

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

FORM 10-Q

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

For the quarterly period ended September 30, 2004

Commission file number 1-14201

Sempra Energy

(Exact name of registrant as specified in its charter)

California 33-0732627

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

101 Ash Street, San Diego, California 92101

(Address of principal executive offices)
(Zip Code)

(619) 696-2034

(Registrant's telephone number, including area code)

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

Yes X No

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes X No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Common stock outstanding on October 31, 2004: 233,389,125

2

INFORMATION REGARDING FORWARD-LOOKING STATEMENTS

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

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

the Securities and Exchange Commission.

PART I. FINANCIAL INFORMATION
 ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS.

SEMPRA ENERGY
 STATEMENTS OF CONSOLIDATED INCOME
 (Dollars in millions, except per share amounts)

	Three months ended September 30, ----- -----	2004 2003 - ----- ---
OPERATING REVENUES		
California utilities:		
Natural gas	\$ 909	\$ 870
Electric	445	576
Other	811	
	612	
<hr/>		
Total operating revenues	2,165	2,058
<hr/>		
OPERATING EXPENSES		
California utilities:		
Cost of natural gas	438	372
Cost of electric fuel and purchased power	143	128
Other cost of sales	484	
Other operating expenses	530	668
Depreciation and amortization	171	158
Franchise fees and other taxes	54	54
<hr/>		
Total operating expenses	1,820	1,751
<hr/>		
Operating income	345	
Other income	307	
net	40	34
Interest income	25	8
Interest expense	(74)	(78)
Preferred dividends of subsidiaries	(2)	(2)
<hr/>		
Income before income taxes	334	
Income tax expense	269	
	103	58

~~Net income~~
~~\$ 231 \$ 211~~

~~=====~~
~~=====~~

~~Basic~~
~~earnings~~
~~per share:~~
~~Net income~~
~~\$ 1.01 \$~~
~~1.01~~

~~=====~~
~~=====~~

~~Weighted-~~
~~average~~
~~number of~~
~~shares~~
~~outstanding~~
~~(thousands)~~

~~229,376~~
~~208,816~~

~~=====~~
~~=====~~

~~Diluted~~
~~earnings~~
~~per share:~~
~~Net income~~
~~\$ 0.98 \$~~
~~1.00~~

~~=====~~
~~=====~~

~~Weighted-~~
~~average~~
~~number of~~
~~shares~~
~~outstanding~~
~~(thousands)~~

~~235,936~~
~~212,273~~

~~=====~~
~~=====~~

~~Dividends~~
~~declared~~
~~per share~~
~~of common~~
~~stock \$~~
~~0.25 \$ 0.25~~

~~=====~~
~~=====~~

~~----- See~~
~~notes to~~
~~Consolidated~~
~~Financial~~
~~Statements.~~

SEMPRA ENERGY
 STATEMENTS OF CONSOLIDATED INCOME
 (Dollars in millions, except per share amounts)

Nine months
 ended
 September
 30, -----

 2004 2003 --

 - OPERATING
 REVENUES
 California
 utilities:
 Natural gas
 \$ 3,189 \$
 2,061
 Electric
 1,246 1,368
 Other 2,086
 1,402 -----

 Total
 operating
 revenues
 6,521 5,821

 OPERATING
 EXPENSES
 California
 utilities:
 Cost of
 natural gas
 1,744 1,529
 Cost of
 electric
 fuel and
 purchased
 power 425
 428 Other
 cost of
 sales 1,186
 886 Other
 operating
 expenses
 1,597 1,631
 Depreciation
 and
 amortization
 501 455
 Franchise
 fees and
 other taxes
 171 167 -----

 Total
 operating
 expenses
 5,624 5,096

 Operating
 income 897
 725 Other
 income net
 58 38

Interest
 income 58 30
 Interest
 expense
 (234) (223)

Preferred
 dividends of
 subsidiaries
 (7) (8)

Trust
 preferred
 distributions
 by
 subsidiary
 (0) -----

 Income from
 continuing
 operations
 before
 income taxes
 772 553

Income tax
expense 191
109

Income from
continuing
operations
581 444 Loss
from
discontinued
operations,
net of tax
(Note 4)
(30) Loss
on disposal
of
discontinued
operations,
net of tax
(Note 4) (2)

Income
before
cumulative
effect of
change in
accounting
principle
549 444
Cumulative
effect of
change in
accounting
principle,
net of tax
(Note 2)
(29)

Net
income \$ 549
\$ 415

Basic
earnings per
share:
Income from
continuing
operations \$
2.55 \$ 2.14
Discontinued
operations,
net of tax
(0.14)
Cumulative
effect of
change in
accounting
principle,
net of tax
(0.14)

Net income \$
2.41 \$ 2.00

Weighted-
average
number of
shares
outstanding
(thousands)
227,412
207,620

Diluted
earnings per
share:
Income from
continuing
operations \$
2.50 \$ 2.12
Discontinued
operations,
net of tax
(0.14)
Cumulative
effect of
change in
accounting
principle,
net of tax

~~(0.14)~~

~~Net income \$
2.36 \$ 1.98~~

~~=====
=====
Weighted-
average
number of
shares
outstanding
(thousands)
232,366
210,160
=====~~

~~Dividends
declared per
share of
common stock
\$ 0.75 \$
0.75 =====~~

~~=====
=====
See
notes to
Consolidated
Financial
Statements.~~

SEMPRA ENERGY
 CONSOLIDATED BALANCE SHEETS
 (Dollars in millions)

September 30,
 December 31,
 2004 2003 -----

----- ASSETS

~~Current assets:~~

~~Cash and cash equivalents \$ 267 \$ 432~~

~~Short-term investments 363~~

~~Accounts receivable—trade 685 875~~

~~Accounts and notes receivable—other 85 127~~

~~Due from affiliate 7~~

~~Income taxes receivable 1~~

~~Deferred income taxes 58 2~~

~~Interest receivable 82~~

~~Trading assets 6,156 5,250~~

~~Regulatory assets arising from fixed-price contracts and other derivatives 155 144~~

~~Other regulatory assets 100 89~~

~~Inventories 225 147~~

~~Other 198 157~~

~~----- Current assets of continuing operations 8,027 7,649~~

~~Current assets of discontinued operations 82 220~~

~~----- Total current assets 8,109 7,869~~

~~Investments and other assets:~~

~~Due from affiliates 45 55~~

~~Regulatory assets arising from fixed-price contracts and other derivatives 530 650~~

~~Other regulatory assets 476 552~~

~~Nuclear decommissioning trusts 575 570~~

~~Investments 1,132 1,114~~

~~Sundry 750 706~~

~~----- Total investments and other assets 3,508 3,647~~

~~Property, plant and equipment:~~

~~Property, plant and equipment 15,927 15,317~~

~~Less accumulated~~

depreciation
and
amortization
~~(5,080) (4,843)~~

~~— Property,
plant and
equipment — net
10,847 10,474 —~~

~~— Total assets
\$ 22,464 \$
21,990 =====~~

~~===== See
notes to
Consolidated
Financial
Statements.~~

SEMPRA ENERGY
 CONSOLIDATED BALANCE SHEETS
 (Dollars in millions)

September 30,
 December 31,
 2004 2003 ---

LIABILITIES	
AND	
SHAREHOLDERS'	
EQUITY	
Current	
liabilities:	
Short-term	
debt \$ 435 \$	
28 Accounts	
payable—	
trade 745 779	
Accounts	
payable—	
other 89 62	
Income taxes	
payable 302	
156 Deferred	
income taxes	
— 26 Trading	
liabilities	
4,860 4,457	
Dividends and	
interest	
payable 134	
136	
Regulatory	
balancing	
accounts—	
net 347 424	
Fixed price	
contracts and	
other	
derivatives	
164 148	
Current	
portion of	
long-term	
debt 99 1,433	
Other 690 681	
<hr/>	
Current	
liabilities	
of continuing	
operations	
7,865 8,330	
Current	
liabilities	
of	
discontinued	
operations 19	
52	
<hr/>	
Total	
current	
liabilities	
7,884 8,382	
<hr/>	
Long-term	
debt 4,414	
3,841	
<hr/>	
Deferred	
credits and	
other	
liabilities:	
Due to	
affiliates	
362 362	
Customer	
advances for	
construction	
85 89	
Postretirement	
benefits	
other than	
pensions 121	
131 Deferred	
income taxes	
170 208	
Deferred	
investment	
tax credits	

~~80-84
Regulatory
liabilities
arising from
cost of
removal
obligations
2,331 2,238
Regulatory
liabilities
arising from
asset
retirement
obligations
300 303 Other
regulatory
liabilities
112 108
Fixed price
contracts and
other
derivatives
530 680 Asset
retirement
obligations
321 313
Deferred
credits and
other 1,194
1,182~~

~~Total
deferred
credits and
other
liabilities
5,606 5,698~~

~~Preferred
stock of
subsidiaries
179 179~~

~~Contingencies
and
commitments
(Note 7)~~

~~SHAREHOLDERS'
EQUITY~~

~~Preferred
stock (50
million
shares
authorized;
none issued)~~

~~Common
stock (750
million
shares
authorized;
233 million
and 227
million
shares
outstanding
at September
30, 2004 and
December 31,
2003,
respectively)~~

~~2,166 2,028
Retained
earnings
2,674 2,298~~

~~Deferred
compensation
relating to
ESOP (33)
(35)~~

~~Accumulated
other
comprehensive
income (loss)
(426) (401)~~

~~Total
shareholders'
equity 4,381
3,890~~

~~Total
liabilities
and~~

shareholders'
equity \$
22,464 \$
21,990
=====
=====
See
notes to
Consolidated
Financial
Statements.

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

Nine months
 ended
 September
 30, -----

 2004 2003 --

~~CASH FLOWS
 FROM~~

~~OPERATING
 ACTIVITIES~~

~~Net income \$
 549 \$ 415~~

~~Adjustments
 to reconcile
 net income
 to net cash
 provided by
 operating
 activities:~~

~~Loss from
 discontinued
 operations,
 net of tax~~

~~30 Loss
 on disposal
 of~~

~~discontinued
 operations,
 net of tax~~

~~2~~

~~Cumulative
 effect of
 change in
 accounting
 principle~~

~~29
 Depreciation
 and~~

~~amortization
 501 455~~

~~Impairment
 losses 8 79~~

~~Deferred
 income taxes
 and~~

~~investment
 tax credits~~

~~(7) (160)~~

~~Other net
 8 38 Net~~

~~changes in
 other~~

~~working
 capital
 components~~

~~(523) 75~~

~~Changes in
 other assets~~

~~(66) (36)~~

~~Changes in
 other
 liabilities~~

~~21 28~~

~~Net cash
 provided by
 continuing
 operations~~

~~523 923 Net~~

~~cash used in
 discontinued
 operations~~

~~(30)~~

~~Net cash
 provided by
 operating
 activities~~

~~493 923~~

~~CASH FLOWS
 FROM~~

~~INVESTING
 ACTIVITIES~~

Expenditures
for
property,
plant and
equipment
(782) (664)
Proceeds
from sale of
assets 371
— Proceeds
from
disposal of
discontinued
operations
137
Investments
and
acquisitions
of
subsidiaries,
net of cash
acquired
(70) (182)
Dividends
received
from
affiliates
50 21
Affiliate
loan (54)
Other net
(8)

Net cash
used in
investing
activities
(294) (887)

CASH
FLOWS FROM
FINANCING
ACTIVITIES
Common
dividends
paid (162)
(155)
Issuances of
common stock
120 81
Repurchases
of common
stock (1)
(6)
Issuances of
long term
debt 897 400
Payments on
long term
debt (1,648)
(481)
Increase in
short term
debt net
434 89 Other
net (4)
(8)

Net
cash used in
financing
activities
(364) (80)

Decrease
in cash and
cash
equivalents
(165) (44)
Cash and
cash
equivalents,
January 1
432 455

Cash and
cash
equivalents,
September 30
\$ 267 \$ 411
=====

SUPPLEMENTAL
DISCLOSURE

OF CASH FLOW
INFORMATION

Interest
payments,
net of
amounts
capitalized
\$ 220 \$ 216

=====

Income tax
payments,
net of
refunds \$
120 \$ 97

=====

===== See
notes to
Consolidated
Financial
Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. GENERAL

This Quarterly Report on Form 10-Q is that of Sempra Energy (the company), a California-based Fortune 500 holding company. Sempra Energy's subsidiaries include San Diego Gas & Electric Company (SDG&E), Southern California Gas Company (SoCalGas) (collectively referred to herein as the California Utilities); Sempra Energy Global Enterprises (Global), which is the holding company for Sempra Energy Trading (SET), Sempra Energy Resources (SER), Sempra Energy International (SEI), Sempra Energy LNG (SELNG) and other, smaller businesses; Sempra Energy Financial (SEF); and additional smaller businesses. The financial statements herein are the Consolidated Financial Statements of Sempra Energy and its consolidated subsidiaries.

The accompanying Consolidated Financial Statements have been prepared in accordance with the interim-period-reporting requirements of Form 10-Q. Results of operations for interim periods are not necessarily indicative of results for the entire year. In the opinion of management, the accompanying statements reflect all adjustments necessary for a fair presentation. These adjustments are only of a normal recurring nature. Certain changes in classification have been made to prior presentations to conform to the current financial statement presentation. Specifically, certain December 31, 2003 income tax liabilities have been reclassified from Deferred Income Taxes to current Income Taxes Payable and to Deferred Credits and Other Liabilities to conform to the current presentation of these items.

Information in this Quarterly Report is unaudited and should be read in conjunction with the Annual Report on Form 10-K for the year ended December 31, 2003 (Annual Report) and the Quarterly Reports on Form 10-Q for the first and second quarters of 2004.

The company's significant accounting policies are described in Note 1 of the notes to Consolidated Financial Statements in the Annual Report. The same accounting policies are followed for interim reporting purposes.

The company follows the guidance of Statement of Financial Accounting Standards (SFAS) 142, Goodwill and Other Intangible Assets. The carrying amount of goodwill (included in Noncurrent Sundry Assets on the Consolidated Balance Sheets) was \$188 million as of December 31, 2003 and September 30, 2004.

The California Utilities account for the economic effects of regulation on utility operations in accordance with SFAS No. 71, Accounting for the Effects of Certain Types of Regulation.

The following tables provide the per share computations for income from continuing operations.

Three months ended
September
30, 2004
Three months ended
September
30, 2003 ---

- Income
Shares Per
Income
Shares Per
(millions)
(thousands)
Share
(millions)
(thousands)
Share
(numerator)
(denominator)
Amounts
(numerator)
(denominator)
Amounts ----

---- Basic
EPS: Income
from
continuing
operations \$
231,229,376
~~\$ 1.01~~ \$ 211
208,816 \$
1.01 Effect
of dilutive
securities:
Stock
options and
restricted
stock awards
3,663 (0.02)
3,457 (0.01)
Equity Units
2,897 (0.01)

Diluted EPS:
Income from
continuing
operations \$
231,235,936
~~\$ 0.98~~ \$ 211
212,273 \$
1.00
=====

===== Nine
months ended
September
30, 2004
Nine months
ended
September
30, 2003

~~Income~~
~~Shares Per~~
~~Income~~
~~Shares Per~~
~~(millions)~~
~~(thousands)~~
~~Share~~
~~(millions)~~
~~(thousands)~~
~~Share~~
~~(numerator)~~
~~(denominator)~~
~~Amounts~~
~~(numerator)~~
~~(denominator)~~
~~Amounts~~

~~Basic~~
~~EPS: Income~~
~~from~~
~~continuing~~
~~operations \$~~
~~581,227,412~~
~~\$ 2.55 \$ 444~~
~~207,620 \$~~
~~2.14 Effect~~
~~of dilutive~~
~~securities:~~
~~Stock~~
~~options and~~
~~restricted~~
~~stock awards~~
~~3,344 (0.03)~~
~~2,540 (0.02)~~
~~Equity Units~~
~~1,610 (0.02)~~

~~Diluted EPS:~~
~~Income from~~
~~continuing~~
~~operations \$~~
~~581,232,366~~
~~\$ 2.50 \$ 444~~
~~210,160 \$~~
~~2.12~~
~~=====~~
~~=====~~
~~=====~~
~~=====~~
~~=====~~
~~=====~~

Additional information regarding the Equity Units is provided in Note 12 of the Annual Report.

NOTE 2. NEW ACCOUNTING STANDARDS

Stock-Based Compensation: On March 31, 2004, the Financial Accounting Standards Board (FASB) issued a proposed Exposure Draft to amend SFAS 123, Accounting for Stock-Based Compensation. The proposed statement would eliminate the choice of accounting for share-based compensation transactions using Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees, whereby no expense is recorded for most stock options, and instead would require that such transactions be accounted for using a fair-value-based method, whereby expense is recorded for stock options. It would also prohibit application by restating prior periods and would require that expense ultimately be recognized only for those options that actually vest. A final statement is expected to be issued in the fourth quarter of 2004 and be effective July 1, 2005.

The following table provides the pro forma effects that would have resulted if stock options had been expensed.

Three months
ended Nine months
ended September
30, September 30,
(Dollars in
millions, -----

except for per
share amounts)
2004 2003 2004
2003 - -----

---- Net income
as reported \$ 231
\$ 211 \$ 549 \$ 415
Stock-based
employee
compensation
expense as
recorded, net of
tax 6 3 15 17
Total stock-based
employee
compensation
under fair value
method for all
awards, net of
tax (0) (5) (21)
(23)

----- Pro
forma net income
\$ 228 \$ 209 \$ 543
\$ 409
=====

Earnings per
share: Basic as
reported \$ 1.01 \$
1.01 \$ 2.41 \$
2.00
=====

Basic pro forma
\$ 0.99 \$ 1.00 \$
2.39 \$ 1.97
=====

Diluted as
reported \$ 0.98 \$
1.00 \$ 2.36 \$
1.98
=====

Diluted pro
forma \$ 0.97 \$
0.98 \$ 2.34 \$
1.95
=====

SFAS 132 (revised 2003), "Employers' Disclosures about Pensions and Other Postretirement Benefits": This statement revises required disclosures about employers' pension plans and other postretirement benefit plans, effective in 2004. It requires disclosures beyond those in the original SFAS 132 related to the assets, obligations, cash flows

and net periodic benefit cost of defined benefit pension plans and other defined postretirement benefit plans. In addition, it requires interim-period disclosures regarding the amount of net periodic benefit cost recognized and the total amount of the employers' contributions paid and expected to be paid during the current fiscal year. It does not change the measurement or recognition of those plans.

Service cost			
\$ 36	\$ 39	\$	
16	\$ 14		
Interest cost			
115	113	39	41
Expected			
return on			
assets (115)			
(121)	(27)		
(26)			
Amortization			
of:			
Transition			
obligation			
7	7	Prior	
service cost			
7	7	(1)	(1)
Actuarial			
loss	9	9	7
8			
Regulatory			
adjustment			
(25)	(11)	7	
(3)			
<hr/>			
<hr/>			
Total net			
periodic			
benefit cost			
\$ 27	\$ 36	\$	
48	\$ 40		
<hr/>			
<hr/>			
<hr/>			
<hr/>			
<hr/>			
<hr/>			

Note 8 of the notes to Consolidated Financial Statements in the Annual Report discusses the company's expected contribution to its pension plans and other postretirement benefit plans in 2004. For the nine months ended September 30, 2004, \$10 million and \$44 million of contributions have been made to its pension plans and other postretirement benefit plans, respectively, including \$1 million and \$14 million, respectively, for the quarter ended September 30, 2004.

FASB Staff Position (FSP) 106-2, "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003": In December 2003, the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the "Act") was enacted. The Act establishes a prescription drug benefit under Medicare, known as "Medicare Part D," and a tax-exempt federal subsidy

to sponsors of retiree health care benefit plans that provide a benefit that actuarially is at least equivalent to Medicare Part D.

In May 2004, the FASB issued FSP 106-2 which requires that the effects of the federal subsidy be considered an actuarial gain and be recognized in the same manner as other actuarial gains and losses. In addition, FSP 106-2 requires certain disclosures for employers that sponsor postretirement health care plans that provide prescription drug benefits. During the third quarter of 2004, the company adopted FSP 106-2 retroactive to the beginning of the year. The company and its actuarial advisors determined that benefits provided to certain participants will actuarially be at least equivalent to Medicare Part D, and, accordingly, the company will be entitled to an expected tax-exempt subsidy that reduces the company's accumulated postretirement benefit obligation under the plan at January 1, 2004 by \$102 million and net periodic benefit cost for 2004 by \$13 million.

The net periodic postretirement benefit costs for the three and nine months ended September 30, 2004 were reduced by \$10 million, before regulatory adjustments, to reflect the expected subsidy as a result of the Act.

The following tables provide the impact of the Act on components of net periodic postretirement benefit costs. The three-month period includes the entire nine-month subsidy since none of the subsidy was recorded until the third quarter.

Three months ended September 30, 2004 -- ----- ----- -----	Before After Federal Effect Federal (Dollars in millions) Subsidy of Subsidy - - ----- ----- ----- ----- -----
Service cost \$ 6 \$ (1) \$ 5 Interest cost 15 (5) 10 Expected return on assets (9) — (9) Amortization of: Transition obligation 2 2 Prior service cost (1) — (1) Actuarial (gain) loss 5 (4) 1 Regulatory adjustment (2) 9 7 ----- ----- ----- ----- -----	Total net periodic benefit cost \$ 16 \$ (1) \$ 15 ----- ----- -----

~~13~~ Nine
months
ended
September
30, 2004

Before
After
Federal
Effect
Federal
(Dollars in
millions)
Subsidy of
Subsidy
Subsidy

Service
cost \$ 17 \$
(1) \$ 16
Interest
cost 44 (5)
39 Expected
return on
assets (27)
— (27)
Amortization
of:
Transition
obligation
7 — 7
Prior
service
cost (1) —
(1)
Actuarial
(gain) loss
11 (4) 7
Regulatory
adjustment
(2) 9 7

Total net
periodic
benefit
cost \$ 49 \$
(1) \$ 48

SFAS 143, "Accounting for Asset Retirement Obligations": Beginning in 2003, SFAS 143 requires entities to record liabilities for future costs expected to be incurred when assets are retired from service, if the retirement process is legally required. It also requires the reclassification of utilities' estimated removal costs, which have historically been recorded in accumulated depreciation, to a regulatory liability. At September 30, 2004 and December 31, 2003, the estimated removal costs recorded as a regulatory liability were \$1.4 billion at both dates for SoCalGas, and \$882 million and \$846 million, respectively, for SDG&E.

