Alpaugh North and the 20-MW White River 1 facilities in Tulare County, and the 20-MW Corcoran 1 facility in Kings County (collectively, the California solar partnership). The renewable power from all of the projects has been sold under long-term contracts.

SEMPRA NATURAL GAS

Rockies Express

Sempra Natural Gas owns a 25-percent interest in Rockies Express, a partnership that operates a natural gas pipeline, REX, that links the Rocky Mountain region to the upper Midwest and the eastern United States. In November 2012, Kinder Morgan Energy Partners L.P. (KMP) sold its 50-percent interest in Rockies Express, as part of a larger asset group, to Tallgrass Energy Partners, L.P. (Tallgrass). Phillips 66 owns the remaining 25-percent interest. Our total investment in Rockies Express is accounted for as an equity method investment.

The general partner of KMP was Kinder Morgan, Inc. (KMI). As a condition of KMI receiving antitrust approval from the Federal Trade Commission (FTC) for its acquisition of El Paso Corporation, KMI agreed to divest certain assets in its natural gas pipeline group. Included in the asset group, as noted above, was KMP's interest in Rockies Express. KMP recorded remeasurement losses during 2012 associated with these operations (classified as discontinued operations by KMP). In 2012, we recorded impairments of our partnership investment in Rockies Express of \$300 million (\$179 million after-tax) and \$100 million (\$60 million after-tax) in the second and third quarters, respectively, which are included in Equity Earnings (Losses), Before Income Tax on the Consolidated Statement of Operations. Our remaining carrying value in Rockies Express at December 31, 2014 is \$340 million. We recorded the write-downs in 2012 as a result of our estimate of fair value for our investment at the reporting date and our conclusion that the impairments were other-than-temporary, as required by U.S. GAAP. We discuss the fair value measurement of our investment in Rockies Express in Note 10.

For income tax purposes, upon KMP's sale of its 50-percent interest in Rockies Express, the partnership was considered terminated under federal tax law and a new partnership immediately formed which triggered a restart of depreciation method on the partnership's remaining tax basis of its tangible assets. As required by the LLC agreement, KMP made a cash make-whole payment to Sempra Natural Gas of \$41 million in November 2012, which was recorded as equity income from Rockies Express.

Cameron LNG

October 1, 2014 was the effective date of the formation of a joint venture partnership among Sempra Energy and three project partners involving Sempra Natural Gas' Cameron LNG facility in Louisiana, as we discuss in Note 3. As of October 1, 2014, Sempra Natural Gas began accounting for its investment in Cameron LNG Holdings under the equity method.

Cameron LNG Holdings Joint Venture Financing

General. On August 6, 2014, Cameron LNG entered into finance documents (collectively, Loan Facility Agreements) for senior secured financing in an initial aggregate principal amount of up to \$7.4 billion under three debt facilities provided by the Japan Bank for International Cooperation (JBIC) and 29 international commercial banks, some of which will benefit from insurance coverage provided by Nippon Export and Investment Insurance (NEXI).

The Cameron LNG Loan Facility Agreements and related finance documents provide senior secured term loans with a maturity date of July 15, 2030. The proceeds of the loans will be used for financing the cost of development and construction of the three-train Cameron LNG project. The Loan Facility

Agreements and related finance documents contain customary representations and affirmative and negative covenants for project finance facilities of this kind with the lenders of the type participating in the Cameron LNG financing.

On August 6, 2014, Sempra Energy entered into a completion agreement in favor of HSBC Bank USA, National Association, as security trustee for the benefit of all of Cameron LNG Holdings' creditors under the Loan Facility Agreements. Pursuant to this completion agreement, Sempra Energy has severally guaranteed 50.2 percent of Cameron LNG Holdings' senior debt obligations under the Loan Facility Agreements, or a maximum principal amount of \$3.7 billion. Completion guarantees for the remaining 49.8 percent of Cameron LNG Holdings' senior secured financing have been provided by the other project partners. The occurrence of the effectiveness of the Cameron LNG Holdings joint venture on October 1, 2014, as further described in Note 3, was a condition precedent to first disbursement of funds under the Loan Facility Agreements. The Sempra Energy completion guarantee of 50.2 percent of the Cameron LNG Holdings financing also became effective upon effectiveness of the Cameron LNG Holdings joint venture. Sempra Energy's completion agreement and guarantee will terminate upon financial completion of the three-train Cameron LNG project, which is subject to satisfaction of certain conditions, including all three trains achieving commercial operations and meeting certain operational performance tests. Financial completion is scheduled for the second half of 2019. Sempra Energy recorded a liability of \$82 million on October 1, 2014 for the fair value of its obligations associated with the debt reserve account requirements, which constitute guarantees. This liability is being amortized over the duration of the guarantees using the straight-line method.

On August 6, 2014, Sempra Energy and the other project partners entered into a transfer restrictions agreement with Société Générale, as intercreditor agent for the lenders under the Loan Facility Agreements. Pursuant to the transfer restriction agreement, Sempra Energy agreed to certain restrictions on its ability to dispose of Sempra Energy's indirect fully diluted economic and beneficial ownership interests in Cameron LNG. These restrictions vary over time. Prior to financial completion of the three-train Cameron LNG project, Sempra Energy must retain 37.65 percent of such interest in Cameron LNG. Starting six months after financial completion of the three-train Cameron LNG project, Sempra Energy must retain at least 10 percent of the indirect fully diluted economic and beneficial ownership interest in Cameron LNG. At all times, the Sempra Energy affiliate that is the direct member in the Cameron LNG joint venture must be controlled by Sempra Energy and must have direct ownership of 50.2 percent of the Cameron LNG joint venture.

Interest. The weighted average all-in cost of the loans outstanding under all the Loan Facility Agreements (and based on certain assumptions as to timing of drawdown) is 1.59 percent per annum over LIBOR prior to financial completion of the project and 1.78 percent per annum over LIBOR following financial completion of the project. The Loan Facility Agreements require Cameron LNG to hedge 50 percent of outstanding borrowings to fix the interest rate, beginning in 2016. The hedges are to remain in place until the debt principal has been amortized by 50 percent. In November 2014, Cameron LNG entered into floating-to-fixed interest rate swaps for approximately \$3.7 billion notional amount, resulting in an effective fixed rate of 3.19 percent.

Mandatory Prepayments. Cameron LNG Holdings must make mandatory prepayments of all loans made under the Loan Facility Agreements under certain circumstances, including: upon receipt of certain insurance proceeds and expropriation compensation; upon receipt of certain performance liquidated damages under Cameron LNG's engineering, procurement and construction contract for the liquefaction terminal; in connection with the loss of its tolling agreements or export permits that result in a reduction of Cameron LNG's debt service coverage ratios below a specified threshold; if it becomes unlawful in any applicable jurisdiction for a lender to fund or maintain its loans; or in connection with any mandatory prepayment of senior notes outstanding (if any).

The loans under the NEXI Covered Loan Facility Agreement and the loans held by JBIC under the JBIC Loan Facility Agreement are subject to certain additional mandatory prepayments that would be triggered if the Japanese sponsors fail to maintain certain ownership interests in Cameron LNG, if Cameron LNG's Japanese tolling customers do not hold commitments for a certain quantum of nameplate capacity at the liquefaction terminal or if the aggregate annual contracted LNG commitments by Cameron LNG's tolling customers to Japanese LNG buyers fall below a certain minimum threshold under certain circumstances.

Events of Default. Cameron LNG's Loan Facility Agreements and related finance documents also contain events of default customary for such financings, including events of default for: failure to pay principal and interest on the due date; insolvency of Cameron LNG; abandonment of the project; expropriation; unenforceability or termination of the finance documents; and a failure to achieve financial completion of the project by a financial completion deadline date of September 30, 2021 (with up to additional 365 days extension beyond such date permitted in cases of force majeure). A delay in construction that results in a failure to achieve financial completion of the project by this financial completion deadline date would therefore result in an event of default under Cameron LNG's financing and a potential demand on Sempra Energy's guarantees.

Security. To support Cameron LNG's obligations under the Loan Facility Agreements and related finance documents, Cameron LNG has granted security over all of its assets, subject to customary exceptions, and all equity interests in Cameron LNG have been pledged to HSBC Bank USA, National Association, as security trustee for the benefit of all Cameron LNG's creditors. As a result, an enforcement action by the lenders taken in accordance with the finance documents could result in the exercise of such security interests by the lenders and the loss of ownership interests in Cameron LNG by Sempra Energy and the other project partners.

The security trustee under Cameron LNG's financing can demand that a payment be made by Sempra Energy under its guarantees of Sempra Energy's 50.2 percent share of senior debt obligations due and payable either on the date such amounts were due from Cameron LNG (taking into account cure periods) in the event of a failure by Cameron LNG to pay such senior debt obligations when they become due or within 10 business days in the event of an acceleration of senior debt obligations under the terms of the finance documents. If an event of default occurs under the Sempra Energy completion agreement, the security trustee can demand that Sempra Energy purchase its 50.2 percent share of all then outstanding senior debt obligations within five business days (other than in the case of a bankruptcy default, which is automatic).

RBS SEMPRA COMMODITIES

RBS Sempra Commodities is a United Kingdom limited liability partnership formed by Sempra Energy and The Royal Bank of Scotland plc (RBS) in 2008 to own and operate the commodities-marketing businesses previously operated through wholly owned subsidiaries of Sempra Energy. We and RBS sold substantially all of the partnership's businesses and assets in four separate transactions completed in 2010 and 2011. We account for our investment in RBS Sempra Commodities under the equity method, and report miscellaneous costs since the sale of the business in Parent and Other.

We recorded \$2 million and \$3 million in pretax equity losses for the years ended December 31, 2014 and 2013, respectively, and no equity earnings or losses for the year ended December 31, 2012.

In April 2011, we and RBS entered into a letter agreement (Letter Agreement) which amended certain provisions of the agreements that formed RBS Sempra Commodities. The Letter Agreement addresses the wind-down of the partnership and the distribution of the partnership's remaining assets. In accordance with the Letter Agreement, we received distributions of \$50 million in 2013. The investment balance of \$71 million at December 31, 2014 reflects remaining distributions expected to be received from the partnership in accordance with the Letter Agreement. The timing and amount of distributions may be impacted

by the matters we discuss related to RBS Sempra Commodities in Note 15 under “Other Litigation.” In addition, amounts may be retained by the partnership for an extended period of time to help offset unanticipated future general and administrative costs necessary to complete the dissolution of the partnership.

In connection with the Letter Agreement described above, we also released RBS from its indemnification obligations with respect to items for which J.P. Morgan Chase & Co. (JP Morgan), one of the buyers of the partnership’s businesses, has agreed to indemnify us.

SUMMARIZED FINANCIAL INFORMATION

We present summarized financial information below, aggregated for all of our equity method investments for the periods in which we were invested in the entity. The amounts below represent the aggregate financial position and results of operations of 100 percent of each of Sempra Energy’s equity method investments.

SUMMARIZED FINANCIAL INFORMATION

(Dollars in millions)

	Years ended December 31,					
	2014		2013		2012	
Gross revenues	\$	1,296	\$	1,734	\$	2,138
Operating expense		(749)		(1,287)		(1,801)
Income from operations		547		447		337
Interest expenses		(298)		(251)		(218)
Net income/Earnings(1)		291		222		(52)

	At December 31,			
	2014		2013	
Current assets	\$	865	\$	653
Noncurrent assets		13,161		9,439
Current liabilities		1,131		373
Noncurrent liabilities		6,228		4,547

(1) Except for Gasoductos de Chihuahua, Energía Sierra Juárez, Eletrans and the Argentine investments, there was no income tax recorded by the entities, as they are primarily domestic partnerships.

NOTE 5. DEBT AND CREDIT FACILITIES

LINES OF CREDIT

At December 31, 2014, Sempra Energy Consolidated had an aggregate of \$4.1 billion in three primary committed lines of credit for Sempra Energy, Sempra Global and the California Utilities to provide liquidity and to support commercial paper, the major components of which we detail below. Available unused credit on these lines at December 31, 2014 was \$2.4 billion. Some of Sempra Energy’s subsidiaries, primarily our foreign operations, have additional general purpose credit facilities, aggregating \$865 million at December 31, 2014. Available unused credit on these lines totaled \$536 million at December 31, 2014.

Sempra Energy

Sempra Energy has a \$1.067 billion, five-year syndicated revolving credit agreement expiring in March 2017. Citibank, N.A. serves as administrative agent for the syndicate of 24 lenders. No single lender has greater than a 7-percent share.

Borrowings bear interest at benchmark rates plus a margin that varies with market index rates and Sempra Energy’s credit ratings. The facility requires Sempra Energy to maintain a ratio of total indebtedness to total capitalization (as defined in the agreement) of no more than 65 percent at the end of each quarter. At December 31, 2014 and 2013, Sempra Energy was in compliance with this and all other financial covenants under the credit facility. The facility also provides for issuance of up to \$635 million of letters of credit on behalf of Sempra Energy with the amount of borrowings otherwise available under the facility reduced by the amount of outstanding letters of credit.

At December 31, 2014, Sempra Energy had no outstanding borrowings or letters of credit supported by the facility.

Sempra Global

Sempra Global has a \$2.189 billion, five-year syndicated revolving credit agreement expiring in March 2017. Citibank, N.A. serves as administrative agent for the syndicate of 25 lenders. No single lender has greater than a 7-percent share.

Sempra Energy guarantees Sempra Global’s obligations under the credit facility. Borrowings bear interest at benchmark rates plus a margin that varies with market index rates and Sempra Energy’s credit ratings. The facility requires Sempra Energy to maintain a ratio of total indebtedness to total capitalization (as defined in the agreement) of no more than 65 percent at the end of each quarter. At December 31, 2014 and 2013, Sempra Energy was in compliance with this and all other financial covenants under the credit facility.

At December 31, 2014, Sempra Global had \$1.3 billion of commercial paper outstanding supported by the facility. At December 31, 2013, Sempra Global had \$200 million of commercial paper outstanding classified as long-term debt based on management’s intent and ability to maintain this level of borrowing on a long-term basis either supported by this credit facility or by issuing long-term debt. This classification has no impact on cash flows.

California Utilities

SDG&E and SoCalGas have a combined \$877 million, five-year syndicated revolving credit agreement expiring in March 2017. JPMorgan Chase Bank, N.A. serves as administrative agent for the syndicate of 24 lenders. No single lender has greater than a 7-percent share. The agreement permits each utility to individually borrow up to \$658 million, subject to a combined limit of \$877 million for both utilities. It also provides for the issuance of letters of credit on behalf of each utility subject to a combined letter of credit commitment of \$300 million for both utilities. The amount of borrowings otherwise available under the facility is reduced by the amount of outstanding letters of credit.

Borrowings under the facility bear interest at benchmark rates plus a margin that varies with market index rates and the borrowing utility's credit ratings. The agreement requires each utility to maintain a ratio of total indebtedness to total capitalization (as defined in the agreement) of no more than 65 percent at the end of each quarter. At December 31, 2014 and 2013, the California Utilities were in compliance with this and all other financial covenants under the credit facility.

Each utility's obligations under the agreement are individual obligations, and a default by one utility would not constitute a default by the other utility or preclude borrowings by, or the issuance of letters of credit on behalf of, the other utility.

At December 31, 2014, SDG&E and SoCalGas had \$346 million and \$50 million of commercial paper outstanding supported by the facility. Available unused credit on the line at December 31, 2014 was \$312 million and \$481 million at SDG&E and SoCalGas, respectively. SoCalGas' availability reflects the impact of SDG&E's use as of December 31, 2014 of the combined credit available on the line.

Sempra Mexico

In June 2014, IEnova entered into an agreement for a \$200 million, U.S. dollar-denominated, three-year corporate revolving credit facility to finance working capital and for general corporate purposes. The lender is Banco Santander, (México), S.A., Institución de Banca Múltiple, Grupo Financiero Santander Mexico. At December 31, 2014, IEnova had \$145 million of outstanding borrowings supported by the facility, and available unused credit on the line was \$55 million.

In August 2014, IEnova entered into an agreement for a \$100 million, U.S. dollar-denominated, three-year corporate revolving credit facility to finance working capital and for general corporate purposes. The lender is Sumitomo Mitsui Banking Corporation. At December 31, 2014, IEnova had \$51 million of outstanding borrowings supported by the facility, and available unused credit on the line was \$49 million.

GUARANTEES

Sempra Renewables

Sempra Renewables and BP Wind Energy each currently hold 50-percent interests in Flat Ridge 2. The project obtained construction financing in December 2012, and proceeds from the loans were used to return \$148 million of each owner's joint venture investment in 2012. In March 2013, the construction financing was converted into permanent financing consisting of a term loan and a fixed-rate note. The term loan of \$242 million expires in June 2023 and the fixed rate note of \$110 million expires in June 2035. The financing agreement requires Sempra Renewables and BP Wind Energy, severally for each partner's 50-percent interest, to return cash to the project in the event that the project does not meet certain cash flow criteria or in the event that the project's debt service, operation and maintenance and firm transmission and production tax credits reserve accounts are not maintained at specific thresholds. Sempra Renewables recorded a liability of \$3 million in 2013 for the fair value of its obligations associated with the cash flow requirements, which constitutes a guarantee. The liability is being amortized over its expected life. The outstanding loans are not guaranteed by the partners.

Sempra Renewables and BP Wind Energy each currently hold 50-percent interests in Mehoopany Wind. The project obtained construction financing in June 2012, and proceeds from the loans were used to return \$13 million and \$17 million of each owner's joint venture investment in 2013 and 2012, respectively. In May 2013, the construction financing was converted into permanent financing consisting of a term loan. The term loan of \$162 million expires in May 2031. The financing agreement requires Sempra Renewables and BP Wind Energy, severally for each partner's 50-percent interest, to return cash to the project in the event that the project does not meet certain cash flow criteria or in the event that the project's debt service, operation and maintenance and production tax credits reserve accounts are not maintained at specific thresholds. Additionally, in conjunction with the term loan conversion, Sempra Renewables and BP Wind Energy have provided guarantees to the lenders in lieu of Mehoopany Wind funding a reserve account requirement. Sempra Renewables recorded liabilities of \$11 million in 2013 for the fair value of its obligations associated with the cash flow and reserve account requirements, which constitute guarantees. The liabilities are being amortized over their expected lives. The outstanding loans are not guaranteed by the partners.

Sempra Natural Gas

Sempra Energy entered into completion guarantees related to the financing of the Cameron LNG project, as we discuss in Note 4.

WEIGHTED AVERAGE INTEREST RATES

The weighted average interest rates on the total short-term debt outstanding at Sempra Energy Consolidated were 0.70 percent and 0.64 percent at December 31, 2014 and 2013, respectively. The weighted average interest rate on the total short-term debt outstanding was 0.27 percent and 0.25 percent at December 31, 2014 at SDG&E and SoCalGas, respectively. The weighted average interest rate at Sempra Energy at December 31, 2013 includes interest rates for the \$200 million of commercial paper borrowings supported by the Sempra Global credit facility classified as long-term, as we discuss above.

LONG-TERM DEBT

The following tables show the detail and maturities of long-term debt outstanding:

LONG-TERM DEBT

(Dollars in millions)

	December 31,	
	2014	2013

SDG&E

First mortgage bonds:

5.3% November 15, 2015	\$	250	\$	250
1.65% July 1, 2018(1)		161		161
3% August 15, 2021		350		350
3.6% September 1, 2023		450		450
6% June 1, 2026		250		250
5% to 5.25% December 1, 2027(1)		150		150
5.875% January and February 2034(1)		176		176
5.35% May 15, 2035		250		250
6.125% September 15, 2037		250		250
4% May 1, 2039(1)		75		75
6% June 1, 2039		300		300
5.35% May 15, 2040		250		250
4.5% August 15, 2040		500		500
3.95% November 15, 2041		250		250
4.3% April 1, 2042		250		250
		<u>3,912</u>		<u>3,912</u>

Other long-term debt (unsecured unless otherwise noted):

5.9% Notes June 1, 2014		—		15
5.3% Notes July 1, 2021(1)		39		39
5.5% Notes December 1, 2021(1)		60		60
4.9% Notes March 1, 2023(1)		25		25
5.2925% OMEC LLC loan payable 2013 through April 2019 (secured by plant assets)		325		335
366-day commercial paper borrowings May 2015, classified as long-term debt (0.40% weighted average at December 31, 2014)		100		—

Capital lease obligations:

Purchased-power agreements		233		176
Other		1		3
		<u>783</u>		<u>653</u>

Current portion of long-term debt

		4,695		4,565
		(365)		(29)

Unamortized discount on long-term debt

		<u>(11)</u>		<u>(11)</u>
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Total SDG&E

		<u>4,319</u>		<u>4,525</u>
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SoCalGas

First mortgage bonds:

5.5% March 15, 2014		—		250
5.45% April 15, 2018		250		250
3.15% September 15, 2024		500		—
5.75% November 15, 2035		250		250
5.125% November 15, 2040		300		300
3.75% September 15, 2042		350		350
4.45% March 15, 2044		250		—
		<u>1,900</u>		<u>1,400</u>

Other long-term debt (unsecured):

4.75% Notes May 14, 2016(1)		8		8
5.67% Notes January 18, 2028		5		5

Capital lease obligations

		1		2
		<u>14</u>		<u>15</u>

Current portion of long-term debt

		1,914		1,415
		—		(252)

Unamortized discount on long-term debt

		<u>(8)</u>		<u>(4)</u>
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Total SoCalGas

		<u>1,906</u>		<u>1,159</u>
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LONG-TERM DEBT (CONTINUED)*(Dollars in millions)*

December 31,

2014 2013

Sempra Energy

Other long-term debt (unsecured):

2% Notes March 15, 2014		—		500
Notes at variable rates (1.01% at December 31, 2013) March 15, 2014		—		300
6.5% Notes June 1, 2016, including \$300 at variable rates after fixed-to-floating rate swaps effective January 2011 (4.44% at December 31, 2014)		750		750
2.3% Notes April 1, 2017		600		600
6.15% Notes June 15, 2018		500		500
9.8% Notes February 15, 2019		500		500
2.875% Notes October 1, 2022		500		500
4.05% Notes December 1, 2023		500		500
3.55% Notes June 15, 2024		500		—
6% Notes October 15, 2039		750		750

Market value adjustments for interest rate swaps, net

		—		12
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Build-to-suit lease(2)	75	14
Sempra Global		
Other long-term debt (unsecured):		
Commercial paper borrowings at variable rates, classified as long-term debt (0.35% weighted average at December 31, 2013)	—	200
Sempra South American Utilities		
Other long-term debt (unsecured):		
Chilquinta Energía		
4.25% Series B Bonds October 30, 2030(1)	192	209
Luz del Sur		
Bank loans 5.05% to 6.41% payable 2016 through December 2018	91	70
Notes at 4.75% to 7.41% payable 2014 through September 2029	345	292
Other bonds at 3.77% to 4.59% payable 2020 through May 2022	10	—
Sempra Mexico		
Other long-term debt (unsecured):		
Notes February 8, 2018 at variable rates (2.66% after floating-to-fixed rate cross-currency swaps effective February 2013)	88	100
6.3% Notes February 2, 2023 (4.12% after cross-currency swap)	265	298
Notes at variable rates (1.28% at December 31, 2014) August 25, 2017(1)(3)	51	—
Sempra Renewables		
Other long-term debt (secured):		
Loan at variable rates payable 2014 through December 2028, including \$74 at 4.54% after floating-to-fixed rate swaps effective June 2012 (2.74% at December 31, 2014)(1)	97	104
Sempra Natural Gas		
First mortgage bonds (Mobile Gas):		
4.14% September 30, 2021	20	20
5% September 30, 2031	42	42
Other long-term debt (unsecured unless otherwise noted):		
Notes at 2.87% to 3.51% October 1, 2016(1)	19	18
8.45% Notes payable 2014 through December 2017, secured	16	21
3.1% Notes December 30, 2018, secured(1)	5	5
4.5% Notes July 1, 2024, secured(1)	77	77
Industrial development bonds at variable rates (0.05% at December 31, 2014) August 1, 2037, secured(1)	55	55
	6,048	6,437
Current portion of long-term debt	(104)	(866)
Unamortized discount on long-term debt	(9)	(9)
Unamortized premium on long-term debt	7	7
Total other Sempra Energy	5,942	5,569
Total Sempra Energy Consolidated	\$ 12,167	\$ 11,253

(1) Callable long-term debt not subject to make-whole provisions.

(2) We discuss this lease in Note 15.

(3) Classified as current portion of long-term debt.

MATURITIES OF LONG-TERM DEBT(1)

(Dollars in millions)

	SDG&E	SoCalGas	Other Sempra Energy	Total Sempra Energy Consolidated
2015	\$ 360	\$ —	\$ 96	\$ 456
2016	10	8	845	863
2017	10	—	670	680
2018	171	250	638	1,059
2019	285	—	537	822
Thereafter	3,625	1,655	3,187	8,467
Total	\$ 4,461	\$ 1,913	\$ 5,973	\$ 12,347

(1) Excludes capital lease obligations, build-to-suit lease and market value adjustments for interest rate swaps.

Various long-term obligations totaling \$5.9 billion at Sempra Energy at December 31, 2014 are unsecured. This includes unsecured long-term obligations totaling \$224 million at SDG&E and \$13 million at SoCalGas.

CALLABLE LONG-TERM DEBT

At the option of Sempra Energy, SDG&E and SoCalGas, certain debt is callable subject to premiums:

CALLABLE LONG-TERM DEBT

(Dollars in millions)

	SDG&E	SoCalGas	Other Sempra Energy	Total Sempra Energy Consolidated
Not subject to make-whole provisions	\$ 686	\$ 8	\$ 496	\$ 1,190
Subject to make-whole provisions	3,350	1,900	4,678	9,928

In addition, the OMEC LLC project financing loan discussed in Note 1, with \$325 million of outstanding borrowings at December 31, 2014, may be prepaid at the borrowers' option.

FIRST MORTGAGE BONDS

The California Utilities issue first mortgage bonds secured by a lien on utility plant. The California Utilities may issue additional first mortgage bonds upon compliance with the provisions of their bond agreements (indentures). These indentures require, among other things, the satisfaction of pro forma earnings-coverage tests on first mortgage bond interest and the availability of sufficient mortgaged property to support the additional bonds, after giving effect to prior bond redemptions. The most restrictive of these tests (the property test) would permit the issuance, subject to CPUC authorization, of an additional \$4.3 billion of first mortgage bonds at SDG&E and \$0.9 billion at SoCalGas at December 31, 2014.

In September 2014, SoCalGas publicly offered and sold \$500 million of 3.15-percent first mortgage bonds maturing in 2024. SoCalGas used the proceeds from this offering for the repayment of commercial paper and other general corporate purposes.

In March 2014, SoCalGas publicly offered and sold \$250 million of 4.45-percent first mortgage bonds maturing in 2044. SoCalGas used the proceeds from this offering for the repayment of its 5.5-percent first mortgage bonds that matured in March 2014.

INDUSTRIAL DEVELOPMENT BONDS

Sempra Natural Gas

To secure an approved exemption from sales and use tax, Sempra Natural Gas has incurred through December 31, 2014, \$257 million (\$3 million in 2013, \$53 million in 2012, \$84 million in 2011, \$42 million in 2010 and \$75 million in 2009) out of a maximum available \$265 million of long-term debt related to the construction and equipping of its Mississippi Hub natural gas storage facility. After a redemption of \$180 million in December 2011, the debt balance remaining at December 31, 2014 is \$77 million. The debt is payable to the Mississippi Business Finance Corporation (MBFC), and we recorded bonds receivable from the MBFC for the same amount. Both the financing obligation and the bonds receivable have interest rates of 4.5 percent and are due on July 1, 2024.

OTHER LONG-TERM DEBT

Sempra Energy

In June 2014, Sempra Energy publicly offered and sold \$500 million of 3.55-percent, fixed rate notes maturing in 2024. Sempra Energy used the proceeds from this offering for the repayment of commercial paper.

SDG&E

In the second quarter of 2014, SDG&E issued \$100 million of commercial paper maturing in May 2015, that is supported by the California Utilities' credit facility discussed above and has a weighted average interest rate of 0.40 percent at December 31, 2014.

Sempra South American Utilities

Luz del Sur has outstanding corporate bonds and bank loans which are denominated in the local currency. During 2014, Luz del Sur publicly offered and sold \$30 million of corporate bonds at 7.41 percent maturing in 2022, \$50 million of corporate bonds at 6.69 percent maturing in 2024 and \$50 million of corporate bonds at 6.88 percent maturing in 2029. Additionally, Luz del Sur drew bank loans in 2014 as follows:

2014 BANK LOAN DRAWS – LUZ DEL SUR

(Dollars in millions)

Month issued	Amount at issuance	Interest rate	Maturity date
March	\$ 7	5.10%	June 22, 2015
March	14	5.35%	September 24, 2015
October	31	5.05%	July 15, 2016
October	36	6.00%	December 27, 2016

Sempra Mexico

In June 2014, Energía Sierra Juárez entered into a \$240 million loan to project finance the construction of the wind project. The variable rate loan is secured by the project and will convert to an 18-year term loan upon completion of the first phase of the project. To partially moderate its exposure to interest rate changes associated with the term loan, Energía Sierra Juárez entered into floating-to-fixed interest rate swaps for 90 percent of the loan amount, which will result in an effective fixed rate of 6.1 percent. The swap is effective on the conversion to a term loan. The remaining 10 percent of principal bears interest at rates varying with market rates (0.16 percent at December 31, 2014). The loan agreement also provides for a \$31.7 million letter of credit facility. Energía Sierra Juárez also entered into a separate, Peso-denominated credit facility for up to \$35 million U.S. dollar equivalent to fund the value added tax of the project. On June 12, 2014, Energía Sierra Juárez drew down \$82 million of the construction loan. On July 16, 2014, this \$82 million of long-term debt and the related swaps were deconsolidated upon the sale of a 50-percent interest in Energía Sierra Juárez, as we discuss in Note 3.

Sempra Renewables

On October 30, 2014, Sempra Renewables completed a private offering of an aggregate of \$72 million in principal amount of 4.82-percent fixed rate notes maturing in 2039. Proceeds from this offering were used to finance its Broken Bow 2 Wind project. On November 5, 2014, this \$72 million of long-term debt was deconsolidated upon the sale of a 50-percent interest in Broken Bow 2 Wind to ConEdison Development, which we discuss in Note 3.

On March 6, 2014, Sempra Renewables entered into a \$356 million construction loan to finance its Copper Mountain Solar 3 project. The loan is secured by the project and will convert to a 10-year term loan upon completion of the project. To partially moderate its exposure to interest rate changes, Copper Mountain Solar 3 entered into floating-to-fixed interest rate swaps for 75 percent of the loan amount, resulting in an effective fixed rate of 5.35 percent. The remaining 25 percent bears interest at rates varying with market rates (0.16 percent at December 31, 2014). In connection with the loan agreement, Copper Mountain Solar 3 may also utilize up to \$72 million under a letter of credit facility, which may be used to meet project collateral requirements and debt service reserve requirements. On March 6, 2014, Copper Mountain Solar 3 drew down \$97 million from the loan. On March 13, 2014, this \$97 million of long-term debt and the related swaps were deconsolidated upon the sale of a 50-percent interest in Copper Mountain Solar 3, as we discuss in Note 3.

INTEREST RATE SWAPS

We discuss our fair value interest rate swaps and interest rate swaps to hedge cash flows in Note 9.

NOTE 6. INCOME TAXES

Reconciliation of net U.S. statutory federal income tax rates to the effective income tax rates is as follows:

RECONCILIATION OF FEDERAL INCOME TAX RATES TO EFFECTIVE INCOME TAX RATES

	Years ended December 31,		
	2014	2013	2012
Sempra Energy Consolidated:			
U.S. federal statutory income tax rate	35%	35%	35%
Utility depreciation	5	4	6
U.S. tax on repatriation of foreign earnings	2	—	—
Income tax restructuring related to IEnova stock offerings	—	4	—
State income taxes, net of federal income tax benefit	—	1	(1)
Utility repairs expenditures	(5)	(5)	(8)
Tax credits	(4)	(3)	(7)
Self-developed software expenditures	(3)	(3)	(5)
Non-U.S. earnings taxed at lower statutory income tax rates	(2)	(3)	(4)
Allowance for equity funds used during construction	(2)	(1)	(4)
Foreign exchange and inflation effects	(2)	—	1
Adjustments to prior years' income tax items	(1)	(3)	(1)
International tax reform	(1)	1	—
Life insurance contracts	—	—	(7)
Other, net	(2)	(1)	1
Effective income tax rate	20%	26%	6%
SDG&E:			
U.S. federal statutory income tax rate	35%	35%	35%
State income taxes, net of federal income tax benefit	5	3	4
Depreciation	4	5	4
SONGS tax regulatory asset write-off	2	—	—
Utility repairs expenditures	(4)	(4)	(4)
Self-developed software expenditures	(3)	(3)	(3)
Allowance for equity funds used during construction	(2)	(2)	(4)
Adjustments to prior years' income tax items	(2)	(1)	(3)
Variable interest entity	(1)	(1)	(1)
Other, net	—	(1)	(1)
Effective income tax rate	34%	31%	27%
SoCalGas:			
U.S. federal statutory income tax rate	35%	35%	35%
Depreciation	8	6	7
State income taxes, net of federal income tax benefit	4	4	3
Utility repairs expenditures	(9)	(9)	(12)
Self-developed software expenditures	(5)	(6)	(9)
Adjustments to prior years' income tax items	(2)	(5)	—
Allowance for equity funds used during construction	(2)	(1)	(2)
Other, net	—	—	(1)
Effective income tax rate	29%	24%	21%

In 2014, 2013 and 2012, non-U.S. earnings taxed at lower statutory income tax rates than the U.S. are primarily related to operations in Mexico, Chile and Peru.

In 2014, our effective income tax rate was affected by a \$25 million tax benefit due to the release of a Louisiana valuation allowance against a deferred tax asset associated with Cameron LNG developments. This benefit is included in "State Income Taxes, Net of Federal Income Tax Benefit" in the table above.

In addition, the effective income tax rates for Sempra Energy Consolidated and SDG&E were impacted in 2014 by a \$17 million charge to reduce certain tax regulatory assets attributed to SDG&E's investment in SONGS pursuant to a settlement agreement to resolve the CPUC's Order Instituting Investigation (OII) into the SONGS outage that we discuss in Note 13.

Foreign exchange and inflation effects for Sempra Energy Consolidated in 2014 are primarily due to significant devaluation of the Mexican peso against the U.S. dollar in 2014.

In 2013, our effective income tax rate was affected by \$63 million of income tax expense recorded in the first quarter of 2013 resulting from a corporate reorganization in connection with the IEnova stock offerings.

Utility repairs expenditures significantly affecting the effective income tax rates for Sempra Energy Consolidated, SDG&E and SoCalGas in 2014, 2013 and 2012 are due to a change in 2012 in the income tax treatment of certain repairs that are capitalized for financial statement purposes. The change in income tax treatment of certain repairs for electric transmission and distribution assets, which applied to SDG&E, was made pursuant to an Internal Revenue Service (IRS) Revenue Procedure providing a safe harbor for deducting certain repairs expenditures from taxable income when incurred for tax years beginning on or after January 1, 2011. The change in income tax treatment of certain repairs expenditures for gas plant assets, which applied to SoCalGas, was made pursuant to an IRS Revenue Procedure, which allows, under an Internal Revenue Code section, such expenditures to be deducted from taxable income when incurred.