The change in the asset retirement obligations for the nine months ended September 30, 2004 is as follows (dollars in millions):

Balance as of January 1, 2004	\$ 337
Accretion expense (interest)	17
Payments	(9)

Balance as of September 30, 2004	\$ 345*
	=====

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

In June 2004, the FASB issued a proposed interpretation, Accounting for Conditional Asset Retirement Obligations, an interpretation of FASB Statement No. 143. The interpretation would clarify that a legal obligation to perform an asset retirement activity that is conditional on a future event is within the scope of SFAS 143. Accordingly, the interpretation would require an entity to recognize a liability for a conditional asset retirement obligation if the liability's fair value can be reasonably estimated. The proposed interpretation would be effective for the company on December 31, 2005.

SFAS 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities": Effective July 1, 2003, SFAS 149 amended and clarified accounting for derivative instruments and for hedging activities under SFAS 133. Under SFAS 149, natural gas forward contracts that are subject to unplanned netting generally do not qualify for the normal purchases and normal sales exception, whereby

derivatives are not required to be marked to market when the contract is usually settled by the physical delivery of natural gas. ("Netting" refers to contract settlement by paying or receiving the monetary difference between the contract price and the market price at the date on which physical delivery would have occurred.) The company has determined that all natural gas contracts are subject to unplanned netting and as such, these contracts are marked to market. In addition, effective January 1, 2004, power contracts that are subject to unplanned netting and that do not meet the normal purchases and normal sales exception under SFAS 149 are marked to market. Implementation of SFAS 149 did not have a material impact on reported net income. Additional information on derivative instruments is provided in Note 5.

SFAS 150, "Accounting for Certain Financial Instruments with Characteristics of Liabilities and Equity": The company adopted SFAS 150 beginning July 1, 2003 by reclassifying \$200 million of mandatorily redeemable trust preferred securities to Deferred Credits and Other Liabilities and \$24 million of mandatorily redeemable preferred stock of subsidiaries to Deferred Credits and Other Liabilities and to Other Current Liabilities on the Consolidated Balance Sheets. On December 31, 2003, the \$200 million of mandatorily redeemable trust preferred securities was further reclassified to Due to Affiliates upon the adoption of FASB Interpretation No. (FIN) 46 as discussed below.

Emerging Issues Task Force (EITF) 98-10, "Accounting for Contracts Involved in Energy Trading and Risk Management Activities": In accordance with the EITF's rescission of Issue 98-10 by the release of Issue 02-3, the company no longer marks to market energy-related contracts unless the contracts meet the requirements stated under SFAS 133 and SFAS 149. A substantial majority of the company's contracts do meet these requirements. On January 1, 2003, the company recorded the initial effect of Issue 98-10's rescission as a cumulative effect of a change in accounting principle, which reduced after-tax earnings by \$29 million. Neither the cumulative nor the ongoing effect impacts the company's cash flow or liquidity. However, net income for the third quarter of 2004 was \$38 million lower than the true economic value of SET's activities due to the EITF's rescission of Issue 98-10. Additional information on derivative instruments is provided in Note 5.

FIN 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees": As of September 30, 2004, substantially all of the company's guarantees were intercompany, whereby the parent issues the guarantees on behalf of its consolidated subsidiaries. Significant guarantees for which disclosure is required are the mandatorily redeemable trust preferred securities and \$25 million related to debt issued by Chilquinta Energia Finance, LLC, an unconsolidated affiliate. The mandatorily redeemable trust preferred securities were also affected by FIN 46, as described below. In addition, the company provided American Electric Power (AEP) a guarantee of up to \$75 million for specified liabilities described in the agreement for the company's acquisition of certain AEP power plants. The company does not expect material losses to result from this guarantee because performance is not expected to be required and, therefore, has determined that the fair value of the guarantee is immaterial. SDG&E and SoCalGas have a residual value guarantee under a fleet lease arrangement. As of September 30, 2004, the company had no liabilities recorded for the

fleet lease guarantees due to the immaterial amount of the estimated fair value of such guarantees.

FIN 46, "Consolidation of Variable Interest Entities (an interpretation of Accounting Research Bulletin (ARB) No. 51)": FIN 46 requires the primary beneficiary of a variable interest entity's activities to consolidate the entity. Variable interest entities (VIEs) are enterprises that have certain characteristics defined in FIN 46.

Sempra Energy adopted FIN 46 on December 31, 2003, resulting in the consolidation of two VIEs for which it is the primary beneficiary. One of the VIEs (Mesquite Trust) was the owner of the Mesquite Power plant for which the company had a synthetic lease agreement. The company recorded an after-tax credit of \$9 million in the fourth quarter of 2003 for the cumulative effect of the change in accounting principle. The company bought out the lease in January 2004 and now owns the plant.

The other VIE is Atlantic Electric & Gas (AEG). Consolidation of AEG resulted in Sempra Energy's recording of 100 percent of AEG's balance sheet and results of operations, whereas it previously recorded only its share of AEG's net operating results. Due to AEG's consolidation, the company recorded an after-tax charge of \$26 million in the fourth quarter of 2003 for the cumulative effect of the change in accounting principle. During the first quarter of 2004, Sempra Energy's Board of Directors approved management's plan to dispose of AEG. Note 4 provides further discussion concerning this matter and the disposal of AEG, which occurred in April 2004.

In accordance with this interpretation, the company deconsolidated a wholly owned subsidiary trust from its financial statements at December 31, 2003. The trust has no assets except for its receivable from the company. Due to the deconsolidation of this entity, Sempra Energy reclassified \$200 million of mandatorily redeemable trust preferred securities to Due to Affiliates on its Consolidated Balance Sheets.

In addition, contracts under which SDG&E acquires power from generation facilities otherwise unrelated to SDG&E could result in a requirement for SDG&E to consolidate the entity that owns the facility. As permitted by the interpretation, SDG&E is continuing the process of determining whether it has any such situations and, if so, gathering the information that would be needed to perform the consolidation. The effects of this, if any, are not expected to significantly affect the financial position of SDG&E and there would be no effect on results of operations or liquidity.

NOTE 3. COMPREHENSIVE INCOME

The following is a reconciliation of net income to comprehensive income.

(Dollars in millions)	Three months ended September 30,		Nine months ended September 30,	
	2004	2003	2004	2003
Net income	\$ 231	\$ 211	\$ 549	\$ 415
Minimum pension liability adjustments	--	--	--	(6)
Foreign currency adjustments	13	(13)	3	31
Financial instruments	(15)	--	(28)	--
Comprehensive income	\$ 229	\$ 198	\$ 524	\$ 440

NOTE 4. DISCONTINUED OPERATIONS

During the first quarter of 2004, Sempra Energy's Board of Directors approved management's plan to dispose of its interest in AEG, which resulted in a loss of \$2 million after taxes in the second quarter, which has been reported separately on the Statements of Consolidated Income.

The net losses from discontinued operations were \$32 million for the nine months ended September 30, 2004 (including the \$2 million loss on disposal). There was no operating activity for the quarter ended September 30, 2004. During 2003, the company accounted for its investment in AEG under the equity method of accounting. As such, for the nine-month and three-month periods ended September 30, 2003, the company recorded its share of AEG's net income, \$1 million and \$7 million, respectively, in Other Income - Net on the Statements of Consolidated Income. Additionally, for those nine-month and three-month periods the company recorded \$2 million and \$1 million, respectively, of interest income, and for both periods the company recorded offsetting income tax expense of \$1 million. Effective December 31, 2003, AEG has been consolidated as a result of the adoption of FIN 46. This is discussed further in the Annual Report.

Included within the net loss from discontinued operations are AEG's operating results, summarized below:

(Dollars in millions)	Nine months ended September 30, 2004
Operating revenues	\$ 201
Loss from discontinued operations, before income taxes	\$ (30)
Loss on disposal of discontinued operations, before income taxes	\$ (6)

AEG's balance sheet data, excluding intercompany balances (which are significant) eliminated in consolidation, are summarized below:

(Dollars in millions)	September 30, 2004	December 31, 2003
Assets:		
Accounts receivable	\$ 37	\$ 137
Other current assets	45	83
	-----	-----
Total assets	\$ 82	\$ 220
	-----	-----
Liabilities:		
Accounts payable	\$ --	\$ 36
Other current liabilities	19	16
	-----	-----
Total liabilities	\$ 19	\$ 52
	-----	-----

NOTE 5. FINANCIAL INSTRUMENTS

As described in Note 10 of the notes to Consolidated Financial Statements in the Annual Report, the company follows the guidance of SFAS 133 as amended by SFAS 138 and 149 (collectively SFAS 133) to account for its derivative instruments and hedging activities. Derivative instruments and related hedged items are recognized as either assets or liabilities on the balance sheet, measured at fair value. Except at the California Utilities, where such changes are balanced in the ratemaking process, changes in the fair value of derivatives are recognized in earnings in the period of change unless the derivative qualifies as an effective hedge that offsets certain exposure.

SFAS 133 provides for hedge accounting treatment when certain criteria are met. For derivative instruments designated as fair value hedges, the gain or loss is recognized in earnings in the period of change together with the offsetting gain or loss on the hedged item attributable to the risk being hedged. For derivative instruments designated as cash flow hedges, the effective portion of the derivative gain or loss is included in Other Comprehensive Income, but not reflected in the Statements of Consolidated Income until the corresponding hedged transaction is settled. Any ineffective portion is reported in earnings immediately.

The company utilizes derivative instruments to reduce its exposure to unfavorable changes in energy and other commodity prices, which are subject to significant and often volatile fluctuation. The company also uses derivative financial instruments to reduce its exposure to fluctuations in foreign currency exchange rates. Derivative instruments include futures, forwards, swaps, options and long-term delivery contracts. These contracts allow the company to predict with greater certainty the effective prices to be received or paid by the company and, in the case of the California Utilities, their customers. The company also periodically enters into interest-rate swap agreements to moderate exposure to interest-rate changes and to lower the overall cost of borrowing. The use of derivative financial instruments by the California Utilities is subject to certain limitations imposed by company policy and regulatory requirements.

Contracts that meet the definition of normal purchases and sales generally are long-term contracts that are settled by physical delivery and, therefore, are eligible for the normal purchases and sales exception of SFAS 133. The contracts are accounted for under accrual accounting and recorded in Revenues or Cost of Sales on the Statements of Consolidated Income when physical delivery occurs. Due to the adoption of SFAS 149, the company has determined that its natural gas contracts entered into after September 30, 2003 generally do not qualify for the normal purchases and sales exception and, accordingly, are marked to market.

Fixed-price Contracts and Other Derivatives

Fixed-price Contracts and Other Derivatives on the Consolidated Balance Sheets primarily reflect the California Utilities' unrealized gains and losses related to long-term delivery contracts for purchased power and natural gas transportation. The California Utilities have established offsetting regulatory assets and liabilities to the extent that these gains and losses are included in the calculation of future rates. If gains and losses at the California Utilities are not recoverable or payable through future rates, the California Utilities apply hedge accounting if certain criteria are met. If a contract no longer meets the requirements of SFAS 133, the unrealized gains and losses and the related regulatory asset or liability will be amortized over the remaining contract life.

The changes in Fixed-price Contracts and Other Derivatives on the Consolidated Balance Sheets for the nine months ended September 30, 2004 were primarily due to the settlement of the contingent purchase price obligation arising from the company's acquisition of the proposed Cameron liquefied natural gas (LNG) project described below and the physical deliveries under long-term purchased-power and natural gas transportation contracts. For the nine months ended September 30, 2004, pre-tax income from transactions associated with fixed-price contracts and other derivatives included \$13 million for the settlement of the Cameron contingency, which occurred during the first quarter. The transactions associated with fixed-price contracts and other derivatives had no material impact to the Statements of Consolidated Income for the nine months ended September 30, 2003.

Trading Assets and Trading Liabilities

Trading Assets and Trading Liabilities primarily arise from the activities of SET. SET derives revenue from market making and trading activities, as a principal, in natural gas, electricity, petroleum, petroleum products, metals and other commodities, for which it quotes bid and ask prices to other market makers and end users. It also earns trading profits as a dealer by structuring and executing transactions that permit its counterparties to manage their risk profiles. SET utilizes derivative instruments to reduce its exposure to unfavorable changes in market prices, which are subject to significant and often volatile fluctuation. These instruments include futures, forwards, swaps and options, and represent contracts with counterparties under which payments are linked to or derived from energy market indices or on terms predetermined by the contract, which may or may not be financially settled by SET. Sempra Energy guarantees many of SET's transactions.

Derivative trading instruments are recorded by SET on a trade-date basis and the majority of such derivative instruments are adjusted daily to current market value with gains and losses recognized in Other Operating Revenues on the Statements of Consolidated Income. Trading Assets or Trading Liabilities include amounts due from commodity clearing organizations, amounts due to or from trading counterparties, unrealized gains and losses from exchange-traded futures and options, derivative over-the-counter (OTC) swaps, forwards and options. Unrealized gains and losses on OTC transactions reflect amounts that would be received from or paid to a third party upon settlement of the contracts. Unrealized gains and losses on OTC transactions are reported separately as assets and liabilities unless a legal right of offset exists under an enforceable netting arrangement. Other derivatives which qualify as hedges are accordingly recorded under hedge accounting.

Futures and exchange-traded option transactions are recorded as contractual commitments on a trade-date basis and are carried at fair value based on closing market quotations. Commodity swaps and forward transactions are accounted for as contractual commitments on a trade-date basis and are carried at fair value derived from dealer quotations and underlying commodity exchange quotations. OTC options purchased and written are recorded on a trade-date basis and carried at fair value based on the use of valuation models that utilize, among other things, current interest, commodity and volatility rates, as applicable. Energy commodity inventory is recorded at the lower of cost or market; however metals inventories continue to be recorded at fair value in accordance with ARB 43, Restatement and Revision of Accounting Research Bulletins.

The carrying values of SET's trading assets and trading liabilities are as follows:

(Dollars in millions)	September 30, 2004	December 31, 2003
<hr/>		
Trading Assets		
Unrealized gains on swaps and forwards	\$ 2,063	\$ 1,043
OTC commodity options purchased	819	459
Due from trading counterparties	1,699	2,183
Due from commodity clearing organizations and clearing brokers	270	134
Commodities owned	1,243	1,420
Other	6	1
	-----	-----
Total	\$ 6,100	\$ 5,240
	=====	=====
<hr/>		
Trading Liabilities		
Unrealized losses on swaps and forwards	\$ 1,883	\$ 1,095
OTC commodity options written	397	226
Due to trading counterparties	2,175	2,195
Repurchase obligations	371	866
Commodities not yet purchased	--	56
	-----	-----
Total	\$ 4,826	\$ 4,438
	=====	=====
<hr/>		

At SET, market risk arises from the potential for changes in the value of physical and financial instruments resulting from fluctuations in prices and basis for natural gas, electricity, petroleum, petroleum products, metals and other commodities. Market risk is also affected by changes in volatility and liquidity in markets in which these instruments are traded.

SET's credit risk from physical and financial instruments as of September 30, 2004 is represented by their positive fair value after consideration of collateral. Options written do not expose SET to credit risk. Exchange traded futures and options are not deemed to have significant credit exposure since the exchanges guarantee that every contract will be properly settled on a daily basis.

The following table summarizes the counterparty credit quality (as determined by rating agencies or internal models intended to approximate rating-agency determinations) and exposure for SET at September 30, 2004 and December 31, 2003, expressed in terms of net replacement value. These exposures are net of collateral in the form of customer margin and/or letters of credit of \$1.1 billion and \$569 million at September 30, 2004 and December 31, 2003, respectively.

(Dollars in millions)	September 30, 2004	December 31, 2003

Counterparty credit quality		
Commodity exchanges	\$ 270	\$ 134
AAA	5	5
AA	489	310
A	593	463
BBB	820	345
Below investment grade	562	357
	-----	-----
Total	\$ 2,739	\$ 1,614
	=====	=====

NOTE 6. REGULATORY MATTERS

ELECTRIC INDUSTRY REGULATION

The restructuring of California's electric utility industry has significantly affected the company's electric utility operations. In addition, the energy crisis of 2000-2001 caused the California Public Utilities Commission (CPUC) to adjust its plan for restructuring the electricity industry. The background of these issues is described in the Annual Report.

At September 30, 2004, the AB 265 Undercollection had been reduced to \$23 million and SDG&E expects that the undercollection will be eliminated by the end of 2004.

The California Department of Water Resources' (DWR) operating agreement with SDG&E, approved by the CPUC, provides that SDG&E is acting as a limited agent on behalf of the DWR in undertaking energy sales and natural gas procurement functions under the DWR contracts allocated to SDG&E's customers. Legal and financial responsibility associated with these activities continues to reside with the DWR. Therefore, the revenues and costs associated with the contracts are not included in the Statements of Consolidated Income.

In October 2003, the CPUC initiated a proceeding to consider a permanent methodology for allocating the DWR's revenue requirement beginning in 2004 through the remaining life of the DWR contracts. An interim allocation based on the current 2003 methodology was utilized beginning January 1, 2004, and will remain in effect until a decision is reached on a permanent methodology. In April 2004, Southern California Edison (Edison), Pacific Gas & Electric (PG&E) and a northern California consumer advocacy group proposed a limited joint settlement to allocate the DWR revenue requirement among the investor-owned utilities (IOUs). This settlement proposes to shift more than \$1 billion in additional costs to SDG&E customers and would have a

negative impact on customers' commodity costs over the remaining eight-year life of the DWR contracts. On July 19, 2004, the CPUC issued a proposed decision and an alternate decision recommending permanent allocations of DWR contract costs to the IOUs. These proposals were revised and third and fourth alternate decisions were issued on September 9, 2004. None of the proposed or alternate decisions would adopt the settlement; instead, they would permanently allocate a percentage of the fixed or above market costs of the contracts to SDG&E for the remaining life of the contracts (2004-2013). The CPUC is expected to address this matter at its meeting on November 19, 2004.

The judge's proposed decision and Commissioner Lynch's alternate decision would allocate 12.5 percent of the fixed costs of the contracts for the remaining term, resulting in a total shift of \$1 billion to SDG&E customers. Commissioner Brown's alternate decision determines SDG&E's share of the above-market costs for all contracts for all years to be 9.9 percent, resulting in a total shift of \$787 million. Commissioner Peevey's alternate decision would allocate 10.3 percent of the fixed costs of the contracts to SDG&E, resulting in a total shift of \$425 million.

Although these proposed decisions would have no effect on SDG&E's net income, they could adversely affect its customer rates and SDG&E's cash flows. In the near term the effect on SDG&E's cash flows would be minor, but could become significant in the later years unless rate ceilings, imposed by Assembly Bill 1X, which freeze total rates for most residential customers at the February 2001 level, were increased to provide more-contemporaneous recovery. Until January 1, 2006, state law provides SDG&E with a recovery triggering mechanism when an over or undercollection exceeds approximately \$30 million. If the triggering mechanism is not extended, the CPUC will have discretion on when to act on over and undercollections.

SDG&E's long-term resource plan identifies the forecasted needs for capacity resources within its service territory to support transmission grid reliability. An updated 10-year resource plan was filed on July 9, 2004, in a CPUC proceeding to consider utility resource planning, including energy efficiency, contracted power, demand response, qualifying facilities, renewable generation and distributed generation. SDG&E's updated long-term resource plan incorporates the resources approved by the CPUC that are discussed below, and recognizes updated goals to reach a 20-percent renewable resources target by 2010. The updated plan recommends a 500-kV transmission line addition in 2010, which would be processed for approval in a subsequent CPUC proceeding.

In order to satisfy SDG&E's recognized near-term need for grid reliability and capacity, in May 2003 SDG&E issued a Request for Proposals for the years 2005-2007 for at least 69 MW of electric capacity in 2005 increasing to 291 MW in 2007.

On June 9, 2004, the CPUC approved SDG&E's entering into five new electric resource contracts (including two under which SDG&E would take ownership, on a turnkey basis, of new generating assets, including a 550-MW plant (Palomar) being developed by SER for completion in 2006), as more fully described in the Annual Report. An additional, demand-response contract was also approved. The decision authorized SDG&E to recover the costs of both contracted resources and turnkey resources,

but did not adopt SDG&E's specific cost recovery, ratemaking and revenue requirement proposals for the proposed turnkey resources. On July 15, 2004, three parties filed requests for rehearing of the decision. SDG&E filed its response on July 30, 2004, opposing the requests. The CPUC is expected to rule on the requests in the next few months. In September 2004, SDG&E filed its revenue requirement and ratemaking proposals for the 45-MW combustion turbine which SDG&E will acquire as a turnkey project (Ramco facility) and filed for the Palomar facility in November 2004. The decision did not approve SDG&E's proposals for a return on equity (ROE) for SDG&E's new generation investments higher than SDG&E's ROE on distribution assets, an equity offset for the debt equivalency of purchase power contracts or an equity buildup for construction. These matters may be re-introduced for consideration in future CPUC proceedings.

NATURAL GAS MARKET OIR

The CPUC's Natural Gas Market Order Instituting Rulemaking (OIR) was instituted on January 22, 2004, and will be addressed in two phases. A decision on Phase I was issued on September 2, 2004 and the schedule for Phase II calls for a decision by the end of 2004. Further discussion of Phase I and Phase II is included in the Annual Report. The focus of the Gas OIR is the period from 2006 to 2016. Since Natural Gas Industry Restructuring (GIR), as discussed in the Annual Report, would end in August 2006 and there is overlap between GIR and the OIR issues, a number of parties (including SoCalGas) have requested the CPUC not to implement GIR.