Life insurance contracts significantly affected the effective tax rate for Sempra Energy Consolidated in 2012 primarily due to our decision in the second quarter of 2012 to hold life insurance contracts kept in support of certain benefit plans to term. Previously, we took the position that we might cash in or sell these contracts before maturity, which required that we record deferred income taxes on unrealized gains on investments held within the insurance contracts.

In September 2013, the IRS and U.S. Department of the Treasury released final tangible property regulations on the capitalization and expensing rules applicable to expenditures for the acquisition and production of tangible property. Companies were required to conform their tax accounting methods and elect any safe harbors under the final regulations no later than the tax year beginning on January 1, 2014. Additionally, if a change in the company's tax accounting methods was required to conform to the final regulations, the company was also required to adjust its deferred tax balances at December 31, 2013 for any tax adjustments required to bring all prior periods into compliance with the final regulations. We evaluated our tax accounting methods and deferred tax balances based on the guidance contained in the final tangible property regulations and determined that we are following the guidance in all material respects. Any adjustments to deferred taxes resulting from changes to comply with the final tangible property regulations would have a de minimis impact on the financial statements. Accordingly, we did not make any adjustment to our deferred tax balances at December 31, 2014 or December 31, 2013 based on the issuance of the final tangible property regulations.

For SDG&E and SoCalGas, the CPUC requires flow-through rate-making treatment for the current income tax benefit or expense arising from certain property-related and other temporary differences between the treatment for financial reporting and income tax, which will reverse over time. Under the regulatory accounting treatment required for these flow-through temporary differences, deferred income tax assets and liabilities are not recorded to deferred income tax expense, but rather to a regulatory asset or liability, which results in impacting the current effective income tax rate. As a result, changes in the relative size of these items compared to pretax income, from period to period, can cause variations in the effective income tax rate. The following items are subject to flow-through treatment:

- § repairs expenditures related to a certain portion of utility plant fixed assets
- § the equity portion of AFUDC
- § a portion of the cost of removal of utility plant assets
- § self-developed software expenditures
- § depreciation on a certain portion of utility plant assets

The AFUDC related to equity recorded for regulated construction projects at Sempra Mexico and Sempra Natural Gas has similar flow-through treatment.

We use the deferral method for investment tax credits (ITC). For certain solar and wind generating assets placed into service during 2012, we elected to seek cash grants rather than ITC for which the projects also qualify. Accordingly, cash grant accounting was applied. Grant accounting for cash grants is very similar to the deferral method of accounting for ITC, the primary difference being the recording of a cash grant receivable instead of an income tax receivable.

Under the deferral method of accounting for ITC and under grant accounting for cash grants, we record a deferred income tax benefit, on day one, which is reflected in income tax expense by recording a deferred income tax asset during the year the renewable energy assets are placed in service. This deferred income tax asset results from the day-one difference in the income tax basis and financial statement basis of the renewable energy assets, referred to as the day-one basis difference. The financial statement basis of the assets is reduced by 100 percent of the ITC or grant expected; U.S. federal income tax basis is reduced by only 50 percent for both ITC and grants; and state income tax basis is reduced by 50 percent for grants and not at all for ITC.

Conversion of ITC to cash is generally dependent on reducing income tax payments and thus the existence of a U.S. federal net operating loss (NOL) carryforward can result in delaying this conversion.

The geographic components of Income Before Income Taxes and Equity Earnings of Certain Unconsolidated Subsidiaries at Sempra Energy are as follows:

(Dollars in millions)	Years ended December 31,		
	2014	2013	2012
U.S.	\$ 1,014	\$ 941	\$ 442
Non-U.S.	510	489	501
Total	\$ 1,524	\$ 1,430	\$ 943

The components of income tax expense are as follows:

INCOME TAX EXPENSE (BENEFIT)*(Dollars in millions)*

	Years ended December 31,		
	2014	2013	2012
Sempra Energy Consolidated:			
Current:			
U.S. Federal	\$ (10)	\$ (70)	\$ (36)
U.S. State	(7)	(5)	(6)
Non-U.S.	171	107	144
Total	154	32	102
Deferred:			
U.S. Federal	237	275	(63)
U.S. State	4	15	3
Non-U.S.	(91)	48	20
Total	150	338	(40)
Deferred investment tax credits	(4)	(4)	(3)
Total income tax expense	\$ 300	\$ 366	\$ 59
SDG&E:			
Current:			
U.S. Federal	\$ (5)	\$ 9	\$ (109)
U.S. State	52	11	14
Total	47	20	(95)
Deferred:			
U.S. Federal	220	149	255
U.S. State	5	24	30
Total	225	173	285
Deferred investment tax credits	(2)	(2)	—
Total income tax expense	\$ 270	\$ 191	\$ 190
SoCalGas:			
Current:			
U.S. Federal	\$ 2	\$ 4	\$ (73)
U.S. State	7	(5)	24
Total	9	(1)	(49)
Deferred:			
U.S. Federal	117	103	136
U.S. State	15	16	(6)
Total	132	119	130
Deferred investment tax credits	(2)	(2)	(2)
Total income tax expense	\$ 139	\$ 116	\$ 79

We show the components of deferred income taxes at December 31 for Sempra Energy Consolidated, SDG&E and SoCalGas in the tables below:

DEFERRED INCOME TAXES FOR SEMPRA ENERGY CONSOLIDATED*(Dollars in millions)*

	December 31,	
	2014	2013
Deferred income tax liabilities:		
Differences in financial and tax bases of depreciable and amortizable assets	\$ 4,074	\$ 3,951
Regulatory balancing accounts	915	663
Property taxes	57	50
Differences in financial and tax bases of partnership interests(1)	650	256
Other deferred income tax liabilities	53	95
Total deferred income tax liabilities	5,749	5,015
Deferred income tax assets:		
Tax credits	276	105
Equity losses	40	16
Net operating losses	1,908	2,023
Compensation-related items	244	128
Postretirement benefits	433	264
Other deferred income tax assets	97	22
State income taxes	19	30
Litigation and other accruals not yet deductible	73	20
Deferred income tax assets before valuation allowances	3,090	2,608
Less: valuation allowances	39	96
Total deferred income tax assets	3,051	2,512
Net deferred income tax liability(2)	\$ 2,698	\$ 2,503

(1) Amounts primarily represent differences in financial and tax bases of depreciable and amortizable assets within our partnerships.

(2) Our policy is to show deferred income taxes of VIEs on a net basis, including valuation allowances. See table "Amounts Associated with Otay Mesa VIE" in Note 1 for further information.

DEFERRED INCOME TAXES FOR SDG&E AND SOCIALGAS*(Dollars in millions)*

	SDG&E		SoCalGas	
	December 31,		December 31,	
	2014	2013	2014	2013
Deferred income tax liabilities:				
Differences in financial and tax bases of utility plant and other assets	\$ 2,181	\$ 2,040	\$ 1,194	\$ 1,045
Regulatory balancing accounts	441	411	481	265
Property taxes	39	36	18	16
Other	5	28	10	6
Total deferred income tax liabilities	2,666	2,515	1,703	1,332
Deferred income tax assets:				
Net operating losses	297	440	64	65
Postretirement benefits	85	57	261	126
Compensation-related items	8	13	40	38
State income taxes	27	22	11	10
Litigation and other accruals not yet deductible	39	45	23	27
Other	36	20	39	28
Total deferred income tax assets	492	597	438	294
Net deferred income tax liability(1)	\$ 2,174	\$ 1,918	\$ 1,265	\$ 1,038

(1) Our policy is to show deferred income taxes of VIEs on a net basis, including valuation allowances. See table "Amounts Associated with Otay Mesa VIE" in Note 1 for further information.

The net deferred income tax liabilities are recorded on the Consolidated Balance Sheets at December 31 as follows:

NET DEFERRED INCOME TAX LIABILITY

(Dollars in millions)

	Sempra Energy		SDG&E		SoCalGas	
	Consolidated					
	2014	2013	2014	2013	2014	2013
Current (asset) liability	\$ (305)	\$ (301)	\$ 53	\$ (103)	\$ 53	\$ 45
Noncurrent liability	3,003	2,804	2,121	2,021	1,212	993
Total	\$ 2,698	\$ 2,503	\$ 2,174	\$ 1,918	\$ 1,265	\$ 1,038

At December 31, 2014, Sempra Energy has recorded a valuation allowance against a portion of its total deferred income tax assets, as shown above in the "Deferred Income Taxes for Sempra Energy Consolidated" table. A valuation allowance is recorded when, based on more-likely-than-not criteria, negative evidence outweighs positive evidence with regard to our ability to realize a deferred income tax asset in the future. Of the valuation allowances recorded to date, the negative evidence outweighs the positive evidence primarily due to cumulative pretax losses in various U.S. state and non-U.S. jurisdictions resulting in a deferred income tax asset related to NOLs, as discussed below, that we currently do not believe will be realized on a more-likely-than-not basis. At both Sempra Energy and SDG&E, deferred income taxes for variable interest entities are shown on a net basis. Therefore, valuation allowances of \$48 million at December 31, 2014 and \$60 million at December 31, 2013 related to variable interest entities are not reflected in the table above. Of Sempra Energy's total valuation allowance of \$39 million at December 31, 2014, \$8 million is related to non-U.S. NOLs and \$31 million to U.S. state NOLs. Of Sempra Energy's total valuation allowance of \$96 million at December 31, 2013, \$12 million is related to non U.S. NOLs and \$84 million to U.S. state NOLs. The total valuation allowance decreased in 2014 primarily due to release of a Louisiana valuation allowance against a deferred tax asset associated with Cameron LNG developments and expiration of the carryover periods of certain U.S. state and non-U.S. NOLs.

Sempra Energy's U.S. subsidiaries had \$4.9 billion of unused U.S. federal consolidated NOLs that will begin to expire in 2031, \$182 million of unused U.S. federal consolidated general business tax credits that will begin to expire in 2032 and \$52 million of unused foreign tax credits that expire in 2024. Included in the NOL amount is \$266 million of excess tax deductions related to employee stock expense for which a benefit will be recorded to additional paid in capital when realized. When assessing whether a tax benefit relating to employee stock expense has been realized, we follow the tax law ordering method, under which current year share-based compensation deductions are assumed to be utilized before net operating loss carryforwards and other tax attributes. We have recorded deferred income tax benefits on these NOLs, and tax credits, in total, because we currently believe they will be realized on a more-likely-than-not basis.

At December 31, 2014, SDG&E had \$867 million of unused U.S. federal NOL which expires in 2032 and \$12 million of unused U.S. federal general business tax credits which begin to expire in 2031. At December 31, 2014, SoCalGas had \$210 million of unused U.S. federal NOLs which begin to expire in 2032 and \$11 million of unused U.S. federal general business tax credits which begin to expire in 2031. We have recorded deferred income tax benefits on these NOLs and tax credits, in total, because we currently believe they will be realized on a more-likely-than-not basis.

Sempra Energy's U.S. subsidiaries had \$2.7 billion of unused U.S. state NOLs, primarily in Alabama, California, Connecticut, District of Columbia, Indiana, Kansas, Louisiana, Minnesota, Missouri, Mississippi, Nebraska and Pennsylvania. These U.S. state NOLs expire between 2015 and 2034. We have not recorded deferred income tax benefits on a portion of Sempra Energy's total U.S. state NOLs because we currently believe they will not be realized on a more-likely-than-not basis, as discussed above. Sempra Natural Gas and its project partners are currently developing a natural gas liquefaction export facility at the Cameron LNG terminal in Louisiana. In 2014 we released \$25 million of a Louisiana valuation allowance against a deferred tax asset associated with Cameron LNG developments. Sempra Energy's U.S. subsidiaries also had \$31 million of unused U.S. state general business tax credits that begin to expire in 2016. We have recorded deferred income tax benefits on these tax credits, in total, because we currently believe they will be realized on a more-likely-than-not basis.

At December 31, 2014, Sempra Energy's non-U.S. subsidiaries had \$312 million of unused NOLs available to utilize in the future to reduce Sempra Energy's future non-U.S. income tax expense related to our companies in Mexico and the Netherlands. The carryforward periods for our non-U.S. unused NOLs expire between 2015 and 2024. We have not recorded deferred income tax benefits on a portion of Sempra Energy's total non-U.S. NOLs because we currently believe they will not be realized on a more-likely-than-not basis, as discussed above.

At December 31, 2014, Sempra Energy had not recognized a U.S. deferred income tax liability related to a \$3.6 billion basis difference between its financial statement and income tax investment amount in its non-U.S. subsidiaries and non-U.S. corporate joint ventures. This basis difference consists of \$3.6 billion of cumulative undistributed earnings that we expect to reinvest indefinitely outside of the U.S. These cumulative undistributed earnings have previously been reinvested or will be reinvested in active non-U.S. operations, thus we do not intend to use these earnings as a source of funding for U.S. operations. It is not

practical to determine the hypothetical unrecognized amount of U.S. deferred income taxes that might be payable if the cumulative undistributed earnings were eventually distributed or the investments were sold.

Following is a summary of unrecognized income tax benefits:

SUMMARY OF UNRECOGNIZED INCOME TAX BENEFITS

(Dollars in millions)

	Years ended December 31,		
	2014	2013	2012
Sempra Energy Consolidated:			
Total	\$ 117	\$ 90	\$ 82
Of the total, amounts related to tax positions that, if recognized in future years, would			
decrease the effective tax rate	\$ (114)	\$ (86)	\$ (81)
increase the effective tax rate	21	19	16
SDG&E:			
Total	\$ 14	\$ 17	\$ 12
Of the total, amounts related to tax positions that, if recognized in future years, would			
decrease the effective tax rate	\$ (11)	\$ (14)	\$ (12)
increase the effective tax rate	6	11	12
SoCalGas:			
Total	\$ 19	\$ 13	\$ 5
Of the total, amounts related to tax positions that, if recognized in future years, would			
decrease the effective tax rate	\$ (19)	\$ (13)	\$ (5)
increase the effective tax rate	15	8	4

Following is a reconciliation of the changes in unrecognized income tax benefits for the years ended December 31:

RECONCILIATION OF UNRECOGNIZED INCOME TAX BENEFITS

(Dollars in millions)

	2014	2013	2012
Sempra Energy Consolidated:			
Balance as of January 1	\$ 90	\$ 82	\$ 72
Increase in prior period tax positions	37	26	2
Decrease in prior period tax positions	—	(24)	(1)
Increase in current period tax positions	5	7	10
Settlements with taxing authorities	(15)	(1)	(1)
Balance as of December 31	\$ 117	\$ 90	\$ 82
SDG&E:			
Balance as of January 1	\$ 17	\$ 12	\$ 7
Increase in prior period tax positions	2	7	1
Decrease in prior period tax positions	—	(4)	—
Increase in current period tax positions	—	2	4
Settlements with taxing authorities	(5)	—	—
Balance as of December 31	\$ 14	\$ 17	\$ 12
SoCalGas:			
Balance as of January 1	\$ 13	\$ 5	\$ —
Increase in prior period tax positions	2	4	—
Increase in current period tax positions	4	5	5
Settlements with taxing authorities	—	(1)	—
Balance as of December 31	\$ 19	\$ 13	\$ 5

It is reasonably possible that within the next 12 months, unrecognized income tax benefits could decrease due to the following:

POSSIBLE DECREASES IN UNRECOGNIZED INCOME TAX BENEFITS WITHIN 12 MONTHS

(Dollars in millions)

	At December 31,		
	2014	2013	2012
Sempra Energy Consolidated:			
Expiration of statutes of limitations on tax assessments	\$ —	\$ (7)	\$ (7)
Potential resolution of audit issues with various			
U.S. federal, state and local and non-U.S. taxing authorities	(61)	(63)	(10)
	\$ (61)	\$ (70)	\$ (17)
SDG&E:			
Potential resolution of audit issues with various			
U.S. federal, state and local and non-U.S. taxing authorities	\$ (9)	\$ (14)	\$ (5)
SoCalGas:			
Potential resolution of audit issues with various			
U.S. federal, state and local and non-U.S. taxing authorities	\$ (15)	\$ (11)	\$ (4)

Amounts accrued for interest and penalties associated with unrecognized income tax benefits are included in income tax expense on the Consolidated Statements of Operations. We summarize the amounts accrued at December 31 on the Consolidated Balance Sheets for interest and penalties associated with unrecognized income tax benefits and the related expense in the table below.

INTEREST AND PENALTIES ASSOCIATED WITH UNRECOGNIZED INCOME TAX BENEFITS

(Dollars in millions)

	Interest and penalties			Accrued interest and penalties	
	Years ended December 31,			December 31,	
	2014	2013	2012	2014	2013
Sempra Energy Consolidated:					
Interest (income) expense	\$ (4)	\$ 1	\$ —	\$ —	\$ 4
Penalties	(3)	—	—	—	3
SDG&E:					
Interest (income) expense	\$ (1)	\$ —	\$ —	\$ —	\$ 1
SoCalGas:					
Interest income	\$ —	\$ (1)	\$ —	\$ —	\$ —

Penalties accrued and expensed at SDG&E and SoCalGas in all periods presented were zero or negligible.

INCOME TAX AUDITS

Sempra Energy is subject to U.S. federal income tax as well as to income tax of multiple state and non-U.S. jurisdictions. We remain subject to examination for U.S. federal tax years after 2010. We are subject to examination by major state tax jurisdictions for tax years after 2008. Certain major non-U.S. income tax returns for tax years 2008 through the present are open to examination.

In addition, we intend to file federal refund claims for the 2009 and 2010 tax years during the first half of 2015; however, no additional tax may be assessed by the Internal Revenue Service for pre-2011 tax years. We have also filed state refund claims for tax years back to 1998. The pre-2009 tax years for our major state tax jurisdictions are closed to new issues; therefore, no additional tax may be assessed by the taxing authorities for these tax years.

SDG&E and SoCalGas are subject to U.S. federal income tax as well as income tax of state jurisdictions. They remain subject to examination for U.S. federal tax years after 2010 and by major state tax jurisdictions for tax years after 2008.

NOTE 7. EMPLOYEE BENEFIT PLANS

We are required by applicable U.S. GAAP to:

- § recognize an asset for a plan's overfunded status or a liability for a plan's underfunded status in the statement of financial position;
- § measure a plan's assets and its obligations that determine its funded status as of the end of the fiscal year (with limited exceptions); and
- § recognize changes in the funded status of pension and other postretirement benefit plans in the year in which the changes occur. Generally, those changes are reported in other comprehensive income and as a separate component of shareholders' equity.

The detailed information presented below covers the employee benefit plans of Sempra Energy and its principal subsidiaries.

Sempra Energy has funded and unfunded noncontributory traditional defined benefit and cash balance plans, including separate plans for SDG&E and SoCalGas, which collectively cover all eligible employees, including members of the Sempra Energy board of directors who were participants in a predecessor plan on or before June 1, 1998. Pension benefits under the traditional defined benefit plans are based on service and final average pay, while the cash balance plans provide benefits using a career average earnings methodology.

Chilquinta Energía has an unfunded contributory defined benefit plan covering all employees hired before October 1, 1981 and an unfunded noncontributory termination indemnity obligation covering all employees. The plans generally provide defined benefits to retirees based on date of hire, years of service and final average salary.

Sempra Energy also has other postretirement benefit plans (PBOP), including separate plans for SDG&E and SoCalGas, which collectively cover all domestic (except Willmut Gas) and certain foreign employees. The life insurance plans are both contributory and noncontributory, and the health care plans are contributory. Participants' contributions are adjusted annually. Other postretirement benefits include medical benefits for retirees' spouses.

Chilquinta Energía also has two noncontributory postretirement benefit plans which cover substantially all employees – a health care plan and an energy subsidy plan that provides for reduced energy rates. The health care plan includes benefits for retirees' spouses and dependents.

Pension and other postretirement benefits costs and obligations are dependent on assumptions used in calculating such amounts. These assumptions include

- § discount rates
- § expected return on plan assets
- § health care cost trend rates
- § mortality rates
- § rate of compensation increases
- § termination and retirement rates
- § utilization of postretirement welfare benefits
- § payout elections (lump sum or annuity)
- § lump sum interest rates

We review these assumptions on an annual basis prior to the beginning of each year and update them as appropriate. We consider current market conditions, including interest rates, in making these assumptions. New mortality table studies were released by the Society of Actuaries during 2014 that significantly increased life expectancy assumptions, and we have incorporated these new assumptions, adjusted for the Sempra Energy companies' actual mortality experience, in our calculations. We use a December 31 measurement date for all of our plans.

RABBI TRUST

In support of its Supplemental Executive Retirement, Cash Balance Restoration and Deferred Compensation Plans, Sempra Energy maintains dedicated assets, including a Rabbi Trust and investments in life insurance contracts, which totaled \$512 million and \$506 million at December 31, 2014 and 2013, respectively.

PENSION AND OTHER POSTRETIREMENT BENEFIT PLANS

Benefit Plan Amendments Affecting 2014

During 2014, executive participants in a company nonqualified plan became eligible in this same plan for Supplemental Executive Retirement Plan benefits. Consistent with past practice, this was treated as a plan amendment and increased the recorded pension liability by \$4 million at Sempra Energy Consolidated.

Effective January 1, 2014, a new high deductible medical benefit was provided to all SDG&E and SoCalGas retirees under the age of 65, except the represented retirees at SoCalGas, participating in the companies' PBOP plans. This benefit replaced a previous benefit provided by the SDG&E plans and was an added benefit in the SoCalGas plan. These changes resulted in an increase of other postretirement benefit obligations by a negligible amount at SDG&E and by \$1 million at each of Sempra Energy Consolidated and SoCalGas.

Benefit Plan Amendments Affecting 2013

The plan amendments below were adopted in 2013, and are therefore reflected in the 2013 pension and other postretirement benefit obligations.

Effective July 1, 2014, an enhanced pension benefit is provided to certain employees of SoCalGas who transfer from a represented to a nonrepresented position after June 30, 1998. This increased the pension benefit obligation by \$27 million at each of Sempra Energy Consolidated and SoCalGas.

Effective April 1, 2014, we provided a one-time, ad hoc cost of living adjustment of 13.2 percent for SoCalGas and PE retirees who retired prior to July 1, 1996 and their beneficiaries that are receiving qualified pension benefits in the form of an annuity. This election increased the pension benefit obligation by \$40 million at Sempra Energy Consolidated and \$39 million at SoCalGas.

Effective January 1, 2013, the face value of the fully paid life insurance benefit for employees that participate in our Executive Retirement Life Insurance Program and retire after December 31, 2012 was increased from one times pay to one-and-a-half times pay. In addition, the tax gross-ups paid to the retiring employee based on the value of the final premium were eliminated. These changes resulted in a decrease of the other postretirement benefit obligation of \$4 million at Sempra Energy Consolidated.

Effective January 1, 2014, the benefits provided by one of the dental plans available to all employees that participate in the plans, except the represented employees at SoCalGas, were enhanced to increase the annual total maximum and lifetime orthodontic maximum covered costs. In addition, the costs of diagnostic and preventive services were excluded from the total covered annual maximum costs. These plan design changes increased the recorded liability for other postretirement benefits by \$1 million at each of Sempra Energy Consolidated and SoCalGas.

Special Termination Benefits Affecting 2014 and 2013

At SDG&E in 2014, and at both SDG&E and SoCalGas in 2013, all nonrepresented employees age 62 with 5 years of service and all other nonrepresented employees age 55 with 10 years of service that retired under the Voluntary Retirement Enhancement Program (VREP) offered in those years received an additional postretirement health benefit in the form of a \$50,000 Health Reimbursement Account (HRA). In accordance with U.S. GAAP, we elected to treat the benefit obligation attributable to the HRA as special termination benefits. This resulted in increases to the recorded liability for other postretirement benefits of approximately \$5 million for each of Sempra Energy Consolidated and SDG&E in 2014, and \$5 million for Sempra Energy Consolidated and \$2 million for each of SDG&E and SoCalGas in 2013.

Benefit Obligations and Assets

The following three tables provide a reconciliation of the changes in the plans' projected benefit obligations and the fair value of assets during 2014 and 2013, and a statement of the funded status at December 31, 2014 and 2013:

PROJECTED BENEFIT OBLIGATION, FAIR VALUE OF ASSETS AND FUNDED STATUS

SEMPRA ENERGY CONSOLIDATED

(Dollars in millions)

	Pension benefits		Other postretirement benefits	
	2014	2013	2014	2013
CHANGE IN PROJECTED BENEFIT OBLIGATION				
Net obligation at January 1	\$ 3,459	\$ 3,804	\$ 973	\$ 1,115
Service cost	101	109	24	28
Interest cost	161	148	49	44
Contributions from plan participants	—	—	17	16
Actuarial loss (gain)	441	(371)	105	(177)

Benefit payments	(217)	(293)	(58)	(55)
Plan amendments	4	67	1	(3)
Special termination benefits	—	—	5	5
Settlements and curtailments	(110)	(5)	(1)	—
Net obligation at December 31	3,839	3,459	1,115	973
CHANGE IN PLAN ASSETS				
Fair value of plan assets at January 1	2,789	2,558	1,012	873
Actual return on plan assets	217	396	67	151
Employer contributions	128	133	16	27
Contributions from plan participants	—	—	17	16
Benefit payments	(217)	(293)	(58)	(55)
Settlements	(110)	(5)	—	—
Fair value of plan assets at December 31	2,807	2,789	1,054	1,012
Funded status at December 31	\$ (1,032)	\$ (670)	\$ (61)	\$ 39
Net recorded (liability) asset at December 31	\$ (1,032)	\$ (670)	\$ (61)	\$ 39

PROJECTED BENEFIT OBLIGATION, FAIR VALUE OF ASSETS AND FUNDED STATUS
SAN DIEGO GAS & ELECTRIC COMPANY

(Dollars in millions)

	Pension benefits		Other postretirement benefits	
	2014	2013	2014	2013
CHANGE IN PROJECTED BENEFIT OBLIGATION				
Net obligation at January 1	\$ 939	\$ 1,067	\$ 171	\$ 185
Service cost	30	32	7	8
Interest cost	43	41	9	8
Contributions from plan participants	—	—	6	6
Actuarial loss (gain)	101	(66)	15	(19)
Benefit payments	(25)	(89)	(13)	(12)
Special termination benefits	—	—	5	2
Settlements	(87)	(4)	—	—
Transfer of liability from (to) other plans	10	(42)	—	(7)
Net obligation at December 31	1,011	939	200	171
CHANGE IN PLAN ASSETS				
Fair value of plan assets at January 1	819	781	146	126
Actual return on plan assets	63	117	11	18
Employer contributions	56	51	14	14
Contributions from plan participants	—	—	6	6
Benefit payments	(25)	(89)	(13)	(12)
Settlements	(87)	(4)	—	—
Transfer of assets from (to) other plans	2	(37)	—	(6)
Fair value of plan assets at December 31	828	819	164	146
Funded status at December 31	\$ (183)	\$ (120)	\$ (36)	\$ (25)
Net recorded liability at December 31	\$ (183)	\$ (120)	\$ (36)	\$ (25)

PROJECTED BENEFIT OBLIGATION, FAIR VALUE OF ASSETS AND FUNDED STATUS
SOUTHERN CALIFORNIA GAS COMPANY

(Dollars in millions)

	Pension benefits		Other postretirement benefits	
	2014	2013	2014	2013
CHANGE IN PROJECTED BENEFIT OBLIGATION				
Net obligation at January 1	\$ 2,110	\$ 2,299	\$ 753	\$ 873
Service cost	60	67	16	17
Interest cost	100	90	38	34
Contributions from plan participants	—	—	11	10
Actuarial loss (gain)	300	(285)	90	(151)
Benefit payments	(163)	(169)	(43)	(40)
Plan amendments	—	66	1	1
Special termination benefits	—	—	—	2
Settlements	(10)	—	—	—
Transfer of liability from other plans	1	42	—	7
Net obligation at December 31	2,398	2,110	866	753
CHANGE IN PLAN ASSETS				
Fair value of plan assets at January 1	1,758	1,581	848	732
Actual return on plan assets	138	250	54	131
Employer contributions	39	59	—	9
Contributions from plan participants	—	—	11	10
Benefit payments	(163)	(169)	(43)	(40)
Settlements	(10)	—	—	—
Transfer of assets from other plans	1	37	—	6
Fair value of plan assets at December 31	1,763	1,758	870	848

Funded status at December 31	\$	(635)	\$	(352)	\$	4	\$	95
Net recorded (liability) asset at December 31	\$	(635)	\$	(352)	\$	4	\$	95

For Sempra Energy Consolidated, SDG&E and SoCalGas, the actuarial losses for pension plans in 2014 were primarily due to a decrease in the weighted average discount rates and updated mortality rates (discussed above), and to a lesser extent at SoCalGas, a change in the rate used to convert annuity benefits to lump sums. The actuarial losses were partially offset at Sempra Energy Consolidated and SoCalGas by the impact of updated census data for SoCalGas and partially offset at all companies by a decrease in the cash balance interest crediting rate.

The actuarial losses for other postretirement plans in 2014 were primarily due to a decrease in the weighted average discount rates and updated mortality rates for all companies, and to lesser extent, updated census data for SDG&E and SoCalGas. The actuarial losses were partially offset by a decrease in anticipated retiree and spousal participation rates for all companies.

The actuarial gains for pension plans in 2013 were primarily due to an increase in the weighted average discount rate and the rate used to convert monthly annuity-type benefits to a lump sum benefit payment.

The actuarial gains for other postretirement plans in 2013 resulted from several factors, including an increase in the discount rate, updated census data and actual claims costs at SoCalGas, updates in actual premiums and retiree contributions for 2013, expected decrease in 2014 claims costs based on 2014 renewal premium rates, and a decrease in the healthcare cost trending rate. The actuarial gains were partially offset by the impact of updated census data and actual claims costs at all companies except SoCalGas, changes in retirement and termination rates, and an expected increase in non-spouse dependents for all employees of SoCalGas not covered by the defined dollar benefit.

Net Assets and Liabilities

The assets and liabilities of the pension and other postretirement benefit plans are affected by changing market conditions as well as when actual plan experience is different than assumed. Such events result in investment gains and losses, which we defer and recognize in pension and other postretirement benefit costs over a period of years. Sempra Energy Consolidated (except for SDG&E) and SoCalGas use the asset smoothing method for their pension and other postretirement plans. This method develops an asset value that recognizes realized and unrealized investment gains and losses over a three-year period. This adjusted asset value, known as the market-related value of assets, is used in conjunction with an expected long-term rate of return to determine the expected return-on-assets component of net periodic cost. SDG&E does not use the asset smoothing method, but rather recognizes realized and unrealized investment gains and losses during the current year.

The 10-percent corridor accounting method is used at Sempra Energy Consolidated, SDG&E and SoCalGas. Under the corridor accounting method, if as of the beginning of a year unrecognized net gain or loss exceeds 10 percent of the greater of the projected benefit obligation or the market-related value of plan assets, the excess is amortized over the average remaining service period of active participants. The asset smoothing and 10-percent corridor accounting methods help mitigate volatility of net periodic costs from year to year.

We recognize the overfunded or underfunded status of defined benefit pension and other postretirement plans as assets or liabilities, respectively; unrecognized changes in these assets and/or liabilities are normally recorded in Accumulated Other Comprehensive Income (Loss) on the balance sheet. The California Utilities and Mobile Gas record regulatory assets and liabilities that offset the funded pension and other postretirement plans' assets or liabilities, as these costs are expected to be recovered in future utility rates based on agreements with regulatory agencies. At Willmut Gas, pension contributions are recovered in rates on a prospective basis, but are not recorded as a regulatory asset pending recovery.

The California Utilities record annual pension and other postretirement net periodic benefit costs equal to the contributions to their plans as authorized by the CPUC. The annual contributions to the pension plans are limited to a minimum required funding amount as determined by the Internal Revenue Service. The annual contributions to the other postretirement plans are equal to the lesser of the maximum tax deductible amount or the net periodic cost calculated in accordance with U.S. GAAP for pension and other postretirement benefit plans. Mobile Gas records annual pension and other postretirement net periodic benefit costs based on an estimate of the net periodic cost at the beginning of the year calculated in accordance with U.S. GAAP for pension and other postretirement benefit plans, as authorized by the Alabama Public Service Commission. Any differences between booked net periodic benefit cost and amounts contributed to the pension and other postretirement plans for the California Utilities are disclosed as regulatory adjustments in accordance with U.S. GAAP for regulated entities.

The net (liability) asset is included in the following categories on the Consolidated Balance Sheets at December 31:

PENSION AND OTHER POSTRETIREMENT BENEFIT OBLIGATIONS, NET OF PLAN ASSETS AT DECEMBER 31

(Dollars in millions)

	Pension benefits		Other postretirement benefits			
	2014	2013	2014	2013		
Sempra Energy Consolidated:						
Noncurrent assets	\$	—	\$	4	\$	95
Current liabilities		(33)		(59)		—
Noncurrent liabilities		(999)		(611)		(65)
Net recorded (liability) asset	\$	(1,032)	\$	(670)	\$	(61)
					\$	39
SDG&E:						
Current liabilities	\$	(3)	\$	(13)	\$	—
Noncurrent liabilities		(180)		(107)		(36)
Net recorded liability	\$	(183)	\$	(120)	\$	(36)
					\$	(25)
SoCalGas:						
Noncurrent assets	\$	—	\$	—	\$	4
Current liabilities		(2)		(13)		—
Noncurrent liabilities		(633)		(339)		—
Net recorded (liability) asset	\$	(635)	\$	(352)	\$	4
					\$	95

Amounts recorded in Accumulated Other Comprehensive Income (Loss) at December 31, 2014 and 2013, net of income tax effects and amounts recorded as regulatory assets, are as follows:

AMOUNTS IN ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)						
<i>(Dollars in millions)</i>						
	Pension benefits			Other postretirement benefits		
	2014	2013		2014	2013	
Sempra Energy Consolidated:						
Net actuarial loss	\$ (82)	\$ (73)		\$ (1)	\$ —	
Prior service credit	(2)	—		—	—	
Total	\$ (84)	\$ (73)		\$ (1)	\$ —	
SDG&E:						
Net actuarial loss	\$ (13)	\$ (10)				
Prior service credit	1	1				
Total	\$ (12)	\$ (9)				
SoCalGas:						
Net actuarial loss	\$ (5)	\$ (5)				
Prior service credit	1	1				
Total	\$ (4)	\$ (4)				

The accumulated benefit obligation for defined benefit pension plans at December 31, 2014 and 2013 was as follows:

ACCUMULATED BENEFIT OBLIGATION									
<i>(Dollars in millions)</i>									
	Sempra Energy Consolidated		SDG&E		SoCalGas				
	2014	2013	2014	2013	2014	2013			
Accumulated benefit obligation	\$ 3,555	\$ 3,254	\$ 978	\$ 923	\$ 2,182	\$ 1,944			

Sempra Energy has unfunded and funded pension plans. SDG&E and SoCalGas each have an unfunded and a funded pension plan. The following table shows the obligations of funded pension plans with benefit obligations in excess of plan assets at December 31:

OBLIGATIONS OF FUNDED PENSION PLANS				
<i>(Dollars in millions)</i>				
	2014		2013	
Sempra Energy Consolidated:				
Projected benefit obligation	\$	3,592	\$	3,212
Accumulated benefit obligation		3,343		3,027
Fair value of plan assets		2,807		2,789
SDG&E:				
Projected benefit obligation	\$	964	\$	899
Accumulated benefit obligation		937		886
Fair value of plan assets		828		819
SoCalGas:				
Projected benefit obligation	\$	2,379	\$	2,085
Accumulated benefit obligation		2,166		1,920
Fair value of plan assets		1,763		1,758

Net Periodic Benefit Cost, 2012-2014

The following three tables provide the components of net periodic benefit cost and amounts recognized in other comprehensive income for the years ended December 31:

NET PERIODIC BENEFIT COST AND AMOUNTS RECOGNIZED IN OTHER COMPREHENSIVE INCOME						
SEMPRA ENERGY CONSOLIDATED						
<i>(Dollars in millions)</i>						
	Pension benefits			Other postretirement benefits		
	2014	2013	2012	2014	2013	2012
NET PERIODIC BENEFIT COST						
Service cost	\$ 101	\$ 109	\$ 90	\$ 24	\$ 28	\$ 25
Interest cost	161	148	162	49	44	52
Expected return on assets	(171)	(162)	(155)	(63)	(58)	(53)
Amortization of:						
Prior service cost (credit)	11	4	3	(5)	(4)	(4)
Actuarial loss	18	54	47	—	7	12
Settlement and curtailment charges	31	2	8	(1)	—	—
Special termination benefits	—	—	—	5	5	—
Regulatory adjustment	(31)	(20)	(29)	6	6	7
Total net periodic benefit cost	120	135	126	15	28	39
CHANGES IN PLAN ASSETS AND BENEFIT OBLIGATIONS						
RECOGNIZED IN OTHER COMPREHENSIVE INCOME						
Net loss (gain)	38	(30)	19	1	(8)	(6)

Prior service cost	4	1	—	—	—	—
Amortization of actuarial loss	(23)	(9)	(9)	—	(1)	—
Total recognized in other comprehensive income	19	(38)	10	1	(9)	(6)
Total recognized in net periodic benefit cost and other comprehensive income	\$ 139	\$ 97	\$ 136	\$ 16	\$ 19	\$ 33

NET PERIODIC BENEFIT COST AND AMOUNTS RECOGNIZED IN OTHER COMPREHENSIVE INCOME

SAN DIEGO GAS & ELECTRIC COMPANY

(Dollars in millions)

	Pension benefits			Other postretirement benefits		
	2014	2013	2012	2014	2013	2012
NET PERIODIC BENEFIT COST						
Service cost	\$ 30	\$ 32	\$ 28	\$ 7	\$ 8	\$ 7
Interest cost	43	41	45	9	8	9
Expected return on assets	(55)	(52)	(47)	(10)	(8)	(8)
Amortization of:						
Prior service cost	2	2	2	2	4	4
Actuarial loss	4	14	14	—	—	—
Settlement charge	19	1	1	—	—	—
Special termination benefits	—	—	—	5	2	—
Regulatory adjustment	12	14	6	1	—	1
Total net periodic benefit cost	55	52	49	14	14	13
CHANGES IN PLAN ASSETS AND BENEFIT OBLIGATIONS RECOGNIZED IN OTHER COMPREHENSIVE INCOME						
Net loss (gain)	8	(2)	2	—	—	—
Amortization of actuarial loss	(3)	(1)	(1)	—	—	—
Total recognized in other comprehensive income	5	(3)	1	—	—	—
Total recognized in net periodic benefit cost and other comprehensive income	\$ 60	\$ 49	\$ 50	\$ 14	\$ 14	\$ 13

NET PERIODIC BENEFIT COST AND AMOUNTS RECOGNIZED IN OTHER COMPREHENSIVE INCOME

SOUTHERN CALIFORNIA GAS COMPANY

(Dollars in millions)

	Pension benefits			Other postretirement benefits		
	2014	2013	2012	2014	2013	2012
NET PERIODIC BENEFIT COST						
Service cost	\$ 60	\$ 67	\$ 53	\$ 16	\$ 17	\$ 16
Interest cost	100	90	99	38	34	41
Expected return on assets	(104)	(98)	(96)	(51)	(48)	(44)
Amortization of:						
Prior service cost (credit)	9	2	2	(8)	(8)	(7)
Actuarial loss	6	31	23	—	6	11
Settlement charge	4	—	1	—	—	—
Special termination benefits	—	—	—	—	2	—
Regulatory adjustment	(43)	(34)	(36)	5	6	5
Total net periodic benefit cost	32	58	46	—	9	22
CHANGES IN PLAN ASSETS AND BENEFIT OBLIGATIONS RECOGNIZED IN OTHER COMPREHENSIVE INCOME						
Net loss (gain)	5	3	(4)	—	—	—
Amortization of actuarial loss	(5)	(1)	(1)	—	—	—
Total recognized in other comprehensive income	—	2	(5)	—	—	—
Total recognized in net periodic benefit cost and other comprehensive income	\$ 32	\$ 60	\$ 41	\$ —	\$ 9	\$ 22

The estimated net loss for the pension plans that will be amortized from Accumulated Other Comprehensive Income (Loss) into net periodic benefit cost in 2015 is \$9 million for Sempra Energy Consolidated, \$1 million for SDG&E and \$1 million for SoCalGas. Negligible amounts of prior service credit for the pension plans will be similarly amortized in 2015.

Assumptions for Pension and Other Postretirement Benefit Plans

Benefit Obligation and Net Periodic Benefit Cost

Except for the Chilquinta Energía plans, we develop the discount rate assumptions based on the results of a third party modeling tool that develops the discount rate by matching each plan's expected cash flows to interest rates and expected maturity values of individually selected bonds in a hypothetical portfolio. The model controls the level of accumulated surplus that may result from the selection of bonds based solely on their premium yields by limiting the number of years to look back for selection to 3 years for pre-30-year and 6 years for post-30-year benefit payments. Additionally, the model ensures that an adequate number of bonds are selected in the portfolio by limiting the amount of the plan's benefit payments that can be met by a single bond to 7.5 percent.

We selected individual bonds from a universe of Bloomberg AA-rated bonds which:

- § have an outstanding issue of at least \$50 million;
- § are non-callable (or callable with make-whole provisions);
- § exclude collateralized bonds; and
- § exclude the top and bottom 10 percent of yields to avoid relying on bonds which might be mispriced or misgraded.

This selection methodology also mitigates the impact of market volatility on the portfolio by excluding bonds with the following characteristics:

- § The issuer is on review for downgrade by a major rating agency if the downgrade would eliminate the issuer from the portfolio.
- § Recent events have caused significant price volatility to which rating agencies have not reacted.
- § Lack of liquidity is causing price quotes to vary significantly from broker to broker.

We believe that this bond selection approach provides the best estimate of discount rates to estimate settlement values for our plans' benefit obligations as required by applicable U.S. GAAP.

We develop the discount rate assumptions for the plans at Chilquinta Energía based on 10-year Chilean government bond yields and the expected local long-term rate of inflation. This method for developing the discount rate is required when there is no deep market for high quality corporate bonds.

Long-term return on assets is based on the weighted-average of the plans' investment allocation as of the measurement date and the expected returns for those asset types.

The significant assumptions affecting benefit obligation and net periodic benefit cost are as follows:

WEIGHTED-AVERAGE ASSUMPTIONS USED TO DETERMINE BENEFIT OBLIGATION AT DECEMBER 31

	Pension benefits		Other postretirement benefits	
	2014	2013	2014	2013
Sempra Energy Consolidated:				
Discount rate	4.09%	4.84%	4.15%	4.95%
Rate of compensation increase	3.50-10.00	3.50-10.00	3.50-10.00	3.50-10.00
SDG&E:				
Discount rate	4.00%	4.69%	4.15%	5.00%
Rate of compensation increase	3.50-10.00	3.50-10.00	3.50-10.00	3.50-10.00
SoCalGas:				
Discount rate	4.15%	4.94%	4.15%	4.95%
Rate of compensation increase	3.50-10.00	3.50-10.00	3.50-10.00	3.50-10.00

WEIGHTED-AVERAGE ASSUMPTIONS USED TO DETERMINE NET PERIODIC BENEFIT COST FOR YEARS ENDED DECEMBER 31

	Pension benefits			Other postretirement benefits		
	2014	2013	2012	2014	2013	2012
Sempra Energy Consolidated:						
Discount rate	4.85%	4.04%	4.40-5.05%	4.95%	4.09%	4.10-5.15%
Expected return on plan assets	7.00	7.00	7.00	6.97	6.96	6.96
Rate of compensation increase	3.50-10.00	3.50-9.50	3.50-8.50	3.50-10.00	3.50-9.50	3.50-9.50
SDG&E:						
Discount rate	4.69%	3.94%	4.70-4.80%	5.00%	4.10%	5.05%
Expected return on plan assets	7.00	7.00	7.00	6.88	6.81	6.81
Rate of compensation increase	3.50-10.00	3.50-9.50	3.50-8.50	3.50-10.00	N/A	N/A
SoCalGas:						
Discount rate	4.94%	4.10%	4.70-5.05%	4.95%	4.10%	5.15%
Expected return on plan assets	7.00	7.00	7.00	7.00	7.00	7.00
Rate of compensation increase	3.50-10.00	3.50-9.50	3.50-8.50	3.50-10.00	3.50-9.50	3.50-9.50

Health Care Cost Trend Rates

Assumed health care cost trend rates have a significant effect on the amounts that we report for the health care plan costs. Following are the health care cost trend rates applicable to our postretirement benefit plans:

ASSUMED HEALTH CARE COST TREND RATES AT DECEMBER 31

	Other postretirement benefit plans(1)					
	Pre-65 retirees			Retirees aged 65 years and older		
	2014	2013	2012	2014	2013	2012
Health care cost trend rate assumed for next year	7.75%	8.25%	10.00%	5.25%	5.50%	8.25%
Rate to which the cost trend rate is assumed to decline (the ultimate trend)	5.00%	5.00%	5.00%	4.50%	4.50%	4.75%
Year the rate reaches the ultimate trend	2020	2020	2020	2020	2020	2020

(1) Excludes Mobile Gas Plan. For Mobile Gas, the health care cost trend rate assumed for next year for all retirees was 7.75 percent, 7.50 percent and 8.00 percent in 2014, 2013 and 2012, respectively; the ultimate trend was 5.00 percent in 2014, 2013 and 2012; and the year the rate reaches the ultimate trend was 2020, 2019 and 2020 in 2014, 2013 and 2012, respectively.

A one-percent change in assumed health care cost trend rates would have had the following effects in 2014:

EFFECT OF ONE-PERCENT CHANGE IN ASSUMED HEALTH CARE COST TREND RATES

(Dollars in millions)

	Sempra Energy Consolidated		SDG&E		SoCalGas	
	1%	1%	1%	1%	1%	1%
	Increase	Decrease	Increase	Decrease	Increase	Decrease
Effect on total of service and interest cost components of net periodic postretirement health care benefit cost	\$ 7	\$ (5)	\$ 1	\$ (1)	\$ 5	\$ (4)
Effect on the health care component of the accumulated other postretirement benefit obligations	86	(75)	9	(7)	74	(65)

Plan Assets

Investment Allocation Strategy for Sempra Energy's Pension Master Trust

Sempra Energy's pension master trust holds the investments for the pension and other postretirement benefit plans. We maintain additional trusts as we discuss below for certain of the California Utilities' other postretirement benefit plans. Other than through indexing strategies, the trusts do not invest in securities of Sempra Energy.

The current asset allocation objective for the pension master trust is to protect the funded status of the plans while generating sufficient returns to cover future benefit payments and accruals. We assess the portfolio performance by comparing actual returns with relevant benchmarks. Currently, the pension plans' asset allocations are

- § 38 percent domestic equity
- § 26 percent international equity
- § 18 percent long credit
- § 5 percent global high yield credit
- § 5 percent real assets
- § 4 percent STRIPS
- § 4 percent long government

The asset allocation of the plans is reviewed by our Plan Funding Committee and our Pension and Benefits Investment Committee (the Committees) on a regular basis. When evaluating strategic asset allocations, the Committees consider many variables, including:

- § long-term cost
- § variability and level of contributions
- § funded status
- § a range of expected outcomes over varying confidence levels

We maintain allocations at strategic levels with reasonable bands of variance. When asset class exposure reaches a minimum or maximum level, we generally rebalance the portfolio back to target allocations.

In accordance with the Sempra Energy pension investment guidelines, derivative financial instruments may be used by the pension master trust's equity and fixed income portfolio investment managers to equitize cash, hedge certain exposures, and as substitutes for certain types of fixed income securities.

Rate of Return Assumption

The expected return on assets in our pension plans and other postretirement benefit plans is based on the weighted-average of the plans' investment allocations to specific asset classes as of the measurement date. We arrive at a 7 percent expected return on assets by considering both the historical and forecasted long-term rates of return on those asset classes. We expect a return of between 7 percent and 9 percent on return-seeking assets and between 3 percent and 5 percent for risk-mitigating assets. Certain trusts that hold assets for the SDG&E and Mobile Gas other postretirement benefit plans are subject to taxation, which impacts the expected after-tax return on assets in these plans.

Concentration of Risk

Plan assets are fully diversified across global equity and bond markets, and other than what is indicated by the target asset allocations, contain no concentration of risk in any one economic, industry, maturity or geographic sector.

Investment Strategy for SDG&E's and SoCalGas' Other Postretirement Benefit Plans

SDG&E's and SoCalGas' other postretirement benefit plans are funded by cash contributions from SDG&E and SoCalGas and their current retirees. The assets of these plans are placed into the pension master trust and other Voluntary Employee Beneficiary Association (VEBA) trusts. The assets in the VEBA trusts are invested at an allocation similar to the pension master trust, with 70 percent invested in return-seeking and 30 percent invested in risk-mitigating assets. This allocation has been formulated to best suit the long-term nature of the obligations.

Fair Value of Pension and Other Postretirement Benefit Plan Assets

We classify the investments in Sempra Energy's pension master trust and the trusts for the California Utilities' other postretirement benefit plans into:

- § Level 1, for securities valued using quoted prices from active markets for identical assets;
- § Level 2, for securities not traded on an active market but for which observable market inputs are readily available; and
- § Level 3, for securities and investments valued based on significant unobservable inputs. Investments are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

The following are descriptions of the valuation methods and assumptions we use to estimate the fair values of investments held by pension and other postretirement benefit plan trusts.

Equity Securities — Equity securities are valued using quoted prices listed on nationally recognized securities exchanges.

Fixed Income Securities — Certain fixed income securities are valued at the closing price reported in the active market in which the security is traded. Other fixed income securities are valued based on yields currently available on comparable securities of issuers with similar credit ratings. When quoted prices are not available for identical or similar securities, the security is valued under a discounted cash flows approach that maximizes observable inputs, such as current yields of similar instruments, but includes adjustments for certain risks that may not be observable, such as credit and liquidity risks. Certain high yield fixed-income securities are valued by applying a price adjustment to the bid side to calculate a mean and ask value. Adjustments can vary based on maturity, credit standing, and reported trade frequencies. The bid to ask spread is determined by the investment manager based on the review of the available market information.

Registered Investment Companies — Investments in mutual funds sponsored by a registered investment company are valued based on exchange listed prices for equity and certain fixed income securities or are valued under a discounted cash flows approach that maximizes observable inputs, such as current yields of similar instruments, but includes adjustments for certain risks that may not be observable, such as credit and liquidity risks for the remaining fixed income securities.

Common/Collective Trusts — Investments in common/collective trust funds are valued based on the redemption price of units owned, which is based on the current fair value of the funds' underlying assets.

Private Equity Funds — Investments in private equity funds do not trade in active markets. Fair value is determined by the fund managers, based upon their review of the underlying investments as well as their utilization of discounted cash flows and other valuation models.

Venture Capital Funds — These funds consist of investments in private equities that are held by limited partnerships following various strategies, including venture capital and corporate finance. The partnerships generally have limited lives of 10 years, after which liquidating distributions will be received. Fair value is determined by attributing a proportionate share of net assets to an ownership interest in partners' capital.

Real Estate Funds — Investments in real estate funds are valued based on the net asset value per share. Net asset value is based on the fair value of the underlying investments.

Derivative Financial Instruments — Forward currency contracts are valued at the prevailing forward exchange rate of the underlying currencies, and unrealized gain (loss) is recorded daily. Fixed income futures and options are marked to market daily. Equity index future contracts are valued at the last sales price quoted on the exchange on which they primarily trade.

The methods described are intended to produce a fair value calculation that is indicative of net realizable value or reflective of future fair values. However, while management believes the valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

We provide more discussion of fair value measurements in Notes 1 and 10. The following tables set forth by level within the fair value hierarchy a summary of the investments in our pension and other postretirement benefit plan trusts measured at fair value on a recurring basis.

There were no transfers into or out of Level 1, Level 2 or Level 3 for Sempra Energy Consolidated, SDG&E or SoCalGas during the periods presented, nor any changes in the valuation techniques used in recurring fair value measurement.

The fair values of our pension plan assets by asset category are as follows:

FAIR VALUE MEASUREMENTS — INVESTMENT ASSETS OF PENSION PLANS

(Dollars in millions)

	Fair value at December 31, 2014			
	Level 1	Level 2	Level 3	Total
SDG&E:				
Equity securities:				
Domestic(1)	\$ 307	\$ —	\$ —	\$ 307
Foreign	186	—	—	186
Domestic preferred	—	1	—	1
Foreign preferred	1	—	—	1
Registered investment companies	40	—	—	40
Fixed income securities:				
U.S. Treasury securities	38	—	—	38
Domestic municipal bonds	—	11	—	11
Foreign government bonds	—	12	—	12
Domestic corporate bonds(2)	—	117	—	117
Foreign corporate bonds	—	36	—	36
Common/collective trusts(3)	—	62	—	62
Registered investment companies	—	10	—	10
Other investments(4)	—	—	4	4
Total investment assets(5)	572	249	4	825

SoCalGas:

Equity securities:				
Domestic(1)	651	—	—	651
Foreign	395	—	—	395
Domestic preferred	—	3	—	3
Foreign preferred	3	1	—	4
Registered investment companies	86	—	—	86
Fixed income securities:				
U.S. Treasury securities	80	—	—	80
Domestic municipal bonds	—	24	—	24
Foreign government bonds	—	25	—	25
Domestic corporate bonds(2)	—	249	—	249
Foreign corporate bonds	—	77	—	77
Common/collective trusts(3)	—	132	—	132
Registered investment companies	—	21	—	21
Other investments(4)	1	—	8	9
Total investment assets(6)	1,216	532	8	1,756

Other Sempra Energy:

Equity securities:				
Domestic(1)	81	—	—	81
Foreign	49	—	—	49
Foreign preferred	—	1	—	1
Registered investment companies	10	—	—	10
Fixed income securities:				
U.S. Treasury securities	9	—	—	9
Domestic municipal bonds	—	4	—	4
Foreign government bonds	—	3	—	3
Domestic corporate bonds(2)	—	30	—	30
Foreign corporate bonds	—	9	—	9
Common/collective trusts(3)	—	16	—	16
Registered investment companies	—	2	—	2
Other investments(4)	—	—	1	1
Total other Sempra Energy(7)	149	65	1	215
Total Sempra Energy Consolidated(8)	\$ 1,937	\$ 846	\$ 13	\$ 2,796

(1) Investments in common stock of domestic corporations.

(2) Bonds of U.S. issuers from diverse industries, primarily investment-grade.

(3) Investments in common/collective trusts held in Sempra Energy's Pension Master Trust.

(4) Investments in venture capital and real estate funds, stated at net asset value, and derivative financial instruments.

(5) Excludes cash and cash equivalents of \$3 million at SDG&E.

(6) Excludes cash and cash equivalents of \$7 million at SoCalGas.

(7) Excludes cash and cash equivalents of \$1 million at Other Sempra Energy.

(8) Excludes cash and cash equivalents of \$11 million at Sempra Energy Consolidated.

FAIR VALUE MEASUREMENTS — INVESTMENT ASSETS OF PENSION PLANS

(Dollars in millions)

	Fair value at December 31, 2013			
	Level 1	Level 2	Level 3	Total
SDG&E:				
Equity securities:				

Domestic(1)	\$	317	\$	—	\$	—	\$	317
Foreign		211		—		—		211
Foreign preferred		2		—		—		2
Registered investment companies		44		—		—		44
Fixed income securities:								
U.S. Treasury securities		2		—		—		2
Domestic municipal bonds		—		11		—		11
Foreign government bonds		—		25		—		25
Domestic corporate bonds(2)		—		152		—		152
Domestic partnership bonds(2)		—		1		—		1
Foreign corporate bonds		—		55		—		55
Common/collective trusts(3)		—		25		—		25
Other investments(4)		—		—		6		6
Total investment assets(5)		576		269		6		851

SoCalGas:

Equity securities:								
Domestic(1)		637		—		—		637
Foreign		423		—		—		423
Foreign preferred		4		—		—		4
Registered investment companies		89		—		—		89
Fixed income securities:								
U.S. Treasury securities		4		—		—		4
Domestic municipal bonds		—		21		—		21
Foreign government bonds		—		51		—		51
Domestic corporate bonds(2)		—		306		—		306
Domestic partnership bonds(2)		—		2		—		2
Foreign corporate bonds		—		110		—		110
Common/collective trusts(3)		—		50		—		50
Other investments(4)		—		—		13		13
Total investment assets(6)		1,157		540		13		1,710

Other Sempra Energy:

Equity securities:								
Domestic(1)		79		—		—		79
Foreign		52		—		—		52
Registered investment companies		11		—		—		11
Fixed income securities:								
U.S. Treasury securities		1		—		—		1
Domestic municipal bonds		—		3		—		3
Foreign government bonds		—		7		—		7
Domestic corporate bonds(2)		—		38		—		38
Foreign corporate bonds		—		13		—		13
Common/collective trusts(3)		—		5		—		5
Other investments(4)		—		—		2		2
Total other Sempra Energy(7)		143		66		2		211
Total Sempra Energy Consolidated(8)	\$	1,876	\$	875	\$	21	\$	2,772

(1) Investments in common stock of domestic corporations.

(2) Bonds of U.S. issuers from diverse industries, primarily investment-grade.

(3) Investments in common/collective trusts held in Sempra Energy's Pension Master Trust.

(4) Investments in venture capital and real estate funds, stated at net asset value, and derivative financial instruments.

(5) Excludes cash and cash equivalents of \$5 million at SDG&E and transfers payable to other plans of \$37 million.

(6) Excludes cash and cash equivalents of \$11 million at SoCalGas and transfers receivable from other plans of \$37 million.

(7) Excludes cash and cash equivalents of \$1 million at Other Sempra Energy.

(8) Excludes cash and cash equivalents of \$17 million at Sempra Energy Consolidated.

The fair values by asset category of the other postretirement benefit plan assets held in the pension master trust and in the additional trusts for SoCalGas' other postretirement benefit plans and SDG&E's other postretirement benefit plan (PBOP plan trusts) are as follows:

FAIR VALUE MEASUREMENTS — INVESTMENT ASSETS OF OTHER POSTRETIREMENT BENEFIT PLANS

(Dollars in millions)

	Fair value at December 31, 2014							
	Level 1	Level 2	Level 3	Total				
SDG&E:								
Equity securities:								
Domestic(1)	\$	41	\$	—	\$	—	\$	41
Foreign		25		—		—		25
Registered investment companies		43		—		—		43
Fixed income securities:								
U.S. Treasury securities		5		—		—		5
Domestic municipal bonds(2)		—		3		—		3
Domestic corporate bonds(3)		—		16		—		16
Foreign government bonds		—		2		—		2
Foreign corporate bonds		—		5		—		5
Common/collective trusts(4)		—		8		—		8
Registered investment companies		—		16		—		16
Total investment assets		114		50		—		164

SoCalGas:				
Equity securities:				
Domestic(1)	133	—	—	133
Foreign	81	—	—	81
Domestic preferred	—	1	—	1
Foreign preferred	1	—	—	1
Registered investment companies	45	—	—	45
Broad market funds	—	222	—	222
Fixed income securities:				
U.S. Treasury securities	16	—	—	16
Domestic municipal bonds	—	5	—	5
Domestic corporate bonds(3)	—	61	—	61
Foreign government bonds	—	5	—	5
Foreign corporate bonds	—	25	—	25
Common/collective trusts(4)	—	265	—	265
Registered investment companies	—	6	—	6
Other investments(5)	—	—	2	2
Total investment assets(6)	276	590	2	868

Other Sempra Energy:				
Equity securities:				
Domestic(1)	6	—	—	6
Foreign	3	—	—	3
Registered investment companies	4	—	—	4
Fixed income securities:				
U.S. Treasury securities	1	—	—	1
Domestic corporate bonds(3)	—	2	—	2
Common/collective trusts(4)	—	1	—	1
Registered investment companies	—	2	—	2
Total other Sempra Energy(7)	14	5	—	19
Total Sempra Energy Consolidated(8)	\$ 404	\$ 645	\$ 2	\$ 1,051

- (1) Investments in common stock of domestic corporations.
(2) Bonds of California municipalities held in SDG&E PBOP plan trusts.
(3) Bonds of U.S. issuers from diverse industries, primarily investment-grade.
(4) Investment in common/collective trusts held in PBOP plan VEBA trusts.
(5) Investments in venture capital and real estate funds, stated at net asset value, and derivative financial instruments.
(6) Excludes cash and cash equivalents of \$2 million held in SoCalGas PBOP plan trusts.
(7) Excludes cash and cash equivalents of \$1 million held in Other Sempra Energy PBOP plan trusts.
(8) Excludes cash and cash equivalents of \$3 million at Sempra Energy Consolidated.

FAIR VALUE MEASUREMENTS — INVESTMENT ASSETS OF OTHER POSTRETIREMENT BENEFIT PLANS

(Dollars in millions)

	Fair value at December 31, 2013			
	Level 1	Level 2	Level 3	Total
SDG&E:				
Equity securities:				
Domestic(1)	\$ 37	\$ —	\$ —	\$ 37
Foreign	25	—	—	25
Registered investment companies	43	—	—	43
Fixed income securities:				
Domestic municipal bonds(2)	—	3	—	3
Domestic corporate bonds(3)	—	18	—	18
Foreign government bonds	—	3	—	3
Foreign corporate bonds	—	6	—	6
Common/collective trusts(4)	—	3	—	3
Registered investment companies	—	12	—	12
Other investments(5)	—	—	1	1
Total investment assets(6)	105	45	1	151

SoCalGas:				
Equity securities:				
Domestic(1)	128	—	—	128
Foreign	83	—	—	83
Foreign preferred	1	—	—	1
Registered investment companies	43	—	—	43
Broad market funds	—	220	—	220
Fixed income securities:				
U.S. Treasury securities	1	—	—	1
Domestic municipal bonds	—	4	—	4
Domestic corporate bonds(3)	—	60	—	60
Foreign government bonds	—	10	—	10
Foreign corporate bonds	—	22	—	22
Common/collective trusts(4)	—	262	—	262
Registered investment companies	—	3	—	3
Other investments(5)	—	—	2	2
Total investment assets(7)	256	581	2	839

Other Sempra Energy:

Equity securities:

Domestic(1)	4	—	—	4
Foreign	4	—	—	4
Registered investment companies	4	—	—	4
Fixed income securities:				
Domestic corporate bonds(3)	—	3	—	3
Foreign government bonds	—	1	—	1
Foreign corporate bonds	—	1	—	1
Registered investment companies	—	1	—	1
Total other Sempra Energy	12	6	—	18
Total Sempra Energy Consolidated(8)	\$ 373	\$ 632	\$ 3	\$ 1,008

(1) Investments in common stock of domestic corporations.

(2) Bonds of California municipalities held in SDG&E PBOP plan trusts.

(3) Bonds of U.S. issuers from diverse industries, primarily investment-grade.

(4) Investment in common/collective trusts held in PBOP plan VEBA trusts.

(5) Investments in venture capital and real estate funds, stated at net asset value, and derivative financial instruments.

(6) Excludes cash and cash equivalents of \$1 million held in SDG&E PBOP plan trusts and transfers payable to other plans of \$6 million.

(7) Excludes cash and cash equivalents of \$3 million held in SoCalGas PBOP plan trusts and transfers receivable from other plans of \$6 million.

(8) Excludes cash and cash equivalents of \$1 million and \$3 million held in SDG&E and SoCalGas PBOP plan trusts, respectively.

The investments of the pension master trust allocated to the pension and other postretirement benefit plans classified as Level 3 are private equity funds and represent a percentage of each plan's total allocated assets as follows at December 31:

LEVEL 3 INVESTMENT ASSETS

(Dollars in millions)

	Pension plans				Other postretirement benefit plans			
	Level 3 investment assets		% of total investment assets		Level 3 investment assets		% of total investment assets	
	2014	2013	2014	2013	2014	2013	2014	2013
SDG&E	\$ 4	\$ 6	—%	1%	\$ —	\$ 1	—%	1%
SoCalGas	8	13	—	1	2	2	—	—
All other	1	2	—	1	—	—	—	—
Sempra Energy Consolidated	\$ 13	\$ 21	—	1	\$ 2	\$ 3	—	—

The following table provides a reconciliation of changes in the fair value of investments classified as Level 3:

LEVEL 3 RECONCILIATIONS

(Dollars in millions)

	Private equity funds			
	SDG&E	SoCalGas	All other	Sempra Energy Consolidated
PENSION PLANS				
Balance at January 1, 2013	\$ 6	\$ 13	\$ 2	\$ 21
Realized gains	1	2	—	3
Unrealized losses	(1)	(1)	—	(2)
Sales	—	(1)	—	(1)
Balance at December 31, 2013	6	13	2	21
Realized gains	1	2	—	3
Unrealized losses	(1)	(2)	—	(3)
Sales	(2)	(5)	(1)	(8)
Balance at December 31, 2014	\$ 4	\$ 8	\$ 1	\$ 13
OTHER POSTRETIREMENT BENEFIT PLANS				
Balance at January 1 and December 31, 2013	\$ 1	\$ 2	\$ —	\$ 3
Unrealized losses	(1)	—	—	(1)
Balance at December 31, 2014	\$ —	\$ 2	\$ —	\$ 2

Future Payments

We expect to contribute the following amounts to our pension and other postretirement benefit plans in 2015:

EXPECTED CONTRIBUTIONS

(Dollars in millions)

	Sempra Energy Consolidated	SDG&E	SoCalGas
Pension plans	\$ 31	\$ 3	\$ 2
Other postretirement benefit plans	11	9	—

The following table shows the total benefits we expect to pay for the next 10 years to current employees and retirees from the plans or from company assets.

EXPECTED BENEFIT PAYMENTS*(Dollars in millions)*

	Sempra Energy Consolidated		SDG&E		SoCalGas	
	Pension	Other	Pension	Other	Pension	Other
	benefits	postretirement benefits	benefits	postretirement benefits	benefits	postretirement benefits
2015	\$ 349	\$ 50	\$ 92	\$ 9	\$ 215	\$ 39
2016	333	55	86	10	211	42
2017	321	58	87	11	205	45
2018	313	63	83	11	200	48
2019	301	66	80	12	190	50
2020-2024	1,311	346	360	64	813	264

PROFIT SHARING PLANS

Under Chilean law, Chilquinta Energía is required to pay all employees either (1) 30 percent of Chilquinta Energía's taxable income after deducting a 10 percent return on equity, allocated in proportion to the annual salary of each employee or (2) 25 percent of each employee's annual salary, with a maximum mandatory profit sharing of 4.75 months of Chile's legal minimum salary. Chilquinta Energía has elected the second option but calculates the profit sharing amounts with actual employee salaries instead of the legal minimum salary, resulting in a higher cost. The amounts are paid out each pay period. Chilquinta Energía recorded annual profit sharing expense of \$4 million for 2014, \$4 million for 2013 and \$6 million for 2012 related to this plan.

Under Peruvian law, Luz del Sur is required to pay their employees 5 percent of Luz del Sur's taxable income, paid once a year and allocated as follows: 50 percent based on each employee's annual hours worked and 50 percent based on each employee's annual salary. Luz del Sur recorded annual profit sharing expense of \$10 million for 2014, \$9 million for 2013 and \$10 million for 2012 related to this plan.

SAVINGS PLANS

Sempra Energy offers trustee savings plans to all domestic employees and to employees in Mexico. Participation in the plans is immediate for salary deferrals for all employees except for the represented employees at SoCalGas, who are eligible upon completion of one year of service. Subject to plan provisions, domestic employees may contribute from one percent to 50 percent of their regular earnings, subject to annual IRS limits. In Mexico, employees may contribute up to 2 percent of the portion of their base salary that is less than 25 times the minimum wage and may contribute up to 5 percent of any portion of their base salary that is greater than 25 times the minimum wage. Sempra Energy makes matching contributions for domestic employees after one year of the employee's completed service and immediately for employees in Mexico. Employer contribution amounts and methodology vary by plan for domestic employees, but generally the contributions are equal to 50 percent of the first 6 percent of eligible base salary contributed by employees and, if certain company goals are met, an additional amount related to incentive compensation payments. Employer contributions for employees in Mexico equal the contributions made by the employee.

Beginning September 1, 2012 for the Sempra Energy, SDG&E and Mobile Gas savings plans and October 1, 2012 for the SoCalGas savings plan, employer contributions are invested based upon each employee's investment elections in effect at the time of contribution. Prior to that, employer contributions were initially invested in Sempra Energy common stock, but the employee could transfer the contribution to other investments. Contributions are invested in Sempra Energy common stock, mutual funds and/or institutional trusts. Prior to the termination of the ESOP discussed below, employer contributions for substantially all plans were partially funded by the ESOP.

Contributions to the savings plans were as follows:

CONTRIBUTIONS TO SAVINGS PLANS*(Dollars in millions)*

	2014	2013	2012
Sempra Energy Consolidated	\$ 38	\$ 35	\$ 34
SDG&E	15	14	16
SoCalGas	18	17	15

The market value of Sempra Energy common stock held by the savings plans was \$1.4 billion and \$1.3 billion at December 31, 2014 and 2013, respectively.

EMPLOYEE STOCK OWNERSHIP PLAN (ESOP)

Sempra Energy terminated the ESOP effective June 30, 2012, as all ESOP debt was paid and all shares were released from the ESOP Trust as of that date. Prior to the plan's termination, all contributions to the ESOP Trust (Trust) were made by Sempra Energy; there were no contributions made by the participants. The Trust was used to fund part of the retirement savings plan described above. As Sempra Energy made contributions, the ESOP debt service was paid and shares were released in proportion to the total expected debt service. We charged compensation expense and credited equity for the market value of the released shares. Dividends on unallocated shares were used to pay debt service and were applied against the liability.

ESOP debt was paid down by a total of \$10 million in 2012 when 153,625 shares of Sempra Energy common stock were released from the Trust in order to fund employer contributions to the Sempra Energy savings plan trust. Interest on the ESOP debt and dividends used for debt service were negligible in 2012.

NOTE 8. SHARE-BASED COMPENSATION**SEMPRA ENERGY EQUITY COMPENSATION PLANS**

Sempra Energy has share-based compensation plans intended to align employee and shareholder objectives related to the long-term growth of Sempra Energy. The plans permit a wide variety of share-based awards, including:

- § non-qualified stock options
- § incentive stock options
- § restricted stock
- § restricted stock units
- § stock appreciation rights
- § performance awards
- § stock payments
- § dividend equivalents

Eligible California Utilities employees participate in Sempra Energy's share-based compensation plans as a component of their compensation package.

In May 2013, shareholders approved the Sempra Energy 2013 Long-Term Incentive Plan. Upon approval, the remaining authorized shares from the Sempra Energy 2008 Long Term Incentive Plan and the 2008 Long Term Incentive Plan for EnergySouth, Inc. Employees and Other Eligible Individuals were applied to the number of shares authorized in the 2013 Plan.