The California Utilities have made comprehensive filings in the OIR outlining a proposed market structure that is intended to create access to new natural gas supply sources (such as LNG) for California. In their Phase I and Phase II filings, SoCalGas and SDG&E proposed a framework to provide firm tradable access rights for intrastate natural gas transportation; provide SoCalGas with continued balancing account protection for intrastate transmission and distribution revenues, thereby eliminating throughput risk; and integrate the transmission systems of SoCalGas and SDG&E so as to have common rates and rules. The California Utilities also proposed that the capital expenditures necessary to access new sources of supply be included in ratebase and that the total amount of the expenditures would be \$200 million to \$300 million.

The California Utilities also proposed a methodology and framework to be used by the CPUC for granting pre-approval of new interstate transportation agreements. The Phase I decision approves the California Utilities' transportation capacity pre-approval procedures with some modifications. SoCalGas' existing pipeline capacity contract with Transwestern Pipeline Company expires in November 2005 and its primary contracts with El Paso Natural Gas Company expire in August 2006. Discussions are underway pursuant to the framework approved by the CPUC to acquire replacement capacity. The Phase I decision also directs the California Utilities to file, by December 2, 2004, an application to implement proposals for transmission system integration, firm access rights, and off-system delivery services. The CPUC has determined that project developers, not the utilities, will be presumed to pay for the costs for access-related infrastructure, subject to future applications to be filed when more is known about the particular projects. Phase II

of the Gas Market OIR will review the CPUC's ratemaking policies on throughput risk to better align these with its objectives of promoting energy conservation and adequate infrastructure. Phase II will also investigate the need for emergency natural gas storage reserves and the role of the utility in backstopping the noncore market.

COST OF SERVICE FILINGS

In 2002, the California Utilities filed cost of service applications with the CPUC, seeking rate increases reflecting forecasts of 2004 capital and operating costs, as further discussed in the Annual Report. The California Utilities requested revenue increases of \$101 million. As previously reported, in December 2003 the California Utilities filed with the CPUC proposed settlements of their cost of service proceedings. The settlements, if approved by the CPUC, would reduce the California Utilities' annual rate revenues by an aggregate net amount of approximately \$46 million from the rates in effect during 2003. The CPUC's Office of Ratepayer Advocates (ORA) and most other major parties to the cost of service proceedings have recommended that the CPUC approve the settlements.

On September 28, 2004, the CPUC's Administrative Law Judge (ALJ) and the CPUC Commissioner assigned to the cost of service proceedings issued differing proposed decisions for consideration by the CPUC. Both of these proposed decisions recommend that the CPUC reject the proposed settlements. The ALJ's proposed decision would, if adopted by the CPUC, increase annual rate revenues by \$60 million from that contemplated by the settlements but would also adopt a one-way balancing account requiring that any reductions in operating labor costs from those estimated in establishing rates be refunded to customers. CPUC Commissioner Wood's alternate proposed decision, which does not include a one-way labor balancing account, would, if adopted by the CPUC, increase the annual rate reduction by an additional \$24 million from that contemplated by the proposed settlements.

The company believes that a factual error relating to SDG&E's nuclear electric rate revenues was applied in the proposed decisions of both the ALJ and Commissioner Wood. The company also believes that Commissioner Wood's proposed decision contains a depreciation error with respect to SDG&E. If these errors and other, minor factual errors are corrected, they would increase the annual rate revenues that would be provided by the ALJ's proposed decision to \$93 million above that contemplated by the settlements and would increase the annual rate revenues that would be provided by Commissioner Wood's alternative proposed decision to \$26 million above that contemplated by the settlements. Both proposed decisions would approve balancing accounts for pension costs similar to those contemplated by the settlements and various other cost balancing accounts not contemplated by the settlements. All the proposals contemplate that the rates resulting from the cost of service proceedings would remain effective through 2007 subject to annual attrition adjustments.

The company previously reported that it expects that another CPUC commissioner will issue an additional proposed decision that, if adopted by the CPUC, would essentially approve the proposed settlements. Subsequently, on October 28, 2004, the CPUC at its regularly scheduled meeting deferred acting on the cost of service

proceedings at the request of Commissioner Brown, who stated that he would issue an additional proposed decision.

The CPUC may adopt any one of the proposed decisions or reject all of them and adopt a different outcome. The company expects that a CPUC decision will be issued by year end.

The CPUC previously ordered that any changes in rates resulting from the cost of service proceedings would be effective retroactively to January 1, 2004. Consequently, during 2004 the company and the California Utilities have, in general, recorded revenue and resulting net income in a manner consistent with the reduced rates contemplated by the proposed settlements, except for the favorable effect of the recovery of pension costs contemplated by the proposed settlements and provided by the proposed decisions. To the extent that the revenues provided by the CPUC's decision in the cost of service proceedings differ from those previously recorded, a reconciling adjustment to revenues and resulting net income would be recorded in the latest quarter for which financial statements had not been published.

Other ratemaking issues are included in Phase II of the cost of service proceedings. In addition to recommending changes in the performance-based regulation (PBR) formulas, the ORA also proposed the possibility of performance penalties for service quality, safety and electric service reliability, without the possibility of performance awards. Hearings took place in June 2004. On July 21, 2004, all of the active parties in Phase II who dealt with post test year ratemaking and performance incentives filed for adoption by the CPUC of an all-party settlement agreement for most of the Phase II issues, including annual inflation adjustments and revenue sharing. The agreement does not cover performance incentives. For the interim years of 2005-2007, the Consumer Price Index would be used to adjust the escalatable authorized base rate revenues within identified floors and ceilings. It is not likely that the CPUC will address this matter in its decision related to Phase II of this proceeding before year-end 2004. Consequently, to ensure that the results of Phase II would be applicable for a full year in 2005, SoCalGas and SDG&E filed with the CPUC on September 29, 2004, a petition to modify a prior decision that provided for the differences between 2004's rates and the amounts determined in the cost of service decision to be collected or refunded in future rates, to also apply to similar differences occurring in 2005 prior to implementation of the cost of service decision.

The California Utilities had filed for continuation of existing PBR mechanisms for service quality and safety that would otherwise expire at the end of 2003. In January 2004, the CPUC issued a decision that extended 2003 service and safety targets through 2004, but did not determine the applicability of rewards or penalties. As part of the proposed Phase II Settlement Agreement, Revenue Sharing, under which IOUs return to customers a percentage of earnings above specified levels, would be suspended for 2004 and resume for 2005 through 2007. The proposed revenue sharing mechanism also provides either utility the option to file for suspension of the earnings sharing mechanism if earnings for two consecutive years fall 175 basis points or more below its authorized rate of return; however, if earnings are 300 or more basis points above the utility's authorized rate of return, the revenue sharing mechanism would be automatically suspended and trigger a formal

regulatory review by the CPUC to determine whether modification of the ratemaking mechanism is required.

Edison's CPUC decision on its cost of service application sets rates for San Onofre Nuclear Generating Station (SONGS), 20 percent of which is owned by SDG&E. As discussed in the Annual Report, SDG&E's SONGS ratebase restarted at \$0 on January 1, 2004 and, therefore, SDG&E's earnings from SONGS are now generally limited to a return on new capital additions. Edison has applied for permission to replace SONGS' steam generators, which would increase the total cost of SONGS by an estimated \$800 million (\$160 million for SDG&E). SDG&E has the option of not participating in the project and has informed Edison of its intention to exercise this option. Doing so would reduce SDG&E's ownership percentage in SONGS by an amount to be determined in arbitration and will be subject to CPUC review and approval. Such approval is expected to occur during late 2005. If the proposed reduction of SDG&E's ownership percentage resulting from the arbitration is unacceptable, SDG&E may elect to participate in the replacement project.

During the current SONGS Unit 3 refueling outage, Edison reported that it had performed inspections of two pressurizer sleeves and found evidence of degradation. Degradation of the pressurizer sleeves has been a concern in the nuclear industry for some time. Edison had been planning to replace all of the sleeves in Units 2 and 3 during the next refueling for each unit in 2005 and 2006, but has reported its intention to move the planned replacement of Unit 3's pressurizer sleeves forward from 2006 to the current outage. This extra work will lengthen the current outage from 55 days to a range of 95 to 110 days, but allows Edison to move the 2006 refueling outage out of the peak summer period to the fall or winter of 2006. Edison has reported that it will incur about \$9 million of capital expenditures during 2005 that otherwise would have occurred in 2006. SDG&E's share would be approximately \$2 million. Edison plans to replace the pressurizer sleeves in Unit 2 during its next scheduled outage in 2005.

Also during the current outage, Edison reported that it had conducted a planned inspection of the Unit 3 reactor vessel head and found indications of degradation. Although the degradation is far below the level at which leakage would occur, Edison plans to make repairs during the current outage. While Edison reports that this is the first experience at SONGS of this kind of degradation to the reactor vessel heads, the detection and repair of similar degradation at other plants are now common in the industry. Edison reports that it plans to replace the Unit 2 and Unit 3 reactor vessel heads during refueling outages in 2009-2010.

PERFORMANCE-BASED REGULATION

As further described in the Annual Report, under PBR, the CPUC requires future income potential to be tied to achieving or exceeding specific performance and productivity goals, rather than relying solely on expanding utility plant to increase earnings. PBR, demand-side management (DSM) and Gas Cost Incentive Mechanism (GCIM) rewards are not included in the company's earnings before CPUC approval is received.

The only incentive rewards approved during the nine months ended September 30, 2004 consisted of \$6.3 million related to SoCalGas' Year

9 GCIM, which was approved on February 26, 2004 and \$1.5 million related to SDG&E's Year 10 natural gas PBR, which was approved on August 22, 2004. These rewards were awarded by the CPUC subject to refund based on the outcome of the Border Price Investigation, as discussed below. The cumulative amount of rewards subject to refund based on the outcome of the Border Price Investigation is \$65.1 million, substantially all of which has been included in net income.

At September 30, 2004, the following performance incentives were pending CPUC approval and, therefore, were not included in the company's earnings (dollars in millions):

Program	SoCalGas	SDG&E	Total
DSM/Energy Efficiency*	\$ 10.9	\$ 37.7	\$ 48.6
2003 Distribution PBR	--	8.2	8.2
GCIM/natural gas PBR	2.4	--	2.4
2003 safety	.5	--	.5
Total	\$ 13.8	\$ 45.9	\$ 59.7

* Dollar amounts shown do not include interest, franchise fees or uncollectible amounts.

SOUTHERN CALIFORNIA FIRES

Several major wildfires that began on October 26, 2003 severely damaged SDG&E's infrastructure, causing a significant number of customers to be without utility services. On October 27, 2003, then governor Gray Davis declared a State of Emergency for the State of California. The declaration authorized the establishment of catastrophic event memorandum accounts (CEMA) to record all incremental costs (costs not already included in rates) associated with the repair of facilities and the restoration of service. Incremental electric distribution and natural gas related costs are recovered through the CEMA. Electric transmission related costs are recovered through the annual FERC true-up proceeding. Incremental costs incurred related to the wildfires and recoverable through the CEMA were \$38 million.

On June 28, 2004, SDG&E filed its CEMA application with the CPUC to recover incremental operating and maintenance and capital costs of its natural gas and electric distribution systems associated with the fires. In that application, SDG&E is requesting a 2005 revenue requirement of \$20 million, representing the operating and maintenance costs of \$12 million plus the 2004 and 2005 ongoing annual amounts of \$4 million to recover the \$26 million of capital costs and the authorized return thereon. The company expects no significant effect on earnings from the fires. The ALJ indicated that he expects to issue a proposed decision by the end of the first quarter of 2005.

SoCalGas did not file a CEMA application as damages incurred as a result of the wildfires were minimal.

COST OF CAPITAL

Effective January 1, 2005, SDG&E's authorized return on rate base (ROR) and return on equity (ROE) will be 8.18 percent and 10.37 percent,

respectively, for its electric distribution and natural gas businesses, down from 8.77 percent and 10.9 percent, respectively. The decrease is a result of the CPUC's automatic triggering mechanism, which resets these rates whenever Moody's Aa utility bond yield as published by Mergent Bond Record changes by more than a specified amount. The new benchmark will be 6.19 percent and another automatic adjustment would be triggered if the Mergent Aa utility bond yield were to average less than 5.19 percent or greater than 7.19 percent during the April - September timeframe of any given year. If the cost of service proceeding described above is decided by the CPUC along the lines of the settlement, the effect of the changes in ROR and ROE would be to decrease net income in 2005 by \$10 million from what it would have been if the rates had not changed. The electric-transmission cost of capital is determined under a FERC proceeding.

Effective January 1, 2003, SoCalGas' authorized ROE is 10.82 percent and its ROR is 8.68 percent. These rates are subject to automatic adjustment if the 12-month trailing average of 30-year Treasury bond rates and the Global Insight forecast of the 30-year Treasury bond rate 12 months ahead vary by greater than 150 basis points from a benchmark, which is currently 5.38 percent. The 12-month trailing average was 5.10 percent and the Global Insight forecast was 5.84 percent at September 30, 2004.

BIENNIAL COST ALLOCATION PROCEEDING (BCAP)

The BCAP determines the allocation of authorized costs between customer classes for natural gas transportation service provided by the California Utilities and adjusts rates to reflect variances in sales volumes as compared to the forecasts previously used in establishing transportation rates. SoCalGas and SDG&E filed with the CPUC their 2005 BCAP applications in September 2003, requesting updated transportation rates effective January 1, 2005. In November 2003, an Assigned Commissioner Ruling delayed the BCAP applications until a decision is issued in the GIR implementation proceeding. As a result of the April 1, 2004 decision on GIR implementation as described in Natural Gas Industry Restructuring in the Annual Report, on May 27, 2004 the ALJ in the 2005 BCAP issued a decision dismissing the BCAP applications. The California Utilities are required to file new BCAP applications after the stay of the GIR implementation decision is lifted. As a result of the deferrals and the significant decline forecasted in noncore gas throughput on SoCalGas' system, in December 2002 the CPUC issued a decision approving 100 percent balancing account protection for SoCalGas' risk on local transmission and distribution revenues from January 1, 2003 until the CPUC issues its next BCAP decision. SoCalGas is seeking to continue this balancing account protection in the Natural Gas OIR proceeding.

BORDER PRICE INVESTIGATION

In November 2002, the CPUC instituted an investigation into the Southern California natural gas market and the price of natural gas delivered to the California - Arizona border between March 2000 and May 2001. The California Utilities are the parties to the first phase of the investigation. If the investigation were to determine that the conduct of either of the California Utilities contributed to the natural gas price spikes that occurred during the investigation period,

the CPUC may modify the party's natural gas procurement incentive mechanism, reduce the amount of any shareholder award for the period involved, and/or order the party to issue a refund to ratepayers. At September 30, 2004, the cumulative amount of shareholder awards, substantially all of which has been included in net income, was \$65.1 million. The ORA has filed testimony supporting the GCIM and the actions of SoCalGas during this period. The first phase of this investigation was reopened for one day on October 25, 2004, for additional testimony and supplemental opening and reply briefs. While the ALJ stated that a proposed decision is not imminent, the company expects that a proposed decision will be issued before year end for consideration by the CPUC. Although the proposed decision may be adverse to it, the company believes it is unlikely that the full CPUC would adopt any such adverse decision and would instead conclude that the California Utilities were not responsible for any natural gas price spikes. A final CPUC decision in the first phase of the investigation is not expected until 2005. The CPUC may hold additional rounds of hearings to consider whether other companies, including other California utilities as well as the company and its non-utility subsidiaries, contributed to the natural gas price spikes.

CPUC INVESTIGATION OF ENERGY-UTILITY HOLDING COMPANIES

The CPUC has initiated an investigation into the relationship between California's IOUs and their parent holding companies. The CPUC broadly determined that it could, in appropriate circumstances, require the holding company to provide cash to a utility subsidiary to cover its operating expenses and working capital to the extent they are not adequately funded through retail rates. This would be in addition to the requirement of holding companies to provide for their utility subsidiaries' capital requirements, as the IOUs previously acknowledged in connection with the holding companies' formations. In January 2002, the CPUC ruled that it had jurisdiction to create the holding company system and, therefore, retains jurisdiction to enforce conditions to which the holding companies had agreed.

In an opinion issued May 21, 2004, the California Court of Appeal upheld the CPUC's assertion of limited enforcement jurisdiction, but concluded that the CPUC's interpretation of the "first priority" condition (that the holding companies could be required to infuse cash into the utilities as necessary to meet the utilities' obligation to serve) was not ripe for review. In September 2004, the California Supreme Court declined to review the California Court of Appeal's decision.

RECOVERY OF CERTAIN DISALLOWED TRANSMISSION COSTS

The Federal Court of Appeals scheduled completion of briefing by February 9, 2005, and set oral argument for April 14, 2005, concerning SDG&E's recovery of the differentials between certain payments to SDG&E by its co-owners of the Southwest Powerlink (SWPL) and charges assessed to SDG&E under the California Independent System Operator (ISO) FERC tariff for transmission line losses, and grid management and other charges related to energy schedules of its SWPL co-owners. The parties in the related private arbitration have agreed to hold the arbitration in abeyance pending resolution of the FERC tariff proceeding.

FERC ACTIONS

Refund Proceedings

The FERC is investigating prices charged to buyers in the California Power Exchange (PX) and ISO markets by various electric suppliers. The FERC is seeking to determine the extent to which individual sellers have yet to be paid for power supplied during the period of October 2, 2000 through June 20, 2001 and to estimate the amounts by which individual buyers and sellers paid and were paid in excess of competitive market prices. Based on these estimates, the FERC could find that individual net buyers, such as SDG&E, are entitled to refunds and individual net sellers, such as SET, are required to provide refunds. To the extent any such refunds are actually realized by SDG&E, they would be refunded to ratepayers. To the extent that SET is required to provide refunds, they could result in payments by SET after adjusting for any amounts still owed to SET for power supplied during the relevant period (or reduced receipts if refunds are less than amounts owed to SET).

In December 2002, a FERC ALJ issued preliminary findings indicating that the California PX and ISO owe power suppliers \$1.2 billion for the October 2, 2000 through June 20, 2001 period (the \$3.0 billion that the California PX and ISO still owe energy companies less \$1.8 billion that the energy companies charged California customers in excess of the preliminarily determined competitive market clearing prices). On March 26, 2003, the FERC adopted its ALJ's findings, but changed the calculation of the refund by basing it on a different estimate of natural gas prices. The March 26 order estimates that the replacement formula for estimating natural gas prices will increase the refund obligations from \$1.8 billion to more than \$3 billion for the same time period. Pending in the Ninth Circuit are various parties' appeals on aspects of the FERC's order.

In a series of orders in 2004, the FERC has provided further direction and clarifications regarding the methodology to be used by the ISO and PX to recalculate the precise refund obligations and entitlements through their settlement models.

SET previously established reserves for its likely share of the original \$1.8 billion discussed above. During the nine months ended September 30, 2004, SET recorded additional reserves to reflect the estimated effect of the FERC's revision of the benchmark prices to be used by the FERC to calculate refunds.

In a separate complaint filed with the FERC in 2002, the California Attorney General challenged the FERC's authority to establish a market-based rate regime, and further contended that, even if such a regime were valid, electricity sellers had failed to comply with the FERC's quarterly reporting requirements. The Attorney General requested that the FERC order refunds from suppliers to the California PX and ISO for the period prior to October 2, 2000, and for short-term bilateral transactions entered into with the California Energy Resources Scheduler. In May 2003, and upon rehearing in September 2003, the FERC dismissed the complaint, determining that its market-based rate system was lawful, and that refunds for non-compliance with its reporting requirements were unnecessary, and instead ordered sellers to restate

their reports. After an appeal by the California Attorney General, in September 2004, the Ninth Circuit Court of Appeals upheld the FERC's authority to establish a market-based rate regime, but ordered remand of the case to the FERC for further proceedings, stating that failure to file transaction-specific quarterly reports gave the FERC authority to order refunds with respect to jurisdictional sellers. In October 2004, the FERC announced that it will not appeal the court's decision. Although a group of sellers has requested the Ninth Circuit to rehear this matter, the timing and substance of the FERC's response to the remand is not yet known. However, it is possible that the FERC could order "refunds" or disgorgement of profits for periods in addition to those covered by its prior refund orders and substantially increase the refunds that ultimately may be required to be paid by SET and other power suppliers.

Manipulation Investigation

The FERC is separately investigating whether there was manipulation of short-term energy markets in the western United States that would constitute violations of applicable tariffs and warrant disgorgement of associated profits. In this proceeding, the FERC's authority is not confined to the periods relevant to the refund proceeding. In May 2002, the FERC ordered all energy companies engaged in electric energy trading activities to state whether they had engaged in various specific trading activities (generally described as manipulating or "gaming" the California energy markets) in violation of the PX and ISO tariffs.

On June 25, 2003, the FERC issued several orders requiring various entities to show cause why they should not be found to have violated California ISO and PX tariffs. First, the FERC directed 43 entities, including SET and SDG&E, to show cause why they should not disgorge profits from certain transactions between January 1, 2000 and June 20, 2001 that are asserted to have constituted gaming and/or anomalous market behavior under the California ISO and/or PX tariffs. Second, the FERC directed more than 20 entities, including SET, to show cause why their activities, in partnership or alliance with others, during the period January 1, 2000 to June 20, 2001 did not constitute gaming and/or anomalous market behavior in violation of the tariffs. Remedies for confirmed violations could include disgorgement of profits and revocation of market-based rate authority. The FERC has encouraged the various entities to settle these issues. On October 31, 2003, SET agreed to pay \$7.2 million in full resolution of these investigations. That liability was recorded as of December 31, 2003. The SET settlement was approved by the FERC on August 2, 2004. SDG&E and the FERC resolved the matter through a settlement, which documents the ISO's finding that SDG&E did not engage in market activities in violation of the ISO or PX tariffs, and in which SDG&E agreed to pay \$27,792 into a FERC-established fund.