At December 31, 2014, Sempra Energy had the following types of equity awards outstanding:

- § *Non-Qualified Stock Options*: Options have an exercise price equal to the market price of the common stock at the date of grant, are service-based, become exercisable over a four-year period, and expire 10 years from the date of grant. Vesting and/or the ability to exercise may be accelerated upon a change in control, in accordance with severance pay agreements, in accordance with the terms of the grant, or upon eligibility for retirement. Options are subject to forfeiture or earlier expiration when an employee terminates employment.
- § *Performance-Based Restricted Stock Units*: These restricted stock unit awards generally vest in Sempra Energy common stock at the end of four-year performance periods based on Sempra Energy's total return to shareholders relative to that of market indices or based on earnings per common share (EPS) growth. For awards granted in 2013 or earlier, if Sempra Energy's total return to shareholders exceeds target levels, up to an additional 50 percent of the number of granted restricted stock units may be issued. For awards granted in 2014, up to an additional 100 percent of the granted restricted stock units may be issued if total return to shareholders or EPS growth exceeds target levels. If Sempra Energy's total return to shareholders or EPS growth is below the target levels, shares are subject to partial vesting on a pro rata basis. Vesting may be subject to earlier forfeiture upon termination of employment and accelerated vesting upon a change in control under the applicable long-term incentive plan, or in accordance with severance pay agreements. Dividend equivalents on shares subject to restricted stock units are reinvested to purchase additional shares that become subject to the same vesting conditions as the restricted stock units to which the dividends relate.
- § *Service-Based Restricted Stock Units*: Restricted stock units may also be service-based; these generally vest at the end of four years of service. Vesting may be subject to earlier forfeiture upon termination of employment and accelerated vesting upon a change in control under the applicable long-term incentive plan, in accordance with severance pay agreements, or at the discretion of the Compensation Committee of Sempra Energy's Board of Directors. Dividend equivalents on shares subject to restricted stock units are reinvested to purchase additional shares that become subject to the same vesting conditions as the restricted stock units to which the dividends relate.
- § *Other Restricted Stock Units*: Restricted stock units were granted in 2014 in connection with the creation of the Cameron LNG Holdings joint venture. These awards vest to the extent that the Compensation Committee of Sempra Energy's Board of Directors determines that the objectives of the joint venture are continuing to be achieved. These awards vest on the anniversary of the grant date over a period of either two or three years. Vesting may be subject to earlier forfeiture upon termination of employment and accelerated vesting upon a change in control under the applicable long-term incentive plan, or in accordance with severance pay agreements. Dividend equivalents on shares subject to restricted stock units are reinvested to purchase additional shares that become subject to the same vesting conditions as the restricted stock units to which the dividends relate.
- § *Restricted Stock*: Restricted stock awards are solely service-based and are generally exercisable at the end of four years of service. Vesting is subject to earlier forfeiture upon termination of employment and accelerated vesting upon a change in control under the applicable long-term incentive plan, in accordance with severance pay agreements or upon eligibility for retirement. Holders of restricted stock have full voting rights. They also have full dividend rights; however, dividends paid on restricted stock held by officers are reinvested to purchase additional shares that become subject to the same vesting conditions as the restricted stock to which the dividends relate.

In April 2013, the IEnova board of directors approved the IEnova 2013 Long-Term Incentive Plan. The purpose of this plan is to align the interests of employees and directors of IEnova with its shareholders. All awards issued from this plan and any related dividend equivalents will settle in cash based on the fair market value of the awards, based on IEnova's common stock value, upon vesting. In 2014 and 2013, IEnova issued 468,339 and 1,014,899 restricted stock units from this plan, respectively, 962,122 of which remain outstanding at December 31, 2014.

SHARE-BASED AWARDS AND COMPENSATION EXPENSE

We measure and recognize compensation expense for all share-based payment awards made to our employees and directors based on estimated fair values on the date of grant. We recognize compensation costs net of an estimated forfeiture rate (based on historical experience) and recognize the compensation costs for non-qualified stock options and restricted stock and stock units on a straight-line basis over the requisite service period of the award, which is generally four years. However, in the year that an employee becomes eligible for retirement, the remaining expense related to the employee's awards is recognized

immediately. Substantially all awards outstanding are classified as equity instruments; therefore, we recognize additional paid in capital as we recognize the compensation expense associated with the awards.

At December 31, 2014, 6,562,347 shares were authorized and available for future grants of share-based awards. Our practice is to satisfy share-based awards by issuing new shares rather than by open-market purchases.

Total share-based compensation expense for all of Sempra Energy's share-based awards was comprised as follows:

SHARE-BASED COMPENSATION EXPENSE — SEMPRA ENERGY CONSOLIDATED

(Dollars in millions, except per share amounts)

	Years ended December 31,		
	2014	2013	2012
Share-based compensation expense, before income taxes	\$ 46	\$ 38	\$ 40
Income tax benefit	(18)	(15)	(16)
Share-based compensation expense, net of income taxes	\$ 28	\$ 23	\$ 24
Net share-based compensation expense, per common share			
Basic	\$ 0.11	\$ 0.09	\$ 0.10
Diluted	\$ 0.11	\$ 0.09	\$ 0.10

Sempra Energy Consolidated's capitalized compensation cost was \$5 million in 2014 and \$4 million in each of 2013 and 2012.

We classify the tax benefits resulting from tax deductions in excess of the tax benefit related to compensation cost recognized for stock option exercises as financing cash flows.

Sempra Energy subsidiaries record an expense for the plans to the extent that subsidiary employees participate in the plans and/or the subsidiaries are allocated a portion of the Sempra Energy plans' corporate staff costs. Expenses and capitalized compensation costs recorded by SDG&E and SoCalGas were as follows:

SHARE-BASED COMPENSATION EXPENSE — SDG&E AND SOCALGAS

(Dollars in millions)

	Years ended December 31,		
	2014	2013	2012
SDG&E:			
Compensation expense	\$ 8	\$ 8	\$ 8
Capitalized compensation cost	3	3	3
SoCalGas:			
Compensation expense	\$ 8	\$ 8	\$ 7
Capitalized compensation cost	2	1	1

SEMPRA ENERGY NON-QUALIFIED STOCK OPTIONS

We use a Black-Scholes option-pricing model (Black-Scholes model) to estimate the fair value of each non-qualified stock option grant. The use of a valuation model requires us to make certain assumptions about selected model inputs. Expected volatility is calculated based on the historical volatility of Sempra Energy's stock price. We base the average expected life for options on the contractual term of the option and expected employee exercise and post-termination behavior.

The risk-free interest rate is based on U.S. Treasury zero-coupon issues with a remaining term equal to the expected life assumed at the date of the grant. No new options were granted in 2014, 2013 or 2012.

The following table shows a summary of non-qualified stock options at December 31, 2014 and activity for the year then ended:

NON-QUALIFIED STOCK OPTIONS

	Shares under option	Weighted-average exercise price	Weighted-average remaining contractual term (in years)	Aggregate intrinsic value (in millions)
Outstanding at December 31, 2013	1,459,145	\$ 53.18		
Exercised	(699,783)	\$ 52.48		
Forfeited/canceled	(1,950)	\$ 45.36		
Outstanding at December 31, 2014	<u>757,412</u>	\$ 53.84	3.2	\$ 44
Vested or expected to vest, at December 31, 2014	757,412	\$ 53.84	3.2	\$ 44
Exercisable at December 31, 2014	757,412	\$ 53.84	3.2	\$ 44

The aggregate intrinsic value at December 31, 2014 is the total of the difference between Sempra Energy's closing stock price and the exercise price for all in-the-money options. The aggregate intrinsic value for non-qualified stock options exercised in the last three years was

§ \$33 million in 2014

§ \$41 million in 2013

§ \$45 million in 2012

The total fair value of shares vested in the last three years was

§ \$1 million in 2014

§ \$2 million in 2013

§ \$4 million in 2012

We received cash from option exercises during 2014 totaling \$37 million. There were no realized tax benefits for the share-based payment award deductions in 2014 over and above the \$18 million income tax benefit shown above.

SEMPRA ENERGY RESTRICTED STOCK AWARDS AND UNITS

We use a Monte-Carlo simulation model to estimate the fair value of the restricted stock awards and units. Our determination of fair value is affected by the volatility of the stock price and the dividend yields for Sempra Energy and its peer group companies. The valuation also is affected by the risk-free rates of return, and a number of other variables. Below are key assumptions for 2014, 2013 and 2012 for Sempra Energy:

	2014	2013	2012
Risk-free rate of return	1.2%	0.6%	0.6%
Annual dividend yield(1)	N/A	3.3	3.4
Stock price volatility	16	19	27

(1) Annual dividend yield was not used in valuations performed in 2014.

Restricted Stock Awards

We provide below a summary of Sempra Energy's restricted stock awards at December 31, 2014 and the activity during the year.

RESTRICTED STOCK AWARDS

	Shares	Weighted-average grant-date fair value
Nonvested at December 31, 2013	17,469	\$ 62.43
Vested	(8,231)	\$ 60.87
Nonvested at December 31, 2014	9,238	\$ 63.81
Vested or expected to vest, at December 31, 2014	9,238	\$ 63.81

Total compensation cost related to nonvested restricted stock awards not yet recognized as of December 31, 2014 is negligible. The weighted-average per-share fair value for restricted stock awards granted was \$75.82 in 2013 and \$57.81 in 2012.

The total fair value of shares vested in the last three years was \$1 million in each of 2014, 2013 and 2012.

Restricted Stock Units

We provide below a summary of Sempra Energy's restricted stock units as of December 31, 2014 and the activity during the year.

RESTRICTED STOCK UNITS

	Performance-based restricted stock units		Service-based restricted stock units(2)	
	Units	Weighted-average grant-date fair value	Units	Weighted-average grant-date fair value
Nonvested at December 31, 2013	3,164,561	\$ 47.55	215,598	\$ 63.30
Granted	444,241	\$ 88.01	111,653	\$ 91.54
Vested	(720,600)	\$ 44.38	(21,268)	\$ 66.84
Forfeited	(13,260)	\$ 57.83	(2,746)	\$ 67.79
Nonvested at December 31, 2014(1)	2,874,942	\$ 54.55	303,237	\$ 73.41
Vested or expected to vest, at December 31, 2014	2,816,676	\$ 54.22	290,822	\$ 73.31

(1) Each unit represents the right to receive one share of our common stock if applicable performance conditions are satisfied. For all performance-based restricted stock

units, up to an additional 50 percent (100 percent for awards granted in 2014) of the shares represented by the units may be issued if Sempra Energy exceeds target performance conditions.

(2) Includes restricted stock units issued in 2014 in connection with the creation of the Cameron LNG Holdings joint venture.

The total fair value of shares vested in 2014 was \$33 million.

The \$35 million of total compensation cost related to nonvested restricted stock units not yet recognized as of December 31, 2014 is expected to be recognized over a weighted-average period of 2.4 years. The weighted-average per-share fair values for performance-based restricted stock units granted were \$57.55 in 2013 and \$49.23 in 2012. The weighted-average per-share fair values for service-based restricted stock units granted were \$72.71 in 2013 and \$55.54 in 2012.

NOTE 9. DERIVATIVE FINANCIAL INSTRUMENTS

We use derivative instruments primarily to manage exposures arising in the normal course of business. Our principal exposures are commodity market risk and benchmark interest rate risk. We may also manage foreign exchange rate exposures using derivatives. Our use of derivatives for these risks is integrated into the economic management of our anticipated revenues, anticipated expenses, assets and liabilities. Derivatives may be effective in mitigating these risks (1) that could lead to declines in anticipated revenues or increases in anticipated expenses, or (2) that our asset values may fall or our liabilities increase. Accordingly, our derivative activity summarized below generally represents an impact that is intended to offset associated revenues, expenses, assets or liabilities that are not presented below.

We record all derivatives at fair value on the Consolidated Balance Sheets. We designate each derivative as (1) a cash flow hedge, (2) a fair value hedge, or (3) undesignated. Depending on the applicability of hedge accounting and, for the California Utilities and other operations subject to regulatory accounting, the requirement to pass impacts through to customers, the impact of derivative instruments may be offset in other comprehensive income (cash flow hedge), on the balance sheet (fair value hedges and regulatory offsets), or recognized in earnings. We classify cash flows from the settlements of derivative instruments as operating activities on the Consolidated Statements of Cash Flows.

In certain cases, we apply the normal purchase or sale exception to derivative accounting and have other commodity contracts that are not derivatives. These contracts are not recorded at fair value and are therefore excluded from the disclosures below.

HEDGE ACCOUNTING

We may designate a derivative as a cash flow hedging instrument if it effectively converts anticipated revenues or expenses to a fixed dollar amount. We may utilize cash flow hedge accounting for derivative commodity instruments, foreign currency instruments and interest rate instruments. Designating cash flow hedges is dependent on the business context in which the instrument is being used, the effectiveness of the instrument in offsetting the risk that a given future revenue or expense item may vary, and other criteria.

We may designate an interest rate derivative as a fair value hedging instrument if it effectively converts our own debt from a fixed interest rate to a variable rate. The combination of the derivative and debt instrument results in fixing that portion of the fair value of the debt that is related to benchmark interest rates. Designating fair value hedges is dependent on the instrument being used, the effectiveness of the instrument in offsetting changes in the fair value of our debt instruments, and other criteria.

ENERGY DERIVATIVES

Our market risk is primarily related to natural gas and electricity price volatility and the specific physical locations where we transact. We use energy derivatives to manage these risks. The use of energy derivatives in our various businesses depends on the particular energy market, and the operating and regulatory environments applicable to the business.

§ The California Utilities use natural gas energy derivatives, for the benefit of customers, with the objective of managing price risk and basis risks, and lowering natural gas costs. These derivatives include fixed price natural gas positions, options, and basis risk instruments, which are either exchange-traded or over-the-counter financial instruments. This activity is governed by risk management and transacting activity plans that have been filed with and approved by the CPUC. Natural gas derivative activities are recorded as commodity costs that are offset by regulatory account balances and are recovered in rates. Net commodity cost impacts on the Consolidated Statements of Operations are reflected in Cost of Electric Fuel and Purchased Power or in Cost of Natural Gas.

§ SDG&E is allocated and may purchase congestion revenue rights (CRRs), which serve to reduce the regional electricity price volatility risk that may result from local transmission capacity constraints. Unrealized gains and losses do not impact earnings, as they are offset by regulatory account balances. Realized gains and losses associated with CRRs are recorded in Cost of Electric Fuel and Purchased Power, which is recoverable in rates, on the Consolidated Statements of Operations.

§ Sempra Mexico and Sempra Natural Gas may use natural gas and electricity derivatives, as appropriate, to optimize the earnings of their assets which support the following businesses: LNG, natural gas transportation, power generation, and Sempra Natural Gas' storage. Gains and losses associated with undesignated derivatives are recognized in Energy-Related Businesses Revenues or in Cost of Natural Gas, Electric Fuel and Purchased Power on the Consolidated Statements of Operations. Certain of these derivatives may also be designated as cash flow hedges. Sempra Mexico also uses natural gas energy derivatives with the objective of managing price risk and lowering natural gas prices at its Mexican distribution operations. These derivatives, which are recorded as commodity costs that are offset by regulatory account balances and recovered in rates, are recognized in Cost of Natural Gas on the Consolidated Statements of Operations.

§ From time to time, our various businesses, including the California Utilities, may use other energy derivatives to hedge exposures such as the price of vehicle fuel.

We summarize net energy derivative volumes at December 31, 2014 and 2013 as follows:

NET ENERGY DERIVATIVE VOLUMES

Segment and Commodity	December 31,	
	2014	2013
California Utilities:		
SDG&E:		
Natural gas	55 million MMBtu	43 million MMBtu ⁽¹⁾
Congestion revenue rights	27 million MWh	33 million MWh ⁽²⁾
SoCalGas - natural gas	1 million MMBtu	2 million MMBtu
Energy-Related Businesses:		
Sempra Natural Gas:		
Electric power	—	1 million MWh
Natural gas	29 million MMBtu	15 million MMBtu
(1)	Million British thermal units	
(2)	Megawatt hours	

In addition to the amounts noted above, we frequently use commodity derivatives to manage risks associated with the physical locations of our assets and other contractual obligations, such as natural gas purchases and sales.

INTEREST RATE DERIVATIVES

We are exposed to interest rates primarily as a result of our current and expected use of financing. We periodically enter into interest rate derivative agreements intended to moderate our exposure to interest rates and to lower our overall costs of borrowing. We utilize interest rate swaps typically designated as fair value hedges, as a means to achieve our targeted level of variable rate debt as a percent of total debt. In addition, we may utilize interest rate swaps, typically designated as cash flow hedges, to lock in interest rates on outstanding debt or in anticipation of future financings.

Interest rate derivatives are utilized by the California Utilities as well as by other Sempra Energy subsidiaries. Although the California Utilities generally recover borrowing costs in rates over time, the use of interest rate derivatives is subject to certain regulatory constraints, and the impact of interest rate derivatives may not be recovered from customers as timely as described above with regard to natural gas derivatives. Interest rate derivatives are generally accounted for as hedges at the California Utilities, as well as at the rest of Sempra Energy's subsidiaries. Separately, Otay Mesa VIE has entered into interest rate swap agreements to moderate its exposure to interest rate changes. This activity was designated as a cash flow hedge as of April 1, 2011.

At December 31, 2014 and 2013, the net notional amounts of our interest rate derivatives, excluding the cross-currency swaps discussed below, were:

INTEREST RATE DERIVATIVES

(Dollars in millions)

	December 31, 2014		December 31, 2013	
	Notional debt	Maturities	Notional debt	Maturities
Sempra Energy Consolidated				
Cash flow hedges ⁽¹⁾	\$ 399	2015-2028	\$ 413	2014-2028
Fair value hedges	300	2016	300	2016
SDG&E				
Cash flow hedge ⁽¹⁾	325	2019	335	2019

(1) Includes Otay Mesa VIE. All of SDG&E's interest rate derivatives relate to Otay Mesa VIE.

FOREIGN CURRENCY DERIVATIVES

We are exposed to exchange rate movements at our Mexican subsidiaries, which have U.S. dollar denominated cash balances, receivables and payables (monetary assets and liabilities) that give rise to Mexican currency exchange rate movements for Mexican income tax purposes. These subsidiaries also have deferred income tax assets and liabilities that are denominated in the Mexican peso, which must be translated into U.S. dollars for financial reporting purposes. From time to time, we may utilize short-term foreign currency derivatives at our subsidiaries and at the consolidated level as a means to manage the risk of exposure to significant fluctuations in our income tax expense from these impacts. We may also utilize cross-currency swaps to hedge exposure related to Mexican peso-denominated debt at our Mexican subsidiaries and joint ventures. On February 14, 2013, Sempra Mexico entered into cross-currency swap agreements, which were designated as cash flow hedges.

In addition, Sempra South American Utilities may utilize foreign currency derivatives at its subsidiaries and joint ventures as a means to manage foreign currency rate risk. We discuss such swaps at Chilquinta Energía's Eletrans joint venture investment in Note 4.

FINANCIAL STATEMENT PRESENTATION

Each Consolidated Balance Sheet reflects the offsetting of net derivative positions and cash collateral with the same counterparty when management believes a legal right of offset exists. The following tables provide the fair values of derivative instruments on the Consolidated Balance Sheets at December 31, 2014 and 2013, including the amount of cash collateral receivables that were not offset, as the cash collateral is in excess of liability positions.

DERIVATIVE INSTRUMENTS ON THE CONSOLIDATED BALANCE SHEETS

(Dollars in millions)

December 31, 2014			
	Current	Current	Deferred credits and other

	assets:		Investments		liabilities:		liabilities:	
	Fixed-price		and other		Fixed-price		Fixed-price	
	contracts		assets:		contracts		contracts	
	and other		Sundry		and other		and other	
	derivatives(1)				derivatives(2)		derivatives	
Sempra Energy Consolidated:								
Derivatives designated as hedging instruments:								
Interest rate and foreign exchange instruments(3)	\$	10	\$	3	\$	(17)	\$	(109)
Commodity contracts not subject to rate recovery		25		—		—		—
Derivatives not designated as hedging instruments:								
Interest rate instruments		8		27		(7)		(22)
Commodity contracts not subject to rate recovery		143		32		(135)		(29)
Associated offsetting commodity contracts		(129)		(27)		129		27
Associated offsetting cash collateral		(11)		—		—		—
Commodity contracts subject to rate recovery		36		76		(36)		(20)
Associated offsetting commodity contracts		(3)		(1)		3		1
Associated offsetting cash collateral		—		—		23		13
Net amounts presented on the balance sheet		79		110		(40)		(139)
Additional cash collateral for commodity contracts subject to rate recovery		14		—		—		—
Total(4)	\$	93	\$	110	\$	(40)	\$	(139)
SDG&E:								
Derivatives designated as hedging instruments:								
Interest rate instruments(3)	\$	—	\$	—	\$	(16)	\$	(31)
Derivatives not designated as hedging instruments:								
Commodity contracts subject to rate recovery		32		76		(32)		(20)
Associated offsetting commodity contracts		—		(1)		—		1
Associated offsetting cash collateral		—		—		23		13
Net amounts presented on the balance sheet		32		75		(25)		(37)
Additional cash collateral for commodity contracts subject to rate recovery		12		—		—		—
Total(4)	\$	44	\$	75	\$	(25)	\$	(37)
SoCalGas:								
Derivatives not designated as hedging instruments:								
Commodity contracts subject to rate recovery	\$	4	\$	—	\$	(4)	\$	—
Associated offsetting commodity contracts		(3)		—		3		—
Net amounts presented on the balance sheet		1		—		(1)		—
Additional cash collateral for commodity contracts subject to rate recovery		2		—		—		—
Total	\$	3	\$	—	\$	(1)	\$	—

(1) Included in Current Assets: Other for SoCalGas.

(2) Included in Current Liabilities: Other for SoCalGas.

(3) Includes Otay Mesa VIE. All of SDG&E's amounts relate to Otay Mesa VIE.

(4) Normal purchase contracts previously measured at fair value are excluded.

DERIVATIVE INSTRUMENTS ON THE CONSOLIDATED BALANCE SHEETS

(Dollars in millions)

	December 31, 2013							
	Current		Investments		Current		Deferred	
	assets:		and other		liabilities:		credits	
	Fixed-price		assets:		Fixed-price		and other	
	contracts		Sundry		contracts		liabilities:	
	and other				and other		Fixed-price	
	derivatives(1)				derivatives(2)		contracts	
							and other	
							derivatives	
Sempra Energy Consolidated:								
Derivatives designated as hedging instruments:								
Interest rate and foreign exchange instruments(3)	\$	14	\$	12	\$	(18)	\$	(75)
Derivatives not designated as hedging instruments:								
Interest rate instruments		8		22		(7)		(17)
Commodity contracts not subject to rate recovery		47		7		(51)		(5)
Associated offsetting commodity contracts		(43)		(5)		43		5
Associated offsetting cash collateral		—		—		1		—
Commodity contracts subject to rate recovery		35		72		(10)		(8)
Associated offsetting commodity contracts		(3)		(2)		3		2
Net amounts presented on the balance sheet		58		106		(39)		(98)
Additional cash collateral for commodity contracts not subject to rate recovery		17		—		—		—
Additional cash collateral for commodity contracts subject to rate recovery		31		—		—		—
Total(4)	\$	106	\$	106	\$	(39)	\$	(98)
SDG&E:								
Derivatives designated as hedging instruments:								
Interest rate instruments(3)	\$	—	\$	—	\$	(16)	\$	(39)
Derivatives not designated as hedging instruments:								

Commodity contracts subject to rate recovery	34	72	(9)	(8)
Associated offsetting commodity contracts	(3)	(2)	3	2
Net amounts presented on the balance sheet	31	70	(22)	(45)
Additional cash collateral for commodity contracts not subject to rate recovery	1	—	—	—
Additional cash collateral for commodity contracts subject to rate recovery	29	—	—	—
Total(4)	\$ 61	\$ 70	\$ (22)	\$ (45)

SoCalGas:

Derivatives not designated as hedging instruments:				
Commodity contracts subject to rate recovery	\$ 1	\$ —	\$ (1)	\$ —
Net amounts presented on the balance sheet	1	—	(1)	—
Additional cash collateral for commodity contracts not subject to rate recovery	2	—	—	—
Additional cash collateral for commodity contracts subject to rate recovery	2	—	—	—
Total	\$ 5	\$ —	\$ (1)	\$ —

- (1) Included in Current Assets: Other for SoCalGas.
(2) Included in Current Liabilities: Other for SoCalGas.
(3) Includes Otay Mesa VIE. All of SDG&E's amounts relate to Otay Mesa VIE.
(4) Normal purchase contracts previously measured at fair value are excluded.

The effects of derivative instruments designated as hedges on the Consolidated Statements of Operations and on Other Comprehensive Income (Loss) (OCI) and Accumulated Other Comprehensive Income (AOCI) for the years ended December 31 were:

FAIR VALUE HEDGE IMPACT ON THE CONSOLIDATED STATEMENTS OF OPERATIONS

(Dollars in millions)

Location	Gain (loss) on derivatives recognized in earnings		
	Years ended December 31,		
	2014	2013	2012
Sempra Energy Consolidated:			
Interest rate instruments	\$ 8	\$ 8	\$ 6
Interest rate instruments	(3)	(7)	3
Total(1)	\$ 5	\$ 1	\$ 9

- (1) There were gains of \$9 million from hedge ineffectiveness in 2014. All other changes in the fair values of the interest rate swap agreements are exactly offset by changes in the fair value of the underlying long-term debt and recorded in Other Income, Net. There was no hedge ineffectiveness in 2013 and 2012.

CASH FLOW HEDGE IMPACT ON THE CONSOLIDATED STATEMENTS OF OPERATIONS

(Dollars in millions)

Location	Pretax gain (loss) recognized in OCI (effective portion)			Gain (loss) reclassified from AOCI into earnings (effective portion)		
	Years ended December 31,			Years ended December 31,		
	2014	2013	2012	2014	2013	2012
Sempra Energy Consolidated:						
Interest rate and foreign exchange instruments(1)	\$ (24)	\$ 1	\$ (22)	\$ (21)	\$ (11)	\$ (9)
Interest rate instruments	3	—	—	3	—	—
Interest rate instruments	(127)	15	(10)	(10)	(10)	(6)
Commodity contracts not subject to rate recovery	19	(4)	(1)	8	1	—
Total(2)	\$ (129)	\$ 12	\$ (33)	\$ (20)	\$ (20)	\$ (15)
SDG&E:						
Interest rate instruments(1)(3)	\$ (9)	\$ 8	\$ (16)	\$ (11)	\$ (9)	\$ (5)
SoCalGas:						
Interest rate instrument(3)	\$ —	\$ —	\$ —	\$ (1)	\$ (1)	\$ (2)

- (1) Amounts include Otay Mesa VIE. All of SDG&E's interest rate derivative activity relates to Otay Mesa VIE.
(2) There was \$1 million, \$1 million and \$2 million of hedge ineffectiveness related to these cash flow hedges in 2014, 2013 and 2012, respectively.
(3) There was negligible hedge ineffectiveness related to these cash flow hedges at SDG&E and SoCalGas in 2014, 2013 and 2012.

For Sempra Energy Consolidated we expect that losses of \$19 million, which are net of income tax benefit, that are currently recorded in AOCI (including \$13 million in noncontrolling interests, of which \$12 million is related to Otay Mesa VIE at SDG&E) related to cash flow hedges will be reclassified into earnings during the next twelve months as the hedged items affect earnings. Actual amounts ultimately reclassified into earnings depend on the interest rates in effect when derivative contracts that are currently outstanding mature.

SoCalGas expects that negligible losses, which are net of income tax benefit, that are currently recorded in AOCI related to cash flow hedges will be reclassified into earnings during the next twelve months as the hedged items affect earnings.

For all forecasted transactions, the maximum term over which we are hedging exposure to the variability of cash flows at December 31, 2014 is approximately 14 years and 4 years for Sempra Energy Consolidated and SDG&E, respectively. The maximum term of hedged interest rate variability related

to debt at equity method investees is 21 years.

The effects of derivative instruments not designated as hedging instruments on the Consolidated Statements of Operations for the years ended December 31 were:

UNDESIGNATED DERIVATIVE IMPACT ON THE CONSOLIDATED STATEMENTS OF OPERATIONS

(Dollars in millions)

		Gain (loss) on derivatives recognized in earnings		
		Years ended December 31,		
Location		2014	2013	2012
Sempra Energy Consolidated:				
Interest rate and foreign exchange instruments	Other Income, Net	\$ (24)	\$ 17	\$ 10
Foreign exchange instruments	Equity Earnings, Net of Income Tax	(5)	(4)	—
Commodity contracts not subject to rate recovery	Revenues: Energy-Related Businesses	17	(1)	7
Commodity contracts not subject to rate recovery	Cost of Natural Gas, Electric Fuel and Purchased Power	3	—	—
Commodity contracts not subject to rate recovery	Operation and Maintenance	(4)	1	1
Commodity contracts subject to rate recovery	Cost of Electric Fuel and Purchased Power	(10)	53	69
Commodity contracts subject to rate recovery	Cost of Natural Gas	—	—	(2)
Total		\$ (23)	\$ 66	\$ 85
SDG&E:				
Commodity contracts not subject to rate recovery	Operation and Maintenance	\$ (1)	\$ —	\$ —
Commodity contracts subject to rate recovery	Cost of Electric Fuel and Purchased Power	(10)	53	69
Total		\$ (11)	\$ 53	\$ 69
SoCalGas:				
Commodity contracts not subject to rate recovery	Operation and Maintenance	\$ (2)	\$ 1	\$ 1
Commodity contracts subject to rate recovery	Cost of Natural Gas	—	—	(2)
Total		\$ (2)	\$ 1	\$ (1)

CONTINGENT FEATURES

For Sempra Energy Consolidated and SDG&E, certain of our derivative instruments contain credit limits which vary depending upon our credit ratings. Generally, these provisions, if applicable, may reduce our credit limit if a specified credit rating agency reduces our ratings. In certain cases, if our credit ratings were to fall below investment grade, the counterparty to these derivative liability instruments could request immediate payment or demand immediate and ongoing full collateralization.

For Sempra Energy Consolidated, the total fair value of this group of derivative instruments in a net liability position at December 31, 2014 and 2013 is \$9 million and \$3 million, respectively. At December 31, 2014, if the credit ratings of Sempra Energy were reduced below investment grade, \$9 million of additional assets could be required to be posted as collateral for these derivative contracts.

For SDG&E, the total fair value of this group of derivative instruments in a net liability position at December 31, 2014 and 2013 is \$2 million and \$3 million, respectively. At December 31, 2014, if the credit ratings of SDG&E were reduced below investment grade, \$2 million of additional assets could be required to be posted as collateral for these derivative contracts.

For Sempra Energy, SDG&E and SoCalGas, some of our derivative contracts contain a provision that would permit the counterparty, in certain circumstances, to request adequate assurance of our performance under the contracts. Such additional assurance, if needed, is not material and is not included in the amounts above.

NOTE 10. FAIR VALUE MEASUREMENTS

Recurring Fair Value Measures

The three tables below, by level within the fair value hierarchy, set forth our financial assets and liabilities that were accounted for at fair value on a recurring basis as of December 31, 2014 and 2013. We classify financial assets and liabilities in their entirety based on the lowest level of input that is significant to the fair value measurement. Our assessment of the significance of a particular input to the fair value measurement requires judgment, and may affect the valuation of fair value assets and liabilities, and their placement within the fair value hierarchy levels.

The fair value of commodity derivative assets and liabilities is presented in accordance with our netting policy, as we discuss in Note 9 under "Financial Statement Presentation."

The determination of fair values, shown in the tables below, incorporates various factors, including but not limited to, the credit standing of the counterparties involved and the impact of credit enhancements (such as cash deposits, letters of credit and priority interests).

Our financial assets and liabilities that were accounted for at fair value on a recurring basis at December 31, 2014 and 2013 in the tables below include the following:

- § Nuclear decommissioning trusts reflect the assets of SDG&E's nuclear decommissioning trusts, excluding cash balances. A third party trustee values the trust assets using prices from a pricing service based on a market approach. We validate these prices by comparison to prices from other independent data sources. Equity and certain debt securities are valued using quoted prices listed on nationally recognized securities exchanges or based on closing prices reported in the active market in which the identical security is traded (Level 1). Other debt securities are valued based on yields that are currently available for comparable securities of issuers with similar credit ratings (Level 2).
- § We enter into commodity contracts and interest rate derivatives primarily as a means to manage price exposures. We may also manage foreign exchange rate exposures using derivatives. We primarily use a market approach with market participant assumptions to value these derivatives. Market participant assumptions include those about risk, and the risk inherent in the inputs to the valuation techniques. These inputs can be readily observable, market corroborated, or generally unobservable. We have exchange-traded derivatives that are valued based on quoted prices in active markets for the identical instruments (Level 1). We also may have other commodity derivatives that are valued using industry standard models that consider quoted forward prices for commodities, time value, current market and contractual prices for the underlying instruments, volatility factors, and other relevant economic measures (Level 2). All Level 3 recurring items are related to CRRs at SDG&E, as we discuss below under "Level 3 Information." We record commodity derivative contracts that are subject to rate recovery as commodity costs that are offset by regulatory account balances and are recovered in rates.
- § Investments include marketable securities that we value using a market approach based on closing prices reported in the active market in which the identical security is traded (Level 1).

There were no transfers into or out of Level 1, Level 2 or Level 3 for Sempra Energy Consolidated, SDG&E or SoCalGas during the periods presented, nor any changes in valuation techniques used in recurring fair value measurements.

RECURRING FAIR VALUE MEASURES — SEMPRA ENERGY CONSOLIDATED

(Dollars in millions)

	Fair value at December 31, 2014				
	Level 1	Level 2	Level 3	Netting(1)	Total
Assets:					
Nuclear decommissioning trusts					
Equity securities	\$ 655	\$ —	\$ —	\$ —	\$ 655
Debt securities:					
Debt securities issued by the U.S. Treasury and other U.S. government corporations and agencies	62	47	—	—	109
Municipal bonds	—	129	—	—	129
Other securities	—	207	—	—	207
Total debt securities	62	383	—	—	445
Total nuclear decommissioning trusts(2)	717	383	—	—	1,100
Interest rate and foreign exchange instruments	—	48	—	—	48
Commodity contracts not subject to rate recovery	28	16	—	(11)	33
Commodity contracts subject to rate recovery	—	1	107	14	122
Total	\$ 745	\$ 448	\$ 107	\$ 3	\$ 1,303
Liabilities:					
Interest rate and foreign exchange instruments	\$ —	\$ 155	\$ —	\$ —	\$ 155
Commodity contracts not subject to rate recovery	3	9	—	(4)	8
Commodity contracts subject to rate recovery	—	52	—	(36)	16
Total	\$ 3	\$ 216	\$ —	\$ (40)	\$ 179

	Fair value at December 31, 2013				
	Level 1	Level 2	Level 3	Netting(1)	Total
Assets:					
Nuclear decommissioning trusts					
Equity securities	\$ 614	\$ —	\$ —	\$ —	\$ 614
Debt securities:					
Debt securities issued by the U.S. Treasury and other U.S. government corporations and agencies	59	58	—	—	117
Municipal bonds	—	111	—	—	111
Other securities	—	153	—	—	153
Total debt securities	59	322	—	—	381
Total nuclear decommissioning trusts(2)	673	322	—	—	995
Interest rate and foreign exchange instruments	—	56	—	—	56
Commodity contracts not subject to rate recovery	1	5	—	17	23
Commodity contracts subject to rate recovery	2	1	99	31	133
Total	\$ 676	\$ 384	\$ 99	\$ 48	\$ 1,207
Liabilities:					
Interest rate and foreign exchange instruments	\$ —	\$ 117	\$ —	\$ —	\$ 117
Commodity contracts not subject to rate recovery	4	8	—	(5)	7
Commodity contracts subject to rate recovery	—	13	—	—	13
Total	\$ 4	\$ 138	\$ —	\$ (5)	\$ 137

(1) Includes the effect of the contractual ability to settle contracts under master netting agreements with cash collateral, as well as cash collateral not offset.