NOTE 7. CONTINGENCIES

NUCLEAR INSURANCE

SDG&E and the other owners of SONGS have insurance to respond to nuclear liability claims related to SONGS. Detail of the coverage is provided in the Annual Report. As of September 30, 2004, the secondary

financial protection provided by the Price-Anderson Act is \$10.5 billion if the liability loss exceeds the insurance limit of \$300 million. In addition, the maximum SDG&E could be assessed is \$8.8 million should there be a retrospective premium call under the risk sharing arrangements of the nuclear property, decontamination and debris removal insurance policy.

Both the nuclear liability and property insurance programs subscribed to by members of the nuclear power generating industry include industry aggregate limits for non-certified acts, as defined by the Terrorism Risk Insurance Act, of terrorism-related SONGS losses, including replacement power costs. An industry aggregate limit of \$300 million exists for liability claims, regardless of the number of non-certified acts affecting SONGS or any other nuclear energy liability policy or the number of policies in place. An industry aggregate limit of \$3.24 billion exists for property claims, including replacement power costs, for non-certified acts of terrorism affecting SONGS or any other nuclear energy facility property policy within twelve months from the date of the first act. These limits are the maximum amount to be paid to members who sustain losses or damages from these non-certified terrorist acts. For certified acts of terrorism, the individual policy limits stated above apply.

SPENT NUCLEAR FUEL

SONGS owners have responsibility for the interim storage of spent nuclear fuel generated at SONGS until it is accepted by the DOE for final disposal. Spent nuclear fuel is stored in the SONGS Units 1, 2 and 3 Spent Fuel Pools (SFP) and the SONGS Independent Spent Fuel Storage Installation (ISFSI). Movement of Unit 1 spent fuel from the Unit 3 SFP to the ISFSI was completed in late 2003. Movement of Unit 1 spent fuel from the Unit 1 SFP to the ISFSI is scheduled to be completed by the end of 2004 and from the Unit 2 SFP to the ISFSI by late 2005. With these moves, there will be sufficient space in the Unit 2 and 3 SFPs to meet plant requirements through mid-2007 and mid-2008, respectively.

ARGENTINE INVESTMENTS

As a result of the devaluation of the Argentine peso at the end of 2001 and subsequent declines in the value of the peso, SEI reduced the carrying value of its Argentine investments downward by a cumulative total of \$199 million as of September 30, 2004 (\$197 million as of December 31, 2003). These non-cash adjustments continue to occur based on fluctuations in the Argentine peso. They do not affect net income, but increase or decrease other comprehensive income (loss) and accumulated other comprehensive income (loss).

A decision is expected by the end of 2005 on SEI's arbitration proceedings under the 1994 Bilateral Investment Treaty between the United States and Argentina for recovery of the diminution of the value of SEI's investments that has resulted from Argentine governmental actions. Sempra Energy also has a \$48.5 million political-risk insurance policy under which it filed a claim to recover a portion of the investments' diminution in value.

LITIGATION

Except for the matters referred to below, neither the company nor its subsidiaries are party to, nor is their property the subject of, any material pending legal proceedings other than routine litigation incidental to their businesses. Management believes that none of these matters will have further material adverse effect on the company's financial condition or results of operations.

DWR Contract

In 2003, SER was awarded judgment in its favor in the state civil action between SER and the DWR, in which the DWR sought to void its 10-year contract under which the company sells energy to the DWR. The DWR filed an appeal of this ruling in January 2004. A decision by the appellate court is expected during 2005.

The DWR continues to accept scheduled power from SER and, although it has disputed a small percentage of the billings and the manner of certain deliveries, it has paid all amounts that have been billed under the contract. However, the DWR has commenced an arbitration proceeding, disputing SER's performance on various operational matters. Among other proposed remedies, the DWR has requested a declaration by the arbitration panel that SER's performance is inadequate and constitutes a material breach of the agreement permitting it to terminate the contract. SER believes these claims are without merit and has filed a motion to dismiss claims in the arbitration proceeding. Arbitration on any remaining claims will occur in mid-2005.

On June 25, 2003, the FERC issued orders upholding SER's contract with the DWR, as well as contracts between the DWR and other power suppliers. The order affirmed a previous FERC conclusion that those advocating termination or alteration of the contract would have to satisfy a "heavy" burden of proof, and cited its long-standing policy to recognize the sanctity of contracts. In the order, the FERC noted that CPUC and court precedent clearly establish that allegations that contracts have become uneconomic by the passage of time do not render them contrary to the public interest under the Federal Power Act. The FERC pointed out that the contracts were entered into voluntarily in a market-based environment. The FERC found no evidence of unfairness, bad faith or duress in the original contract negotiations. It said there was no credible evidence that the contracts placed the complainants in financial distress or that ratepayers will bear an excessive burden. In December 2003, appeals of this matter filed by a number of parties, including the California Energy Oversight Board and the CPUC, were consolidated and assigned to the Ninth Circuit Court of Appeals. Oral argument on the appeal has been scheduled for December 2004, with a decision by the appellate court expected during 2005.

Energy Crisis Litigation

In 2000 and 2001, California experienced a severe energy crisis characterized by dramatic increases in the prices of electricity and natural gas. Many, often duplicative, lawsuits have been filed against numerous energy companies seeking overlapping damages aggregating in the tens of billions of dollars for allegedly unlawful activities asserted to have caused or contributed to the energy crisis. In

addition, the energy crisis has generated numerous governmental investigations and regulatory proceedings. The company is cooperating in various investigations, including an investigation being conducted by the California Attorney General into possible anti-competitive behavior. The material regulatory proceedings arising out of the energy crisis that involve the company are briefly summarized, along with other proceedings, in Note 6 and this Note 7. The lawsuits arising out of the energy crisis to which the company is a defendant are briefly summarized below.

Natural Gas Cases

Class-action and individual antitrust and unfair competition lawsuits filed in 2000 and thereafter, and currently consolidated in San Diego Superior Court seek damages, alleging that Sempra Energy, SoCalGas and SDG&E, along with El Paso Natural Gas Company (El Paso) and several of its affiliates, unlawfully sought to control natural gas and electricity markets. In December 2003, the Court approved a settlement whereby the applicable El Paso entities (including cases involving unrelated claims not applicable to Sempra Energy, SoCalGas or SDG&E) will pay approximately \$1.7 billion to resolve these claims. The proceeding against Sempra Energy and the California Utilities has not been settled and continues to be litigated. During the third quarter of 2004, the court denied motions by Sempra Energy and the California Utilities for summary judgment in their favor. Sempra Energy and the California Utilities have requested the Court of Appeal to review these denials; however, such an interim review pending a final decision on the merits of the case is entirely at the discretion of the appellate court. In October 2004, certain of the plaintiffs issued a news release asserting that they could recover as much as \$24 billion from Sempra Energy and the California Utilities if their allegations were upheld at trial. The trial of the case was previously set for September 2004 but has been postponed and the newly assigned judge has yet to schedule a new trial date. (The original judge is retiring at year end.)

Similar lawsuits have been filed by the Attorneys General of Arizona and Nevada, alleging that El Paso and certain Sempra Energy subsidiaries unlawfully sought to control the natural gas market in their respective states. The claims against the Sempra Energy defendants in the Arizona lawsuit were settled in September 2004 for \$150,000 and have been dismissed with prejudice.

In April 2003, Sierra Pacific Resources and its utility subsidiary Nevada Power filed a lawsuit in U.S. District Court in Las Vegas against major natural gas suppliers, including Sempra Energy, the California Utilities and other company subsidiaries, seeking recovery of damages alleged to aggregate in excess of \$150 million (before trebling) from an alleged conspiracy to drive up or control natural gas prices, eliminate competition and increase market volatility, breach of contract and wire fraud. On January 27, 2004, the U.S. District Court dismissed the Sierra Pacific Resources case against all of the defendants, determining that this is a matter for the FERC to resolve. However, the court granted plaintiffs' request to amend their complaint, which they have done and Sempra Energy has filed another motion to dismiss, which is scheduled to be heard on November 29, 2004.

In May 2003 and February 2004, antitrust actions against various trade publications and energy companies, including Sempra Energy and SET, alleging that energy prices were unlawfully manipulated by defendants' reporting artificially inflated natural gas prices to trade publications and by entering into wash trades, were filed in San Diego Superior Court. Both actions have been removed to U.S. District Court. In November 2003, an additional suit was filed in U.S. District Court. In September 2004, two additional lawsuits alleging substantially identical claims were filed against Sempra Energy and SET, among various other entities in San Diego Superior and U.S. District Courts.

In July 2004, the City and County of San Francisco, the County of Santa Clara and the County of San Diego brought similar actions in San Diego Superior Court against various entities, including Sempra Energy, SET, SoCalGas and SDG&E. Three identical lawsuits were filed in October 2004 in the Alameda and San Mateo Superior Courts.

In August 2003, a lawsuit was filed in the Southern District of New York against Sempra Energy and its subsidiary, Sempra Energy Solutions (SES), alleging that the prices of natural gas options traded on the New York Mercantile Exchange (NYMEX) were unlawfully increased under the Federal Commodity Exchange Act by defendants' manipulation of transaction data provided to natural gas trade publications. In November of 2003, another suit containing identical allegations was filed and consolidated with the New York action. Subsequently, plaintiffs dismissed Sempra Energy and SES from these cases. On January 20, 2004, plaintiffs filed an amended consolidated complaint that named SET as a defendant in this lawsuit. In March 2004, defendants filed a motion to dismiss the action, which was denied by the court in September 2004. In October 2004, plaintiffs amended their complaint to allege that SET had engaged in natural gas wash trade transactions.

Electricity Cases

Various antitrust lawsuits, which seek class-action certification, allege that numerous entities, including Sempra Energy and certain subsidiaries (SDG&E, SET and SER, depending on the lawsuit), that participated in the wholesale electricity markets unlawfully manipulated those markets. Collectively, these lawsuits allege damages against all defendants in an aggregate amount in excess of \$16 billion (before trebling). In January 2003, the federal court granted a motion to dismiss one of these lawsuits, filed by Snohomish County, Washington Public Utility District, on the grounds that the claims contained in the complaint were subject to the filed rate doctrine and were preempted by the Federal Power Act. That ruling was appealed to the Ninth Circuit U.S. Court of Appeals. In addition, in May 2003, the Port of Seattle filed a similar complaint against a number of energy companies (including Sempra Energy, SER and SET). That action was dismissed by the San Diego U.S. District Court in May 2004. Plaintiff has appealed the decision. In May and June 2004 two lawsuits substantially identical to the Port of Seattle case was filed in Washington and Oregon U.S. District Courts. These cases were transferred to the San Diego U.S. District Court and motions to dismiss them have been filed. In October 2004 another case was filed in Santa Clara Superior Court against SER, alleging substantively identical claims to those in the Port of Seattle case.

In September 2004, the Ninth Circuit U.S. Court of Appeals dismissed the suit against the company, SET and SER, by Snohomish County, Washington Public Utility District. The court ruled that the FERC, not civil courts, has exclusive jurisdiction over the matter. The company believes that this decision provides a precedent for the dismissal on the basis of federal preemption and the filed rate doctrine of the other lawsuits against the Sempra Energy companies claiming manipulation of the electricity markets.

Other Litigation

The Utility Consumers' Action Network (UCAN), a consumer-advocacy group which had requested a CPUC rehearing of a CPUC decision concerning the allocation of certain power contract gains between SDG&E customers and the company, appealed the CPUC's rehearing denial to the California Court of Appeal. On July 12, 2004, the Court of Appeal affirmed the CPUC's decision. On August 20, 2004, UCAN filed a Petition for Review in the California Supreme Court. The Supreme Court has not yet determined whether it will grant review.

In May 2003, a federal judge issued an order finding that the Department of Energy's (DOE) environmental assessment of two Mexicali power plants, including SER's Termoelectrica de Mexicali (TDM) plant, failed to evaluate the plants' environmental impact adequately and called into question the U.S. permits they received to build their cross-border transmission lines. In July 2003, the judge ordered the DOE to conduct additional environmental studies and denied the plaintiffs' request for an injunction blocking operation of the transmission lines, thus allowing the continued operation of the TDM plant. The DOE undertook to perform an Environmental Impact Study, which is expected to be completed in December 2004.

The Peruvian appellate court has affirmed the dismissal of the charges against officers of Luz del Sur S.A.A. (Luz del Sur), a company affiliate, and others concerning the price of utility assets acquired by Luz del Sur from the Peruvian government. However, the Peruvian tax authorities continue to claim that Luz de Sur owes additional income taxes related to the disputed valuation. Hearings are scheduled for November 10, 2004.

At September 30, 2004, SET remains due approximately \$100 million from energy sales made in 2000 and 2001 through the ISO and the PX markets. The collection of these receivables depends on several factors, including the FERC refund case. The company believes adequate reserves have been recorded.

INCOME TAX ISSUES

Section 29 Income Tax Credits

On July 1, 2004, SEF sold its investment in an enterprise that earns Section 29 income tax credits. That investment comprised one-third of Sempra Energy's Section 29 participation and was sold because the company's alternative minimum tax position defers utilization of the credits in the determination of income taxes currently payable. The transaction has been accounted for under the cost recovery method, whereby future proceeds in excess of the carrying value of the

investment will be recorded as income as received. As a result of this sale, SEF will not be receiving Section 29 income tax credits in the future.

During the third quarter of 2004, the IRS concluded its examinations of the company's Section 29 income tax credits for certain years, reporting no change in the credits. From acquisition of the facilities in 1998 through December 31, 2003, the company has generated Section 29 income tax credits of \$251 million. In addition, the company has generated Section 29 tax credits of \$75 million for the nine months ended September 30, 2004, of which \$24 million occurred in the third quarter.

If the recent increases in oil prices continue and do not reverse, a partial or complete phase out of Section 29 tax credits may occur in 2005 or in subsequent years in accordance with Section 29 regulations.

NOTE 8. SEGMENT INFORMATION

The company is a holding company, whose subsidiaries are primarily engaged in the energy business. It has four separately managed reportable segments: SoCalGas, SDG&E, SET and SER, which are described in the Annual Report.

The accounting policies of the segments are described in the notes to Consolidated Financial Statements in the Annual Report, and segment performance is evaluated by management based on reported income. There were no significant changes in segment assets during the nine months ended September 30, 2004.

(Dollars in millions)	Three months ended September 30,		Nine months ended September 30,	
	2004	2003	2004	2003
Operating Revenues:				
Southern California Gas	\$ 826	\$ 794	\$ 2,821	\$ 2,622
San Diego Gas & Electric	550	667	1,666	1,749
Sempra Energy Trading	355	304	981	832
Sempra Energy Resources	413	234	1,101	453
All other	84	74	215	206
Intersegment revenues	(63)	(15)	(263)	(41)
Total	\$ 2,165	\$ 2,058	\$ 6,521	\$ 5,821
Net Income (Loss):				
Southern California Gas*	\$ 68	\$ 53	\$ 174	\$ 148
San Diego Gas & Electric*	60	120	140	206
Sempra Energy Trading	44	22	143	39
Sempra Energy Resources	64	33	123	48
All other	(5)	(17)	(31)	(26)
Total	\$ 231	\$ 211	\$ 549	\$ 415

* after preferred dividends

ITEM 2.

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

The following discussion should be read in conjunction with the financial statements contained in this Form 10-Q, "Management's Discussion and Analysis of Financial Condition and Results of Operations" contained in the Annual Report and "Risk Factors" contained in the Form 10-K.

OVERVIEW

Sempra Energy is a Fortune 500 energy services holding company. Its business units provide a wide spectrum of value-added electric and natural gas products and services to a diverse range of customers. Operations are divided between delivery services, comprised of the California Utilities, and Sempra Energy Global Enterprises.

RESULTS OF OPERATIONS

Net income and operating income for the three months and for the nine months ended September 30, 2004 were up substantially from the corresponding periods of 2003. The following table summarizes the major factors affecting the comparisons for both periods.

---- Nine
Months
Three
Months - -

Operating
Net
Operating
Net
(Dollars
in
millions)
Income
Income
Income
Income - -

Reported
amounts
for the
periods
ended
September
30, 2003 - \$
725 - \$ 415
\$ 307 - \$
211
Unusual
items in
2003:
SDG&E
power
contract
settlement
(116) (65)
(116) (65)
Impairment
of
Frontier
Energy
assets 77
47 77 47
California
energy
crisis
litigation
costs and
SoCalGas
sublease
losses 74
43 74 43
SoCalGas'
natural
gas
procurement
awards
(48) (29)
(48) (29)
Cumulative
effect of
EITF 02-3
through
December

~~31, 2002~~
~~29~~

SONGS

incentive
pricing
(ended
12/31/03)
(65) (38)
(18) (11)

Resolution
of vendor
disputes
in
Argentina
~~(11)~~

~~—AEG~~

income in
2003
disposed
of in

April 2004
~~(2)~~

~~(7)~~

~~647~~

~~389 276~~

~~189~~

Unusual
items in
2004:

Losses of
AEG

disposed
of in
April 2004

~~(32)~~

Income
tax audit
issues

~~18 (5)~~

Resolution
of vendor
disputes
in

Argentina
~~12~~

Unusual
litigation
expenses
(16) (10)

SoCalGas'
gain on
sale of
partnership
property

~~0 9~~

Gain on
settlement
of Cameron
liability

~~8~~

Gain on
partial
sale of
Luz del
Sur

~~5~~

Operations
(2004

compared
to 2003)

~~266 150 69~~

~~38~~

Reported
amounts
for the
periods
ended

September

30, 2004 \$

~~897 \$ 549~~

~~\$ 345 \$~~

~~231~~

California Utility Revenues and Cost of Sales

Natural gas revenues increased to \$3.2 billion for the nine months ended September 30, 2004 from \$3.0 billion for the corresponding period in 2003, and the cost of natural gas increased to \$1.7 billion in 2004 from \$1.5 billion in 2003. Additionally, natural gas revenues were \$909 million for the quarter ended September 30, 2004 compared to \$870 million for the corresponding period in 2003, and the cost of natural gas was \$438 million in 2004 compared to \$372 million in 2003. These increases were primarily attributable to natural gas cost increases, which are passed on to customers, offset by \$55 million and \$48 million, respectively, of approved performance awards recognized during the nine-month and three-month periods ended September 30, 2003.

Electric revenues decreased to \$1.2 billion for the nine months ended September 30, 2004 from \$1.4 billion for the same period in 2003, and the cost of electric fuel and purchased power decreased to \$425 million in 2004 from \$428 million in 2003. Additionally, electric revenues decreased to \$445 million for the quarter ended September 30, 2004 from \$576 million for the same period in 2003, and the cost of electric fuel and purchased power increased to \$143 million in 2004 from \$128 million in 2003. The decreases in revenues were due to the recognition of \$116 million related to the approved settlement of intermediate-term purchase power contracts in the third quarter of 2003, more power being provided to SDG&E's customers by the DWR in 2004 as discussed in Note 6 of the notes to Consolidated Financial Statements, and higher earnings from PBR awards in 2003. The decrease in the cost of electric fuel and purchased power for the nine-month period was mainly due to more power being provided by the DWR, while the increase for the three-month period was due to higher electric commodity costs partially offset by more power being provided by the DWR. Under the current regulatory framework, changes in commodity costs normally do not affect net income.

Performance awards are discussed in Note 6 of the notes to Consolidated Financial Statements.

In 2002, the California Utilities filed Cost of Service applications with the CPUC, seeking rate increases reflecting forecasts of 2004 capital and operating costs, as further discussed in the Annual Report and in Note 6 of the notes to Consolidated Financial Statements. In accordance with generally accepted accounting principles, the California Utilities are generally recognizing 2004 revenue in a manner consistent with the reduced rates contemplated by the proposed settlements, except for the favorable effect of the recovery of pension costs contemplated by the proposed settlements and provided by both proposed decisions. To the extent that the revenues provided by the CPUC's decision in the cost of service proceedings differ from those previously recorded, a reconciling adjustment to revenues and resulting net income would be recorded in the latest quarter for which financial statements had not been published. To date, the impacts of accounting consistent with the settlement have not had a material effect on the financial statements.

The tables below summarize the natural gas and electric volumes and revenues by customer class for the nine months ended September 30, 2004 and 2003.

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

Gas Sales
Transportation
& Exchange
Total -----

----- Volumes
Revenue
Volumes
Revenue
Volumes
Revenue -----

----- 2004+
Residential
197 \$ 1,943 1
\$ 5 198 \$
1,948
Commercial
and
industrial 91
718 207 141
298 859
Electric
generation
plants
190 67 190 67
Wholesale
13 5 13 5

288 \$ 2,661
411 \$ 218 699
2,879
Balancing
accounts and
other 310
----- Total \$
3,189

----- 2003+
Residential
189 \$ 1,767 1
\$ 5 190 \$
1,772
Commercial
and
industrial 90
649 209 138
299 787
Electric
generation
plants 3
186 61 186 64
Wholesale
14 2 14 2

279 \$ 2,419
410 \$ 206 689
2,625
Balancing
accounts and
other 336
----- Total \$
2,961

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

	2004	2003
- Volumes		
Revenue		
Volumes		
Revenue		
Residential		
	5,242	\$ 518
		4,988
		\$ 561
Commercial		
	4,960	487
	4,681	526
Industrial		
	1,533	98
	1,460	125
Direct access		
	2,560	77
	2,456	62
Street and highway lighting		
	71	8
Off-system sales		
	26	1
	14,366	1,188
		13,679
		1,283
Balancing accounts and other		
	58	85
Total		
	1,246	\$ 1,368

Although commodity-related revenues from the DWR's purchasing of SDG&E's net short position or from the DWR's allocated contracts are not included in revenue, the associated volumes and distribution revenue are included herein.

Beginning in 2004, off-system sales are accounted for as a reduction of the cost of purchased power.

Other Operating Revenues

Other operating revenues, which consist primarily of revenues at Global, increased to \$2.1 billion for the nine months ended September 30, 2004 from \$1.5 billion for the same period of 2003, and increased to \$811 million for the quarter ended September 30, 2004 from \$612 million for the same period of 2003. These increases were primarily due to higher revenues at SER resulting from increased volumes of power sales under the DWR contract and higher revenues at SET resulting from increased commodity revenue, particularly from metals and petroleum.

Other Cost of Sales

Other cost of sales, which consists primarily of cost of sales at Global, increased to \$1.2 billion for the nine months ended September 30, 2004 from \$886 million for the same period of 2003, and increased to \$484 million for the quarter ended September 30, 2004, from \$371 million for the same period in 2003. The increases were primarily due to costs related to the higher sales volume for SER as noted above.

Other Operating Expenses

Other operating expenses were \$1.6 billion for the nine-month periods ended September 30, 2004 and 2003, including \$1.1 billion in both 2004 and 2003 related to the California Utilities. Other operating expenses decreased to \$530 million for the quarter ended September 30, 2004 from \$668 million for the same period in 2003, including \$351 million and \$423 million in 2004 and 2003, respectively, related to the California Utilities. The overall change was primarily due to lower costs at SEI mainly due to a \$77 million before-tax write-down of the carrying value of the assets of Frontier Energy in the third quarter of 2003. Additionally, there were lower costs at the California Utilities, primarily as a result of a \$74 million before-tax charge in the third quarter of 2003 for litigation and for losses associated with a sublease of portions of the SoCalGas headquarters building. These decreases were offset by higher operating costs at SET related to increased trading activity in 2004, the new SER generating plants coming on line and litigation expenses in 2004.

Other Income - Net

Other income, which primarily consists of equity earnings from unconsolidated subsidiaries and interest on regulatory balancing accounts, increased to \$58 million for the nine months ended September 30, 2004 from \$38 million for the same period of 2003, and increased to \$40 million for the quarter ended September 30, 2004 from \$34 million for the same period of 2003. The increases were due to the \$15 million before-tax gain at SoCalGas from the sale of partnership property, lower equity losses at SEF and increased equity earnings at SER resulting from the acquisition of the Coletto Creek coal plant, offset partially by decreased equity earnings at SEI. In addition, the nine-month period was impacted by the \$13 million before-tax gain on the settlement of an unpaid portion of the purchase price of the proposed Cameron LNG project for an amount less than the liability (which had

been recorded as a derivative) and \$7 million before-tax at SEI from the partial sale of Luz del Sur in 2004.

Interest Income

Interest income increased to \$58 million for the nine months ended September 30, 2004 from \$30 million for the same period of 2003, and increased to \$25 million for the quarter ended September 30, 2004 from \$8 million for the same period of 2003. The changes were due primarily to interest on income tax receivables during the first and third quarters of 2004.

Interest Expense

Interest expense increased to \$234 million for the nine months ended September 30, 2004 from \$223 million for the same period of 2003 due primarily to the reclassification of preferred dividends on mandatorily redeemable trust preferred securities and preferred stock of subsidiaries to interest expense as a result of the adoption on July 1, 2003 of SFAS 150, Accounting for Certain Financial Instruments with Characteristics of Liabilities and Equity, as well as higher capitalized interest at SER in 2003.

Income Taxes

Income tax expense increased to \$191 million for the nine months ended September 30, 2004 from \$109 million for the same period of 2003. The corresponding effective income tax rates were 24.7 percent and 19.7 percent, respectively. Additionally, income tax expense increased to \$103 million for the third quarter of 2004 compared to \$58 million for the third quarter of 2003, and the effective income tax rate increased to 30.6 percent in 2004 from 21.6 percent in 2003. The changes were due primarily to higher taxable income and the resulting higher effective income tax rate in 2004, despite the reduction in estimated income tax liabilities for certain prior years. Discussion of Section 29 income tax credits is provided in Note 7 herein and in Note 7 of the notes to Consolidated Financial Statements of the Annual Report.

Discontinued Operations

During the first quarter of 2004, Sempra Energy's Board of Directors approved management's plan to dispose of the company's interest in AEG. On April 27, 2004, the company disposed of AEG at a \$2 million loss net of income taxes. Including the \$2 million loss on disposal, AEG's losses were \$32 million for the nine months ended September 30, 2004. Note 4 of the notes to Consolidated Financial Statements herein provides further details.

During 2003, the company accounted for its investment in AEG under the equity method of accounting. As such, for the nine-month and three-month periods ended September 30, 2003, the company recorded its share of AEG's net income, \$1 million and \$7 million, respectively, in Other Income - Net on the Statements of Consolidated Income. Additionally, for the nine-month and three-month periods the company recorded \$2 million and \$1 million, respectively, of interest income and for both periods the company recorded offsetting income tax expense of \$1 million. Effective December 31, 2003, AEG was consolidated as a result

of the adoption of FIN 46. This is discussed further in Note 2 herein and in Note 1 of the Annual Report.

Net Income

Net income for the nine months ended September 30 increased to \$549 million, or \$2.36 per diluted share of common stock in 2004 from \$415 million, or \$1.98 per diluted share in 2003. Net income for the third quarter was \$231 million, or \$0.98 per diluted share for 2004, compared to \$211 million or \$1.00 per diluted share in 2003. Unusual items affecting these comparisons are provided in the first table in this section. Although net income increased for both periods, earnings per share were affected by the issuance of 16.5 million additional shares in the fourth quarter of 2003 and the effect on the Equity Units of the change in the market price of company stock.

Net Income by Business Unit

Three months
ended Nine
months ended
September

30,

September

30, (Dollars
in millions)

2004 2003

2004 2003 -

~~Discontinued
operations
(32)*
Cumulative
effect of
change in
accounting
principle
(29)**~~

~~Consolidated
net income \$
231 \$ 211 \$
549 \$ 415~~

~~* Includes
(\$2) million
related to
the loss on
disposal of
AEG. ** The
effects were
(\$28)
million at
SET and (\$1)
million at
SES.~~

Subsequent to September 30, 2004, SES will be reorganized such that its commodity business will be moved to SET and its other businesses will be moved to SER.

SOUTHERN CALIFORNIA GAS COMPANY

SoCalGas recorded net income of \$174 million and \$148 million for the nine-month periods ended September 30, 2004 and 2003, respectively, and net income of \$68 million and \$53 million for the quarters ended September 30, 2004 and 2003, respectively. The increases were primarily due to the \$32 million after-tax charge for litigation and for losses associated with a long-term sublease of portions of its headquarters building in 2003, higher margins in 2004 and the gain on the sale of partnership property, partially offset by higher GCIM awards in 2003 and higher depreciation expense in 2004.

SAN DIEGO GAS & ELECTRIC COMPANY

SDG&E recorded net income of \$140 million and \$206 million for the nine-month periods ended September 30, 2004 and 2003, respectively, and net income of \$60 million and \$120 million for the quarters ended September 30, 2004 and 2003, respectively. The decreases were primarily due to income of \$65 million after-tax in 2003 related to the approved settlement of intermediate-term purchase power contracts, the 2003 Incremental Cost Incentive Pricing for SONGS, higher performance awards in 2003 and higher depreciation expense in 2004 partially offset by higher electric transmission and distribution revenues (excluding the effects of the settlement, which are included in Revenues) in 2004, and by higher operating expenses in 2003 including litigation charges in the third quarter.

SEMPRA ENERGY TRADING

SET recorded net income of \$143 million and \$67 million for the nine-month periods ended September 30, 2004 and 2003, respectively, excluding the cumulative effect of the change in accounting principle of (\$28) million in 2003. Additionally, SET recorded net income of \$44 million and \$22 million for the quarters ended September 30, 2004 and 2003, respectively. The increases were primarily attributable to higher trading margins, particularly on metals and petroleum, partially offset by litigation expenses. Net income for the third quarter of 2004 was \$38 million lower than the true economic value of SET's activities due to timing differences between economic valuations and accounting principles. It is expected that most of that deferred income will be recognized in the fourth quarter of 2004.

A summary of SET's unrealized revenues for trading activities for the nine months ended September 30, 2004 and 2003 follows:

(Dollars in millions)	2004	2003
Balance at beginning of period	\$ 269	\$ 180
Cumulative effect adjustment	--	(48)
Additions	710	833
Realized	(189)	(552)
Balance at end of period	\$ 790	\$ 413

~~associated
with open
exchange
contracts.~~

SET's Value at Risk (VaR) amounts are described in Item 3.

The CPUC prohibits the California Utilities and the other IOUs from procuring electricity from their affiliates. This is discussed in "Electric Industry Regulation" in Note 13 of the Annual Report.

SEMPRA ENERGY RESOURCES

SER recorded net income of \$123 million and \$48 million for the nine-month periods ended September 30, 2004 and 2003, respectively, and net income of \$64 million and \$33 million for the quarters ended September 30, 2004 and 2003, respectively. The increased earnings in 2004 were primarily due to higher volumes of power sales under the DWR contract.

SEMPRA ENERGY INTERNATIONAL

SEI recorded net income of \$35 million for the nine-month period ended September 30, 2004 compared to a net loss of \$7 million for the same period of 2003, and recorded net income of \$7 million for the quarter ended September 30, 2004 compared to a net loss of \$32 million for the same period of 2003. The increases for both periods were due to the 2003 charge recorded to write down the carrying value of assets at Frontier Energy, as previously discussed, and increased earnings from the company's Gasoducto Bajanorte natural gas pipeline in 2004. Additionally, the increase for the nine-month period was due to a gain on the sale of a portion of SEI's interests in Luz del Sur, a Peruvian electric utility, offset by the impact of changes in estimates for certain income tax issues in the second quarter of 2004.

SEMPRA ENERGY LNG

SELNG recorded break-even results for the nine months ended September 30, 2004 and a net loss of \$4 million for the quarter ended September 30, 2004. For the nine-month period, the income from the settlement of an unpaid portion of the purchase price of the proposed Cameron LNG project for an amount less than the liability (which had been recorded as a derivative) was offset by start-up costs. The loss for the three-month period was due to the start-up costs.

SEMPRA ENERGY SOLUTIONS

SES recorded net income of \$1 million and \$8 million for the nine-month periods ended September 30, 2004 and 2003, respectively, excluding the cumulative effect of the change in accounting principle of (\$1) million in 2003. Additionally, SES recorded net income of \$1 million for the quarter ended September 30, 2004 compared to break-even results for the same period of 2003. The decrease for the nine-month period was primarily due to lower net commodity revenues.

SEMPRA ENERGY FINANCIAL

SEF recorded net income of \$26 million and \$32 million for the nine-month periods ended September 30, 2004 and 2003, respectively, and net income of \$10 million and \$13 million for the quarters ended September 30, 2004 and 2003, respectively. During the third quarter of 2004, SEF sold its alternative fuel investment, Carbontronics. The transaction has been accounted for under the cost recovery method, whereby future proceeds in excess of Carbontronics' carrying value will be recorded as income as received. As a result of this sale, SEF will not be recognizing Section 29 income tax credits in the future.

PARENT AND OTHER

Net losses for Parent and Other were \$61 million and \$58 million for the nine-month periods ended September 30, 2004 and 2003. Additionally, net losses were \$19 million for the quarter ended September 30, 2004, compared to net income of \$2 million for the same period of 2003. The change for the quarter was due primarily to a lower 2003 income tax expense as a result of a positive adjustment to reflect the company's consolidated effective tax rate.

CAPITAL RESOURCES AND LIQUIDITY

The company's California Utility operations are the major source of liquidity. Funding of other business units' capital expenditures is significantly dependent on the California Utilities' paying sufficient dividends to Sempra Energy and on SET's liquidity requirements, which fluctuate significantly.

At September 30, 2004, the company had \$267 million in cash and \$3.3 billion in available unused, committed lines of credit. See "Cash Flows from Financing Activities" for discussion on changes in credit facilities in 2004.

Management believes these amounts and cash flows from operations and new security issuances will be adequate to finance capital expenditure

requirements, shareholder dividends, any new business acquisitions or start-ups, and other commitments. If cash flows from operations were to be significantly reduced or the company were to be unable to issue new securities on acceptable terms, neither of which is considered likely, the company would be required to reduce non-utility capital expenditures and investments in new businesses. Management continues to regularly monitor the company's ability to finance the needs of its operating, financing and investing activities in a manner consistent with its intention to maintain strong, investment-quality credit ratings. Rating agencies and others that evaluate a company's liquidity generally consider a company's capital expenditures and working capital requirements in comparison to cash from operations, available credit lines and other sources available to meet liquidity requirements.

At the California Utilities, cash flows from operations and from debt issuances are expected to continue to be adequate to meet utility capital expenditure requirements and provide dividends to Sempra Energy. In June 2004, SDG&E received CPUC approval of its plans to purchase (in 2006) from SER a 550-MW generating facility being constructed in Escondido, California. As a result, the level of SDG&E's dividends to Sempra Energy is expected to be significantly lower during the construction of the facility to enable SDG&E to increase its equity in preparation for the purchase of the completed facility.

SET provides or requires cash as the level of its net trading assets fluctuates with prices, volumes, margin requirements (which are substantially affected by credit ratings and commodity price fluctuations) and the length of its various trading positions. Its status as a source or use of cash also varies with its level of borrowing from its own sources. SET's intercompany borrowings were \$618 million at September 30, 2004, up from \$359 million at December 31, 2003. SET's external debt was \$145 million at September 30, 2004. Company management continuously monitors the level of SET's cash requirements in light of the company's overall liquidity.

SER's projects are expected to be financed through a combination of project financing, SER's cash from operations and borrowings, and funds from the company.

SEI is expected to require funding from the company and/or external sources to continue the expansion of its existing natural gas distribution operations in Mexico and its planned development of pipelines to serve LNG facilities expected to be developed in Baja California, Mexico; Louisiana; and Texas, as discussed in "Cash Flows From Investing Activities," below.

SELNG will require funding for its planned development of LNG receiving facilities. While funding from the company is expected to be adequate for these requirements, the company may decide to use project financing if that is believed to be advantageous.

In the longer term, SEF is expected to again be a net provider of cash through reductions of consolidated income tax payments resulting from its investments in affordable housing. However, that was not true in 2003 and 2004, and will not be true in the near term, while the company is in an alternative minimum tax position.

CASH FLOWS FROM OPERATING ACTIVITIES

Net cash provided by operating activities totaled \$493 million and \$923 million for the nine months ended September 30, 2004 and 2003, respectively. The change was attributable to an increase in net trading assets in 2004 compared to a decrease in 2003, partially offset by higher net income and a higher decrease in accounts receivable in 2004.

For the nine months ended September 30, 2004, the company made pension plan and other postretirement benefit plan contributions of \$10 million and \$44 million, respectively.

CASH FLOWS FROM INVESTING ACTIVITIES

Net cash used in investing activities totaled \$294 million and \$887 million for the nine months ended September 30, 2004 and 2003, respectively. The change was primarily attributable to proceeds from the sale of U.S. Treasury obligations which previously securitized the Mesquite synthetic lease. The collateral was no longer necessary as SER bought out the lease in January 2004. The decrease in cash used in investing activities was also due to lower investments primarily as a result of completion of the Elk Hills and Mesquite power plants. In addition, the company had proceeds of \$137 million from the disposal of AEG's discontinued operations.

On April 1, 2004, SEI and PSEG Global, an unaffiliated company, sold a portion of their interests in Luz del Sur for a total of \$62 million. Each party had a 44-percent interest in Luz del Sur prior to the sale compared to a 38-percent interest after the sale was completed. SEI recognized an after-tax gain of \$5 million as a result of the sale.

Starting in 2003 and through the end of the third quarter of 2004, SET has spent \$87 million related to the development of Bluewater Gas Storage, LLC. SET owns the rights to develop the facility and to utilize its capacity to store natural gas for customers who buy, sell or transport natural gas to Michigan. The market-based-pricing facility started injecting natural gas during the second quarter of 2004.

On April 16, 2004, the company announced the acquisition of land and associated rights for the development of a salt-cavern natural gas storage facility in Evangeline Parish, Louisiana. This facility, operating as the Pine Prairie Energy Center, will consist of three salt caverns with a total capacity of 24 billion cubic feet (bcf) of natural gas and is expected to begin operations in 2006 and to cost approximately \$175 million. The company is currently negotiating contracts to sell the capacity of this facility. FERC approval for the construction and operation of the facility is pending.

On July 20, 2004, the company announced that it had acquired the rights to develop a salt-cavern natural gas storage facility located in Calcasieu Parish, Louisiana, called "Liberty," that is expected to have capacity of 17 bcf.

On April 21, 2004, SELNG announced plans to develop and construct a new \$600 million LNG receiving terminal near Port Arthur, Texas. The terminal would be capable of processing 1.5 bcf of natural gas per day

and could be expanded to 3 bcf per day. The company is currently in the process of obtaining FERC approval for the construction of the terminal. The project is expected to begin construction in 2006 with start-up slated for 2009.

In October 2004, SELNG signed a sale and purchase agreement with British Petroleum and its partners for the supply of 500 million cubic feet of gas a day from Indonesia's Tangguh LNG liquefaction facility to Energia Costa Azul, a planned SELNG regasification terminal in Baja California that is expected to be fully operational in 2008 and to cost between \$900 million and \$1 billion, including related pipeline costs, of which \$50 million had been expended through September 30, 2004. The 20-year agreement provides for pricing tied to the Southern California border index for natural gas and will cover half the capacity of the Energia Costa Azul receipt facility. Also in October 2004, SELNG entered into an agreement with Shell International Gas Limited (Shell) by which Shell has purchased half of the initial capacity of the Energia Costa Azul terminal for an initial period of 20 years. This replaces a prior arrangement that contemplated that Shell would have a 50% equity interest in the terminal.

On July 1, 2004, Topaz Power Partners (Topaz), a 50/50 joint venture between Sempra Energy Partners and Carlyle/Riverstone acquired ten Texas power plants from AEP, including the 632-MW coal-fired Coletto Creek Power Station. Topaz acquired these assets for \$430 million in cash and the assumption of various environmental and asset retirement liabilities associated with the plants, initially estimated at \$63 million. \$355 million of the purchase price was provided by non-recourse project financing related solely to the acquisition of the Coletto Creek Power Station.

The transaction included the acquisition of six operating power plants with generating capacity of 1,950 MW and four inactive power plants (capable of generating 1,863 MW). Concurrently with the acquisition, Topaz sold one of the inactive power plants and no gain or loss was recorded on the transaction. Topaz has entered into several power sales agreements, with a weighted-average life of 4.3 years, for 572 MW of Coletto Creek Power Station's capacity.

In conjunction with the acquisition of the plants, Sempra Energy provided AEP a guarantee for certain specified liabilities described in the acquisition agreement. This guarantee is limited to \$75 million for the first five years after the acquisition date and \$25 million for the next five years, but not more than \$75 million over the entire 10-year period. Management does not expect any material losses to result from the guarantee because performance is not expected to be required and, therefore, believes that the fair value of the guarantee is immaterial. The allocation of the purchase price remains subject to adjustment until June 30, 2005.

The company expects to make capital expenditures and investments of \$1.2 billion in 2004, of which \$852 million had been expended as of September 30, 2004. Significant capital expenditures and investments are expected to include \$750 million for California utility plant improvements, \$130 million for the Palomar plant and \$100 million for the development of LNG regasification terminals. These expenditures and

investments are expected to be financed by cash flows from operations and security issuances.

In September 2004, the CPUC approved a proposed framework for the contracting of interstate pipeline capacity for core customers. Discussions are underway for the California Utilities to acquire pipeline capacity to replace capacity contracts expiring over the next two years. The CPUC also approved requests to establish receipt points to accept new supplies, including imported LNG, to the California Utilities' service area. Approval for a point of receipt to import natural gas from Mexico to Southern California via pipelines at Otay Mesa was also obtained. As a result, the California Utilities expect to install capital facilities starting in 2005, in order to receive natural gas supplies from new delivery locations. The CPUC has determined that project developers, not the utilities, will be presumed to pay for the costs for access-related infrastructure, subject to future applications to be filed when more is known about the particular projects. Note 6 of the notes to Consolidated Financial Statements herein provides further details.

Under terms of a franchise agreement and Memorandum of Understanding reached in October 2004 between SDG&E and the City of Chula Vista, SDG&E has committed to support at the CPUC for undergrounding a part of the proposed Otay Mesa transmission line through Chula Vista's bayfront, upon CPUC approval of a substation upgrade, and replacement of certain other overhead transmission lines with underground facilities. Other transmission lines are to be undergrounded pursuant to the tariff Rule 20A undergrounding program. If the Otay Mesa undergrounding project is approved by the CPUC, SDG&E's expected share of cost will be \$36 million. If SDG&E does not complete the undergrounding project by April 2010, there will not be an automatic renewal of the franchise at the end of the initial ten-year term.

CASH FLOWS FROM FINANCING ACTIVITIES

Net cash used in financing activities totaled \$364 million and \$80 million for the nine months ended September 30, 2004 and 2003, respectively. The change was due to higher long-term debt payments, partially offset by an increase in long-term debt issuances and a net increase in short-term debt in 2004.

In July 2004, Global obtained a \$1.5 billion three-year syndicated revolving credit facility to replace its expiring \$500 million revolving credit facility and the expiring \$400 million revolving credit facility of SER. Global continues to have a substantially identical \$500 million three-year revolving credit facility that expires in 2006. Borrowings under each facility are guaranteed by Sempra Energy and bear interest at rates varying with market rates and Sempra Energy's credit rating. Each facility requires Sempra Energy to maintain, at the end of each quarter, a ratio of total indebtedness to total capitalization (as identically defined in each facility) of no more than 65 percent.

In September 2004, Pacific Enterprises (PE) extended the termination date of its revolving credit agreement to September 30, 2005 and increased the revolving credit commitment from \$250 million to \$500 million. Borrowings under the credit agreement, none of which are

outstanding, are available to provide loans to Global and would bear interest at rates varying with market rates, PE's credit ratings and amounts borrowed. The borrowings would be guaranteed by the company and would be subject to mandatory repayment if the company's or SoCalGas' ratio of debt to total capitalization (as defined in the agreement) were to exceed 65%, or if there were to be a change in law materially and adversely affecting SoCalGas' ability to pay dividends or make other distributions to PE.