(2) Excludes cash balances and cash equivalents.

RECURRING FAIR VALUE MEASURES — SDG&E
(Dollars in millions)

	Fair value at December 31, 2014				
	Level 1	Level 2	Level 3	Netting(1)	Total
Assets:					
Nuclear decommissioning trusts					
Equity securities	\$ 655	\$ —	\$ —	\$ —	\$ 655
Debt securities:					
Debt securities issued by the U.S. Treasury and other					
U.S. government corporations and agencies	62	47	—	—	109
Municipal bonds	—	129	—	—	129
Other securities	—	207	—	—	207
Total debt securities	62	383	—	—	445
Total nuclear decommissioning trusts(2)	717	383	—	—	1,100
Commodity contracts subject to rate recovery	—	—	107	12	119
Total	\$ 717	\$ 383	\$ 107	\$ 12	\$ 1,219
Liabilities:					
Interest rate instruments	\$ —	\$ 47	\$ —	\$ —	\$ 47
Commodity contracts not subject to rate recovery	1	—	—	(1)	—
Commodity contracts subject to rate recovery	—	51	—	(36)	15
Total	\$ 1	\$ 98	\$ —	\$ (37)	\$ 62

	Fair value at December 31, 2013				
	Level 1	Level 2	Level 3	Netting(1)	Total
Assets:					
Nuclear decommissioning trusts					
Equity securities	\$ 614	\$ —	\$ —	\$ —	\$ 614
Debt securities:					
Debt securities issued by the U.S. Treasury and other					
U.S. government corporations and agencies	59	58	—	—	117
Municipal bonds	—	111	—	—	111
Other securities	—	153	—	—	153
Total debt securities	59	322	—	—	381
Total nuclear decommissioning trusts(2)	673	322	—	—	995
Commodity contracts not subject to rate recovery	—	—	—	1	1
Commodity contracts subject to rate recovery	1	1	99	29	130
Total	\$ 674	\$ 323	\$ 99	\$ 30	\$ 1,126
Liabilities:					
Interest rate instruments	\$ —	\$ 55	\$ —	\$ —	\$ 55
Commodity contracts subject to rate recovery	—	12	—	—	12
Total	\$ —	\$ 67	\$ —	\$ —	\$ 67

(1) Includes the effect of the contractual ability to settle contracts under master netting agreements with cash collateral, as well as cash collateral not offset.

(2) Excludes cash balances and cash equivalents.

RECURRING FAIR VALUE MEASURES — SOCIALGAS
(Dollars in millions)

	Fair value at December 31, 2014				
	Level 1	Level 2	Level 3	Netting(1)	Total
Assets:					
Commodity contracts subject to rate recovery	\$ —	\$ 1	\$ —	\$ 2	\$ 3
Total	\$ —	\$ 1	\$ —	\$ 2	\$ 3
Liabilities:					
Commodity contracts not subject to rate recovery	\$ 2	\$ —	\$ —	\$ (2)	\$ —
Commodity contracts subject to rate recovery	—	1	—	—	1
Total	\$ 2	\$ 1	\$ —	\$ (2)	\$ 1

	Fair value at December 31, 2013				
	Level 1	Level 2	Level 3	Netting(1)	Total
Assets:					
Commodity contracts not subject to rate recovery	\$ —	\$ —	\$ —	\$ 2	\$ 2
Commodity contracts subject to rate recovery	1	—	—	2	3
Total	\$ 1	\$ —	\$ —	\$ 4	\$ 5
Liabilities:					
Commodity contracts subject to rate recovery	\$ —	\$ 1	\$ —	\$ —	\$ 1
Total	\$ —	\$ 1	\$ —	\$ —	\$ 1

(1) Includes the effect of the contractual ability to settle contracts under master netting agreements with cash collateral, as well as cash collateral not offset.

Level 3 Information

The following table sets forth reconciliations of changes in the fair value of congestion revenue rights (CRRs) classified as Level 3 in the fair value hierarchy for Sempra Energy Consolidated and SDG&E:

LEVEL 3 RECONCILIATIONS

(Dollars in millions)

	Years ended December 31,			
	2014	2013	2012	
Balance at January 1	\$ 99	\$ 61	\$ 23	
Realized and unrealized gains	15	11		31
Allocated transmission instruments	19	51		58
Settlements	(26)	(24)		(51)
Balance at December 31	\$ 107	\$ 99	\$ 61	
Change in unrealized gains or losses relating to instruments still held at December 31	\$ 8	\$ 11	\$ 17	

SDG&E's Energy and Fuel Procurement department, in conjunction with SDG&E's finance group, is responsible for determining the appropriate fair value methodologies used to value and classify CRRs on an ongoing basis. Inputs used to determine the fair value of CRRs are reviewed and compared with market conditions to determine reasonableness. SDG&E expects all costs related to CRRs to be recoverable through customer rates. As such, there is no impact to earnings from changes in the fair value of these instruments.

CRRs are recorded at fair value based almost entirely on the most current auction prices published by the California ISO, an objective source. The impact associated with discounting is negligible. Because auction prices are a less observable input, these instruments are classified as Level 3. At December 31, 2014, the auction prices ranged from \$(16) per MWh to \$8 per MWh at a given location, and the fair value of these instruments is derived from auction price differences between two locations. At December 31, 2013, the auction prices ranged from \$(6) per MWh to \$12 per MWh. Positive values between two locations represent expected future reductions in congestion costs, whereas negative values between two locations represent expected future charges. Valuation of our CRRs is sensitive to a change in auction price. If auction prices at one location increase (decrease) relative to another location, this could result in a higher (lower) fair value measurement. We summarize CRR volumes in Note 9. Realized gains and losses associated with CRRs are recorded in Cost of Electric Fuel and Purchased Power, which is recoverable in rates, on the Consolidated Statements of Operations. Unrealized gains and losses are recorded as regulatory assets and liabilities and therefore also do not affect earnings.

Derivative Positions Net of Cash Collateral

Each Consolidated Balance Sheet reflects the offsetting of net derivative positions with fair value amounts for cash collateral with the same counterparty when management believes a legal right of offset exists.

The following table provides the amount of fair value of cash collateral receivables that were not offset in the Consolidated Balance Sheets at December 31, 2014 and 2013:

(Dollars in millions)	December 31,	
	2014	2013
Sempra Energy Consolidated	\$ 14	\$ 48
SDG&E	12	30
SoCalGas	2	4

Fair Value of Financial Instruments

The fair values of certain of our financial instruments (cash, temporary investments, accounts and notes receivable, dividends and accounts payable, short-term debt and customer deposits) approximate their carrying amounts. Investments in life insurance contracts that we hold in support of our Supplemental Executive Retirement, Cash Balance Restoration and Deferred Compensation Plans are carried at cash surrender values, which represent the amount of cash that could be realized under the contracts. The following table provides the carrying amounts and fair values of certain other financial instruments at December 31:

FAIR VALUE OF FINANCIAL INSTRUMENTS

(Dollars in millions)

	December 31, 2014				
	Carrying amount	Fair Value			Total
		Level 1	Level 2	Level 3	
Sempra Energy Consolidated:					
Total long-term debt(1)(2)	\$ 12,347	\$ —	\$ 12,782	\$ 917	\$ 13,699
Preferred stock of subsidiary	20	—	23	—	23
SDG&E:					
Total long-term debt(2)(3)	\$ 4,461	\$ —	\$ 4,563	\$ 425	\$ 4,988
SoCalGas:					
Total long-term debt(4)	\$ 1,913	\$ —	\$ 2,124	\$ —	\$ 2,124
Preferred stock	22	—	25	—	25
	December 31, 2013				
	Carrying amount	Fair Value			Total
		Level 1	Level 2	Level 3	
Sempra Energy Consolidated:					
Total long-term debt(1)(2)	\$ 12,022	\$ —	\$ 11,925	\$ 751	\$ 12,676
Preferred stock of subsidiary	20	—	20	—	20

SDG&E:

Total long-term debt(2)(3)	\$	4,386	\$	—	\$	4,226	\$	335	\$	4,561
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SoCalGas:

Total long-term debt(4)	\$	1,413	\$	—	\$	1,469	\$	—	\$	1,469
Preferred stock		22		—		22		—		22

(1) Before reductions for unamortized discount (net of premium) of \$21 million and \$17 million at December 31, 2014 and 2013, respectively, and excluding build-to-suit and capital leases of \$310 million and \$195 million at December 31, 2014 and 2013, respectively, and commercial paper classified as long-term debt of \$200 million at December 31, 2013. We discuss our long-term debt in Note 5.

(2) Level 3 instruments include \$325 million and \$335 million at December 31, 2014 and 2013, respectively, related to Otay Mesa VIE.

(3) Before reductions for unamortized discount of \$11 million at December 31, 2014 and 2013, and excluding capital leases of \$234 million and \$179 million at December 31, 2014 and 2013, respectively.

(4) Before reductions for unamortized discount of \$8 million and \$4 million at December 31, 2014 and 2013, respectively, and excluding capital leases of \$1 million and \$2 million at December 31, 2014 and 2013, respectively.

We base the fair value of certain long-term debt and preferred stock on a market approach using quoted market prices for identical or similar securities in thinly-traded markets (Level 2). We value other long-term debt using an income approach based on the present value of estimated future cash flows discounted at rates available for similar securities (Level 3).

We provide the fair values for the securities held in the nuclear decommissioning trust funds related to SONGS in Note 13 below.

Non-Recurring Fair Value Measures – Sempra Energy Consolidated*Energía Sierra Juárez*

In July 2014, Sempra Mexico completed the sale of a 50-percent interest in the 155-MW first phase of its Energía Sierra Juárez wind project to a wholly owned subsidiary of InterGen N.V. for cash proceeds of \$24 million, net of \$2 million cash sold, as discussed in Note 3. Sempra Mexico recognized a pretax gain on the sale of \$19 million (\$14 million after-tax). Upon deconsolidation, our equity method investment in Energía Sierra Juárez was measured at fair value, which resulted in a \$7 million after-tax gain attributable to a remeasurement of the retained investment to fair value. The fair value measurement was based on the cash sales price of \$26 million paid by InterGen N.V., a nonrelated party and market participant. Use of this market participant input as the indicator of fair value is a Level 2 measurement in the fair value hierarchy.

Rockies Express

We discuss non-recurring fair value measures and the associated accounting impact on our investment in Rockies Express in Note 4.

In 2012, we recorded a \$400 million pretax impairment of our investment in Rockies Express. In the second quarter of 2012, the noncash impairment charge of \$300 million (\$179 million after-tax) primarily resulted from the continuing decline in basis differential associated with shale gas production zones coming on line, assumptions related to the re-contracting of the long-term transportation agreements, and the refinancing of the existing project level debt, discussed further below. The fair value measurement was significantly impacted by unobservable inputs (Level 3) as defined by the accounting guidance for fair value measurements, which we discuss in Note 1 under “Fair Value Measurements.” We considered a market participant’s view of the total value for Rockies Express, based on an estimation of the future cash distributions it would be able to generate, adjusted for our 25-percent ownership interest. To estimate future cash distributions, we considered factors impacting Rockies Express’ ability to pay future distributions including:

- § the extent to which future cash flows are hedged by capacity sales contracts and their duration (generally through 2019), as well as the creditworthiness of the various counterparties;
- § Rockies Express’ future financing needs, including the ability to secure borrowings at reasonable rates as well as potentially using operating cash to retire principal;
- § prospects for generating attractive revenues and cash flows beyond 2019, including natural gas’ future basis differentials (driven by the location and extent of future supply and demand) and alternative strategies potentially available to utilize the assets; and
- § discount rates commensurate with the risks inherent in the cash flows.

In the third quarter of 2012, KMI reached an agreement with Tallgrass, which closed in the fourth quarter of 2012, to sell its asset group as mandated by the FTC, which group included its interest in Rockies Express. Events in the third quarter of 2012 related to this agreement also provided us with additional market participant data. We therefore updated our analysis of the fair value of our investment in Rockies Express as of September 30, 2012 to reflect these additional inputs and recorded an additional impairment charge of \$100 million (\$60 million after-tax). This fair value measurement in the third quarter was based primarily on the Level 2 input. We believe this is useful and reliable information, but we considered that it may be impacted by the FTC’s requirement for KMI to sell its interest in Rockies Express. To reflect this uncertainty, our updated analysis included the less subjective Level 2 market participant input as the primary indicator of fair value, with less weight ascribed to value based on estimated discounted cash flows as discussed above and in the table below. The updates to the cash flow analysis used in determining fair value in the second quarter reflected discussions with Tallgrass as to the strategic direction they are planning to take with their equity partners for Rockies Express, as well as additional discussions with other market participants. Tallgrass became the operator of Rockies Express in November 2012.

We believe our analysis formed a reasonable estimate of the fair value of Rockies Express at the measurement date of September 30, 2012. This estimate included the material input described above, which was generally observable during the period most relevant to our analysis. Regarding the unobservable inputs, significant uncertainties exist with regard to REX’s ability to secure attractive revenues beyond 2019. Accordingly, our analysis suggested that the fair value of our investment in Rockies Express could be materially different from the value we estimated at that time. For example, if REX is able to sustain the level of revenues currently generated beyond 2019, the value of our investment in Rockies Express would be materially enhanced and the indicated value of our investment in Rockies Express could be significantly higher. Conversely, if REX is unable to sell its transport capacity at sufficient rates or in sufficient volumes beyond 2019, the fair value of our investment in Rockies Express could be materially lower than our carrying amount. Separately, future events involving Rockies Express equity could occur and may also provide additional information regarding the fair value of our investment in Rockies Express.

Sempra Natural Gas developed the models and scenarios used to measure the fair value of our investment in Rockies Express. This modeling used inputs from external sources as described above and in the table below, as well as internally available data, such as operating and maintenance budgets used for financial planning purposes. External experts that forecast the future price of natural gas at various physical locations were also engaged to help validate certain scenarios and modeling assumptions. The fair value measurements were reviewed in detail by Sempra Natural Gas' financial management, as well as Sempra Energy's financial management team.

The following table summarizes significant inputs impacting non-recurring fair value measures related to our investments in Energía Sierra Juárez and Rockies Express:

NON-RECURRING FAIR VALUE MEASURES — SEMPRA ENERGY CONSOLIDATED

(Dollars in millions)

	Estimated fair value	Valuation technique	Fair value hierarchy	% of Fair value measurement	Inputs used to develop measurement	Range of inputs
Investment in Energía Sierra Juárez	\$ 26(1)	Market approach	Level 2	100%	Equity sale offer price	100%
Investment in Rockies Express	\$ 369(2)	Market approach	Level 2	67%	Equity sale offer price	100%
		Probability weighted discounted cash flow	Level 3	33%	Combined transportation rate assumption(3) Counterparty credit risk on existing contracts Operation and maintenance escalation rate Forecasted interest rate on debt to be refinanced Discount rate	6% - 78% Low 0% - 1% 5% - 10% 8% - 10%

(1) At measurement date of July 16, 2014. At December 31, 2014, our investment in Energía Sierra Juárez had a carrying value of \$25 million, reflecting subsequent equity method activity to record distributions and earnings.

(2) At measurement date of September 30, 2012. At December 31, 2014, our investment in Rockies Express had a carrying value of \$340 million, reflecting subsequent equity method activity to record distributions and earnings.

(3) Transportation rate beyond existing contract terms as a percentage of current mean REX rates.

NOTE 11. PREFERRED STOCK

The table below shows the details of preferred stock for SoCalGas. All series of SDG&E preferred stock were redeemed during 2013 as we discuss below.

PREFERRED STOCK OUTSTANDING

(Dollars in millions, except per share amounts)

	December 31,	
	2014	2013
\$25 par value, authorized 1,000,000 shares:		
6% Series, 79,011 shares outstanding	\$ 3	\$ 3
6% Series A, 783,032 shares outstanding	19	19
SoCalGas - Total preferred stock	22	22
Less: 50,970 shares of the 6% Series outstanding owned by Pacific Enterprises	(2)	(2)
Sempra Energy - Total preferred stock of subsidiary	\$ 20	\$ 20

Following are the attributes of each company's preferred stock. No amounts currently outstanding are subject to mandatory redemption.

SDG&E

On October 15, 2013, SDG&E redeemed all six series of its outstanding shares of contingently redeemable preferred stock for \$82 million, including a \$3 million early call premium. Each series was redeemed for cash at redemption prices ranging from \$20.25 to \$26 per share plus accrued dividends up to the redemption date of \$1 million. The early call premium is presented as Call Premium on Preferred Stock of Subsidiary on Sempra Energy's and Call Premium on Preferred Stock on SDG&E's Consolidated Statements of Operations. The shares are no longer outstanding.

SDG&E is currently authorized to issue up to 45 million shares of preferred stock. The stock's rights, preferences, privileges and restrictions would be established by the board of directors at the time of issuance.

SOCALGAS

§ None of SoCalGas' outstanding preferred stock is callable.

§ All outstanding series have one vote per share, cumulative preferences as to dividends and liquidation preferences of \$25 per share plus any unpaid dividends.

SoCalGas currently is also authorized to issue 5 million shares of series preferred stock and 5 million shares of preference stock, both without par value and with cumulative preferences as to dividends and liquidation value. The preference stock would rank junior to all series of preferred stock. Other rights and privileges of the stock would be established by the board of directors at the time of issuance.

NOTE 12. SEMPRA ENERGY – SHAREHOLDERS’ EQUITY AND EARNINGS PER SHARE

The following table provides the per share computations for our earnings for years ended December 31. Basic EPS is calculated by dividing earnings attributable to common stock by the weighted-average number of common shares outstanding for the year. Diluted EPS includes the potential dilution of common stock equivalent shares that could occur if securities or other contracts to issue common stock were exercised or converted into common stock.

EARNINGS PER SHARE COMPUTATIONS AND DIVIDENDS DECLARED

(Dollars in millions, except per share amounts; shares in thousands)

	Years ended December 31,		
	2014	2013	2012
Numerator:			
Earnings/Income attributable to common shareholders	\$ 1,161	\$ 1,001	\$ 859
Denominator:			
Weighted-average common shares outstanding for basic EPS	245,891	243,863	241,347
Dilutive effect of stock options, restricted stock awards and restricted stock units	4,764	5,469	5,346
Weighted-average common shares outstanding for diluted EPS	250,655	249,332	246,693
Earnings per share:			
Basic	\$ 4.72	\$ 4.10	\$ 3.56
Diluted	\$ 4.63	\$ 4.01	\$ 3.48
Dividends declared per share of common stock	\$ 2.64	\$ 2.52	\$ 2.40

The dilution from common stock options is based on the treasury stock method. Under this method, proceeds based on the exercise price plus unearned compensation and windfall tax benefits recognized, minus tax shortfalls recognized, are assumed to be used to repurchase shares on the open market at the average market price for the period. The windfall tax benefits are tax deductions we would receive upon the assumed exercise of stock options in excess of the deferred income taxes we recorded related to the compensation expense on the stock options. Tax shortfalls occur when the assumed tax deductions are less than recorded deferred income taxes. The calculation of dilutive common stock equivalents excludes options for which the exercise price on common stock was greater than the average market price during the period (out-of-the-money options). We had no such antidilutive stock options outstanding during 2014 or 2013, and 40,000 such options outstanding during 2012.

During 2014, 2013 and 2012, we had no stock options outstanding that were antidilutive because of the unearned compensation and windfall tax benefits recognized included in the assumed proceeds under the treasury stock method.

The dilution from unvested restricted stock awards (RSAs) and restricted stock units (RSUs) is also based on the treasury stock method. Proceeds equal to the unearned compensation and windfall tax benefits recognized, minus tax shortfalls recognized, related to the awards and units are assumed to be used to repurchase shares on the open market at the average market price for the period. The windfall tax benefits recognized or tax shortfalls recognized are the difference between tax deductions we would receive upon the assumed vesting of RSAs or RSUs and the deferred income taxes we recorded related to the compensation expense on such awards and units. There were no antidilutive RSAs and 4,087 antidilutive RSUs from the application of unearned compensation in the treasury stock method in 2014. There were no such antidilutive RSAs or RSUs in 2013. There were 1,934 such antidilutive RSAs and 7,673 such antidilutive RSUs in 2012.

Each performance-based RSU represents the right to receive up to 1.5 shares (2.0 shares for awards granted in 2014) of Sempra Energy common stock based on total shareholder return or EPS growth. RSU awards vest based on Sempra Energy’s four-year cumulative total shareholder return compared to the Standard & Poor’s (S&P) 500 Utilities Index, as follows:

Four-year cumulative total shareholder return ranking versus S&P 500 Utilities Index(1)	Number of Sempra Energy common shares received for each performance-based restricted stock unit(2)(3)
90th percentile or above (2014 awards only)	2.0
75th percentile (maximum for awards prior to 2014)	1.5
50th percentile	1.0
35th percentile or below	—

(1) If Sempra Energy ranks at or above the 50th percentile compared to the S&P 500 Index, participants will receive a minimum of 1.0 share for each RSU.
(2) Participants also receive additional shares for dividend equivalents on shares subject to RSUs, which are deemed reinvested to purchase additional units that become subject to the same vesting conditions as the RSUs to which the dividends relate.
(3) If performance falls between the tiers shown above, we calculate the payout using linear interpolation.

Beginning in January 2014, we issued performance-based RSUs representing the right to receive up to 2.0 shares of Sempra Energy common stock based on Sempra Energy’s four-year EPS compound annual growth rate beginning January 1, 2014 and ending on December 31, 2017. These RSU awards vest as follows:

Four-year earnings per share compound annual growth rate	Number of Sempra Energy common shares received for each performance-based restricted stock unit(1)(2)
8.0% or above	2.0
6.7%	1.5
4.4%	1.0
3.3% or below	—

(1) Participants also receive additional shares for dividend equivalents on shares subject to RSUs, which are reinvested to purchase additional units that become subject to the same vesting conditions as the RSUs to which the dividends relate.
(2) If performance falls between the tiers shown above, we calculate the payout using linear interpolation.

Our RSAs, which are solely service-based, and those RSUs that are service-based or issued in connection with the creation of the Cameron LNG Holdings joint venture represent the right to receive up to 1.0 share over the course or at the end of the service period and have the same dividend equivalent rights as performance-based RSUs. We include RSAs and these RSUs in potential dilutive shares at 100 percent, subject to the application of the treasury stock

method. We include our performance-based RSUs in potential dilutive shares at zero to up to 200 percent to the extent that they currently meet the performance requirements for vesting, subject to the application of the treasury stock method. Due to market fluctuations of both Sempra Energy stock and the comparative indices, dilutive performance-based RSU shares may vary widely from period-to-period. If it were assumed that performance goals for all RSUs were met at maximum levels and if the treasury stock method were not applied to any of our RSAs or RSUs, the incremental potential dilutive shares would be 949,351; 641,751 and 1,134,456 for the years ended December 31, 2014, 2013 and 2012, respectively.

We are authorized to issue 750,000,000 shares of no-par-value common stock. In addition, we are authorized to issue 50,000,000 shares of preferred stock having rights, preferences and privileges that would be established by the Sempra Energy board of directors at the time of issuance.

Common stock activity consisted of the following:

COMMON STOCK ACTIVITY

	Years ended December 31,		
	2014	2013	2012
Common shares outstanding, January 1	244,461,327	242,368,836	239,934,681
Restricted stock units vesting(1)	989,027	1,491,170	683,416
Stock options exercised	699,783	1,237,348	1,876,303
Savings plan issuance	398,042	—	—
Common stock investment plan(2)	205,203	—	—
Restricted stock issuances	—	21,121	2,580
Shares released from ESOP(3)	—	—	153,625
Shares repurchased(4)	(422,498)	(657,148)	(281,769)
Common shares outstanding, December 31	246,330,884	244,461,327	242,368,836

(1) Includes dividend equivalents.

(2) Participants in the Direct Stock Purchase Plan may reinvest dividends to purchase newly issued shares.

(3) We released the last shares from the ESOP in April 2012. These shares were unallocated and therefore excluded from the computation of EPS.

(4) From time to time, we purchase shares of our common stock from restricted stock plan participants who elect to sell a sufficient number of vesting restricted shares or units to meet minimum statutory tax withholding requirements.

Our board of directors has the discretion to determine the payment and amount of future dividends.

NOTE 13. SAN ONOFRE NUCLEAR GENERATING STATION (SONGS)

SDG&E has a 20-percent ownership interest in SONGS, a nuclear generating facility near San Clemente, California, which ceased operations in June 2013. On June 6, 2013, Southern California Edison Company (Edison), the majority owner and operator of SONGS, notified SDG&E that it had reached a decision to permanently retire SONGS and seek approval from the Nuclear Regulatory Commission (NRC) to start the decommissioning activities for the entire facility. SONGS is subject to the jurisdiction of the NRC and the CPUC.

SDG&E, and each of the other owners, holds its undivided interest as a tenant in common in the property. Each owner is responsible for financing its share of expenses and capital expenditures. SDG&E's share of operating expenses is included in Sempra Energy's and SDG&E's Consolidated Statements of Operations.

SONGS Outage and Retirement

Background

As part of the Steam Generator Replacement Project (SGRP), the steam generators were replaced in SONGS Units 2 and 3, and the Units returned to service in 2010 and 2011, respectively. Both Units were shut down in early 2012 after a water leak occurred in the Unit 3 steam generator. Edison concluded that the leak was due to unexpected wear from tube-to-tube contact. At the time the leak was identified, Edison also inspected and tested Unit 2 and subsequently found unexpected tube wear in Unit 2's steam generator. In March 2012, in response to the shutdown of SONGS, the NRC issued a Confirmatory Action Letter (CAL) which, among other things, outlined the requirements for Edison to meet before the NRC would approve a restart of either of the Units.

In October 2012, Edison submitted a restart plan to the NRC proposing to operate Unit 2 at a reduced power level for a period of five months, at which time the Unit would be brought down for further inspection. Edison did not file a restart plan for Unit 3, pending further inspection and analysis of what repairs or modifications would be required to return the Unit to service in a safe manner. The NRC was reviewing the restart plan for Unit 2 proposed by Edison when in May 2013, the Atomic Safety and Licensing Board (ASLB), an adjudicatory arm of the NRC, concluded that the CAL process constituted a de facto license amendment proceeding that was subject to a public hearing. This conclusion by the ASLB resulted in further uncertainty regarding when a final decision might be made on restarting Unit 2.

The replacement steam generators were designed and provided by Mitsubishi Heavy Industries, Ltd., Mitsubishi Nuclear Energy Systems, Inc., and Mitsubishi Heavy Industries America, Inc. (collectively MHI). In July 2013, SDG&E filed a lawsuit against MHI seeking to recover damages SDG&E has incurred and will incur related to the design defects in the steam generators. In October 2013, Edison instituted arbitration proceedings against MHI seeking damages as well. We discuss these proceedings in Note 15.

Settlement Agreement to Resolve the CPUC's Order Instituting Investigation (OII) into the SONGS Outage (SONGS OII)

SONGS OII

In November 2012, in response to the outage, the CPUC issued the SONGS OII, pursuant to California Public Utilities' Code Section 455.5, which applies to cost recovery issues resulting from long-term outages of operating assets. The SONGS OII consolidated most SONGS outage-related issues into a single proceeding. The SONGS OII, among other things, designated all revenues associated with the investment in, and operation of, SONGS since January 1, 2012 as subject to refund to customers, pending the outcome of all phases of the proceeding. The SONGS OII proceeding was intended to determine the ultimate recovery of the investment in SONGS and the costs incurred since the commencement of this outage, including purchased replacement power costs, which are typically recovered through the Energy Resource Recovery Account (ERRA).

Entry Into Settlement Agreement

Pursuant to CPUC rules concerning settlements, SDG&E, Edison, The Utility Reform Network (TURN), and the CPUC Office of Ratepayer Advocates (ORA) held a settlement conference in March 2014 to discuss the terms to resolve the SONGS OII, and in April 2014, SDG&E, along with Edison, TURN, ORA and two other intervenors who joined the Settlement Agreement to the SONGS OII proceeding (collectively, the Settling Parties), filed a Settlement Agreement with the CPUC. On September 5, 2014, the CPUC issued a ruling proposing specific changes that included, as they relate to SDG&E, greater ratepayer benefit from third party cost recoveries and funding of a research program to reduce greenhouse gas emissions at a shareholder cost of \$1 million per year for 5 years.

On September 23, 2014, the Settling Parties executed an Amended and Restated Settlement Agreement (Amended Settlement Agreement), which amended the Settlement Agreement to adopt all of the modifications and clarifications requested in the CPUC ruling. On October 9, 2014, the CPUC issued a proposed decision approving the Amended Settlement Agreement, which was adopted by the CPUC as a final decision on November 20, 2014.

As approved by the CPUC, the Amended Settlement Agreement constitutes a complete and final resolution of the SONGS OII and related CPUC proceedings regarding the SGRP at SONGS and the related outage and subsequent shutdown of SONGS. The Amended Settlement Agreement does not affect on-going or future proceedings before the NRC, or litigation or arbitration related to potential future recoveries from third parties (except for the allocation to ratepayers of any recoveries as described below) or proceedings addressing decommissioning activities and costs.

In November 2014, in accordance with the Amended Settlement Agreement, SDG&E filed an advice letter seeking authority from the CPUC, among other things, to implement the terms and establish the revenue requirement established by the Amended Settlement Agreement in rates starting January 1, 2015. In December 2014, the CPUC approved the advice letter and authorized SDG&E to update rates accordingly, subject to revision pending the results of a CPUC review of the changes to the revenue requirement proposed by SDG&E for consistency with the terms of the approved settlement decision. Upon conclusion of the CPUC's review, SDG&E expects to receive a final disposition letter from the CPUC either confirming that SDG&E's proposed rate changes were in compliance with the approved settlement decision or identifying changes that need to be made to the proposed rates and the resultant annual SONGS revenue requirement. Upon receipt of the final disposition letter, SDG&E will determine if final adjustment is necessary to increase or decrease the amount of the SONGS regulatory asset. SDG&E currently expects the CPUC to issue this final disposition letter in the first half of 2015.

The following is a summary of the Amended Settlement Agreement as it relates to SDG&E.

Disallowances, Refunds and Rate Recoveries

Based on the final decision, SDG&E will

- § remove from rate base, as of February 1, 2012, its investment in the SGRP and refund to its customers the amount collected for its investment in and any return on its investment in the SGRP since such date. As of February 1, 2012, SDG&E's net book value in the SGRP was approximately \$160 million;
- § be authorized to recover in rates its remaining investment in SONGS, including base plant and construction work in progress (CWIP), generally over a ten-year period commencing February 1, 2012, together with a return on investment at a reduced rate equal to:
 - SDG&E's weighted average return on debt, plus
 - 50 percent of SDG&E's weighted average return on preferred stock, as authorized in the CPUC's Cost of Capital proceeding then in effect (collectively, SONGS rate of return or SONGS ROR).

This results in a SONGS ROR of 2.75 percent for the period from February 1, 2012 through December 31, 2012 and 2.35 percent for the period from January 1, 2013 through December 31, 2014. The SONGS ROR for future periods will fluctuate based on SDG&E's authorized weighted average returns on debt and preferred stock in effect for those future periods;

- § be authorized to recover in rates its recorded 2012 and 2013 operations and maintenance expenses; in addition, SDG&E will be authorized to recover in rates the recorded costs for the 2012 refueling outage of Unit 2, subject to customary prudence review;
- § be required to file an application in 2015 to recover in rates its 2014 recorded operation and maintenance expenses and non-operating operations and maintenance expenses;
- § be authorized to recover in rates its remaining investment in materials and supplies over a ten-year period commencing February 1, 2012, together with a return on investment at the SONGS ROR;
- § be authorized to recover in rates its remaining investment in nuclear fuel inventory and any costs incurred, or to be incurred, associated with nuclear fuel supply contracts over a ten-year period, together with a return equal to SDG&E's commercial paper borrowing rate;
- § be authorized to recover in rates through its fuel and purchased power balancing account (ERRA), subject to the normal CPUC compliance reviews, all costs incurred to purchase power in the market to replace the power that would have been generated at SONGS if not for the outage and shutdown of SONGS, and to recover by December 31, 2015 any SONGS-related ERRA undercollections. SDG&E's replacement power purchase costs through June 6, 2013 (the date of SONGS' retirement) were approximately \$165 million, using the methodology followed in the SONGS OII; and
- § have a five-year funding commitment of \$1 million per year to the University of California (UC) Energy Institute (or other existing UC entity engaged in energy technology development) to create a Research Development and Demonstration program, whose goal would be to deploy new technologies,

methodologies, and /or design modifications to reduce greenhouse gas (GHG) emissions, particularly at current and future generating plants in California. This term was a modification requested by the CPUC.

Potential Third Party Recoveries

The Amended Settlement Agreement also addresses how potential recoveries from third parties will be allocated between ratepayers and SDG&E, as we describe below.

As we discuss in more detail in Note 15, SDG&E and the other owners of SONGS carry accidental property damage and accidental outage insurance issued by Nuclear Electric Insurance Limited (NEIL), a mutual insurance company. Edison, on behalf of itself and the other minority owners in SONGS (including SDG&E), has placed NEIL on notice of claims under both policies. Under the Amended Settlement Agreement, recoveries from NEIL, if any, will first be applied to reimburse costs incurred in pursuing such recoveries, including litigation costs. To the extent SDG&E's share of recoveries from NEIL attributable to the NEIL accidental outage policy exceeds such costs, recoveries will be allocated 95 percent to ratepayers and 5 percent to SDG&E. To the extent SDG&E's share of recoveries from other NEIL policies (such as the accidental property damage policy) exceeds such costs, recoveries will be allocated 82.5 percent to ratepayers and 17.5 percent to SDG&E.

As we discuss in more detail in Note 15, SDG&E has filed a lawsuit against MHI, which designed and provided the steam generators that failed. This proceeding was stayed in favor of an arbitration proceeding instituted by Edison. Under the Amended Settlement Agreement, recoveries from MHI, if any, will first be applied to reimburse costs incurred in pursuing such recoveries, including litigation costs. To the extent SDG&E's share of recoveries from MHI exceeds such costs, they will be allocated 50 percent to SDG&E and 50 percent to ratepayers.

The Amended Settlement Agreement provides that the resolution of the claims with NEIL and the dispute with MHI do not require CPUC approval, but requires that Edison and SDG&E:

- § use their best efforts to inform the CPUC of any settlements or resolutions of the issues to the extent possible without compromising any aspect of such settlements or resolutions, and
- § allow the CPUC to review documentation of final resolution of third-party litigation and litigation costs to ensure that the ratepayer refund calculations are accurately calculated and that the litigation costs are not exorbitant in relation to the recovery obtained.

There is no assurance that there will be any recoveries from NEIL or MHI or that if there are recoveries, that they will exceed the costs incurred to pursue them. Were there to be recoveries, SDG&E cannot provide any assurance as to when they would be received or the amount of any such recoveries. SDG&E currently expects that NEIL will make a coverage determination regarding the accidental outage policy by the end of 2015.