At September 30, 2004 outstanding extensions of credit under SET's \$1 billion credit facility totaled \$350 million. Details concerning this credit facility are provided in the Form 10-Q for the six-month period ended June 30, 2004.

SER's energy contracts typically contain collateral requirements related to credit lines. The collateral arrangements provide for SER and/or the counterparty to post cash, guarantees or letters of credit to the other party for exposure in excess of established thresholds. SER may be required to provide collateral when market price movements adversely affect the counterparty's cost of alternative energy should SER fail to deliver the contracted amounts. As of September 30, 2004, SER had outstanding collateral requirements under these contracts of \$171 million.

FACTORS INFLUENCING FUTURE PERFORMANCE

Base results of the company in the near future will depend primarily on the results of the California Utilities, while earnings growth and variability will result primarily from activities at SET, SER, SELNG and SEI. Notes 6 and 7 of the notes to Consolidated Financial Statements herein and Notes 13 through 15 of the Annual Report describe events in the deregulation of California's electric and natural gas industries and various FERC, SET and income tax issues.

California Utilities

Note 6 of the notes to Consolidated Financial Statements contains discussions of electric and natural gas restructuring and rates, the pending cost of service proceedings and the CPUC's investigation of compliance with affiliate rules.

Sempra Energy Global Enterprises

Electric-Generation Assets

As discussed in more detail in "Cash Flows From Investing Activities," the company is involved in the expansion of its electric-generation capabilities, including the AEP-related acquisition noted above, which will significantly impact the company's future performance.

Investments

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

SELNG is in the process of developing Energia Costa Azul, an LNG receiving terminal in Baja California, Mexico; the Cameron LNG

receiving terminal in Louisiana; and the Port Arthur LNG receiving terminal in Texas. The viability and future profitability of this business unit is dependent upon numerous factors, including the quantities of and relative prices of natural gas in North America and from LNG suppliers located elsewhere, negotiating sale and supply contracts at adequate margins, and completing cost-effective construction of the required facilities. In October 2004, SELNG signed a sale and purchase agreement with British Petroleum for the supply of 500 million cubic feet of gas a day from Indonesia's Tangguh LNG liquefaction facility to Energia Costa Azul that is expected to cost between \$900 million and \$1 billion, including related pipeline costs, of which \$50 million had been expended through September 30, 2004. Also in October 2004, SELNG entered into a 20-year agreement with Shell by which Shell has purchased half of the initial capacity of the Energia Costa Azul terminal. Additional information regarding these activities is provided above in "Cash Flows From Investing Activities."

Beginning in 2003, the company started expanding its natural gas storage capacity by developing Bluewater Gas Storage, LLC. In April 2004, the company announced the acquisition of land and associated rights for the development of a salt-cavern natural gas storage facility in Evangeline Parish, Louisiana, operating as the Pine Prairie Energy Center. In July 2004, the company announced that it had acquired the rights to develop a salt-cavern gas storage facility located in Calcasieu Parish, Louisiana, called "Liberty." Additional information regarding these activities is provided above in "Cash Flows From Investing Activities."

The Argentine economic decline and government responses (including Argentina's unilateral, retroactive abrogation of utility agreements early in 2002) are continuing to adversely affect the company's investment in two Argentine utilities. Information regarding this situation is provided in Note 7 of the notes to Consolidated Financial Statements.

CRITICAL ACCOUNTING POLICIES AND KEY NON-CASH PERFORMANCE INDICATORS

There have been no significant changes to the accounting policies viewed by management as critical or key non-cash performance indicators for the company and its subsidiaries, as set forth in the Annual Report.

NEW ACCOUNTING STANDARDS

Relevant pronouncements that have recently become effective and have had a significant effect on the company are SFAS Nos. 132 (revised 2003), 143, 149 and 150, FASB Staff Position 106-2, FIN 45 and 46, and the rescission of EITF 98-10, as discussed in Note 2 of the notes to Consolidated Financial Statements. Pronouncements that have or are likely to have a material effect on future earnings are described below.

EITF Issue 98-10, "Accounting for Contracts Involved in Energy Trading and Risk Management Activities": In accordance with the EITF's rescission of Issue 98-10 by the release of Issue 02-3, the company no longer marks to market energy-related contracts unless the contracts meet the requirements stated under SFAS 133, Accounting for Derivative Instruments and Hedging Activities, and SFAS 149, Amendment of

Statement 133 on Derivative Instruments and Hedging Activities. A substantial majority of the company's contracts do meet these requirements. Upon adoption of this consensus on January 1, 2003, the company recorded the initial effect of rescinding Issue 98-10 as a cumulative effect of a change in accounting principle, which reduced after-tax earnings by \$29 million.

SFAS 143, "Accounting for Asset Retirement Obligations": Beginning in 2003, SFAS 143 requires entities to record liabilities for future costs expected to be incurred when assets are retired from service, if the retirement process is legally required. It also requires most energy utilities, including the California Utilities, to reclassify amounts recovered in rates for future removal costs not covered by a legal obligation from accumulated depreciation to a regulatory liability. Further discussion is provided in Note 2 of the notes to Consolidated Financial Statements.

In June 2004, the FASB issued a proposed interpretation of SFAS 143, Accounting for Conditional Asset Retirement Obligations, an interpretation of FASB Statement No. 143. The interpretation would clarify that a legal obligation to perform an asset retirement activity that is conditional on a future event is within the scope of SFAS 143. Accordingly, the interpretation would require an entity to recognize a liability for a conditional asset retirement obligation if the liability's fair value can be reasonably estimated. The proposed interpretation would be effective for the company on December 31, 2005.

SFAS 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities": SFAS 149 amends and clarifies accounting for derivative instruments and for hedging activities under SFAS 133. Under SFAS 149, natural gas forward contracts that are subject to unplanned netting do not qualify for the normal purchases and normal sales exception, whereby derivatives are not required to be marked to market when the contract is usually settled by the physical delivery of natural gas. The company has determined that all natural gas contracts are subject to unplanned netting and as such, these contracts are marked to market. In addition, effective January 1, 2004, power contracts that are subject to unplanned netting and that do not meet the normal purchases and normal sales exception under SFAS 149 are further marked to market. Implementation of SFAS 149 on July 1, 2003 did not have a material impact on reported net income.

FIN 46, "Consolidation of Variable Interest Entities (an interpretation of ARB No. 51)": In January 2003, the FASB issued FIN 46 to strengthen existing accounting guidance that addresses when a company should consolidate a VIE in its financial statements.

Adoption of FIN 46 on December 31, 2003 resulted in the consolidation of two VIEs for which Sempra Energy is the primary beneficiary. One of the VIEs (Mesquite Trust) was the owner of the Mesquite Power plant for which the company had a synthetic lease agreement. (The company bought out the lease in January 2004.) The other VIE relates to the investment in AEG. Sempra Energy consolidated these entities in its financial statements at December 31, 2003. During the first quarter of 2004, Sempra Energy's Board of Directors approved management's plan to dispose of AEG. Note 4 of the notes to Consolidated Financial

Statements provides further discussion on this matter and the disposal of AEG, which occurred in April 2004.

In accordance with FIN 46, the company has deconsolidated a wholly owned subsidiary trust from its financial statements at December 31, 2003.

Further discussion regarding FIN 46 is provided in Note 2 of the notes to Consolidated Financial Statements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no significant changes in the risk issues affecting the company subsequent to those discussed in the Annual Report.

The VaR for SET at September 30, 2004, and the average VaR for the nine months ended September 30, 2004, at the 95-percent and 99-percent confidence intervals (one-day holding period) were as follows (in millions of dollars):

	95%	99%

At September 30, 2004	\$ 7.2	\$ 10.2
Average for the nine months ended September 30, 2004	\$ 6.9	\$ 9.7

As of September 30, 2004, the total VaR of the California Utilities' and SES's positions was not material.

ITEM 4. CONTROLS AND PROCEDURES

The company has designed and maintains disclosure controls and procedures to ensure that information required to be disclosed in the company's reports under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission and is accumulated and communicated to the company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating these controls and procedures, management recognizes that any system of controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired objectives and necessarily applies judgment in evaluating the cost-benefit relationship of other possible controls and procedures. In addition, the company has investments in unconsolidated entities that it does not control or manage and, consequently, its disclosure controls and procedures with respect to these entities are necessarily substantially more limited than those it maintains with respect to its consolidated subsidiaries.

Under the supervision and with the participation of management, including the Chief Executive Officer and the Chief Financial Officer, the company evaluated the effectiveness of the design and operation of the company's disclosure controls and procedures as of September 30, 2004, the end of the period covered by this report. Based on that evaluation, the company's Chief Executive Officer and Chief Financial

Officer concluded that the company's disclosure controls and procedures were effective at the reasonable assurance level.

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

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

SDG&E and the County of San Diego are continuing to negotiate the remaining terms of a settlement relating to alleged environmental law violations by SDG&E and its contractors in connection with the abatement of asbestos-containing materials during the demolition of a natural gas storage facility that was completed in 2001. The expected settlement would involve payments by SDG&E of less than \$750,000.

Except as described above and in Notes 6 and 7 of the notes to Consolidated Financial Statements herein, neither the company nor its subsidiaries are party to, nor is their property the subject of, any material pending legal proceedings other than routine litigation incidental to their businesses.

ITEM 5. OTHER INFORMATION

The company currently anticipates that its 2005 Annual Meeting of Shareholders will be held on April 5, 2005. Any shareholder satisfying the Securities and Exchange Commission's eligibility requirements who wishes to submit a proposal to be included in the proxy statement for the annual meeting should do so in writing to the Corporate Secretary, 101 Ash Street, San Diego, California 92101-3017.

As a consequence of having advanced the date of the annual meeting by 32 days from the date of the previous annual meeting, Securities and Exchange Commission rules provide that the new deadline for the company's receipt of shareholder proposals for inclusion in the proxy statement is a reasonable time before the company begins to print and mail proxy materials for the annual meeting. The company will regard any proposals that it receives on or before November 19, 2004 (the previously published deadline and that which would have been applicable if the annual meeting date had not been advanced by more than 30 days) as having been timely received. Any such proposals received after November 19, will be regarded as untimely and will not be considered for inclusion in the proxy statement.

Shareholders who wish to present other business, including director nominations, for consideration at the 2005 Annual Meeting must notify the Corporate Secretary of their intention to do so during the period beginning on January 4, 2005 and ending on March 5, 2005. The notice must also provide the information required by the company's bylaws.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

Exhibit 10 - Material Contracts

Compensation

- 10.1 Sempra Energy Employee Stock Incentive Plan
- 10.2 Sempra Energy Amended and Restated Executive Life Insurance Plan
- 10.3 Sempra Energy Excess Cash Balance Plan
- 10.4 Form of Sempra Energy 1998 Long Term Incentive Plan Performance-Based Restricted Stock Award
- 10.5 Form of Sempra Energy 1998 Long Term Incentive Plan Nonqualified Stock Option Agreement
- 10.6 Form of Sempra Energy 1998 Non-Employee Directors' Stock Plan Nonqualified Stock Option Agreement
- 10.7 Sempra Energy Supplemental Executive Retirement Plan
- 10.8 Neal Schmale Restricted Stock Award Agreement
- 10.9 Severance Pay Agreement between Sempra Energy and Donald E. Felsing
- 10.10 Severance Pay Agreement between Sempra Energy and Neal Schmale
- 10.11 Sempra Energy Executive Personal Financial Planning Program Policy Document

Exhibit 12 - Computation of ratios

- 12.1 Computation of Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends.

Exhibit 31 -- Section 302 Certifications

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

Exhibit 32 -- Section 906 Certifications

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

(b) Reports on Form 8-K

The following reports on Form 8-K were filed after June 30, 2004:

Current Report on Form 8-K filed August 5, 2004, filing as an exhibit Sempra Energy's press release of August 5, 2004, giving the financial results for the quarter ended June 30, 2004.

Current Report on Form 8-K filed September 30, 2004, announcing proposed decisions issued by the CPUC's Administrative Law Judge and the Assigned CPUC Commissioner on September 28, 2004, in the California Utilities' Cost of Service Proceedings.

Current Report on Form 8-K filed October 27, 2004, discussing the current status of the California Utilities' Cost of Service Proceedings and the Border Price Investigation.

Current Report on Form 8-K filed November 4, 2004, filing as an exhibit Sempra Energy's press release of November 4, 2004, giving the financial results for the quarter ended September 30, 2004.

SIGNATURE

Pursuant to the requirements 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)

Date: November 4, 2004

By: /s/ F. H. Ault

F. H. Ault

Sr. Vice President and Controller

Sempra Energy

Employee Stock Incentive Plan

1. **Purpose.** The purposes of the Sempra Energy Employee Stock Incentive Plan (the "*Plan*") are to attract, retain and motivate employees of SEMPR ENERGY, a California corporation (the "*Company*"), and its Subsidiaries (as hereinafter defined), to compensate them for their contributions to the growth and profits of the Company and to encourage ownership by them of stock of the Company.

2. **Definitions.** For purposes of the Plan, the following terms shall be defined as follows:

"**Administrative Committee**" means the Compensation Committee of the Board of Directors or any successor committee thereto, or any other committee consisting of two or more members all of whom are Executive Officers of the Company or members of the Compensation Committee (or a combination of such Executive Officers or members of the Compensation Committee) and appointed by the Board of Directors or the Compensation Committee to administer the Plan.

"**Affiliate**" has the meaning ascribed to that term in Rule 12b-2 under the Exchange Act.

"**Award**" means an award made pursuant to the terms of the Plan to an Eligible Individual in the form of Stock Options, Restricted Stock Awards or Stock Awards.

"**Award Agreement**" means a written agreement or certificate granting an Award. An Award Agreement shall be executed by an officer on behalf of the Company and shall contain such terms and conditions as the Administrative Committee deems appropriate and that are not inconsistent with the terms of the Plan. The Administrative Committee may, in its discretion, require that an Award Agreement be executed by the Participant to whom the relevant Award is granted.

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

"**Board of Directors**" 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 date the Plan is first approved by the Board of Directors (the "Effective Date"), constitute the Board of Directors and any new director (other than a director whose initial assumption of office is in connection with an actual or threatened election contest, including, but not limited to, a consent solicitation, relating to the election of directors of the Company) whose appointment or election by the Board of Directors 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 on the Effective Date 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 sale.

"**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.

"**Eligible Employees**" means the individuals described in Section 6 who are eligible to receive Awards under the Plan.

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

"Executive Officer" means an individual who in respect of the Company is an "officer" within the meaning of Rule 16a-1(f) under the Exchange Act, or any successor rule.

"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 such system 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 Administrative Committee.

"Parent" means any corporation which is a "parent corporation" within the meaning of Section 424(e) of the Code with respect to the relevant entity.

"Participant" means an Eligible Employee to whom an Award has been granted under the Plan.

"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.

"Restricted Stock Award" means an Award of restricted shares of Common Stock granted to an Eligible Individual pursuant to Section 9 hereof.

"Stock Award" means an Award of shares of Common Stock granted to an Eligible Individual pursuant to Section 10 hereof.

"Stock Option" means an option to purchase shares of Common Stock granted to an Eligible Employee pursuant to Section 8 hereof.

"Subsidiary" means (i) any direct or indirect majority-owned subsidiary of the Company and (ii) any other corporation or other entity in which the Company, directly or indirectly, has an equity or similar interest and which the Administrative Committee designates as a Subsidiary for the purposes of the Plan.

"Substitute Award" means an Award granted upon assumption of, or in substitution for, outstanding equity awards previously granted by a company or other entity in connection with a corporate transaction, such as a merger, combination, consolidation or acquisition of property or stock; *provided, however*, that in no event shall the term "Substitute Award" be construed to refer to a Stock Option granted in connection with a cancellation and repricing of a Stock Option.

3. Administration of the Plan.

(a) **Power and Authority of the Administrative Committee.** The Plan shall be administered by the Administrative Committee, which shall have full power and authority, subject to the express provisions hereof:

- (i) to select Participants from among the Eligible Employees;
- (ii) to grant Awards in accordance with the terms of the Plan;
- (iii) to determine the number of shares of Common Stock subject to each Award;
- (iv) to determine the terms and conditions of each Award, including, without limitation, those related to dividend equivalents, vesting, forfeiture, payment and exercisability, and the effect, if any, of a Participant's termination of employment with the Company or, subject to Section 12 hereof, of a Change in Control on the outstanding Awards granted to such Participant, and including the authority to amend the terms and conditions of an Award after the granting thereof to a Participant in a manner that is not prejudicial to the rights of such Participant;
- (v) to accelerate the vesting or payment of any Award, the lapse of restrictions on any Award or the date on which any Award becomes exercisable;
- (vi) to specify and approve the provisions of the Award Agreements delivered to Participants in connection with their Awards;
- (vii) to construe and interpret any Award Agreement delivered under the Plan;
- (viii) subject to Section 13, to prescribe, amend and rescind administrative rules and procedures relating to the Plan;
- (ix) to vary the terms of Awards to take account of tax, securities law and other regulatory requirements, including those of foreign jurisdictions; and
- (x) to make all other determinations and to formulate such procedures as may be necessary or advisable for the administration of the Plan.

(b) **Plan Construction and Interpretation.** The Administrative Committee shall have full power and authority, subject to the express provisions hereof, to construe and interpret the terms of the Plan and any Award Agreement entered into hereunder.

(c) **Determinations of Committee Final and Binding.** All determinations by the Administrative Committee in carrying out and administering the Plan and in construing and interpreting the Plan and any Award Agreement shall be final, binding and conclusive for all purposes and upon all persons interested herein.

(d) **Liability of Committee.** No member of the Administrative Committee shall be liable for anything whatsoever in connection with the administration of the Plan except such person's own willful misconduct. Under no circumstances shall any member of the Administrative Committee be liable for any act or omission of any other member of the Administrative Committee. In the performance of its functions with respect to the Plan, the Administrative Committee 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 person the Administrative Committee deems appropriate, and no member of the Administrative Committee shall be liable for any action taken or not taken in reliance upon any such advice.

4. **Effective Date and Duration of Plan.** The Plan shall become effective upon approval thereof by the Board of Directors. It shall continue in effect until it is terminated by the Board of Directors (upon which termination no further Awards may be granted hereunder) and thereafter until all Awards previously granted under the Plan have been satisfied or have been terminated, cancelled or expired under the terms of the Plan or under the Award Agreements entered into in connection with the grant thereof.

5. **Shares Subject to the Plan.** Subject to adjustment as provided in Section 11(b) hereof, the number of shares of Common Stock that may be issued pursuant to Awards (other than Substitute Awards) granted under the Plan (net of the number of shares accepted or withheld by the Company in payment of Awards or to satisfy Participants' tax withholding obligations in respect thereof and shares issued and subsequently forfeited to the Company upon failure of a Restricted Stock Award or other Award to vest) shall not exceed, in the aggregate, 10 million shares. Shares issued in payment or settlement of dividend equivalents or for Substitute Awards shall not be counted against such limitation.

6. **Eligible Employees.** Awards may be granted by the Administrative Committee to any employee of the Company or a Subsidiary other than an employee who, at the time the Award is granted, is a member of the Board of Directors or an Executive Officer.

7. Awards.

(a) **Generally.** Awards under the Plan may consist of Stock Options, Restricted Stock Awards or Stock Awards. The terms and provisions of an Award shall be set forth in a written Award Agreement that is approved by the Administrative Committee and delivered or made available to the Participant as soon as practicable following the date of the Award. The vesting, exercisability, payment and other restrictions applicable to an Award (which may include, without limitation, restrictions on transferability or provision for mandatory resale to the Company) shall be determined by the Administrative Committee and set forth in the applicable Award Agreement. Notwithstanding the foregoing, the Administrative Committee may accelerate (i) the vesting or payment of any Award, (ii) the lapse of restrictions on any Award or (iii) the date on which any Stock Option becomes exercisable. The Administrative Committee shall also have full authority to determine and specify in the applicable Award Agreement the effect, if any, that a Participant's termination of employment for any reason will have on the vesting, exercisability, payment or lapse of restrictions applicable to an outstanding Award. The date of a Participant's termination of employment for any reason shall be determined in the sole discretion of the Administrative Committee.

(b) **Dividend Equivalents.** The Administrative Committee may provide that Awards granted under the Plan earn amounts equal to all or a fraction or multiple of the dividends that would have been paid on all or a portion of the shares subject to the Award and for all or a portion of the period during which the Award is outstanding. Such dividend equivalents may be paid (either in cash or Common Stock or a combination thereof at the discretion of the Administrative Committee) currently or may be deferred and, if deferred, may be deemed reinvested in Common Stock in the same manner as dividends reinvested pursuant to the terms of the Sempra Energy Direct Stock Purchase Plan. Any payment or deferral of dividend equivalents shall be subject to such restrictions and conditions as the Administrative Committee may determine in its discretion, including, but not limited to, performance-based vesting requirements.

(c) **Non-transferability.** No Award granted under the Plan or any rights or interests therein shall be sold, transferred, assigned, pledged or otherwise encumbered or disposed of except by will or by the laws of descent and distribution or pursuant to a "qualified domestic relations order" ("QDRO") as defined in the Internal Revenue Code of 1986, as amended, or Title I of the Employee Retirement Income Security Act of 1974, as amended, and the rules and regulations thereunder; *provided, however*, that the Administrative Committee may, subject to such terms and conditions as the Administrative Committee shall specify, permit the transfer of an Award to a Participant's family members or to one or more trusts or partnerships established in whole or in part for the benefit of one or more of such family members; *provided, however*, that the restrictions set forth in this sentence shall not apply to the shares received in connection with an Award after the date that the restrictions on transferability set forth in the applicable Award Agreement have lapsed. During the lifetime of a Participant, an Award shall be exercisable only by, and payments in respect thereof shall be payable only to, the Participant or, if applicable, the "alternate payee" under a QDRO or the family member or trust to whom such Award has been transferred in accordance with the previous sentence.