The Amended Settlement Agreement also provides SDG&E with an incentive in the event proceeds are secured from the sale of materials and supplies and/or nuclear fuel, as well as in the event that nuclear fuel investments are reduced by contract cancellations. This incentive allows SDG&E to retain 5 percent of its proportionate share of any sales proceeds and to recover 5 percent of its proportionate share of the excess of cancelled contract obligations over cancellation costs. The balance of the sale proceeds and cancellation benefits would be credited to ratepayers.

Accounting and Financial Impacts

In the second quarter of 2013, SDG&E reported a pretax loss from plant closure of \$200 million (\$119 million after-tax) as a result of its initial assessment of the financial impact of the outcome of the SONGS OII proceeding. In the first quarter of 2014, as a result of entering into the Settlement Agreement, SDG&E recorded a \$13 million reduction to the pretax loss from plant closure, but a \$9 million increase in the after-tax loss from plant closure. The after-tax loss included a \$17 million charge to reduce certain tax regulatory assets that may no longer be recoverable in rates pursuant to the Settlement Agreement. In the third quarter of 2014, SDG&E recorded a charge for the impact of the modifications and clarifications in the Amended Settlement Agreement on the regulatory asset, which charge was not material. In the fourth quarter of 2014, in conjunction with filing the advice letter regarding revenue requirement and determining the timing of refunds to ratepayers, SDG&E recorded a charge to Plant Closure Loss of \$19 million pretax (\$12 million after-tax). The total Plant Closure Loss in 2014 was \$6 million pretax (\$21 million after-tax). A regulatory asset for the expected recovery of SONGS costs, consistent with the Amended Settlement Agreement, is recorded on the Consolidated Balance Sheets of Sempra Energy and SDG&E in Other Regulatory Assets (long-term). The amount of this regulatory asset is \$308 million at December 31, 2014.

SDG&E does not expect that implementation of the Amended Settlement Agreement will have a material adverse impact on its future results of operations or financial condition.

NRC Proceedings

In December 2013, Edison received a final NRC Inspection Report that identified a violation for the failure to verify the adequacy of the thermal-hydraulic and flow-induced vibration design of the Unit 3 replacement steam generator. In January 2014, Edison provided a response to the NRC Inspection Report stating that MHI, as contracted by Edison to prepare the SONGS replacement steam generator design, was the party responsible for validating the design of the steam generators.

In addition, the NRC issued an Inspection Report to MHI containing a Notice of Nonconformance for its flawed computer modeling in the design of the replacement steam generators.

Because SONGS has ceased operation, NRC inspection oversight of SONGS will now be continued through the NRC's Decommissioning Power Reactor Inspection Program to verify that decommissioning activities are being conducted safely, that spent fuel is safely stored onsite or transferred to another licensed location, and that the site operations and licensee termination activities conform to applicable regulatory requirements, licensee commitments and management controls.

Nuclear Decommissioning and Funding

As a result of Edison's decision to permanently retire SONGS Units 2 and 3, Edison has begun the decommissioning phase of the plant. The process of decommissioning a nuclear power plant is governed by the regulations of various governmental and other agencies, including but not limited to, those of the

NRC, the U.S. Department of the Navy (the land owner) and the CPUC. The NRC regulations generally categorize the decommissioning activities into three phases: initial activities, major decommissioning and storage activities, and license termination. Initial activities include providing notice of permanent cessation of operations (provided by Edison to the NRC on June 12, 2013) and notice of permanent removal of fuel from the reactor vessels (provided by Edison on June 28 and July 22, 2013 for Units 3 and 2, respectively). Within two years after the cessation of operations, the licensee (Edison) must submit a post-shutdown decommissioning activities report (PSDAR), an irradiated fuel management plan (IFMP) and a site-specific decommissioning cost estimate (DCE). Edison submitted each of the PSDAR, the IFMP and the DCE to the NRC in September 2014.

In accordance with state and federal requirements and regulations, SDG&E has assets held in trusts, referred to as the Nuclear Decommissioning Trusts (NDT), to fund decommissioning costs for SONGS Units 1, 2 and 3. Decommissioning of Unit 1, removed from service in 1992, is largely complete. The remaining work will be done when Units 2 and 3 are decommissioned. At December 31, 2014, the fair value of SDG&E's NDT assets was \$1.1 billion. Except for the use of funds for the planning of decommissioning activities or NDT administrative costs, CPUC approval is required for SDG&E to access the NDT assets to fund SONGS decommissioning costs for Units 2 and 3. In February 2014, SDG&E filed a request with the CPUC for such authorization for costs incurred in 2013. Until CPUC approval to access the NDT to pay for such costs is received, SDG&E will use working capital to pay for any SONGS Units 2 and 3 decommissioning costs incurred, and such expenditures will be reimbursed from the NDT upon that approval.

SDG&E currently anticipates a decision regarding its ability to use the monies in the NDT by the end of 2015.

In December 2012, SDG&E and Edison filed a joint application with the CPUC requesting continued rate recovery to fund the NDT to ensure that the NDT has sufficient funding to pay for the estimated cost of decommissioning SONGS. SDG&E is currently authorized to recover \$8 million annually to fund additional investments in the NDT. In December 2014, the CPUC issued a decision authorizing SDG&E to continue to collect and contribute to the NDT \$8 million annually.

In December 2014, SDG&E and Edison filed a joint application with the CPUC submitting a detailed study of the costs to decommission SONGS Units 2 and 3. The cost study estimates the total decommissioning costs for Units 2 and 3 at \$4.411 billion, of which SDG&E's share is \$899 million. The joint application requests that the CPUC determine the cost study to be reasonable and asks that SDG&E's contributions to the NDT be set at zero (\$0.00) beginning January 1, 2016, given the current expectation that the NDT will be sufficiently funded over time. The application also requests that the CPUC approve a standardized process for regularly reviewing the reasonableness of decommissioning activities and costs and authorizing disbursements from the NDT.

On September 5, 2014, the NRC approved Edison's February 2014 request (made on behalf of SONGS co-owners) for exemptions from various federal decommissioning requirements. These exemptions provide NRC approval for SONGS co-owners to use NDT funds for all types of decommissioning activity costs, including fuel management and site restoration costs. As noted above, however, CPUC approval to access the NDT to pay for such costs is still required for SDG&E and Edison to use NDT funds.

Edison's submission of the PSDAR and the DCE in September 2014 allows the SONGS co-owners to commence major decommissioning activities, and submission of the DCE provides the NRC authorization for the SONGS co-owners to access the majority of their decommissioning trust funds, both starting 90 days after the NRC receives the documents, unless the NRC staff raises objections. No objections were received during the 90-day period.

Nuclear Decommissioning Trusts

The amounts collected in rates for SONGS' decommissioning are invested in externally managed trust funds. Amounts held by the trusts are invested in accordance with CPUC regulations. These trusts are shown on the Sempra Energy and SDG&E Consolidated Balance Sheets at fair value with the offsetting credits recorded in Regulatory Liabilities Arising from Removal Obligations.

The following table shows the fair values and gross unrealized gains and losses for the securities held in the trust funds. We provide additional fair value disclosures for the trusts in Note 10.

NUCLEAR DECOMMISSIONING TRUSTS

(Dollars in millions)

	Cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
At December 31, 2014:				
Debt securities:				
Debt securities issued by the U.S. Treasury and other U.S. government corporations and agencies(1)	\$ 103	\$ 6	\$ —	\$ 109
Municipal bonds(2)	121	8	—	129
Other securities(3)	206	7	(6)	207
Total debt securities	430	21	(6)	445
Equity securities	215	444	(4)	655
Cash and cash equivalents	30	1	—	31
Total	\$ 675	\$ 466	\$ (10)	\$ 1,131

At December 31, 2013:

Debt securities:				
Debt securities issued by the U.S. Treasury and other U.S. government corporations and agencies	\$ 116	\$ 3	\$ (2)	\$ 117
Municipal bonds	110	2	(1)	111
Other securities	155	3	(5)	153
Total debt securities	381	8	(8)	381
Equity securities	207	409	(2)	614
Cash and cash equivalents	39	—	—	39
Total	\$ 627	\$ 417	\$ (10)	\$ 1,034

(1) Maturity dates are 2016-2060.

(2) Maturity dates are 2015-2047.

The following table shows the proceeds from sales of securities in the trusts and gross realized gains and losses on those sales.

SALES OF SECURITIES

(Dollars in millions)

	Years ended December 31,					
	2014		2013		2012	
Proceeds from sales ⁽¹⁾	\$	601	\$	685	\$	723
Gross realized gains		11		26		21
Gross realized losses		(11)		(18)		(13)

(1) Excludes securities that are held to maturity.

Net unrealized gains (losses) are included in Regulatory Liabilities Arising from Removal Obligations on the Consolidated Balance Sheets. We determine the cost of securities in the trusts on the basis of specific identification.

Customer contribution amounts are determined by the CPUC using estimates of after-tax investment returns, decommissioning costs, and decommissioning cost escalation rates. Changes in investment returns and decommissioning costs may result in a change in future customer contributions.

Asset Retirement Obligation and Spent Nuclear Fuel

SDG&E's asset retirement obligation related to decommissioning costs for the SONGS units was \$713 million at December 31, 2014. That amount includes the cost to decommission Units 2 and 3, and the remaining cost to complete the decommissioning of Unit 1, which is substantially complete. The asset retirement obligation at December 31, 2014 is based on an updated cost study prepared in 2014 that reflects the acceleration of the start of decommissioning Units 2 and 3 as a result of the early closure of the plant. SDG&E's share of decommissioning costs in 2014 dollars is approximately \$937 million.

Unit 1 was permanently shut down in 1992, and physical decommissioning began in January 2000. Most structures, foundations and large components have been dismantled, removed and disposed of. Spent nuclear fuel has been removed from the Unit 1 Spent Fuel Pool and stored on-site in an independent spent fuel storage installation (ISFSI) licensed by the NRC. The decommissioning of Unit 1 remaining structures (subsurface and intake/discharge) will take place as Units 2 and 3 are decommissioned. The ISFSI will be decommissioned after a permanent storage facility becomes available and the DOE removes the spent fuel from the site. The Unit 1 reactor vessel is expected to remain on site until Units 2 and 3 are fully decommissioned. Until then, SONGS owners are responsible for interim storage of spent nuclear fuel at SONGS until the DOE accepts it for final disposal. Spent nuclear fuel for Units 2 and 3 has been stored in the SONGS spent fuel pools for each reactor and in the ISFSI.

We provide additional information about SONGS in Note 15.

NOTE 14. CALIFORNIA UTILITIES' REGULATORY MATTERS

JOINT MATTERS

CPUC General Rate Case (GRC)

The CPUC uses a general rate case proceeding to prospectively set rates sufficient to allow the California Utilities to recover their reasonable cost of operations and maintenance and to provide the opportunity to realize their authorized rates of return on their investment.

The California Utilities filed their 2016 General Rate Case (2016 GRC) applications in November 2014. These filings requested revenue requirement increases of \$133 million and \$256 million for SDG&E and SoCalGas, respectively, over their 2015 revenue requirements. In February 2015, the CPUC issued a scoping memo setting the schedule for the proceeding, including the issuance of a proposed decision by the end of 2015.

In May 2013, the CPUC approved a final decision in the California Utilities' 2012 GRC (Final 2012 GRC Decision). The Final 2012 GRC Decision was effective retroactive to January 1, 2012, and SDG&E and SoCalGas recorded the cumulative earnings effect of the retroactive application of the Final 2012 GRC Decision of \$69 million and \$37 million, respectively, in the second quarter of 2013. For SDG&E and SoCalGas, respectively, these amounts included an incremental earnings impact of \$52 million and \$25 million related to 2012 and \$17 million and \$12 million related to the first quarter of 2013.

The amount of revenue associated with the retroactive period is being recovered in SDG&E's rates over a 28-month period beginning in September 2013, and in SoCalGas' rates over a 31-month period beginning in June 2013. At December 31, 2014, SDG&E reported on its Consolidated Balance Sheet \$162 million as a regulatory asset, all classified as current, representing the retroactive revenue from the Final 2012 GRC Decision to be recovered by SDG&E in rates through December 2015. At December 31, 2014, SoCalGas reported on its Consolidated Balance Sheet a regulatory asset of \$52 million, all classified as current, representing the retroactive revenue from the Final GRC Decision to be recovered in rates through December 2015.

CPUC Cost of Capital

A CPUC cost of capital proceeding determines a utility's authorized capital structure and authorized rate of return on rate base (ROR), which is a weighted average of the authorized returns on debt, preferred stock, and common equity (return on equity or ROE), weighted on a basis consistent with the authorized capital structure. The authorized ROR is the rate that the California Utilities are authorized to use in establishing rates to recover the cost of debt and equity used to finance their investment in CPUC-regulated electric distribution and generation as well as natural gas distribution, transmission and storage assets.

In addition, a cost of capital proceeding also addresses the automatic cost of capital adjustment mechanism (CCM) which applies market-based benchmarks to determine whether an adjustment to the authorized ROR is required during the interim years between cost of capital proceedings. The market-based

benchmark for SDG&E's and SoCalGas' CCM is the 12-month average monthly A-rated utility bond index, as published by Moody's for the 12-month period of October 1st through September 30th (CCM Period) of each calculation year. In the last cost of capital proceeding, SDG&E's and SoCalGas' CCM benchmark rate was set at 4.24 percent. If at the end of the CCM Period the monthly average benchmark rate falls outside of the established range of 3.24 percent to 5.24 percent, SDG&E's and SoCalGas' authorized ROE would be adjusted, upward or downward, by one-half of the difference between the 12-month average and the benchmark rate. In addition, the authorized recovery rate for SDG&E's and SoCalGas' cost of debt and preferred stock would be adjusted to their respective actual weighted average costs, with no change to the authorized capital structure. All three adjustments with the new rate would become effective on January 1st of the following year in which the benchmark range was exceeded. For the twelve-month period ended September 30, 2014, the 12-month average of monthly Moody's A-rated utility bond index was 4.46 percent.

The CCM only applies during the intervening years between scheduled cost of capital proceedings. In the year the cost of capital proceeding is scheduled, the cost of capital proceeding takes precedence over CCM and will set new rates for the following year.

In December 2014, the CPUC granted both SDG&E and SoCalGas an extension of their filing deadlines for their next cost of capital applications by one year, from April 2015 to April 2016. The CPUC also extended the current CCM until the April 2016 filing date. The one year extension was made in response to a joint request by SDG&E, SoCalGas, Pacific Gas and Electric Company (PG&E) and Edison with the CPUC in November 2014.

SDG&E's current CPUC-authorized ROR is 7.79 percent and SoCalGas' current CPUC-authorized ROR is 8.02 percent based on their authorized capital structures as follows:

COST OF CAPITAL AND AUTHORIZED RATE STRUCTURE						
SDG&E				SoCalGas		
Authorized weighting	Authorized rate of recovery	Weighted authorized ROR		Authorized weighting	Authorized rate of recovery	Weighted authorized ROR
45.25%	5.00%	2.26%	Long-Term Debt	45.60%	5.77%	2.63%
2.75%	6.22%	0.17%	Preferred Stock	2.40%	6.00%	0.14%
52.00%	10.30%	5.36%	Common Equity	52.00%	10.10%	5.25%
100.00%		7.79%		100.00%		8.02%

SDG&E files separately with the FERC for authorized ROE on FERC-regulated electric transmission operations and assets as described below in "Federal Energy Regulatory Commission (FERC) Formulaic Rate Matters".

Natural Gas Pipeline Operations Safety Assessments

Various regulatory agencies, including the CPUC, are evaluating natural gas pipeline safety regulations, practices and procedures. In February 2011, the CPUC opened a forward-looking rulemaking proceeding to examine what changes should be made to existing pipeline safety regulations for California natural gas pipelines. The California Utilities are parties to this proceeding.

In June 2011, the CPUC directed SoCalGas, SDG&E, PG&E and Southwest Gas to file comprehensive implementation plans to test or replace natural gas transmission pipelines located in populated areas that have not been pressure tested. The California Utilities filed their Pipeline Safety Enhancement Plan (PSEP) with the CPUC in August 2011. In their 2011 filing with the CPUC, the California Utilities estimated the total cost for Phase 1 of the two-phase plan to be \$3.1 billion (\$2.5 billion for SoCalGas and \$600 million for SDG&E) over the 10-year period of 2012 to 2022. As a result of on-going efforts since this original filing, the California Utilities have been able to eliminate over two hundred miles of pipeline from the testing scope and have revised their total estimated cost for Phase 1 to \$2.1 billion (\$1.6 billion for SoCalGas and \$500 million for SDG&E). The California Utilities requested that the incremental capital investment required as a result of any approved plan be included in rate base and that cost recovery be allowed for any other incremental cost not eligible for rate-base recovery.

In April 2012, the CPUC transferred the PSEP to the Triennial Cost Allocation Proceeding (TCAP) and authorized SDG&E and SoCalGas to establish regulatory accounts to record the incremental costs of initiating the PSEP prior to a final decision on the PSEP.

Also in April 2012, the CPUC issued a decision expanding the scope of the rulemaking proceeding to incorporate the provisions of California Senate Bill (SB) 705, which requires gas utilities to develop and implement a plan for the safe and reliable operation of their gas pipeline facilities. SDG&E and SoCalGas submitted their pipeline safety plans in June 2012. The CPUC decision also orders the utilities to undergo independent management and financial audits to assure that the utilities are fully meeting their safety responsibilities. The CPUC's Safety and Enforcement Division will select the independent auditors and will oversee the audits. A schedule for the audits has not been established. In December 2012, the CPUC issued a final decision accepting the utilities' pipeline safety plans filed pursuant to SB 705.

In June 2014, the CPUC issued a final decision in the TCAP proceeding addressing SDG&E's and SoCalGas' PSEP. Specifically, the decision:

- § approved the utilities' model for implementing PSEP;
- § approved a process, including a reasonableness review, to determine the amount that the utilities will be authorized to recover from ratepayers for the interim costs incurred through the date of the final decision to implement PSEP, which is recorded in the regulatory accounts authorized by the CPUC as noted above;
- § approved balancing account treatment, subject to a reasonableness review, for incremental costs yet to be incurred to implement PSEP; and
- § established the criteria to determine the amounts that would not be eligible for cost recovery, including:
 - certain costs incurred or to be incurred searching for pipeline test records,
 - the cost of pressure testing pipelines installed after July 1, 1961 for which the company has not found sufficient records of testing, and

- any undepreciated balances for pipelines installed after 1961 that were replaced due to insufficient documentation of pressure testing.

As a result of this decision, SoCalGas recorded an after-tax earnings charge of \$5 million in 2014 for costs incurred in prior periods for which SoCalGas was disallowed recovery. After taking the amounts disallowed for recovery into consideration, as of December 31, 2014, SDG&E and SoCalGas have recorded PSEP costs of \$2 million and \$85 million, respectively, in the CPUC-authorized regulatory account. In regard to requesting recovery from customers for PSEP costs incurred and recorded in accordance with the TCAP decision, SDG&E and SoCalGas are authorized to file an application with the CPUC for recovery of such costs up to the date of the TCAP decision and then annually for costs incurred through the end of each calendar year beginning with the period ending December 31, 2015. SoCalGas and SDG&E currently expect to be able to file such applications by the third quarter of the year following and would expect a decision from the CPUC approximately 12 to 18 months following the date of the application (i.e. a decision on the recovery of costs recorded in the PSEP regulatory accounts as of December 31, 2015 would be expected by mid-2017). In response to this significant delay in receiving the authority to recover PSEP costs incurred from customers, in October 2014, SDG&E and SoCalGas filed a request with the CPUC for authority to recover PSEP costs from customers as incurred, subject to refund pending the results of a reasonableness review by the CPUC, instead of in the subsequent year. In December 2014, SDG&E and SoCalGas filed an application with the CPUC for recovery of \$0.1 million and \$46 million, respectively, in costs recorded in the regulatory account through June 11, 2014. We requested a decision in 2015.

In July 2014, the ORA and TURN filed a joint application for rehearing of the CPUC's June 2014 final decision. The ORA and TURN alleged that the CPUC made a legal error in directing that ratepayers, not shareholders, be responsible for the costs associated with testing or replacing transmission pipelines that were installed between January 1, 1956 and July 1, 1961 for which the California Utilities do not have a record of a pressure test. In November 2014, the CPUC denied the ORA and TURN request for rehearing of the decision adopting the PSEP. In December 2014, ORA and TURN sought rehearing of the CPUC's decision on rehearing. In late December 2014, SoCalGas and SDG&E filed their opposition to this second application for rehearing, and are continuing to implement PSEP in accordance with the June 2014 CPUC decision.

Southern Gas System Reliability Project

In December 2013, SoCalGas and SDG&E filed a joint application with the CPUC seeking authority to recover the full cost of the Southern Gas System Reliability Project. Also known as the North-South Gas Project, the project will enhance reliability on the southern portions of the California Utilities' integrated natural gas transmission system (Southern System). The estimated cost of the project, as originally filed, is between \$800 million to \$850 million. As proposed, the project consists of three components: 1) constructing an approximately 60-mile, 36-inch natural gas transmission pipeline between the SoCalGas Adelanto compressor station and the Moreno pressure limiting station; 2) upgrading the Adelanto compressor station; and 3) constructing an approximately 31-mile, 36-inch pipeline from the Moreno pressure limiting station to a pressure limiting station in Whitewater. In November 2014, the California Utilities revised the scope of the proposed project to only include connecting the Adelanto compressor station and Moreno pressure limiting station with approximately 65 miles of 36-inch pipeline and upgrading the Adelanto compressor station, and eliminating the Moreno-Whitewater pipeline. As a result of the revised scope of the project, the California Utilities assessed the estimated cost of the revised project and confirmed the original cost estimate of \$800 million to \$850 million, while still providing almost all of the benefits for customers. Given the revised project scope, an updated schedule in this proceeding is currently being developed. Depending upon this updated schedule and subject to environmental permitting and approval by the CPUC, we expect the project to be in service by the end of 2019.

Utility Incentive Mechanisms

The CPUC applies performance-based measures and incentive mechanisms to all California investor-owned utilities, under which the California Utilities have earnings potential above authorized base margins if they achieve or exceed specific performance and operating goals. Generally, for performance-based awards, if performance is above or below specific benchmarks, the utility is eligible for financial awards or subject to financial penalties. SDG&E has incentive mechanisms associated with:

- § operational incentives

- § energy efficiency

SoCalGas has incentive mechanisms associated with:

- § energy efficiency

- § natural gas procurement

- § unbundled natural gas storage and system operator hub services

Incentive awards are included in our earnings when we receive any required CPUC approval of the award. We would record penalties for results below the specified benchmarks in earnings when we believe it is more likely than not that the CPUC would assess a penalty.

Energy Efficiency

The CPUC established incentive mechanisms that are based on the effectiveness of energy efficiency programs. In December 2012, the CPUC issued a final decision adopting a mechanism for the 2010–2012 program cycle and approving shareholder awards of \$3.3 million for SDG&E and \$2.7 million for SoCalGas for their energy efficiency program performance in 2010 under the mechanism. The decision established an annual process for the utilities to obtain awards for their performance in 2011 and 2012.

In December 2013, the CPUC awarded \$3.1 million to SoCalGas and \$3.9 million to SDG&E for their 2011 program year results. In December 2014, the CPUC approved awards to SoCalGas and SDG&E of \$5.9 million and \$7.5 million, respectively, for program years 2012 and 2013. Of these amounts, SoCalGas and SDG&E will receive initial 2013 program awards of \$1.5 million and \$2.5 million, respectively, and the CPUC will address the remaining 2013 program awards in 2015.

Unbundled Natural Gas Storage and System Operator Hub Services

The CPUC has established a revenue sharing mechanism, effective through 2015, which provides for the sharing between ratepayers and SoCalGas (shareholders) of the net revenues generated by SoCalGas' unbundled natural gas storage and system operator hub services. Annual net revenues (revenues less allocated service costs) under the mechanism are shared on a graduated basis, as follows:

- § the first \$15 million of net revenue to be shared 90 percent ratepayers/10 percent shareholders;
- § the next \$15 million of net revenue to be shared 75 percent ratepayers/25 percent shareholders;
- § all additional net revenues to be shared evenly between ratepayers and shareholders; and
- § the maximum total annual shareholder-allocated portion of the net revenues cannot exceed \$20 million.

SoCalGas is seeking to extend the mechanism through at least 2019, but revise the sharing to 60 percent ratepayers/40 percent shareholders to reflect changes in the market for storage services. The current annual shareholder earnings cap of \$20 million would remain in place.

Natural Gas Procurement

The California Utilities procure natural gas on behalf of their core natural gas customers. The CPUC has established incentive mechanisms to allow the California Utilities the opportunity to share in the savings and/or costs from buying natural gas for their core customers at prices below or above monthly market-based benchmarks. SoCalGas procures natural gas for SDG&E's core natural gas customers' requirements. SoCalGas' gas cost incentive mechanism (GCIM) is applied on the combined portfolio basis.

The CPUC issued final decisions in 2014, 2013 and 2012 approving GCIM awards for SoCalGas of \$5.8 million, \$5.4 million and \$6.2 million, respectively, for the 12-month periods ending March 31, 2013, 2012 and 2011, respectively. SoCalGas filed an application with the CPUC for approval of a \$13.7 million GCIM award for natural gas procured for its core customers during the 12-month period ending March 31, 2014. In February 2015, the CPUC issued a final decision approving the \$13.7 million GCIM award as requested by SoCalGas. SoCalGas will recognize this award in its financial results for the first quarter of 2015.

Operational Incentives

The CPUC may establish operational incentives and associated performance benchmarks as part of a general rate case or cost of service proceeding. In the California Utilities' Final 2012 GRC Decision described above, SDG&E was directed to establish a performance measure and incentive for electric reliability. In September 2014, the CPUC approved SDG&E's proposed mechanism, which will apply to calendar year 2015 and be considered in the 2016 GRC. The CPUC did not establish any operational incentives for SoCalGas in the Final 2012 GRC Decision.

SDG&E MATTERS

SONGS

We discuss regulatory and other matters related to SONGS in Note 13.

Power Procurement and Resource Planning

Background—Electric Industry Regulation

California's legislative response to the 2000 – 2001 energy crisis resulted in the California Department of Water Resources (DWR) purchasing a substantial portion of power for California's electricity users. In 2001, the DWR entered into long-term contracts with suppliers, including Sempra Natural Gas, to provide power for the utility procurement customers of each of the California investor-owned utilities (IOUs), including SDG&E. The CPUC allocates the power and its administrative responsibility, including collection of power contract costs from utility customers, among the IOUs. The last of these power contracts expired in 2013, with one remaining transportation contract allocated to SDG&E that will expire in 2018.

Renewable Energy

SDG&E is subject to the Renewables Portfolio Standard (RPS) Program administered by both the CPUC and the California Energy Commission, which requires each California utility to procure 33 percent of its annual electric energy requirements from renewable energy sources by 2020, with an average of 20 percent required from January 1, 2011 to December 31, 2013; 25 percent by December 31, 2016; and 33 percent by December 31, 2020. The CPUC began a rulemaking proceeding in May 2011 to address the implementation of the 33% RPS Program.

The 33% RPS Program contains flexible compliance mechanisms that can be used to comply with or meet the 33% RPS Program mandates in 2011 and beyond. The mechanisms provide for a CPUC waiver under certain conditions, including: 1) a finding of inadequate transmission; 2) delays in the start-up of commercial operations of renewable energy projects due to permitting or interconnection; or 3) unexpected curtailment by an electric system balancing authority, such as the California ISO.

SDG&E continues to procure renewable energy supplies to achieve the 33% RPS Program requirements. A substantial number of these supply contracts, however, are contingent upon many factors, including:

- § access to electric transmission infrastructure;
- § timely regulatory approval of contracted renewable energy projects;
- § the renewable energy project developers' ability to obtain project financing and permitting; and

§ successful development and implementation of the renewable energy technologies.

In August 2014, SDG&E made a required filing with the CPUC indicating that its procurement of renewable energy during the period January 1, 2011 through December 31, 2013 exceeded the 20-percent minimum amount required by RPS. SDG&E believes it will be able to comply with the 33% RPS Program requirements based on its contracting activity and, if necessary, application of the flexible compliance mechanisms. SDG&E's failure to comply with the RPS Program requirements could subject it to CPUC-imposed penalties, which could materially affect its business, cash flows, financial condition, results of operations and/or prospects. The limit on the total amount of penalties for failure to comply with the RPS requirements is \$75 million for the first compliance period (2011-2013); \$75 million for the second compliance period (2014-2016); \$100 million for the third compliance period (2017-2020); and \$25 million for each annual compliance period beginning in 2021.

Cleveland National Forest Transmission Projects

SDG&E filed an application with the CPUC in October 2012 for a permit to construct various transmission replacement projects in and around the Cleveland National Forest (CNF). The proposed projects will replace and fire-harden five existing transmission lines and six existing distribution lines at an estimated cost of between \$400 million and \$450 million. As directed by the CPUC, SDG&E filed an amended application in June 2013 to provide notice of certain alternatives proposed by the U.S. Forest Service (USFS) in connection with SDG&E's request for a Master Special Use Permit (MSUP). USFS approval of the MSUP will establish land rights and conditions for SDG&E's continued operation and maintenance of facilities located within the CNF. CPUC approval is not required for the MSUP, even though construction of the projects is subject to review by both the USFS and CPUC. A draft environmental impact report (EIR/EIS), developed jointly by the CPUC and USFS, was issued in September 2014 and a final EIR/EIS is expected in early 2015. SDG&E currently expects a CPUC decision approving the transmission projects in the second half of 2015 and then expects the various phases of this project to be placed in service starting in 2016 and continuing through the end of the project in 2019.

Sycamore-Peñasquitos Transmission Project

In March 2014, the CAISO selected SDG&E, as a result of a competitive bid process, to construct the Sycamore-Peñasquitos 230-kilovolt (kV) transmission project, which will provide a 16.7-mile transmission connection between SDG&E's Sycamore Canyon and Peñasquitos substations. In July 2014, the CPUC notified SDG&E that the application requesting a Certificate of Public Convenience and Necessity (CPCN) to construct the line, which was filed with the CPUC in April 2014, is complete. The estimated \$120 million to \$150 million project was identified by the CAISO and a state task force as necessary to ensure grid reliability given the closure of SONGS. The project will also serve to strengthen renewable energy infrastructure in the region. In October 2014, SDG&E filed a request with FERC seeking, among other things, a 100 basis point ROE adder for this project. We expect a FERC decision on this filing in 2015. SDG&E expects a CPUC decision approving the project in the first half of 2016, with the line expected to be in service in mid-2017.

South Orange County Reliability Enhancement

SDG&E filed an application with the CPUC in May 2012 requesting a CPCN for the South Orange County Reliability Enhancement project. The purpose of the project is to enhance the capacity and reliability of SDG&E's electric service to the south Orange County area. The proposed project primarily includes replacing and upgrading approximately eight miles of transmission lines and rebuilding and upgrading a substation at an existing site. SDG&E expects a draft environmental report to be issued in early 2015 and a final CPUC decision approving the estimated \$400 million to \$500 million project in the first half of 2016. SDG&E obtained approval for the project from the CAISO in May 2011. As the project is planned in phases, SDG&E currently expects the entire project to be in service in 2020.

South Bay Substation and Relocation Project

SDG&E filed an application in 2010 with the CPUC for a permit to construct a new substation, the Bay Boulevard substation, to replace the aging and obsolete South Bay substation to accommodate regional energy demands. The existing substation will be demolished when the Bay Boulevard substation has been constructed, energized and all transmission lines have been transferred. In October 2013, the CPUC approved SDG&E's permit to construct the Bay Boulevard substation at SDG&E's proposed site. The project is estimated at \$145 million to \$175 million. In March 2014, the California Coastal Commission approved the coastal development permit for the project, subject to certain additional environmental enhancements. In July 2014, SDG&E filed a petition with the CPUC to request modifications to the prior CPUC decision to authorize the additional construction activities required by the coastal development permit. In January 2015, the CPUC issued a decision approving the petition for modification. SDG&E is in the process of obtaining the remaining approvals and permits required to begin construction. SDG&E currently expects the project to be in service in 2017.

Federal Energy Regulatory Commission (FERC) Formulaic Rate Matters

In February 2013, SDG&E submitted its Electric Transmission Formula Rate (TO4) filing with the FERC to set the rate making methodology and rate of return for SDG&E's FERC-regulated electric transmission operations and assets for a multi-year period beginning September 1, 2013. The TO4 filing proposed a FERC ROE of 11.3 percent and requested: 1) rates to be determined by a base period of historical costs and a forecast of capital investments and 2) a true-up period similar to balancing account treatment that is designed to provide SDG&E earnings of no more and no less than its actual cost of service including its authorized return on investment. In June and July 2013, the FERC issued orders accepting the filing, subject to refund, and established settlement and hearing procedures, with rates being effective September 1, 2013.

On January 31, 2014, SDG&E filed an uncontested multi-party settlement at the FERC regarding the TO4 filing. The settlement, approved by FERC in May 2014, will be in effect through December 31, 2018, is subject to a one-time right of termination by any party, and established a 10.05 percent ROE. The settlement also requires SDG&E to make annual information filings on December 1 of a given year to update rates for the following calendar year. SDG&E also has the right to file for any ROE incentives that might apply under FERC rules. SDG&E's debt to equity ratio will be set annually based on the actual ratio at the end of each year.

Energy Resource Recovery Account (ERRA)

The ERRA is the regulatory balancing account that SDG&E uses to recover the electric fuel and purchased power costs it incurs to provide energy to its bundled service customers. SDG&E files an application with the CPUC each year to establish the ERRA revenue requirement needed for the following calendar year. Additionally, to the extent the ERRA balance exceeds a certain tolerance or "ERRA Trigger", SDG&E must file an application to adjust its rates upward or downward, as applicable, to address the under- or overcollected ERRA balance, respectively. In February 2014, the CPUC issued a decision

granting SDG&E authority to increase rates to recover an ERRA Trigger revenue requirement of \$221 million, which rate increase was effective on April 1, 2014 and will continue through December 31, 2015. In May 2014, the CPUC issued a final decision approving SDG&E's proposed 2014 ERRA revenue requirement of \$1.23 billion, an increase of \$242 million compared to the 2013 ERRA revenue requirement of \$988 million. SDG&E implemented the increased revenue requirement on August 1, 2014.

Excess Wildfire Claims Cost Recovery

In August 2009, SDG&E and SoCalGas filed an application, along with other related filings, with the CPUC proposing a new framework and mechanism for the future recovery of all wildfire-related expenses for claims, litigation expenses and insurance premiums that are in excess of amounts authorized by the CPUC for recovery in distribution rates. In December 2012, the CPUC issued a final decision that ultimately did not approve the proposed framework for the utilities but allowed SDG&E to maintain its authorized memorandum account so that SDG&E may file applications with the CPUC requesting recovery of amounts properly recorded in the memorandum account at a later time, subject to reasonableness review.

In February 2014, the Presiding Judge assigned by the FERC to SDG&E's annual Electric Transmission Formula Rate filing (TO3 Cycle 6) issued an Initial Decision and an Order on Summary Judgment which authorizes SDG&E to recover all of the costs incurred and allocated to SDG&E's FERC-regulated operations for the 12-month period ended March 31, 2012, resulting from settlement activities for 2007 wildfire claims. In connection with this proceeding, the CPUC filed an appeal in the Ninth Circuit Court of Appeal of an earlier decision by the FERC denying the CPUC's request to postpone the FERC proceeding pending CPUC action on cost recovery of the excess wildfire costs. The FERC has sought dismissal of the CPUC's appeal on procedural grounds. The Court of Appeal has not yet ruled on the merits.