8. Stock Options.

(a) **Generally.** Subject to the terms of the Plan and the applicable Award Agreement, each Stock Option shall entitle the Participant to whom such Stock Option was granted to purchase the number of shares of Common Stock specified in the applicable Award Agreement and shall be subject to the terms and conditions established by the Administrative Committee in connection with the Stock Option and specified in the applicable Award Agreement. Upon satisfaction of the conditions to exercisability specified in the applicable Award Agreement, a Participant shall be entitled to exercise the Stock Option in whole or in part and to receive, upon satisfaction or payment of the exercise price or an irrevocable notice of exercise in the manner contemplated by Section 8(d) below, the number of shares of Common Stock in respect of which the Stock Option shall have been exercised. Stock Options granted under the Plan are not intended to be, and shall not be construed to be, "incentive stock options" within the meaning of Section 422 of the Code.

(b) **Exercise Price.** The exercise price per share of Common Stock purchasable under a Stock Option shall be determined by the Administrative Committee at the time of grant and set forth in the Award Agreement, *provided, however*, that the exercise price per share of a Stock Option shall be no less than 100% of the Fair Market Value per share on the date of grant and such exercise price shall not thereafter be reduced (other than adjustments pursuant to Section 11(b) to reflect changes in outstanding Common Stock and the conversion of outstanding Stock Options into Replacement Options pursuant to Section 12 in the event of a Change in Control) by amendment, cancellation and regrant or substitution of Stock Options or otherwise.

Notwithstanding the foregoing, the exercise price per share of a Stock Option that is a Substitute Award may be less than the Fair Market Value per share on the date of grant, *provided* that the excess of:

- (i) the aggregate Fair Market Value (as of the date such Substitute Award is granted) of the shares subject to the Substitute Award; over
- (ii) the aggregate exercise price thereof;

does not exceed the excess of:

- (iii) the aggregate fair market value (as of the time immediately preceding the transaction giving rise to the Substitute Award, such fair market value to be determined by the Administrative Committee) of the shares of the predecessor entity that were subject to the grant assumed or substituted for by the Company; over

(iv) the aggregate exercise price of such shares.

(c) **Option Term.** The term of each Stock Option shall be fixed by the Administrative Committee and set forth in the Award Agreement.

(d) **Method of Exercise.** Subject to the provisions of the applicable Award Agreement, the exercise price of a Stock Option may be paid in cash or previously owned shares of Common Stock of the Company or a combination thereof; *provided, however,* that such previously owned shares, if acquired from the Company, shall have been held for a period of at least six months. In accordance with the rules and procedures established by the Administrative Committee for this purpose, the Stock Option may also be exercised through a "cashless exercise" procedure approved by the Administrative Committee involving a broker or dealer approved by the Administrative Committee, that affords Participants the opportunity to sell immediately some or all of the shares underlying the exercised portion of the Stock Option in order to generate sufficient cash to pay the Stock Option exercise price and/or to satisfy withholding tax obligations related to the Stock Option.

(e) **Deferral.** In accordance with rules and procedures established by the Administrative Committee, the Administrative Committee may permit a Participant at or after the time of grant to defer receipt of the Common Stock underlying a Stock Option to one or more dates elected by the Participant, subsequent to the date on which such Stock Option is exercised. Shares that are deferred in accordance with the preceding sentence shall be noted in a bookkeeping account maintained by the Company for this purpose and may periodically be credited with dividends, dividend equivalents, notional interest or earnings in accordance with procedures established by the Administrative Committee in its discretion from time to time. Deferred amounts shall be paid in cash, Common Stock or other property, as determined by the Administrative Committee at or after the time of deferral, on the date or dates elected by the Participant.

9. **Restricted Stock Awards.** Restricted Stock Awards shall consist of one or more shares of Common Stock granted to an Eligible Individual, and shall be subject to the terms and conditions established by the Administrative Committee in connection with the Award and specified in the applicable Award Agreement. The shares of Common Stock subject to a Restricted Stock Award may, among other things, be subject to vesting requirements or restrictions on transferability. Except as otherwise provided by the Administrative Committee in its sole discretion, a Participant shall have all of the rights of a shareholder of the Company with respect to the shares of Common Stock underlying a Restricted Stock Award, including the right to vote the shares and the right to receive any cash dividends. Stock dividends issued with respect to shares covered by a Restricted Stock Award shall be treated as additional shares under the Restricted Stock Award and shall be subject to the same terms and conditions that apply to the shares with respect to which such dividends are issued.

10. **Stock Awards.** Stock Awards shall consist of one or more shares of Common Stock granted to an Eligible Individual, and shall be subject to the terms and conditions established by the Committee in connection with the Award and specified in the applicable Award Agreement. The shares of Common Stock subject to a Stock Award may, among other things, be subject to the satisfaction of performance or other criteria for issuance or vesting and to restrictions on transferability.

11. **Recapitalization or Reorganization.**

(a) **Authority of the Company and Shareholders.** The existence of the Plan, the Award Agreements and the Awards granted hereunder 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 or business, or any other corporate act or proceeding, whether of a similar character or otherwise.

(b) **Change in Capitalization.** Notwithstanding any provision of the Plan or any Award Agreement, 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 affecting the Common Stock, the Administrative Committee shall make (i) such proportionate adjustments it considers appropriate (in the form determined by the Administrative Committee in its sole discretion) to prevent diminution or enlargement of the rights of Participants under the Plan with respect to the aggregate number of shares of Common Stock for which Awards in respect thereof may be granted under the Plan, the number of shares of Common Stock covered by each outstanding Award, and the exercise prices in respect thereof and/or (ii) such other equitable adjustments as it deems appropriate in the interests of the holders of Awards. The Administrative Committee's determination as to what, if any, adjustments shall be made shall be final and binding on the Company and all Participants.

12. **Change in Control.** In the event of a Change in Control (i) all Stock Options then outstanding shall automatically become fully vested and exercisable as of the date of the Change in Control and (ii) all restrictions and conditions on all Restricted Stock Awards then outstanding shall lapse as of the date of the Change in Control. In addition to the foregoing, 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 Stock 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 Administrative Committee expressly reserves the discretion to cancel all outstanding Stock Options, effective as of the date of the Change in Control, in exchange for a cash payment to be made to each of the Participants 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 Stock 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 the Plan or any Award Agreement would so qualify, then the Plan and any Award Agreement shall be interpreted so as to preserve such accounting treatment, and to the extent that any provision of the Plan or any Stock Option Agreement would disqualify the transaction from pooling of interests accounting treatment (including, if applicable, an entire Award Agreement), 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.

13. **Amendment and Termination of the Plan.** The Board of Directors 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 termination, modification, suspension or amendment of the Plan shall, without the consent of a Participant to whom any Award shall previously have been granted, adversely affect his or her rights under such Awards. Notwithstanding any provision herein to the contrary, the Board of Directors shall have broad authority to amend the Plan or any Award to take into account changes in applicable tax laws, securities laws, accounting rules and other applicable state and federal laws.

14. *Miscellaneous.*

(a) **Tax Withholding.** No later than the date as of which an amount first becomes includable in the gross income of the Participant for applicable income tax purposes with respect to any Award under the Plan, the Participant shall pay to the Company or make arrangements satisfactory to the Administrative Committee regarding the payment of any federal, state or local taxes of any kind required by law to be withheld with respect to such amount. Unless otherwise determined by the Administrative Committee, in accordance with rules and procedures established by the Administrative Committee, any required withholding obligations may be satisfied with Common Stock (valued at its Fair Market Value), including Common Stock that is part of the Award that gives rise to the withholding requirement; *provided, however*, that notwithstanding any other provision of the Plan the amount of such withholding obligations that may be satisfied with Common Stock that is part of the Award that gives rise to such obligations or that was acquired from the Company and not subsequently held for a period of at least six months shall not exceed the minimum aggregate amount of such obligations based on applicable minimum statutory withholding rates. The obligations of the Company under the Plan shall be conditioned upon such payment or arrangements and the Company shall, to the extent permitted by law, have the right to deduct any such taxes from any payment of any kind otherwise due to the Participant.

(b) **No Right to Grants or Employment.** No Eligible Employee or Participant shall have any claim or right to receive grants of Awards under the Plan. Nothing in the Plan or in any Award Agreement shall confer upon any employee of the Company or any Subsidiary any right to continued employment with the Company or any Subsidiary, as the case may be, or interfere in any way with the right of the Company or a Subsidiary to terminate the employment of any of its employees at any time, with or without cause.

(c) **Unfunded Plan.** The Plan is intended to constitute an unfunded plan for incentive compensation. With respect to any payments not yet made to a Participant by the Company, nothing contained herein shall give any such Participant any rights that are greater than those of a general creditor of the Company. In its sole discretion, the Administrative Committee may authorize the creation of trusts or other arrangements to meet the obligations created under the Plan to deliver Common Stock or payments in lieu thereof with respect to grants hereunder.

(d) **Other Employee Benefit Plans.** Amounts received by a Participant with respect to any Award granted pursuant to the provisions of the Plan shall not be included in, nor have any effect on, the determination of benefits under any other employee benefit plan or similar arrangement provided by the Company.

(e) **Securities Law Restrictions.** The Administrative Committee may require each Eligible Employee purchasing or acquiring shares of Common Stock pursuant to an Award under the Plan to represent to and agree with the Company in writing that such Eligible Employee 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 Administrative Committee 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 Administrative Committee 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) **Award Agreement.** In the event of any conflict or inconsistency between the Plan and any Award Agreement, the Plan shall govern, and the Award Agreement shall be interpreted to minimize or eliminate any such conflict or inconsistency.

(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.

Approved by the Board of Directors on November 7, 2000

**FIRST AMENDMENT TO
SEMPRA ENERGY
EMPLOYEE STOCK INCENTIVE PLAN**

THIS FIRST AMENDMENT TO SEMPra ENERGY EMPLOYEE STOCK INCENTIVE PLAN (this "First Amendment") is made and adopted by SEMPra ENERGY, a California corporation (the "Company"), as of February 20, 2004. Capitalized terms used but not otherwise defined herein shall have the respective meanings ascribed to such terms in the Plan (as defined below).

WHEREAS, the Company has adopted the Sempra Energy Employee Stock Incentive Plan (the "Plan") for the benefit of employees;

WHEREAS, the Company reserved the right to amend the Plan pursuant to Section 13 thereof;

WHEREAS, the Company desires to amend the Plan with respect to the number of shares subject to the Plan; and

WHEREAS, this First Amendment was approved by the Board of Directors of the Company on February 20, 2004.

NOW THEREFORE, in consideration of the foregoing, the Company hereby amends the Plan as follows:

1. Section 5 of the Plan is hereby amended and restated in its entirety as follows:

"5. **Shares Subject to the Plan.** Subject to adjustment as provided in Section 11(b) hereof, the number of shares of Common Stock that may be issued pursuant to Awards (other than Substitute Awards) granted under the Plan (net of the number of unissued shares withheld by the Company to satisfy the grant or exercise price or tax withholding obligation pursuant to any Award, shares subject to an Award that terminates, expires or lapses without the shares having been issued, and shares which are forfeited to the Company upon the failure of a Restricted Stock Award to vest) shall not exceed, in the aggregate, 10 million shares. Shares issued in payment or settlement of dividend equivalents with respect to issued shares or for Substitute Awards with respect to issued shares shall not be counted against such limitation."

2. This First Amendment shall be and is hereby incorporated in and forms a part of the Plan.

3. This First Amendment shall be effective as of the earlier of (i) the Company's 2004 Annual Meeting of Shareholders and (ii) June 30, 2004.

4. Except as set forth herein, the Plan shall remain in full force and effect.

IN WITNESS WHEREOF, the Company has caused this First Amendment to the Plan to be executed by its duly authorized officer as of _____, 2004.

SEMPRA ENERGY

By: _____

Name:

Title:

SEMPRA ENERGY

AMENDED AND RESTATED

EXECUTIVE LIFE INSURANCE PLAN

Sempra Energy, Inc., a California corporation ("Sempra"), hereby amends and restates the Sempra Energy, Inc. Executive Life Insurance Plan (the "Plan"), which was originally effective June 1, 1998. This amendment and restatement of the Plan is effective as of July 1, 2003.

PURPOSE OF PLAN

The purpose of this Plan is to assist certain of Sempra's senior executives to obtain additional life insurance coverage. In connection with this, the Plan provides that the Company will make certain life insurance premium payments on the policies obtained under the terms and conditions of this Plan. In addition, the Plan provides for a tax gross-up to offset the income taxes associated with those premium payments.

ARTICLE I

DEFINITIONS

Whenever capitalized in this Plan document, the following terms shall have the meanings set forth below unless otherwise expressly provided:

- 1.1 **"Board"** shall mean the Board of Directors of the Company.
- 1.2 **"Code"** means the Internal Revenue Code of 1986, as amended.
- 1.3 **"Committee"** shall mean the Compensation Committee of the Board, or such other committee as the Compensation Committee shall appoint from time to time to administer the Plan.
- 1.4 **"Company"** shall mean Sempra Energy, Inc., a California corporation, and any successor thereto, including any corporation that is a successor to all or substantially all of the Company's assets or business. "Company" shall also include any corporation or other entity a majority of whose outstanding voting stock or voting power is owned, directly or indirectly, by Sempra Energy, Inc.
- 1.5 **"Participant"** shall mean any senior executive of the Company who is selected to participate in the Plan and who has satisfied the conditions for Plan participation as set forth in Section 2.1.
- 1.6 **"Plan"** shall mean this Sempra Energy, Inc. Amended and Restated Executive Life Insurance Plan, as it may be amended from time to time.
- 1.7 **"Plan Year"** shall mean the calendar year.
- 1.8 **"Policy"** shall mean the life insurance policy (or life insurance policies if more than one is required because of death benefit amounts or otherwise) purchased on a Participant's life that is subject to the terms and conditions of this Plan.
- 1.9 **"Tax Gross-up"** shall mean the tax gross-up amount set forth in Section 3.4 below.
- 1.10 **"Termination of Employment"** shall mean termination of employment with the Company for any reason, whether voluntary or involuntary, and including, without limitation, any termination due to death or disability. A Participant's Termination of Employment will be deemed to occur when the Participant ceases to be an employee of the Company, even though the Participant may continue to serve as a director of, or consultant to, the Company.
- 1.11 **"Years of Service"** shall mean the total number of full years of employment in which a Participant has been employed by the Company. For purposes of this definition, a year of employment shall be a 365 day period (or 366 day period in the case of a leap year) that, for the first year of employment, commences on the Participant's date of hiring and that, for any subsequent year, commences on an anniversary of that hiring date. Any partial year of employment shall not be counted.

ARTICLE II

ELIGIBILITY

- 2.1 **Eligibility for Participation.** A senior executive of the Company shall participate in this Plan as a Participant if either he or she is participating in the Plan as of the effective date of this amendment and restatement or meets all five of the following requirements:

1. Has been designated in writing by the Committee, in its sole and absolute discretion, as a Participant;
2. Completes and returns to the Committee, no later than thirty (30) days after he or she receives written notice of such designation, such administrative and other forms as the Committee may require for participation;
3. Completes such insurance forms, exams, and questions as the Committee may designate from time to time;
4. Timely completes any other participation conditions as may be prescribed by the Committee from time to time; and

If a senior executive fails to meet all of the above-listed requirements within a reasonable time, as determined by the Committee in its sole discretion, the Committee shall provide that executive with written notice within 30 days of such failure, and that person shall not become a Participant under this Plan.

2.2 Acquisition of Insurance. As a condition of participation in this Plan, the Participant shall be required to cooperate in applying for and obtaining a Policy on his or her life. The selection of the Policy shall be at the sole discretion of the Company. The Policy shall be issued in the name of the Participant as the sole and exclusive owner of the Policy, subject to the rights and interests granted to the Company, as provided in this Plan. At the sole discretion of the Committee, the Participant may designate a person or entity other than the Participant as the owner of the Policy, provided that such owner agrees to be bound to the terms and conditions of this Plan.

2.3 Additional Life Insurance Coverage. During the term of this Plan, the death benefit coverage under the Policy may be increased from time to time, to reflect increases in the Participant's compensation pursuant to the provisions of Sections 3.1 and 3.2. As a condition of receiving the benefits of any such increase, the Participant shall be required to cooperate in applying for and obtaining such additional coverage. If the Participant does not so cooperate, and such coverage cannot be obtained because of the Participant's failure to cooperate, the Company shall have no obligation under this Plan to provide such additional coverage. Further, if the Participant is not insurable at the time such additional coverage is sought on a guaranteed issue basis, or if simplified or full medical underwriting is required, on a rated basis that is no lower than standard, smoker, then the Company shall have no obligation under this Plan to provide such additional coverage. The Committee, in its sole discretion, may reduce the minimum standard referred to in the previous sentence, in its sole discretion, based on the cost of insurance or otherwise.

ARTICLE III

BONUS AMOUNTS

3.1 Life Insurance Coverage Prior to Termination of Employment. Subject to Article II above, during the Participant's participation in the Plan and prior to the Participant's Termination of Employment, the Company shall pay to the life insurance carrier the premiums on the Policy, as determined by the Company in its sole discretion, which Policy shall provide a death benefit equal to the sum of the following amounts, as those amounts are determined once each Plan Year, as determined by the Committee in its sole discretion: (i) two (2) times the Participant's annual base salary, plus (ii) two (2) times the Participant's average annual bonus under the 2003 Executive Incentive Plan, or any successor thereto (the "Bonus Plan"), including any amount deferred, in the three (3) highest years in the ten (10) previous years, or during the Participant's actual years of employment with the Company, if less. In determining the amounts described in the previous sentence, the Committee shall substitute the Participant's target bonus under the Bonus Plan for Participants who are in their first year of participation and have not received any bonus under the Bonus Plan.. If a Participant's compensation increases after the Committee has determined the amount of Policy's death benefit for a Plan Year, the Participant's death benefit under the Policy shall not be adjusted until the next Plan Year and then it will be based on the Participant's compensation at that time. These premium payments shall be treated as a bonus payments to the Participant.

3.2 Life Insurance Coverage After Termination of Employment with Age and Service. If at the time of the Participant's Termination of Employment, the Participant has attained age 62 and has completed at least 5 Years of Service, then the Participant shall be entitled to the benefit, if any, specified in this Section 3.2. As soon as practicable after the Participant's Termination of Employment, the Committee shall have the life insurance carrier who issued the Policy prepare a life insurance projection for the Policy based on the following assumptions: (i) the then current policy charges, (ii) a crediting rate of 6.5% net of investment management fees (but before mortality and expense charges, (iii) death benefit coverage until the Participant's 100th birthday equal to (x) one (1) times the Participant's annual base salary (determined as of the date of the Participant's Termination of Employment), plus (y) one (1) times the Participant's average annual bonus under the Bonus Plan, , including any amount deferred, in the three (3) highest years in the ten (10) previous years, or during the Participant's actual years of employment with the Company, if less. (determined as of the date of the Participant's Termination of Employment) and (iv) no additional premiums. If the projection shows that the Policy will sustain itself until at least the Participant's 100th birthday without lapsing, based on these assumptions, then the Company shall have no further obligations under the Plan. If the illustration provides that the Policy will not so sustain itself until that time without lapsing, the Company shall have the life insurance carrier determine the minimum premium (or premiums, if a single premium would cause the Policy to become a modified endowment contract under the Code) required to be paid into the Policy to so sustain the Policy. The Company will then pay such premium (or premiums) to the life insurance carrier as soon as is reasonable practical after the Participant's Termination of Employment and the Company shall have no further obligation to the Participant under this Plan.

3.3 Life Insurance Coverage After Termination of Employment without Age and Service. If at the time of the Participant's Termination of Employment, the Participant has not attained age 62, or has not completed at least 5 Years of Service, the Company's obligations under this Plan to pay any future premiums on the Policy or any Tax gross-up shall cease immediately upon the Participant's Termination of Employment and the Company shall have no further obligation to the Participant under the Plan.

3.4 Tax Gross-up. To offset the income tax liability incurred by the Participant as a result of premiums paid on behalf of the Participant, as provided for in Sections 3.1 and 3.2 above, the Company shall pay a tax gross-up directly to the Participant concurrent with each premium payment. The Committee shall determine, in its sole discretion, the amount of each Participant's Tax Gross-up each time a premium is paid. The amount of the Tax Gross-up shall be calculated in the following manner. The Committee shall determine the Participant's highest federal and state (for the state in which the Participant resides at the time of the premium payment) income tax rates at the time of premium payment. Using those rates, the amount of the Tax Gross-up will be determined using the following formula. Assuming that the applicable federal income tax rate is X and the applicable state income tax rate is Y, the Tax Gross-up equals the applicable premium divided by Z, minus the premium amount, where Z equals (1-X) times (1-Y). For example, if the applicable premium is \$1,000, X is 0.4 (i.e. the highest marginal federal tax rate is 40%), and Y is 0.1 (i.e. the highest marginal state tax rate is 10%), the Tax Gross-up would be \$851.85.

3.5 Tax Withholding. The Company shall withhold from the Participant's compensation all federal, state and local income, employment and other taxes required to be withheld by the Company in connection with the premium or Tax Gross-up payments, in amounts and in a manner to be determined in the sole discretion of the Company.

3.6 **Right to Invest Cash Surrender Value.** Until the earlier of the Participant's Termination of Employment or the termination of the Plan, the Company shall have the sole and absolute right to invest and reallocate the Participant's Policy's cash surrender value as the Company determines in its sole discretion. The Participant shall cooperate with the Company with respect to any actions required by the life insurance carrier issuing the Policy to grant to the Company such power. The Company shall not have any liability associated with such investment authority and discretion, provided that the Company makes all premium and Tax Gross-up payments required under this Plan.

ARTICLE IV

ADMINISTRATION

4.1 **Administration.** This Plan shall be administered by the Committee. The Committee shall be authorized to construe and interpret all of the provisions of this Plan, to adopt procedures and practices concerning the administration of this Plan, and to make any determinations necessary hereunder, which shall, subject to Section 4.8 below, be binding and conclusive on all parties. The Committee may appoint one or more individuals and delegate such of its power and duties as it deems desirable to any such individual, in which case every reference herein made to the Committee shall be deemed to mean or include the individuals as to matters within their jurisdiction.