SDG&E intends to pursue recovery of the costs it has incurred for settlement activities associated with the 2007 wildfire claims allocated to SDG&E's CPUC-regulated operations by filing an application with the CPUC in 2015. SDG&E will continue to assess the potential for recovery of these costs in rates. We discuss the impact should SDG&E conclude that recovery in rates is no longer probable in "Legal Proceedings — SDG&E — 2007 Wildfire Litigation" in Note 15. We discuss how we assess the probability of recovery of our regulatory assets in Note 1.

SOCALGAS MATTERS

Advanced Metering Infrastructure

In November 2011, the ORA and TURN filed a joint petition requesting that the CPUC reconsider its prior approval of SoCalGas' advanced metering infrastructure (AMI) project and stay AMI deployment while the CPUC considered the request. In June 2014, the CPUC denied the ORA/TURN petition, and SoCalGas is continuing its deployment of AMI pursuant to the April 2010 CPUC decision approving the project.

NOTE 15. COMMITMENTS AND CONTINGENCIES

LEGAL PROCEEDINGS

We accrue losses for a legal proceeding when it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated. However, the uncertainties inherent in legal proceedings make it difficult to estimate with reasonable certainty the costs and effects of resolving these matters. Accordingly, actual costs incurred may differ materially from amounts accrued, may exceed applicable insurance coverage and could materially adversely affect our business, cash flows, results of operations, financial condition and prospects. Unless otherwise indicated, we are unable to estimate reasonably possible losses in excess of any amounts accrued.

At December 31, 2014, Sempra Energy's accrued liabilities for legal proceedings, including associated legal fees and costs of litigation, on a consolidated basis, were \$68 million. At December 31, 2014, accrued liabilities for legal proceedings for SDG&E and SoCalGas were \$49 million and \$12 million, respectively.

SDG&E

2007 Wildfire Litigation

In October 2007, San Diego County experienced several catastrophic wildfires. Reports issued by the California Department of Forestry and Fire Protection (Cal Fire) concluded that two of these fires (the Witch and Rice fires) were SDG&E "power line caused" and that a third fire (the Guejito fire) occurred when a wire securing a Cox Communications' (Cox) fiber optic cable came into contact with an SDG&E power line "causing an arc and starting the fire."

A September 2008 staff report issued by the CPUC's Consumer Protection and Safety Division, now known as the Safety and Enforcement Division (CPSD), reached substantially the same conclusions as the Cal Fire reports, but also contended that the power lines involved in the Witch and Rice fires and the lashing wire involved in the Guejito fire were not properly designed, constructed and maintained. In April 2010, proceedings initiated by the CPUC to determine if any of its rules were violated were settled with SDG&E's payment of \$14.75 million.

Numerous parties have sued SDG&E and Sempra Energy in San Diego County Superior Court seeking recovery of unspecified amounts of damages, including punitive damages, from the three fires. They assert various bases for recovery, including inverse condemnation based upon a California Court of Appeal decision finding that another California investor-owned utility was subject to strict liability, without regard to foreseeability or negligence, for property damages resulting from a wildfire ignited by power lines. SDG&E has resolved all but five of these lawsuits. Four of these remaining cases have been scheduled for damages-only trials in 2015, where the value of any compensatory damages resulting from the fires will be determined.

SDG&E's settled claims and defense costs have exceeded its \$1.1 billion of liability insurance coverage for the covered period and the \$824 million recovered from third party contractors and Cox. SDG&E has settled all of the approximately 19,000 claims brought by homeowner insurers for damage to

insured property relating to the three fires. Under the settlement agreements, SDG&E agreed to pay 57.5 percent of the approximately \$1.6 billion paid or reserved for payment by the insurers to their policyholders and received an assignment of the insurers' claims against other parties potentially responsible for the fires. Through December 31, 2014, SDG&E has expended \$483 million in excess of amounts covered by insurance and amounts recovered from third parties to pay for the settlement of wildfire claims and related costs.

The wildfire litigation also includes claims of non-insurer plaintiffs for damage to uninsured and underinsured structures, business interruption, evacuation expenses, agricultural damage, emotional harm, personal injuries and other losses. SDG&E has now settled almost all of these claims of the approximately 6,500 plaintiffs for a total of approximately \$1.3 billion. Substantially all of the remaining plaintiffs have submitted settlement demands and damage estimates, which total approximately \$60 million. SDG&E does not expect additional plaintiffs to file lawsuits given the applicable statutes of limitation, but does expect to receive additional settlement demands and damage estimates from existing plaintiffs until those cases are resolved. SDG&E has established reserves for the wildfire litigation as we discuss below.

SDG&E has concluded that it is probable that it will be permitted to recover in rates a substantial portion of the costs incurred to resolve wildfire claims in excess of its liability insurance coverage and the amounts recovered from third parties. Accordingly, although such recovery will require future regulatory approval, at December 31, 2014, Sempra Energy and SDG&E have recorded assets of \$373 million in Other Regulatory Assets (long-term) on their Consolidated Balance Sheets, including \$366 million related to CPUC-regulated operations, which represents the amount substantially equal to the aggregate amount it has paid or reserved for payment for the resolution of wildfire claims and related costs in excess of its liability insurance coverage and amounts recovered from third parties.

SDG&E will continue to gather information to evaluate and assess the remaining wildfire claims and the likelihood, amount and timing of related recoveries in rates and will make appropriate adjustments to wildfire reserves and the related regulatory assets as additional information becomes available. Should SDG&E conclude that recovery in rates is no longer probable, SDG&E will record a charge against earnings at the time such conclusion is reached. If SDG&E had concluded that the recovery of regulatory assets related to CPUC-regulated operations was no longer probable or was less than currently estimated at December 31, 2014, the resulting after-tax charge against earnings would have been up to approximately \$217 million. Recovery of these costs from customers will require future regulatory actions, and a failure to obtain substantial or full recovery, or any negative assessment of the likelihood of recovery, would likely have a material adverse effect on Sempra Energy's and SDG&E's businesses, financial condition, cash flows, results of operations and prospects.

We provide additional information about excess wildfire claims cost recovery and related CPUC actions in Note 14 and discuss how we assess the probability of recovery of our regulatory assets in Note 1.

Sunrise Powerlink Electric Transmission Line

In February 2011, opponents of the Sunrise Powerlink, a 500-kV electric transmission line between the Imperial Valley and the San Diego region that was energized and placed in service in June 2012, filed a lawsuit in Sacramento County Superior Court against the State Water Resources Control Board and SDG&E alleging that the water quality certification issued by the Board under the Federal Clean Water Act violated the California Environmental Quality Act. The Superior Court denied the plaintiffs' petition in July 2012, and the plaintiffs have appealed.

A claim for additional compensation was submitted in 2013 by one of SDG&E's contractors on the Sunrise Powerlink project. The contractor was awarded the transmission line overhead and underground construction contract on a fixed-fee basis of \$456 million after agreed-upon amendments. The contractor asserted that it was owed additional compensation above the fixed-fee portion of the contract. In May 2013, the contractor filed claims totaling \$180 million, including one in San Diego County for the sum of \$99 million and the other in Imperial County for the sum of \$81 million, seeking foreclosure of previously filed mechanics liens. In October 2013, the contractor served a Demand for Arbitration pursuant to contractual provisions and SDG&E counterclaimed against the contractor. In December 2014, SDG&E and the contractor settled their claims with SDG&E agreeing to pay the contractor \$65 million as compensation for additional costs incurred by the contractor for the work performed.

September 2011 Power Outage

In September 2011, a power outage lasting approximately 12 hours affected millions of people from Mexico to southern Orange County, California. Within several days of the outage, several SDG&E customers filed a class action lawsuit in Federal District Court in San Diego against Arizona Public Service Company, Pinnacle West Capital Corporation and SDG&E alleging that the companies failed to prevent the outage. The lawsuit sought recovery of unspecified amounts of damages, including punitive damages. In July 2012, the court granted SDG&E's motion to dismiss the punitive damages request and dismissed Arizona Public Service Company and Pinnacle West Capital Corporation from the lawsuit. In September 2013, the court granted SDG&E's motion for summary judgment and dismissed the lawsuit. In October 2013, the plaintiffs appealed the court's dismissal of their action. In January 2015, SDG&E settled this claim for an insignificant amount and the appeal and lawsuit have been dismissed.

The FERC and North American Electric Reliability Corporation (NERC) Staff conducted a joint inquiry to determine the cause of the power failure and issued a report in May 2012 regarding their findings. In January 2014, FERC Enforcement Staff issued a Staff Notice of Alleged Violations, in which FERC Enforcement Staff alleged violations of various Reliability Standards by several entities. FERC Enforcement Staff did not allege or find any violations by SDG&E.

Smart Meters Patent Infringement Lawsuit

In October 2011, SDG&E was sued by a Texas design and manufacturing company in Federal District Court, Southern District of California, and later transferred to the Federal District Court, Western District of Oklahoma, alleging that SDG&E's recently installed smart meters infringed certain patents. The meters were purchased from a third party vendor that has agreed to defend and indemnify SDG&E. The lawsuit seeks injunctive relief and recovery of unspecified amounts of damages.

Lawsuit Against Mitsubishi Heavy Industries, Ltd.

On July 18, 2013, SDG&E filed a lawsuit in the Superior Court of California in the County of San Diego against Mitsubishi Heavy Industries, Ltd., Mitsubishi Nuclear Energy Systems, Inc., and Mitsubishi Heavy Industries America, Inc. (collectively MHI). The lawsuit seeks to recover damages SDG&E has incurred and will incur related to the design defects in the steam generators MHI provided to the SONGS nuclear power plant. The lawsuit asserts a number of causes of action, including fraud, based on the representations MHI made about its qualifications and ability to design generators free from defects of the kind that resulted in the permanent shutdown of the plant and further seeks to set aside the contractual limitation of damages that MHI has asserted. On July 24, 2013, MHI removed the lawsuit to the United States District Court for the Southern District of California and on August 8, 2013, MHI moved to stay

the proceeding pending resolution of the dispute resolution process involving MHI and Edison arising from their contract for the purchase and sale of the steam generators. On October 16, 2013, Edison initiated an arbitration proceeding against MHI seeking damages stemming from the failure of the replacement steam generators. In late December 2013, MHI answered and filed a counter-claim against Edison. On March 14, 2014, MHI's motion to stay the United States District Court proceeding was granted with instructions that require the parties to allow SDG&E to participate in the ongoing Edison/MHI arbitration. As a result, SDG&E is now participating in the arbitration as a claimant and respondent.

Investment in Wind Farm

In 2011, the CPUC and FERC approved SDG&E's estimated \$285 million tax equity investment in a wind farm project and its purchase of renewable energy credits from that project. SDG&E's contractual obligations to both invest in the Rim Rock wind farm and to purchase renewable energy credits from the wind farm under the power purchase agreement are subject to the satisfaction of certain conditions which, if not achieved, would allow SDG&E to terminate the power purchase agreement and not make the investment. In December 2013, SDG&E received a closing notice from the project developer indicating that all such conditions had been met. SDG&E responded to the closing notice asserting that the contractual conditions had not been satisfied. On December 19, 2013, SDG&E filed a complaint against the project developer in San Diego Superior Court, asking that the court determine that SDG&E is entitled to terminate both the investment contract and the power purchase agreement due to the project developer's failure to satisfy certain conditions. The project developer filed a separate complaint against SDG&E in Montana state court asking that court to determine that SDG&E breached the investment contract and the power purchase agreement, and asking for several categories of relief, including requiring SDG&E to invest in the project, requiring SDG&E to continue performing under the power purchase agreement, and payment of damages.

On January 27, 2014, the Montana court ordered SDG&E to continue making payments under the power purchase agreement pending a hearing on the project developer's preliminary injunction motion. On March 14, 2014, SDG&E notified the project developer that the investment agreement expired by its own terms because a closing had not occurred by that date. The project developer is disputing SDG&E's position. On March 28, 2014, SDG&E filed an amended complaint against the project developer in San Diego seeking damages and declaratory relief that SDG&E was entitled to terminate the power purchase agreement and to permit the investment agreement to expire. On April 25, 2014, the Montana court granted the project developer's preliminary injunction motion to prevent SDG&E from terminating the power purchase agreement on the grounds that the project developer would be irreparably harmed if the payments were not made while the parties' respective rights were being determined in the litigation. The court did not rule on the merits of the parties' claims. On July 18, 2014, the Montana Supreme Court determined that the parties' contractual agreement to resolve any disputes in San Diego was mandatory, and ordered that the Montana action be dismissed. The San Diego court has scheduled a trial for January 22, 2016.

SoCalGas

SoCalGas, along with Monsanto Co., Solutia, Inc., Pharmacia Corp. and Pfizer, Inc., are defendants in seven Los Angeles County Superior Court lawsuits filed beginning in April 2011 seeking recovery of unspecified amounts of damages, including punitive damages, as a result of plaintiffs' exposure to PCBs (polychlorinated biphenyls). The lawsuits allege plaintiffs were exposed to PCBs not only through the food chain and other various sources but from PCB-contaminated natural gas pipelines owned and operated by SoCalGas. This contamination allegedly caused plaintiffs to develop cancer and other serious illnesses. Plaintiffs assert various bases for recovery, including negligence and products liability. SoCalGas has settled three of the seven lawsuits for an amount that is not significant.

Sempra Mexico

Permit Challenges and Property Disputes

Sempra Mexico has been engaged in a long-running land dispute relating to property adjacent to its Energía Costa Azul LNG terminal near Ensenada, Mexico. Ownership of the adjacent property is not required by any of the environmental or other regulatory permits issued for the operation of the terminal. A claimant to the adjacent property has nonetheless asserted that his health and safety are endangered by the operation of the facility, and filed an action in the Federal Court challenging the permits. In February 2011, based on a complaint by the claimant, the municipality of Ensenada opened an administrative proceeding and sought to temporarily close the terminal based on claims of irregularities in municipal permits issued six years earlier. This attempt was promptly countermanded by Mexican federal and Baja California state authorities. No terminal permits or operations were affected as a result of these proceedings or events and the terminal has continued to operate normally. In the second quarter of 2014, the municipality of Ensenada dismissed the administrative proceeding, which is subject to an administrative appeal, pending for resolution before the Administrative Court of Baja California. Sempra Mexico expects additional Mexican court proceedings and governmental actions regarding the claimant's assertions as to whether the terminal's permits should be modified or revoked in any manner.

The claimant also filed complaints in the federal Agrarian Court challenging the refusal of the Secretaría de la Reforma Agraria (now the Secretaría de Desarrollo Agrario, Territorial y Urbano, or SEDATU) in 2006 to issue a title to him for the disputed property. In November 2013, the Agrarian Court ordered that SEDATU issue the requested title and cause it to be registered. Both SEDATU and Sempra Mexico have challenged the rulings. Sempra Mexico expects additional proceedings regarding the claims, although such proceedings are not related to the permit challenges referenced above. The property claimant also filed a lawsuit in July 2010 against Sempra Energy in Federal District Court in San Diego seeking compensatory and punitive damages as well as the earnings from the Energía Costa Azul LNG terminal based on his allegations that he was wrongfully evicted from the adjacent property and that he has been harmed by other allegedly improper actions. Sempra Energy has disputed the claims and allegations in this lawsuit.

Additionally, several administrative challenges are pending in Mexico before the Mexican environmental protection agency (SEMARNAT) and/or the Federal Tax and Administrative Courts seeking revocation of the environmental impact authorization (EIA) issued to Energía Costa Azul in 2003. These cases generally allege that the conditions and mitigation measures in the EIA are inadequate and challenge findings that the activities of the terminal are consistent with regional development guidelines. The Mexican Supreme Court decided to exercise jurisdiction over one such case, and in March 2014, issued a resolution denying the relief sought by the plaintiff on the grounds its action was not timely presented. A similar administrative challenge seeking to revoke the port concession for our marine operations at our Energía Costa Azul LNG terminal, which was filed with and rejected by the Mexican Communications and Transportation Ministry, remains on appeal in Mexican federal court as well.

Two real property cases have been filed against Energía Costa Azul in which the plaintiffs seek to annul the recorded property titles for parcels on which the Energía Costa Azul LNG terminal is situated and to obtain possession of different parcels that allegedly sit in the same place; one of these cases was dismissed in September 2013 at the direction of the state appellate court. A third complaint was served in April 2013 seeking to invalidate the contract by which Energía Costa Azul purchased another of the terminal parcels, on the grounds the purchase price was unfair. Sempra Mexico expects further proceedings on the remaining two matters.

Sempra Natural Gas

Liberty Gas Storage, LLC (Liberty) received a demand for arbitration from Williams Midstream Natural Gas Liquids, Inc. (Williams) in February 2011 related to a sublease agreement. Williams alleges that Liberty was negligent in its attempt to convert certain salt caverns to natural gas storage and seeks damages of \$56.7 million. Liberty filed a counterclaim alleging breach of contract in the inducement and seeks damages of more than \$215 million.

Other Litigation

As described in Note 4, Sempra Energy holds a noncontrolling interest in RBS Sempra Commodities, a limited liability partnership in the process of being liquidated. RBS, our partner in the joint venture, was notified by the United Kingdom's Revenue and Customs Department (HMRC) that it was investigating value-added tax (VAT) refund claims made by various businesses in connection with the purchase and sale of carbon credit allowances. HMRC advised RBS that it had determined that it had grounds to deny such claims by RBS related to transactions by RBS Sempra Energy Europe (RBS SEE), a former indirect subsidiary of RBS Sempra Commodities that was sold to JP Morgan. HMRC asserted that RBS was not entitled to reduce its VAT liability by VAT paid during 2009 because RBS knew or should have known that certain vendors in the trading chain did not remit their own VAT to HMRC. In September 2012, HMRC issued a protective assessment of £86 million for the VAT paid in connection with these transactions. In October 2014, RBS filed a Notice of Appeal of the September 2012 assessment with the First-tier Tribunal. As a condition of the appeal, RBS was required to pay the assessed amount. The payment also stops the accrual of interest that could arise should it ultimately be determined that RBS has a liability for some of the tax.

In August 2007, the U.S. Court of Appeals for the Ninth Circuit issued a decision reversing and remanding certain FERC orders declining to provide refunds regarding short-term bilateral sales up to one month in the Pacific Northwest for the January 2000 to June 2001 time period. In December 2010, the FERC approved a comprehensive settlement previously reached by Sempra Energy and RBS Sempra Commodities with the State of California. The settlement resolved all issues with regard to sales between the California Department of Water Resources and Sempra Commodities in the Pacific Northwest, but potential claims may exist regarding sales in the Pacific Northwest between Sempra Commodities and other parties. The FERC is in the process of addressing these potential claims on remand. Pursuant to the agreements related to the formation of RBS Sempra Commodities, we have indemnified RBS should the liability from the final resolution of these matters be greater than the reserves related to Sempra Commodities. Pursuant to our agreement with the Noble Group Ltd., one of the buyers of RBS Sempra Commodities' businesses, we have also indemnified Noble Americas Gas & Power Corp. and its affiliates for all losses incurred by such parties resulting from these proceedings as related to Sempra Commodities.

We are also defendants in ordinary routine litigation incidental to our businesses, including personal injury, employment litigation, product liability, property damage and other claims. Juries have demonstrated an increasing willingness to grant large awards, including punitive damages, in these types of cases.

CONTRACTUAL COMMITMENTS

Natural Gas Contracts

SoCalGas has the responsibility for procuring natural gas for both SDG&E's and SoCalGas' core customers in a combined portfolio. SoCalGas buys natural gas under short-term and long-term contracts for this portfolio. Purchases are from various producing regions in the southwestern U.S., U.S. Rockies, and Canada and are primarily based on published monthly bid-week indices.

SoCalGas transports natural gas primarily under long-term firm interstate pipeline capacity agreements that provide for annual reservation charges, which are recovered in rates. SoCalGas has commitments with interstate pipeline companies for firm pipeline capacity under contracts that expire at various dates through 2028.

Sempra Natural Gas' and Sempra Mexico's businesses have various natural gas purchase agreements to fuel natural gas-fired power plants and capacity agreements for natural gas storage and transportation.

Sempra Natural Gas has an agreement for capacity on the Rockies Express pipeline through November 2019, as we discuss in Note 4. The capacity costs are offset by revenues from releases of the capacity contracted to third parties. Certain capacity release commitments totaling \$22 million concluded during 2013, and contracting activity related to that capacity has not been sufficient to offset all of our capacity payments to Rockies Express. Including capacity released to others, Sempra Natural Gas' obligation to Rockies Express for future capacity payments is expected to be \$11 million in 2015, \$14 million in each of 2016 and 2017, \$34 million in 2018, and \$67 million in 2019.

At December 31, 2014, the future minimum payments under existing natural gas contracts and natural gas storage and transportation contracts were

FUTURE MINIMUM PAYMENTS – SEMPra ENERGY CONSOLIDATED

(Dollars in millions)

	Storage and transportation		Natural gas(1)		Total(1)
2015	\$	238	\$	194	\$ 432
2016		256		152	408
2017		241		152	393
2018		217		121	338
2019		150		4	154
Thereafter		241		12	253
Total minimum payments	\$	1,343	\$	635	\$ 1,978

(1) Excludes amounts related to LNG purchase agreements as discussed below.

FUTURE MINIMUM PAYMENTS – SOCALGAS

(Dollars in millions)

	Transportation	Natural gas	Total
2015	\$ 127	\$ 22	\$ 149
2016	128	1	129
2017	113	1	114
2018	92	1	93
2019	48	1	49
Thereafter	123	—	123
Total minimum payments	\$ 631	\$ 26	\$ 657

Total payments under natural gas contracts and natural gas storage and transportation contracts as well as payments to meet additional portfolio needs at Sempra Energy Consolidated and SoCalGas were:

(Dollars in millions)	Years ended December 31,		
	2014	2013	2012
Sempra Energy Consolidated	\$ 1,984	\$ 1,680	\$ 1,345
SoCalGas	1,735	1,464	1,222

LNG Purchase Agreement

Sempra Natural Gas has a purchase agreement for the supply of LNG to the Energía Costa Azul terminal. The agreement is priced using a predetermined formula based on natural gas market indices. Although this contract specifies a number of cargoes to be delivered, under its terms, the customer may divert certain cargoes, which would reduce amounts paid under the contracts by Sempra Natural Gas. At December 31, 2014, the following LNG commitment amounts are based on if all cargoes under the contract were to be delivered:

§ \$381 million in 2015

§ \$552 million in 2016

§ \$616 million in 2017

§ \$674 million in 2018

§ \$701 million in 2019

§ \$7.6 billion in 2020 – 2029

The amounts above are based on forward prices of the index applicable to each contract from 2015 to 2024 and an estimated one percent escalation per year beyond 2024. The LNG commitment amounts above are based on Sempra Natural Gas' commitment to accept the maximum possible delivery of cargoes under the agreement. Actual LNG purchases in 2014, 2013 and 2012 have been significantly lower than the maximum amount possible due to the customer electing to divert most cargoes as allowed by the agreement.

Purchased-Power Contracts

For 2015, SDG&E expects to meet its customer power requirements from the following resource types:

§ Long-term contracts: 35 percent (of which 30.2 percent is provided by renewable energy contracts expiring on various dates through 2041)

§ SDG&E-owned generation (including Palomar Energy Center, Miramar Energy Center, Desert Star Energy Center and Cuyamaca Peak Energy Plant) and tolling contracts (including OMEC): 57 percent

§ Spot market purchases: 8 percent

Chilquinta Energía and Luz del Sur also have purchased-power contracts, expiring on various dates extending through 2027, which cover most of the consumption needs of the companies' customers. These commitments are included under Sempra Energy Consolidated in the table below.

At December 31, 2014, the estimated future minimum payments under long-term purchased-power contracts were:

FUTURE MINIMUM PAYMENTS – PURCHASED-POWER CONTRACTS

(Dollars in millions)

	Sempra Energy Consolidated	SDG&E
2015	\$ 674	\$ 494
2016	664	484
2017	687	503
2018	734	505
2019	734	500
Thereafter	7,363	6,318
Total minimum payments(1)	\$ 10,856	\$ 8,804

(1) Excludes purchase agreements accounted for as capital leases and amounts related to Otay Mesa VIE, as it is consolidated by Sempra Energy and SDG&E.

Payments on these contracts represent capacity charges and minimum energy purchases. SDG&E, Chilquinta Energía, and Luz del Sur are required to pay additional amounts for actual purchases of energy that exceed the minimum energy commitments. Excluding DWR-allocated contracts at SDG&E, total payments under purchased-power contracts were:

(Dollars in millions)	Years ended December 31,					
	2014		2013		2012	
Sempra Energy Consolidated	\$	1,574	\$	1,377	\$	1,205
SDG&E(1)		710		570		381

(1) Excludes DWR-allocated contracts. Under an operating agreement with the DWR that expired at the end of 2013, SDG&E acted as a limited agent on behalf of the DWR in the administration of energy contracts, including natural gas procurement functions under the DWR contracts allocated to SDG&E's customers. The commodity costs associated with these contracts are not included in SDG&E's or Sempra Energy's Consolidated Statements of Operations.

Operating Leases

Sempra Energy Consolidated, SDG&E and SoCalGas have operating leases on real and personal property expiring at various dates from 2015 through 2054. Certain leases on office facilities contain escalation clauses requiring annual increases in rent ranging from two percent to six percent at Sempra Energy Consolidated, four percent to six percent at SDG&E, and two percent to five percent at SoCalGas. The rentals payable under these leases may increase by a fixed amount each year or by a percentage of a base year, and most leases contain extension options that we could exercise.

The California Utilities have an operating lease agreement for future acquisitions of fleet vehicles with an aggregate maximum lease limit of \$150 million, \$134 million of which has been utilized as of December 31, 2014.

Rent expense for all operating leases totaled

(Dollars in millions)	Years ended December 31,					
	2014		2013		2012	
Sempra Energy Consolidated	\$	78	\$	81	\$	74
SDG&E		26		23		20
SoCalGas		38		31		26

At December 31, 2014, the minimum rental commitments payable in future years under all noncancelable operating leases were as follows:

FUTURE MINIMUM PAYMENTS – OPERATING LEASES

(Dollars in millions)

	Sempra Energy Consolidated		SDG&E		SoCalGas	
2015	\$	73	\$	24	\$	39
2016		65		24		35
2017		64		22		35
2018		57		18		34
2019		50		16		30
Thereafter		271		75		156
Total future minimum rental commitments	\$	580	\$	179	\$	329

Capital Leases

Power Purchase Agreements

SDG&E has three power purchase agreements with peaker plant facilities, two of which went into commercial operation in June 2010 and one of which went into commercial operation in 2014. All three are accounted for as capital leases. The entities that own the peaker plant facilities are VIEs of which SDG&E is not the primary beneficiary. As of December 31, 2014, capital lease obligations for these leases, each with a 25-year term, were valued at \$233 million. SDG&E does not have any additional implicit or explicit financial responsibility related to these VIEs.

At December 31, 2014, the future minimum lease payments and present value of the net minimum lease payments under these capital leases for both Sempra Energy Consolidated and SDG&E were as follows:

FUTURE MINIMUM PAYMENTS – POWER PURCHASE AGREEMENTS

(Dollars in millions)

2015	\$	31
2016		31
2017		31
2018		31
2019		31
Thereafter		520
Total minimum lease payments(1)		675
Less: estimated executory costs		(137)
Less: interest(2)		(305)
Present value of net minimum lease payments(3)	\$	233

(1) This amount will be recorded over the lives of the leases as Cost of Electric Fuel and Purchased Power on Sempra Energy's and SDG&E's Consolidated Statements of Operations. This expense will receive ratemaking treatment consistent with purchased-power costs.

(2) Amount necessary to reduce net minimum lease payments to present value at the inception of the leases.

(3) Includes \$4 million in Current Portion of Long-Term Debt and \$229 million in Long-Term Debt on Sempra Energy's and SDG&E's Consolidated Balance Sheets at December 31, 2014.

The annual amortization charge for the power purchase agreements was \$3 million in 2014 and \$2 million in each of 2013 and 2012.

Utility Fleet Vehicles

The California Utilities entered into agreements in 2009 and 2010 to refinance existing fleet vehicles. These are capital leases and, at December 31, 2014, the related capital lease obligations were \$2 million at Sempra Energy Consolidated, including \$1 million at SDG&E and \$1 million at SoCalGas. At December 31, 2013, the related capital lease obligations were \$5 million at Sempra Energy Consolidated, including \$3 million at SDG&E and \$2 million at SoCalGas.

At December 31, 2014, the future minimum lease payments and present value of the net minimum lease payments under these capital leases are as follows:

FUTURE MINIMUM PAYMENTS – CAPITAL LEASES

(Dollars in millions)

	Sempra Energy Consolidated			SDG&E	SoCalGas	
Total minimum lease payments, all in 2015	\$	2	\$	1	\$	1
Present value of net minimum lease payments(1)	\$	2	\$	1	\$	1

(1) Excludes negligible amounts of interest.

The 2014 annual depreciation charge for the utility fleet vehicles was \$4 million at Sempra Energy Consolidated, including \$2 million at SDG&E and \$2 million at SoCalGas. The 2013 annual depreciation charge for the utility fleet vehicles was \$7 million at Sempra Energy Consolidated, including \$4 million at SDG&E and \$3 million at SoCalGas. The 2012 annual depreciation charge for the utility fleet vehicles was \$13 million at Sempra Energy Consolidated, including \$7 million at SDG&E and \$6 million at SoCalGas.

Headquarters Build-to-Suit Lease

In August 2013, Sempra Energy entered into a 25-year, build-to-suit lease for its future San Diego, California, headquarters. We expect to occupy the building in the second half of 2015, concurrent with the termination of the current headquarters lease. At December 31, 2014, future payments on the lease are as follows:

FUTURE MINIMUM PAYMENTS – BUILD-TO-SUIT LEASE

(Dollars in millions)

2015		\$	4
2016			10
2017			10
2018			10
2019			10
Thereafter			267
Total future payments		\$	311

Construction and Development Projects

Sempra Energy Consolidated has various capital projects in progress in the United States, Mexico and South America. Sempra Energy's total commitments under these projects are \$877 million, requiring future payments of \$721 million in 2015, \$93 million in 2016, \$46 million in 2017, \$10 million in 2018, \$1 million in 2019 and \$6 million thereafter. The following is a summary by segment of contractual commitments and contingencies related to the construction projects.

SDG&E

At December 31, 2014, SDG&E has commitments to make future payments of \$340 million for construction projects that include

- § \$130 million for the engineering, material procurement and construction costs primarily associated with the San Luis Rey Synchronous Condenser and Bay Boulevard Substation relocation projects;
- § \$10 million related to nuclear fuel fabrication and other construction projects at SONGS; and
- § \$200 million for infrastructure improvements for natural gas and electric transmission and distribution operations.

SDG&E expects future payments under these contractual commitments to be \$229 million in 2015, \$57 million in 2016, \$37 million in 2017, \$10 million in 2018, \$1 million in 2019 and \$6 million thereafter.

SoCalGas

At December 31, 2014, SoCalGas has commitments to make future payments of \$260 million for construction and infrastructure improvements for natural gas storage, transmission and distribution operations and pipeline integrity. The future payments under these contractual commitments are expected to be \$218 million in 2015, \$33 million in 2016, and \$9 million in 2017.

Sempra South American Utilities

At December 31, 2014, Sempra South American Utilities has commitments to make future payments of \$15 million for construction projects that include \$3 million for the construction of the Santa Teresa hydroelectric power plant at Luz del Sur. The future payments under these contractual commitments are all expected to be made in 2015.

Sempra Mexico

At December 31, 2014, Sempra Mexico has commitments to make future payments of \$244 million for contracts related to the construction of an approximately 500-mile natural gas transport pipeline network. The future payments under these contractual commitments are expected to be \$241 million in 2015 and \$3 million in 2016.

Sempra Natural Gas

At December 31, 2014, Sempra Natural Gas has commitments to make future payments of \$18 million primarily for natural gas transportation projects. The future payments under these contractual commitments are all expected to be made in 2015.

GUARANTEES

At December 31, 2014, SDG&E and SoCalGas did not have any outstanding guarantees.

At December 31, 2014, Sempra Renewables has provided guarantees to its solar and wind farm joint ventures aggregating a maximum of \$170 million with an associated aggregated carrying value of \$2 million, primarily related to purchased-power agreements and engineering, procurement and construction contracts. In addition, Sempra Renewables has provided guarantees aggregating a maximum of \$332 million with an associated aggregated carrying value of \$12 million at December 31, 2014 to certain wind farm joint ventures for debt service and operation of the wind farms, which we discuss in Note 5.

Sempra Energy entered into completion guarantees related to the financing of the Cameron LNG project, as we discuss in Note 4.

OTHER COMMITMENTS

SDG&E

In connection with the completion of the Sunrise Powerlink project in 2012, the CPUC required that SDG&E establish a fire mitigation fund to minimize the risk of fire as well as reduce the potential wildfire impact on residences and structures near the Sunrise Powerlink. The future payments for these contractual commitments are expected to be approximately \$3 million per year, subject to escalation of 2 percent per year, for 58 years. At December 31, 2014, the present value of these future payments of \$116 million has been recorded as a regulatory asset as the amounts represent a cost that will be recovered from customers in the future, and the related liability was \$116 million.

In July 2012, SDG&E received \$85 million from Citizens Sunrise Transmission, LLC (Citizens), a subsidiary of Citizens Energy Corporation. For this payment, under the terms of the agreement with Citizens, SDG&E will provide Citizens with access to a segment of the Sunrise Powerlink transmission line known as the Border-East transmission line equal to 50 percent of the transfer capacity of this portion of the line for a period of 30 years. After the 30-year contract term, the transfer capability will revert to SDG&E. SDG&E will amortize deferred revenues from the use of the transfer capability over the 30-year term, and depreciation for 50 percent of the Border-East transmission line segment will be accelerated from an estimated 58-year life to 30 years.

Sempra Natural Gas

In February 2013, Sempra Natural Gas entered into a long-term operations and maintenance agreement for its remaining block of the Mesquite Power natural gas-fired power plant, which expires in 2033. The total cost associated with this agreement is estimated to be approximately \$33 million. The minimum future payments for this contractual commitment are expected to be \$2 million each year in 2015 through 2019 and \$23 million thereafter. We provide additional information about Mesquite Power in Note 3.

Additional consideration for a 2006 comprehensive legal settlement with the State of California to resolve the Continental Forge litigation included an agreement that, for a period of 18 years beginning in 2011, Sempra Natural Gas would sell to the California Utilities, subject to annual CPUC approval, up to 500 million cubic feet (MMcf) per day of regasified LNG from Sempra Mexico's Energía Costa Azul facility that is not delivered or sold in Mexico at the California border index minus \$0.02 per MMBtu. There are no specified minimums required, and to date, we have not been required to deliver any natural gas pursuant to this agreement.

ENVIRONMENTAL ISSUES

Our operations are subject to federal, state and local environmental laws. We also are subject to regulations related to hazardous wastes, air and water quality, land use, solid waste disposal and the protection of wildlife. These laws and regulations require that we investigate and correct the effects of the release or disposal of materials at sites associated with our past and our present operations. These sites include those at which we have been identified as a Potentially Responsible Party (PRP) under the federal Superfund laws and similar state laws.

In addition, we are required to obtain numerous governmental permits, licenses and other approvals to construct facilities and operate our businesses. The related costs of environmental monitoring, pollution control equipment, cleanup costs, and emissions fees are significant. Increasing national and international concerns regarding global warming and mercury, carbon dioxide, nitrogen oxide and sulfur dioxide emissions could result in requirements for additional pollution control equipment or significant emissions fees or taxes that could adversely affect Sempra Natural Gas and Sempra Mexico. The California Utilities' costs to operate their facilities in compliance with these laws and regulations generally have been recovered in customer rates.

We generally capitalize the significant costs we incur to mitigate or prevent future environmental contamination or extend the life, increase the capacity, or improve the safety or efficiency of property used in current operations. The following table shows our capital expenditures (including construction work in progress) in order to comply with environmental laws and regulations:

CAPITAL EXPENDITURES FOR ENVIRONMENTAL ISSUES*(Dollars in millions)*

	Years ended December 31,					
	2014		2013		2012	
Sempra Energy Consolidated(1)	\$	45	\$	31	\$	92
SDG&E		23		13		77
SoCalGas		21		15		12

(1) In cases of non-wholly owned affiliates, includes only our share.

Fluctuations at SDG&E and Sempra Energy Consolidated from 2012 to 2013 were primarily due to mitigation activities on the Sunrise Powerlink project, which was placed into service in June 2012. Fluctuations from 2013 to 2014 were primarily due to increased project activities during 2014, including PSEP-related projects at both SDG&E and SoCalGas and the Aliso Canyon turbine replacement project at SoCalGas. We have not identified any significant environmental issues outside the United States.

At the California Utilities, costs that relate to current operations or an existing condition caused by past operations are generally recorded as a regulatory asset due to the probability that these costs will be recovered in rates.

The environmental issues currently facing us or resolved during the last three years include (1) investigation and remediation of the California Utilities' manufactured-gas sites, (2) cleanup of third-party waste-disposal sites used by the California Utilities at sites for which we have been identified as a PRP and (3) mitigation of damage to the marine environment caused by the cooling-water discharge from SONGS. The requirements for enhanced fish protection and restoration of 150 acres of coastal wetlands for the SONGS mitigation are in process and include a 150-acre artificial reef that was dedicated in 2008 and continues in process to meet California Coastal Commission (CCC) acceptance requirements. It is anticipated that the CCC will require expansion of the reef in 2015, as the existing reef may be too small to consistently meet the performance standard. The table below shows the status at December 31, 2014, of the California Utilities' manufactured-gas sites and the third-party waste-disposal sites for which we have been identified as a PRP:

STATUS OF ENVIRONMENTAL SITES

	# Sites completed(1)	# Sites in process
SDG&E		
Manufactured-gas sites	3	—
Third-party waste-disposal sites	2	3
SoCalGas		
Manufactured-gas sites	39	3
Third-party waste-disposal sites	5	2

(1) There may be on-going compliance obligations for completed sites, such as regular inspections, adherence to land use covenants and water quality monitoring.

We record environmental liabilities at undiscounted amounts when our liability is probable and the costs can be reasonably estimated. In many cases, however, investigations are not yet at a stage where we can determine whether we are liable or, if the liability is probable, to reasonably estimate the amount or range of amounts of the costs. Estimates of our liability are further subject to uncertainties such as the nature and extent of site contamination, evolving cleanup standards and imprecise engineering evaluations. We review our accruals periodically and, as investigations and cleanup proceed, we make adjustments as necessary. The following table shows our accrued liabilities for environmental matters at December 31, 2014:

ACCRUED LIABILITIES FOR ENVIRONMENTAL MATTERS*(Dollars in millions)*

	Manufactured-gas sites	Waste disposal sites (PRP)(1)	Former fossil-fueled power plants	Other hazardous waste sites	Total
SDG&E(2)(3)	\$ —	\$ 0.3	\$ 6.1	\$ 0.7	\$ 7.1
SoCalGas(3)	23.8	0.1	—	0.1	24.0
Other	2.0	1.1	—	10.2	13.3
Total Sempra Energy	\$ 25.8	\$ 1.5	\$ 6.1	\$ 11.0	\$ 44.4

*(1) Sites for which we have been identified as a Potentially Responsible Party.**(2) Does not include SDG&E's liability for SONGS marine mitigation.**(3) This includes \$7 million at SDG&E and \$24 million at SoCalGas related to hazardous waste sites subject to the Hazardous Waste Collaborative mechanism approved by the CPUC in 1994. This mechanism permits California's IOUs, including the California Utilities, to recover in rates 90 percent of hazardous waste cleanup costs and related third-party litigation costs, and 70 percent of the related insurance-litigation expenses for certain sites. In addition, the California Utilities have the opportunity to retain a percentage of any recoveries from insurance carriers and other third parties to offset the cleanup and associated litigation costs not recovered in rates.*

We expect to pay the majority of these accruals over the next three years. In connection with the issuance of operating permits, SDG&E and the other owners of SONGS previously reached an agreement with the CCC to mitigate the damage to the marine environment caused by the cooling-water discharge from SONGS during its operation. SONGS' early retirement, described in Note 13, does not reduce SDG&E's mitigation obligation. At December 31, 2014, SDG&E's share of the estimated mitigation costs remaining to be spent through 2050 is \$20 million, which is recoverable in rates.

We discuss renewable energy requirements in Note 14 and greenhouse gas regulation in Note 1.

NUCLEAR INSURANCE

SDG&E and the other owners of SONGS have insurance to cover claims from nuclear liability incidents arising at SONGS. This insurance provides \$375 million in coverage limits, the maximum amount available, including coverage for acts of terrorism. In addition, the Price-Anderson Act provides for up to \$13.2 billion of secondary financial protection (SFP). If a nuclear liability loss occurring at any U.S. licensed/commercial reactor exceeds the \$375 million insurance limit, all nuclear reactor owners could be required to contribute to the SFP. SDG&E's contribution would be up to \$50.93 million. This amount is subject to an annual maximum of \$7.6 million, unless a default occurs by any other SONGS owner. If the SFP is insufficient to cover the liability loss, SDG&E could be subject to an additional assessment.

The SONGS owners, including SDG&E, also have \$2.75 billion of nuclear property, decontamination, and debris removal insurance, subject to a \$2.5 million deductible for “each and every loss.” This insurance coverage is provided through Nuclear Electric Insurance Limited (NEIL), a mutual insurance company. The NEIL policies have specific exclusions and limitations that can result in reduced or eliminated coverage. Insured members as a group are subject to retrospective premium assessments to cover losses sustained by NEIL under all issued policies. SDG&E could be assessed up to \$9.7 million of retrospective premiums based on overall member claims. Edison, on behalf of itself and the minority owners of SONGS (including SDG&E), has placed NEIL on notice of claims under both the property damage and outage insurance policies as a result of SONGS’ Units 2 and 3 outages in early 2012 and the resultant plant closure in June 2013.

The nuclear property insurance program includes an industry aggregate loss limit for non-certified acts of terrorism (as defined by the Terrorism Risk Insurance Act). The industry aggregate loss limit for property claims arising from non-certified acts of terrorism is \$3.24 billion. This is the maximum amount that will be paid to insured members who suffer losses or damages from these non-certified terrorist acts.

U.S. DEPARTMENT OF ENERGY (DOE) NUCLEAR FUEL DISPOSAL

The Nuclear Waste Policy Act of 1982 made the DOE responsible for the disposal of spent nuclear fuel. However, it is uncertain when the DOE will begin accepting spent nuclear fuel from SONGS. This delay will lead to increased costs for spent fuel storage. SDG&E will seek recovery for these costs from the appropriate sources, including, but not limited to, SDG&E’s Nuclear Decommissioning Trust. SDG&E will also continue to support Edison in its pursuit of legal claims on behalf of the SONGS co-owners against the DOE for its failure to timely accept the spent nuclear fuel.

In June 2010, the United States Court of Federal Claims issued a decision granting Edison and the SONGS co-owners damages of approximately \$142 million to recover costs incurred through December 31, 2005 for the DOE’s failure to meet its obligation to begin accepting spent nuclear fuel from SONGS. Edison received payment from the federal government in the amount of the damage award in November 2011. In January 2012, Edison refunded SDG&E \$28 million for its respective share of the damage award paid. SDG&E recorded a \$10 million reduction of nuclear power expenses, a \$15 million reduction of its nuclear decommissioning balancing account and a \$3 million reduction in nuclear plant. Edison, as operating agent, filed a lawsuit against the DOE in the Court of Federal Claims in December 2011 seeking damages for the period from January 1, 2006 to December 31, 2010 for the DOE’s failure to meet its obligation to begin accepting spent nuclear fuel. In September 2014, Edison updated their claim to include another \$84 million for costs incurred from January 2011 to December 2013.

CONCENTRATION OF CREDIT RISK

We maintain credit policies and systems to manage our overall credit risk. These policies include an evaluation of potential counterparties’ financial condition and an assignment of credit limits. These credit limits are established based on risk and return considerations under terms customarily available in the industry. We grant credit to utility customers and counterparties, substantially all of whom are located in our service territory, which covers most of Southern California and a portion of central California for SoCalGas, and all of San Diego County and an adjacent portion of Orange County for SDG&E. We also grant credit to utility customers and counterparties of our other companies providing natural gas or electric services in Mexico, Chile, Peru, southwest Alabama, and Hattiesburg, Mississippi.

When they become operational, projects owned or partially owned by Sempra Natural Gas, Sempra Renewables, Sempra South American Utilities and Sempra Mexico place significant reliance on the ability of their suppliers and customers to perform on long-term agreements and on our ability to enforce contract terms in the event of nonperformance. We consider many factors, including the negotiation of supplier and customer agreements, when we evaluate and approve development projects.

NOTE 16. SEGMENT INFORMATION

We have six separately managed reportable segments, as follows:

1. *SDG&E* provides electric service to San Diego and southern Orange counties and natural gas service to San Diego County.
2. *SoCalGas* is a natural gas distribution utility, serving customers throughout most of Southern California and part of central California.
3. *Sempra South American Utilities* operates electric transmission and distribution utilities in Chile and Peru.
4. *Sempra Mexico* develops, owns and operates, or holds interests in, natural gas transmission pipelines and propane and ethane systems, a natural gas distribution utility, electric generation facilities (including wind), a terminal for the import of LNG, and marketing operations for the purchase of LNG and the purchase and sale of natural gas in Mexico.
5. *Sempra Renewables* develops, owns and operates, or holds interests in, wind and solar energy projects in Arizona, California, Colorado, Hawaii, Indiana, Kansas, Nebraska, Nevada and Pennsylvania to serve wholesale electricity markets in the United States.
6. *Sempra Natural Gas* develops, owns and operates, or holds interests in, natural gas pipelines and storage facilities, natural gas distribution utilities and a terminal for the import and export of LNG and sale of natural gas, all within the United States. Sempra Natural Gas also owns and operates the Mesquite Power plant, a natural gas-fired electric generation asset. In October 2014, Sempra Natural Gas entered into a definitive agreement to sell the remaining 625-MW block of Mesquite Power. The sale is expected to close in the first half of 2015, subject to obtaining third-party consents as we discuss in Note 3.

Sempra South American Utilities and Sempra Mexico comprise our Sempra International operating unit. Sempra Renewables and Sempra Natural Gas comprise our Sempra U.S. Gas & Power operating unit.

We evaluate each segment’s performance based on its contribution to Sempra Energy’s reported earnings. The California Utilities operate in essentially separate service territories, under separate regulatory frameworks and rate structures set by the CPUC. The California Utilities’ operations are based on rates

SDG&E	\$	16,296	41%	\$	15,377	41%	\$	14,744	40%
SoCalGas		10,461	26		9,147	25		9,071	25
Sempra South American Utilities		3,379	9		3,531	10		3,310	9
Sempra Mexico		3,488	9		3,246	9		2,591	7
Sempra Renewables		1,338	3		1,219	3		2,439	7
Sempra Natural Gas		6,436	16		7,200	19		5,145	14
All other		895	2		838	2		818	2
Intersegment receivables		(2,561)	(6)		(3,314)	(9)		(1,619)	(4)
Total	\$	39,732	100%	\$	37,244	100%	\$	36,499	100%

EXPENDITURES FOR PROPERTY, PLANT & EQUIPMENT

SDG&E	\$	1,100	35%	\$	978	38%	\$	1,237	42%
SoCalGas		1,104	35		762	30		639	22
Sempra South American Utilities		174	6		200	8		183	6
Sempra Mexico		325	10		371	14		45	2
Sempra Renewables		190	6		176	7		717	24
Sempra Natural Gas		212	7		83	3		131	4
All other		18	1		2	—		4	—
Total	\$	3,123	100%	\$	2,572	100%	\$	2,956	100%

GEOGRAPHIC INFORMATION

Long-lived assets(4):

United States	\$	24,183	84%	\$	22,654	84%	\$	22,698	85%
Mexico		2,821	10		2,597	9		2,219	8
South America		1,746	6		1,784	7		1,790	7
Total	\$	28,750	100%	\$	27,035	100%	\$	26,707	100%

Revenues(5):

United States	\$	8,774	79%	\$	8,478	80%	\$	7,711	80%
South America		1,534	14		1,495	14		1,441	15
Mexico		727	7		584	6		495	5
Total	\$	11,035	100%	\$	10,557	100%	\$	9,647	100%

- (1) Revenues for reportable segments include intersegment revenues of \$10 million, \$69 million, \$91 million and \$342 million for 2014, \$10 million, \$70 million, \$91 million and \$232 million for 2013, and \$8 million, \$46 million, \$108 million and \$210 million for 2012 for SDG&E, SoCalGas, Sempra Mexico and Sempra Natural Gas, respectively.
- (2) For 2013, amount is after preferred dividends and call premium on preferred stock. For 2012, amount is after preferred dividends.
- (3) After preferred dividends.
- (4) Includes net property, plant and equipment and investments.
- (5) Amounts are based on where the revenue originated, after intercompany eliminations.

NOTE 17. QUARTERLY FINANCIAL DATA (UNAUDITED)

We provide quarterly financial information for Sempra Energy Consolidated, SDG&E and SoCalGas below:

SEMPRA ENERGY

(In millions, except per share amounts)

	Quarters ended			
	March 31	June 30	September 30	December 31
2014				
Revenues	\$ 2,795	\$ 2,678	\$ 2,815	\$ 2,747
Expenses and other income	\$ 2,408	\$ 2,302	\$ 2,368	\$ 2,433
Net income	\$ 266	\$ 292	\$ 383	\$ 321
Earnings attributable to Sempra Energy	\$ 247	\$ 269	\$ 348	\$ 297
Basic per-share amounts(1):				
Net income	\$ 1.09	\$ 1.19	\$ 1.56	\$ 1.31
Earnings attributable to Sempra Energy	\$ 1.01	\$ 1.10	\$ 1.41	\$ 1.21
Weighted average common shares outstanding	245.3	245.7	246.1	246.4
Diluted per-share amounts(1):				
Net income	\$ 1.07	\$ 1.17	\$ 1.53	\$ 1.28
Earnings attributable to Sempra Energy	\$ 0.99	\$ 1.08	\$ 1.39	\$ 1.18
Weighted average common shares outstanding	249.7	250.1	250.8	251.3
2013				
Revenues	\$ 2,650	\$ 2,651	\$ 2,551	\$ 2,705
Expenses and other income	\$ 2,298	\$ 2,353	\$ 2,119	\$ 2,357
Net income	\$ 178	\$ 267	\$ 323	\$ 320
Earnings attributable to Sempra Energy	\$ 178	\$ 245	\$ 296	\$ 282
Basic per-share amounts(1):				
Net income	\$ 0.73	\$ 1.10	\$ 1.32	\$ 1.31
Earnings attributable to Sempra Energy	\$ 0.73	\$ 1.00	\$ 1.21	\$ 1.15
Weighted average common shares outstanding	243.3	243.6	244.1	244.4
Diluted per-share amounts(1):				
Net income	\$ 0.72	\$ 1.07	\$ 1.29	\$ 1.28
Earnings attributable to Sempra Energy	\$ 0.72	\$ 0.98	\$ 1.19	\$ 1.13
Weighted average common shares outstanding	247.5	248.5	249.3	249.9

(1) Earnings per share are computed independently for each of the quarters and therefore may not sum to the total for the year.

Revenues and Expenses and Other Income increased in each of the first three quarters in 2014 compared to 2013 partly due to higher natural gas prices, offset by lower volumes at SoCalGas. In the fourth quarter of 2014 compared to 2013, the impact on Revenues and Expenses and Other Income from lower volumes more than offset the impact from higher natural gas prices. In the first and fourth quarters of 2014 compared to 2013, the lower volumes were primarily due to a decrease in the demand for natural gas primarily from a warmer winter in 2014 compared to the same period in 2013.

In each of the quarters of 2014 compared to the same periods in 2013, Revenues and Expenses and Other Income increased from higher cost of electric fuel and purchased power at SDG&E primarily due to the incremental purchase of renewable energy at higher prices.

In the third quarter of 2014, Net Income and Earnings Attributable to Sempra Energy included \$25 million tax benefit due to the release of a Louisiana valuation allowance against a deferred tax asset associated with Cameron LNG developments.

Expenses and Other Income, Net Income and Earnings Attributable to Sempra Energy for the first, second and third quarters of 2014 included \$9 million, \$11 million and \$14 million, respectively, of AFUDC related to equity associated with the construction of the Sonora natural gas pipeline in Mexico.

In the first quarter of 2013, Expenses and Other Income were favorably impacted by \$74 million and Net Income and Earnings Attributable to Sempra Energy were favorably impacted by \$44 million due to the sale of one 625-MW block of the 1,250-MW Mesquite Power natural gas-fired power plant, as we discuss in Note 3.

Net Income and Earnings Attributable to Sempra Energy for the first quarter of 2013 were negatively impacted by higher operating expenses at the California Utilities due to the delay in the CPUC decision on the 2012 GRC until the second quarter of 2013.

Revenues and Expenses and Other Income for the third quarter of 2013 were lower compared to the first, second and fourth quarters of 2013 due to lower cost of natural gas.

Net Income and Earnings Attributable to Sempra Energy for the first, second, third and fourth quarters of 2014 included \$12 million, \$12 million, \$8 million and \$6 million, respectively, of income tax expense for repatriation of current year foreign earnings. In the first quarter of 2013, Net Income and Earnings Attributable to Sempra Energy included \$63 million income tax expense resulting from a corporate reorganization in connection with the IEnova stock offerings.

In the second quarter of 2013, Revenues included \$131 million and Net Income and Earnings Attributable to Sempra Energy included \$106 million favorable impacts from the retroactive application of the 2012 GRC for the period from January 2012 to March 2013 at the California Utilities.

In the second quarter of 2013, Expenses and Other Income were negatively impacted by \$200 million and Net Income and Earnings Attributable to Sempra Energy were negatively impacted by \$119 million due to the early retirement of SONGS, as we discuss in Note 13.

We discuss quarterly fluctuations related to SDG&E and SoCalGas below.

SDG&E					
<i>(Dollars in millions)</i>					
	Quarters ended				
	March 31	June 30	September 30	December 31	
2014					
Operating revenues	\$ 987	\$ 1,063	\$ 1,233	\$ 1,046	
Operating expenses	766	821	957	826	
Operating income	\$ 221	\$ 242	\$ 276	\$ 220	
Net income	\$ 101	\$ 129	\$ 169	\$ 128	
Earnings attributable to noncontrolling interest	(2)	(6)	(12)	—	
Earnings attributable to common shares	\$ 99	\$ 123	\$ 157	\$ 128	
2013					
Operating revenues	\$ 939	\$ 1,064	\$ 1,063	\$ 1,000	
Operating expenses	771	939	800	774	
Operating income	\$ 168	\$ 125	\$ 263	\$ 226	
Net income	\$ 81	\$ 73	\$ 139	\$ 142	
Losses (earnings) attributable to noncontrolling interest	11	(7)	(5)	(23)	
Earnings	92	66	134	119	
Call premium on preferred stock	—	—	(3)	—	
Dividends on preferred stock	(1)	(1)	(2)	—	
Earnings attributable to common shares	\$ 91	\$ 65	\$ 129	\$ 119	

In each of the quarters of 2014 compared to the same periods in 2013, SDG&E's Operating Revenues and Operating Expenses included increases from higher cost of electric fuel and purchased power primarily due to the incremental purchase of renewable energy at higher prices.

Net Income and Earnings for the first quarter of 2013 were negatively impacted by higher operating expenses due to the delay in the CPUC decision on the 2012 GRC until the second quarter of 2013.

SDG&E's Operating Revenues in the second quarter of 2013 included \$90 million and Net Income and Earnings included \$69 million favorable impacts from the retroactive application of the 2012 GRC for the period from January 2012 to March 2013.

In the second quarter of 2013, Operating Expenses were negatively impacted by \$200 million and Net Income and Earnings were negatively impacted by \$119 million due to the early retirement of SONGS, as we discuss in Note 13.

SOCALGAS
(Dollars in millions)

	Quarters ended			
	March 31	June 30	September 30	December 31
2014				
Operating revenues	\$ 1,085	\$ 917	\$ 855	\$ 998
Operating expenses	956	795	702	881
Operating income	\$ 129	\$ 122	\$ 153	\$ 117
Net income	\$ 78	\$ 81	\$ 98	\$ 76
Dividends on preferred stock	—	(1)	—	—
Earnings attributable to common shares	\$ 78	\$ 80	\$ 98	\$ 76
2013				
Operating revenues	\$ 983	\$ 904	\$ 807	\$ 1,042
Operating expenses	900	725	652	920
Operating income	\$ 83	\$ 179	\$ 155	\$ 122
Net income	\$ 46	\$ 119	\$ 102	\$ 98
Dividends on preferred stock	—	(1)	—	—
Earnings attributable to common shares	\$ 46	\$ 118	\$ 102	\$ 98

SoCalGas' Operating Revenues and Operating Expenses increased in each of the first three quarters in 2014 compared to 2013 primarily due to higher natural gas prices, offset by lower volumes. In the fourth quarter of 2014 compared to 2013, the impact on Operating Revenues and Operating Expenses from lower volumes more than offset the impact from higher natural gas prices. In the first and fourth quarters of 2014 compared to 2013, the lower volumes were primarily due to a decrease in the demand for natural gas primarily from a warmer winter in 2014 compared to the same period in 2013.

Net Income and Earnings in the fourth quarter of 2014 compared to 2013 were impacted by lower income tax expenses in 2013 primarily related to resolution of prior years' income tax items and higher flow-through deductions.

Net Income and Earnings in the first quarter of 2013 were negatively impacted by \$12 million from higher operating expenses due to the delay in the CPUC decision on the 2012 GRC until the second quarter of 2013.

In the second quarter of 2013, Operating Revenues included \$41 million and Net Income and Earnings included \$37 million favorable impacts from the retroactive application of the 2012 GRC for the period from January 2012 to March 2013.

GLOSSARY

2010 Tax Act	Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010	CPSD	Consumer Protection and Safety Division, now known as the Safety and Enforcement Division
2012 Tax Act	American Taxpayer Relief Act of 2012	CPUC	California Public Utilities Commission
2014 Tax Act	Tax Increase Prevention Act of 2014	CRE	Comisión Reguladora de Energía (Energy Regulatory Commission) (Mexico)
AB	Assembly Bill	CRRs	Congestion revenue rights
AFUDC	Allowance for funds used during construction	CWIP	Construction work in progress
AMI	Advanced metering infrastructure	DA	Direct Access
AOCI	Accumulated other comprehensive income (loss)	DCE	Decommissioning cost estimate
ARO	Asset retirement obligation	DOE	U.S. Department of Energy
ASLB	Atomic Safety and Licensing Board	DWR	California Department of Water Resources
ASU	Accounting Standards Update	Ecogas	Ecogas México, S. de R.L. de C.V.
Bay Gas	Bay Gas Storage Company, Ltd.	Edison	Southern California Edison Company
Bcf	Billion cubic feet	EIA	Environmental impact authorization
Black-Scholes model	Black-Scholes option-pricing model	EIR/EIS	Environmental impact report/Environmental impact statement
BMV	La Bolsa Mexicana de Valores, S.A.B. de C.V. (Mexican Stock Exchange)	Eletrans	Eletrans, collectively for Eletrans S.A. and Eletrans II S. A.
CAL	Confirmatory Action Letter	EMA	Energy Management Agreement
Cal Fire	California Department of Forestry and Fire Protection	EPC	Engineering, procurement and construction
California Utilities	San Diego Gas & Electric Company and Southern California Gas Company	EPS	Earnings per common share
Cameron LNG	Cameron LNG, LLC	ERRA	Energy Resource Recovery Account
Cameron LNG Holdings	Cameron LNG Holdings, LLC	ESOP	Employee stock ownership plan
CARE	California Alternate Rates for Energy	ESP	Energy Service Provider
CCC	California Coastal Commission	FERC	Federal Energy Regulatory Commission
CCM	Cost of capital adjustment mechanism	Final 2012 GRC Decision	Final CPUC decision on 2012 General Rate Case
CFE	Comisión Federal de Electricidad (Federal Electricity Commission) (Mexico)	FTA	Free Trade Agreement
CFTC	U.S. Commodity Futures Trading Commission	FTC	Federal Trade Commission
Chilquinta Energía	Chilquinta Energía S.A. and its subsidiaries	Gazprom	Gazprom Marketing & Trading Mexico
Citizens	Citizens Sunrise Transmission, LLC	GCIM	Gas cost incentive mechanism
CLF	Chilean Unidad de Fomento	GHG	Greenhouse gas
CNE	Comisión Nacional de Energía (National Energy Commission) (Chile)	GRC	General Rate Case
CNF	Cleveland National Forest	HMRC	United Kingdom's Revenue and Customs Department
ConEdison Development	Consolidated Edison Development	HRA	Health Reimbursement Account
Cox	Cox Communications	IEnova	Infraestructura Energética Nova, S.A.B. de C.V.
CPCN	Certificate of Public Convenience and Necessity	IFMP	Irradiated fuel management plan

GLOSSARY (CONTINUED)

IFRS	International Financial Reporting Standards	NEM	Net energy metering
IOUs	Investor-owned utilities	NERC	North American Electric Reliability Corporation
IRS	Internal Revenue Service	NEXI	Nippon Export and Investment Insurance
ISFSI	Independent spent fuel storage installation	NOL	Net operating loss
ISO	California Independent System Operator, also known as CAISO	NRC	Nuclear Regulatory Commission
ITC	Investment tax credits	NYK	Nippon Yusen Kabushiki Kaisha
JBIC	Japan Bank for International Cooperation	OCI	Other comprehensive income (loss)
JP Morgan	J.P. Morgan Chase & Co.	OII	Order Instituting Investigation
KMI	Kinder Morgan, Inc.	OMEC	Otay Mesa Energy Center
KMP	Kinder Morgan Energy Partners L.P.	OMEC LLC	Otay Mesa Energy Center LLC
kV	Kilovolt	ORA	Office of Ratepayer Advocates (formerly the Division of Ratepayer Advocates or DRA)
LA Storage	LA Storage, LLC	OSINERGMIN	Organismo Supervisor de la Inversión en Energía y Minería (Energy and Mining Investment Supervisory Body) (Peru)
Liberty	Liberty Gas Storage, LLC	Otay Mesa VIE	Otay Mesa Energy Center LLC
LIFO	Last-in first-out	OTC	Over-the-counter
LNG	Liquefied natural gas	PBOP	Other postretirement benefit plans
Luz del Sur	Luz del Sur S.A.A. and its subsidiaries	PBOP plan trusts	Other postretirement benefit plan trusts
Luzlinares	Luzlinares S.A.	PCB	Polychlorinated Biphenyl
MBFC	Mississippi Business Finance Corporation	PCRB	Pollution Control Revenue Bonds
Mcf	Thousand cubic feet	PE	Pacific Enterprises
MHI	Mitsubishi Heavy Industries	PEMEX	Petróleos Mexicanos (Mexican state-owned oil company)
MHI Collectively	Mitsubishi Heavy Industries, Ltd., Mitsubishi Nuclear Energy Systems, Inc., and Mitsubishi Heavy Industries America, Inc.	PG&E	Pacific Gas and Electric Company
Mississippi Hub	Mississippi Hub, LLC	PPA	Power purchase agreement
MMBtu	Million British thermal units (of natural gas)	PRP	Potentially Responsible Party
MMcf	Million cubic feet	PSDAR	Post-shutdown decommissioning activities report
Mobile Gas	Mobile Gas Service Corporation	PSEP	Pipeline Safety Enhancement Plan
MOU	Memorandum of understanding	PTC	Production tax credit
MSUP	Master Special Use Permit	RBS	The Royal Bank of Scotland plc
Mtpa	Million tonnes per annum	RBS SEE	RBS Sempra Energy Europe
MW	Megawatt	RBS Sempra Commodities	RBS Sempra Commodities LLP
MWh	Megawatt hour	RECs	Renewable energy certificates
NDT	Nuclear Decommissioning Trusts	REX	Rockies Express pipeline
NEIL	Nuclear Electric Insurance Limited	Rockies Express	Rockies Express Pipeline LLC

GLOSSARY (CONTINUED)

ROE	Return on equity	Tanggung PSC	Tanggung PSC Contractors
ROR	Rate of return	Tax Reform Bill	2014 Chilean Tax Reform Bill
RPS	Renewables Portfolio Standard	TCAP	Triennial Cost Allocation Proceeding
RSAs	Restricted stock awards	Tecnored	Tecnored S.A.
RSUs	Restricted stock units	Tecsur	Tecsur S.A.
S&P	Standard & Poor's	TIMP	Transmission Integrity Management Program
SAESA	Sociedad Austral de Electricidad Sociedad Anónima	TO3	Electric Transmission Formula Rate
SB	Senate Bill	TO4	Electric Transmission Formula Rate
SDG&E	San Diego Gas & Electric Company	Trust	ESOP Trust
SEDATU	Secretaría de Desarrollo Agrario, Territorial y Urbano	TURN	The Utility Reform Network
SEMARNAT	Mexican environmental protection agency	UC	University of California
SFP	Secondary financial protection	USFS	United States Forest Service
SGRP	Steam Generator Replacement Project	U.S. GAAP	Accounting principles generally accepted in the United States of America
Shell	Shell México Gas Natural	VaR	Value at Risk
SoCalGas	Southern California Gas Company	VAT	Value added tax
SONGS	San Onofre Nuclear Generating Station	VEBA	Voluntary Employee Beneficiary Association
SONGS OII	CPUC's Order Instituting Investigation (OII) into the SONGS Outage	VIE	Variable interest entity
SPPR Group	Southwest Public Power Resources Group	VREP	Voluntary Retirement Enhancement Program
SRP	Salt River Project Agricultural Improvement and Power District	Williams	Williams Midstream Natural Gas Liquids, Inc.
SWPL	Southwest Powerlink	Willmut Gas	Willmut Gas Company

Exhibit 21.1
Sempra Energy
Schedule of Certain Subsidiaries
at December 31, 2014

Subsidiary	State of Incorporation or Other Jurisdiction
AEI Asociacion en Participacion	Peru
Enova Corporation	California
Luz del Sur S.A.A.	Peru
Pacific Enterprises	California
Pacific Enterprises International	California
San Diego Gas & Electric Company	California
Sempra Energy International	California
Sempra Energy Holdings III B.V.	Netherlands
Sempra Energy International Holdings N.V.	Netherlands
Sempra Global	Delaware
Southern California Gas Company	California

CERTIFICATION

I, Debra L. Reed, certify that:

1. I have reviewed this report on Form 10-K of Sempra Energy;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13(a)-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report, based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

February 26, 2015

/s/ Debra L. Reed
Debra L. Reed
Chief Executive Officer

CERTIFICATION

I, Joseph A. Householder, certify that:

1. I have reviewed this report on Form 10-K of Sempra Energy;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13(a)-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report, based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

February 26, 2015

/s/ Joseph A. Householder
Joseph A. Householder
Chief Financial Officer

CERTIFICATION

I, J. Walker Martin, certify that:

1. I have reviewed this report on Form 10-K of San Diego Gas & Electric Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13(a)-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report, based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

February 26, 2015

/s/ J. Walker Martin
J. Walker Martin
Chief Executive Officer

CERTIFICATION

I, Robert M. Schlax, certify that:

1. I have reviewed this report on Form 10-K of San Diego Gas & Electric Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13(a)-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report, based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

February 26, 2015

/s/ Robert M. Schlax
Robert M. Schlax
Chief Financial Officer

CERTIFICATION

I, Dennis V. Arriola, certify that:

1. I have reviewed this report on Form 10-K of Southern California Gas Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13(a)-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report, based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

February 26, 2015

/s/ Dennis V. Arriola
Dennis V. Arriola
Chief Executive Officer

CERTIFICATION

I, Robert M. Schlax, certify that:

1. I have reviewed this report on Form 10-K of Southern California Gas Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13(a)-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report, based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

February 26, 2015

/s/ Robert M. Schlax
Robert M. Schlax
Chief Financial Officer

Statement of Chief Executive Officer

Pursuant to 18 U.S.C. Sec 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned Chief Executive Officer of Semptra Energy (the "Company") certifies that:

- (i) the Annual Report on Form 10-K of the Company filed with the Securities and Exchange Commission for the year ended December 31, 2014 (the "Annual Report") fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and
- (ii) the information contained in the Annual Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

February 26, 2015

/s/ Debra L. Reed
Debra L. Reed
Chief Executive Officer

Statement of Chief Financial Officer

Pursuant to 18 U.S.C. Sec 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned Chief Financial Officer of Sempra Energy (the "Company") certifies that:

- (i) the Annual Report on Form 10-K of the Company filed with the Securities and Exchange Commission for the year ended December 31, 2014 (the "Annual Report") fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and
- (ii) the information contained in the Annual Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

February 26, 2015

/s/ Joseph A. Householder

Joseph A. Householder
Chief Financial Officer

Statement of Chief Executive Officer

Pursuant to 18 U.S.C. Sec 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned Chief Executive Officer of San Diego Gas & Electric Company (the "Company") certifies that:

- (i) the Annual Report on Form 10-K of the Company filed with the Securities and Exchange Commission for the year ended December 31, 2014 (the "Annual Report") fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and
- (ii) the information contained in the Annual Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

February 26, 2015

/s/ J. Walker Martin

J. Walker Martin
Chief Executive Officer

Statement of Chief Financial Officer

Pursuant to 18 U.S.C. Sec 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned Chief Financial Officer of San Diego Gas & Electric Company (the "Company") certifies that:

- (i) the Annual Report on Form 10-K of the Company filed with the Securities and Exchange Commission for the year ended December 31, 2014 (the "Annual Report") fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and
- (ii) the information contained in the Annual Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

February 26, 2015

/s/ Robert M. Schlax
Robert M. Schlax
Chief Financial Officer

Statement of Chief Executive Officer

Pursuant to 18 U.S.C. Sec 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned Chief Executive Officer of Southern California Gas Company (the "Company") certifies that:

- (i) the Annual Report on Form 10-K of the Company filed with the Securities and Exchange Commission for the year ended December 31, 2014 (the "Annual Report") fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and
- (ii) the information contained in the Annual Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

February 26, 2015

/s/ Dennis V. Arriola
Dennis V. Arriola
Chief Executive Officer

Statement of Chief Financial Officer

Pursuant to 18 U.S.C. Sec 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned Chief Financial Officer of Southern California Gas Company (the "Company") certifies that:

- (i) the Annual Report on Form 10-K of the Company filed with the Securities and Exchange Commission for the year ended December 31, 2014 (the "Annual Report") fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and
- (ii) the information contained in the Annual Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

February 26, 2015

/s/ Robert M. Schlax
Robert M. Schlax
Chief Financial Officer