4.2 **Decisions and Actions of the Committee.** The Committee may act at a meeting or in writing without a meeting. All decisions and actions of the Committee shall be made by vote of the majority, including actions in writing taken without a meeting.

4.3 **Rules and Records of the Committee.** The Committee shall make such rules and regulations in connection with its administration of the Plan as are consistent with the terms and provisions hereof. The Committee shall keep a records of each Participant's name, address, social security number, benefit commencement date, and the amount of benefit.

4.4 **Employment of Agents.** The Committee may employ agents, including without limitation, accountants, actuaries, consultants, or attorneys, to exercise and perform the powers and duties of the Committee as the Committee delegates to them, and to render such services to the Committee as the Committee may determine, and the Committee may enter into agreements setting forth the terms and conditions of such service.

4.5 **Agents for Service of Legal Process.** The Chairman of the Committee shall serve as agent for service of legal process.

4.6 **Plan Expenses.** The Company shall pay all expenses reasonably incurred in the administration of this Plan. The members of the Committee shall serve without compensation for their services as such, but all expenses of the Committee shall be paid by the Company. No employee of the Company shall receive compensation from this Plan regardless of the nature of his services to this Plan.

4.7 **Indemnification.** To the extent permitted by law, the Committee and all agents and representatives of the Committee shall be indemnified by the Company and saved harmless against any claims, and the expenses of defending against such claims, resulting from any action or conduct relating to the administration of this Plan except claims arising from gross negligence, willful neglect, or willful misconduct.

4.8 **Claims Procedure.**

1. **Submission of Claims.** Claims for benefits under this Plan shall be submitted in writing to the Committee or to an individual designated by the Committee for this purpose.
2. **Denial of Claim.** If any claim for benefits is wholly or partially denied, the claimant shall be given written notice within 60 days following the date on which the claim is filed, which notice shall set forth:
 - a. The specific reason or reasons for the denial;
 - b. Specific reference to pertinent Plan provisions on which the denial is based;
 - c. A description of any additional material or information necessary for the claimant to perfect the claim and an explanation of why such material or information is necessary; and
 - d. An explanation of this Plan's claim review procedure. If the claim has not been granted, and if written notice of the denial of the claim is not furnished within 60 days following the date on which the claim is filed, the claim shall be deemed denied for the purpose of proceeding to the claim review procedure.
3. **Claim Review Procedure.** The claimant or his authorized representative shall have 60 days after receipt of written notification of denial of a claim to request a review of the denial by making written request to the Committee (or its delegate), and may review pertinent documents and submit issues and comments in writing within such 60 day period. Not later than 60 days after receipt of the request for review, the Committee shall render and furnish to the claimant a written decision, which shall include specific reasons for the decision, and shall make specific references to pertinent Plan provisions on which it is based.

ARTICLE V

MISCELLANEOUS

5.1 **Amendment and Termination.** This Plan may be amended or terminated, in whole or in part, at any time by written action of the Board, in its sole discretion; provided that any amendment or termination that materially and adversely affects any payments under Article III at the time of such amendment or termination must be consented to in writing by any Participant so affected before it shall have any effect as to that Participant. Notwithstanding the foregoing, the Board may terminate the Plan without the Participants' consent, provided that (i) such Plan termination is treated for purposes of this Plan as a Termination of Employment of all Participants (assuming that each had obtained age 62 with 5 Years of Service, regardless of whether such requirements were actually met) and (ii) the Company pays the premium and Tax Gross-up, if any, required by Sections 3.2 and 3.4.

5.2 **Binding Effect.** This Plan shall bind the Participant and the Company and their beneficiaries, survivors, executors, administrators, and transferees.

5.3 **No Guarantee of Employment.** This Agreement is not an employment policy or contract. It does not give the Participant the right to remain an employee of the Company, nor does it interfere with the Company's right to discharge the Participant, with or without cause. It also does not require the Participant to remain an employee nor interfere with the Participant's right to terminate employment at any time.

5.4 **Applicable Law.** This Agreement and all rights hereunder shall be governed by the internal laws of the State of California without regard to

its conflict of laws provisions, except to the extent preempted by the laws of the United States of America.

5.5 **Non-Transferability.**

1. Prior to the Participant's Termination of Employment, Benefits under this Agreement cannot be sold, transferred, or assigned and the Participant cannot withdraw the Cash Surrender Value of the policy.
2. The previous sentence shall not in any way limit or prohibit the right of a Participant to transfer ownership of the life insurance policy described in this Plan to a trust for which the Participant is the grantor.

5.6 **Named Fiduciary.** The Company shall be the named fiduciary and plan administrator under this Agreement. The named fiduciary may delegate to others certain aspects of the management and operation responsibilities of the plan including the employment of advisors and the delegation of ministerial duties to qualified individuals.

IN WITNESS WHEREOF, the Company has signed this Plan document as of _____, 2003.

Sempra Energy, Inc.

By _____

Its _____

SEMPRA ENERGY

EXCESS CASH BALANCE PLAN

1. EFFECTIVE DATE

July 1, 1998.

2. PURPOSE

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

3. ADMINISTRATION

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

4. ELIGIBILITY

All employees whose pension benefits under the Basic Plan are limited by compensation and earnings limitations imposed by the Code, and all employees whose benefits are decreased under the Basic Plan because of deferrals of salary made under the Deferred Compensation Plans, shall be eligible for benefits under this Plan. In no event shall an employee who is not entitled to benefits under the Basic Plan be eligible for a benefit under this Plan.

5. AMOUNT OF BENEFITS

(A) 415 Make-Up

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

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

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

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

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

(C) Deferred Compensation Make-Up

The benefits payable under this subparagraph (C) to an eligible employee who has deferred payment of salary under the Deferred Compensation Plans, or to his beneficiary(ies), shall equal the excess, if any, of:

- i. the benefits which would be paid to such employee or on his behalf to his beneficiary(ies) under the Basic Plan and under subparagraphs (A) and (B) if the employee had not deferred payment of salary or Incentive Compensation under the Deferred Compensation Plans, over

- ii. the benefits which are paid to such employee or on his behalf to his beneficiary(ies) under the Basic Plan and under subparagraphs (A) and (B). The term "beneficiary" includes an eligible employee's spouse who is entitled to a benefit under the Basic Plan.

6. PAYMENT OF BENEFITS

(A) Distribution Options

Unless the employee exercises the Lump Sum Option and receives a lump sum distribution from the Basic Plan, the payment of benefits under this Plan shall be in the same payment form and at the same time as the payment of benefits to the employee or on his behalf to his beneficiary(ies) under the Basic Plan. In the event an employee receives a lump sum distribution from the Basic Plan, payment under this Plan will be made in the form of a straight life annuity. However, the employee may request, in writing, payment under one of the following alternatives provided such request is filed with Sempra Energy ("Company") at least three months prior to his Retirement Date or Termination under the Basic Plan:

- i. The employee may request payment under any of the other annuity options for which he is eligible under the Basic Plan. The amount of such optional annuity benefit under this Plan shall be computed as specified in Section 5 of this Plan using the interest and mortality factors specified in the Basic Plan. The request will be subject to approval of the Company's Senior Human Resources Officer and, if approved, will be irrevocable as long as the employee receives a lump sum distribution from the Basic Plan.
- ii. The employee may request payment in a lump sum. The amount of the distribution under this Plan shall be computed as specified in Section 5 of this Plan using the actuarial factors specified in the Basic Plan. In the event such a request is timely filed, the request shall be considered by the Senior Human Resources Officer who shall have the sole discretion, considering the best interests of the Company, to allow a lump sum distribution. The decision of the Senior Human Resources Officer shall be final. The employee will be required to show good reason for receiving a lump sum distribution and, file the request at least three months prior to separation from service as a condition of having the request approved. If the lump sum pay out is approved, the lump sum form of pay out shall be irrevocable even if the employee changes his election under the Basic Plan.

An eligible employee's beneficiary(ies) under this Plan shall be exactly the same as his beneficiary(ies) under the Basic Plan unless he elects and receives a lump sum distribution from the Basic Plan. In this event, the following provisions will apply if the benefit under this Plan is paid in the form of a joint and survivor annuity:

The joint and survivor annuity is only available if the employee designates his or her spouse as beneficiary or obtains spousal consent to the designation of another beneficiary in the same manner as under the Basic Plan. If the spouse, or beneficiary dies before the employee's Retirement Date under the Basic Plan, the joint and survivor annuity is canceled and the benefit is paid in the form of a straight life annuity. The foregoing notwithstanding, if present value of the benefit hereunder is less than \$10,000, the account balance shall be distributed in a lump sum as soon as is reasonably practicable.

(B) Mandatory Distribution

The foregoing notwithstanding, if present value of the benefit hereunder is less than \$10,000, the account balance shall be distributed in a lump sum as soon as is reasonably practicable

7. EMPLOYEE'S RIGHTS

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

8. AMENDMENT AND DISCONTINUANCE

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

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

- A. Some of the Participants under this Plan own life insurance policies (the "Policies") purchased on their behalf to fund their retirement benefits. The ownership of these Policies by each Participant is, however, subject to certain conditions (set forth in a "Split-Dollar Life Insurance Agreement" or comparable agreements between the Participant and the Company) and, if the Participant fails to meet the conditions set forth in the Split-Dollar Life Insurance Agreement, the Participant may lose certain rights under the Policy. In the event that a Participant satisfies the conditions specified in Section 5 or 6 of the Split-Dollar Life Insurance Agreement, so that the Participant or his beneficiary becomes entitled to benefits under one of those sections, the value of those benefits shall constitute an offset to any benefits otherwise payable under this Plan. As the case may be, this offset (the "Offset Value") shall be calculated by determining the value of benefits payable under the Split-Dollar Life Insurance Agreement, that is, the cash surrender value of the Policy, or in the case of the Participant's death, the death benefits payable to the beneficiary under the Policy. The Offset Value shall then be compared to the Actuarial Equivalent (as defined in Section 9(D) of the benefits payable under this Plan (the "Plan Value"), and the Plan Value shall be reduced by the Offset Value.
- B. At the time when the Participant terminates employment for any reason, if the Plan Value exceeds the present value (determined using the interest rate specified in Section 9(D) of the Offset Value, the excess of the Value over the present value of the Offset Value shall be paid to the Participant or beneficiary at that time in a lump sum if the value does exceed \$25,000 otherwise it shall be paid in accordance with the terms of this Plan. Such payment shall completely discharge all obligations owed under this Plan on account of Participant's participation in this Plan.

- C. If the Policy described in Section 9(A) is not on the life of the Participant, the insured dies prior to the Participant becoming eligible for benefits under the Plan, and the Participant or the Participant's beneficiary subsequently becomes eligible for benefits hereunder, the Actuarial Equivalent (as defined in Section 9(D) below) of the benefits payable hereunder shall be offset by the Actuarial Equivalent of the payments previously paid to the Participant in the Split-Dollar Life Insurance Agreement. Any remaining amount due the Participant or the Participant's beneficiary shall thereupon be paid in a cash lump sum.
- D. For purposes of this Section, the Actuarial Equivalent shall mean a benefit in the form of a lump sum payment which has the equivalent value computed using the actuarial factors specified in the Basic Plan.

SEMPRA ENERGY

1998 LONG TERM INCENTIVE PLAN

PERFORMANCE-BASED RESTRICTED STOCK AWARD

You have been granted a performance-based restricted stock award consisting of the number of shares of Sempra Energy Common Stock set forth below. The shares, as well as additional shares purchased through dividend reinvestment, may not be sold or assigned and will be subject to forfeiture unless and until they vest based upon the satisfaction of total shareholder return performance criteria for the four-year period ending _____.

The terms and conditions of your award are set forth in the attached Year ____ Restricted Stock Award Agreement and in the Sempra Energy 1998 Long Term Incentive Plan, which is enclosed. 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:

Name of Recipient:

Recipient's Social Security No:

Number of Shares of Common Stock:

Award Date Market Value per Share:

Vesting/Forfeiture of Shares:

Your shares will vest only to the extent that Sempra Energy meets specified total shareholder return performance criteria for the four-year period ending _____. Any shares remaining unvested at the end of performance period will be forfeited.

Transfer Restrictions:

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

Termination of Employment:

Your shares may be forfeited if your employment is terminated.

Dividends:

Cash dividends attributable to your shares will be reinvested to purchase additional shares that will be subject to the same transfer restrictions and forfeiture and vesting conditions.

Taxes:

Upon vesting you will become subject to income taxes on the value of the vested shares at the time of vesting. You must also pay applicable withholding taxes to Sempra Energy for payment over to tax authorities on your behalf.

To accept your award you must sign the accompanying copy of this page and promptly return it to Sempra Energy together with payment of \$.01 per share for each of your restricted shares. By doing so, you agree to all of the terms and conditions described in the attached Year ____ Restricted Stock Award Agreement and in the Sempra Energy 1998 Long Term Incentive Plan.

Recipient:

(Signature)

Sempra Energy:

(Signature)

Title:

Chairman, President & Chief Executive Officer

SEMPRA ENERGY

1998 LONG TERM INCENTIVE PLAN

Year ____ Restricted Stock Award Agreement

<p>Award:</p>	<p>You have been granted a performance-based restricted stock award under Sempra Energy's 1998 Long Term Incentive Plan. The award consists of the number of shares of Sempra Energy Common Stock set forth on the Cover Page/Summary to this Agreement.</p> <p>Unless and until they vest and all related withholding taxes have been paid, your shares and additional shares purchased through reinvested dividends will be subject to transfer restrictions and forfeiture conditions. They will vest only to the extent that Sempra Energy meets specified total shareholder return criteria for the four-year period ending _____. Any shares remaining unvested at the end of the performance period will be forfeited. Your unvested shares may be forfeited upon the termination of your employment and your vested shares may be forfeited if you do not promptly pay related withholding taxes. See "Vesting/Forfeiture," "Transfer Restrictions," "Termination of Employment" and "Taxes" below.</p>
<p>Vesting/Forfeiture:</p>	<p>Your shares, including additional shares purchased through reinvested dividends, will vest only to the extent that Sempra Energy meets total shareholder return performance criteria for the four-year performance period beginning _____ and ending _____. They will vest as of _____ to the extent that the following performance criteria are met:</p> <ul style="list-style-type: none">• All of your shares will vest if Sempra Energy's cumulative total shareholder return (consisting of per share appreciation in common stock plus dividends and other distributions paid on common stock) for the four-year performance period is among the top 50% of the companies (ranked by cumulative total shareholder returns) in the S&P Utility Index or the S&P 500 Composite Index.• If your shares have not all vested as provided above, a portion of your shares may vest based upon Sempra Energy's cumulative total shareholder return for the four-year performance period relative to those of the companies (ranked by cumulative total shareholder returns) in the S&P Utility Index:<ul style="list-style-type: none">◦ If Sempra Energy's return is below the top 50%, but among the top 55% of the companies, 80% of your shares will vest;◦ If Sempra Energy's return is below the top 55%, but among the top 60% of the companies, 60% of your shares will vest;◦ If Sempra Energy's return is below the top 60%, but among the top 65% of the companies, 40% of your shares will vest; and◦ If Sempra Energy's return is below the top 65%, but among the top 70% of the companies, 20% of your shares will vest. <p>Any shares that have not vested in accordance with these criteria as of _____ will be forfeited to Sempra Energy.</p> <p>As soon as practicable following the end of the four-year performance period, the Compensation Committee of Sempra Energy's Board of Directors will determine the extent, if any, as to which your shares have vested. After you have paid the related withholding taxes (see "Taxes" below) your vested shares will no longer be subject to transfer restrictions or forfeiture conditions and certificates for the vested shares will be issued to you or the vested shares transferred to</p>

	an unrestricted account designated by you. Your shares that have not vested will be cancelled. Until then, your shares will be held by Sempra Energy or recorded in a restricted share account.
Transfer Restrictions:	You may not sell or otherwise transfer or assign your shares until they have vested and all related withholding taxes have been paid.
Dividends and Distributions:	<p>Cash dividends and distributions attributable to your shares will be reinvested to purchase additional shares of Sempra Energy Common Stock pursuant to Sempra Energy's dividend reinvestment plan. These additional shares, (including shares attributable to successive reinvested dividends) will be subject to the same transfer restrictions, forfeiture and vesting conditions and other terms and conditions that are applicable to the shares to which they are attributable.</p> <p>Shares issued as stock dividends or as the result of a stock-split, recapitalization, reorganization or other similar transaction in respect of your shares will also be subject to the same transfer restrictions, forfeiture and vesting conditions and other terms and conditions that are applicable to the shares to which they are attributable.</p>
Voting:	You have all of the rights of a shareholder with respect to your shares except as otherwise provided in this Agreement or the 1998 Long Term Incentive Plan. This includes the right to vote your shares even when they have not yet vested.
Termination of Employment:	
<ul style="list-style-type: none"> • <i>Regular Termination:</i> 	If your employment with Sempra Energy and its subsidiaries is terminated for any reason prior to _____ (other than under the circumstances set forth below) all of your shares will be forfeited to Sempra Energy.
<ul style="list-style-type: none"> • <i>Retirement/Death:</i> 	If you retire under your employer's pension plan or die <i>and</i> your retirement or death occurs (a) after _____, (b) after you attained age 55 <i>and</i> (c) while you are still an employee of Sempra Energy or its subsidiaries, your shares will not be forfeited as a result of your termination of employment but will continue to be subject to the transfer restrictions, forfeiture and vesting conditions and other terms and conditions of this Agreement.
<ul style="list-style-type: none"> • <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>The following is a general summary of the federal income tax consequences of your Restricted Stock Award. The summary may not cover your particular circumstances because it does not consider foreign, state, local or other tax laws and does not describe future changes in federal tax rules. You are urged to consult your tax advisor regarding the specific tax consequences applicable to you rather than relying on this general summary.</i>
<ul style="list-style-type: none"> • <i>Generally:</i> 	<p>You will not be subject to taxes on your award until your shares vest.</p> <p>When your shares vest, you will realize taxable income based on the fair market value of the vested shares at the time of vesting.</p> <p>When you sell your shares you may also realize taxable gain based upon the difference between the sales price and the amount that you have previously recognized as income.</p>
<ul style="list-style-type: none"> • <i>Withholding Taxes:</i> 	<p>When you become subject to income taxes upon the vesting of your shares, Sempra Energy is required to pay related withholding taxes on your behalf. You must pay these taxes to Sempra Energy. You may do so directly or by making arrangements with Sempra Energy to direct a securities broker to sell a sufficient number of the vesting shares to cover the required withholding. Sempra Energy may, but is not obligated to, accept shares for payment of withholding taxes.</p> <p>If you do not promptly pay these withholding taxes or make arrangements satisfactory to Sempra Energy to pay them, Sempra</p>

	Energy (after notice to you and providing you with reasonable time, which need not exceed ten days, to make payment or satisfactory payment arrangements) may in its sole discretion elect that all of your shares be forfeited to Sempra Energy. Upon the effectiveness of that election all of your interest in your shares will terminate.
Retention Rights:	Neither your Restricted Stock 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:	Subject to certain limitations set forth in the 1998 Long Term Incentive Plan, in the event of a Change in Control (as defined in the plan) of Sempra Energy, your shares will automatically become fully vested and non-forfeitable.
Further Actions:	<p>You agree to take all actions and execute all documents appropriate to carry out the provisions of this Agreement.</p> <p>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 your shares, including any forfeiture of your shares, that is authorized by this Agreement.</p>
Applicable Law:	This Agreement will be interpreted and enforced under the laws of the State of California.
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 such other agreement shall prevail.

By signing the Cover Sheet/Summary of this Agreement, you agree to all of the terms and conditions described above and in the 1998 Long Term Incentive Plan

SEMPRA ENERGY

1998 LONG TERM INCENTIVE PLAN

NONQUALIFIED STOCK OPTION AGREEMENT

You have been granted an option to purchase the number of shares of Sempra Energy Common Stock set forth below.

The terms and conditions of your option are set forth in the attached Year ____ Nonqualified Stock Option Agreement and in the Sempra Energy 1998 Long Term Incentive Plan, which is enclosed. 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 grant.

SUMMARY

Date of Option Grant:

Name of Optionee:

Optionee's Social Security No:

**Number of Shares of Sempra
Energy Common Stock Covered
by Option:**

Exercise Price per Share:

Vesting:

Your option vests (becomes exercisable) in four equal annual cumulative installments of 25% each over a four-year period. Once an installment becomes exercisable, it will remain exercisable until it is exercised or your option expires or terminates.

Option Term:

Ten years subject to earlier expiration if your employment terminates.

Termination of Employment:

Your option may expire or cease to vest if your employment is terminated.

No Dividend Equivalents:

No dividend equivalents will be paid by the Company with respect to your option or the shares covered by your option.

Exercise of Option/Taxes:

Upon exercise of your option you must pay (or make acceptable arrangements to pay) the exercise price for each share for which you exercise your option and any withholding taxes that may be due as a result of exercise.

To accept your grant you must sign this page and promptly return it to Sempra Energy. By doing so, you agree to all of the terms and conditions described in the attached Year ____ Nonqualified Stock Option Agreement and in the Sempra Energy 1998 Long Term Incentive Plan.

Recipient:

(Signature)

Sempra Energy:

(Signature)

Title:

Chairman, President & Chief Executive Officer

NONQUALIFIED STOCK OPTION AGREEMENT

Company	"Company" as used in this agreement refers to your employer, which may be Sempra Energy or a subsidiary of Sempra Energy.
Vesting	Your option vests (becomes exercisable) in equal annual cumulative installments over a four-year period. Each installment is 25% of the original number of shares covered by your option and an installment vests on each of the first four anniversaries of the Date of Option Grant shown on the cover sheet. Once an installment of your option becomes exercisable, it will remain exercisable until it is exercised or your option expires.
No Dividend Equivalents	No dividend equivalents will be paid by the Company with respect to your option or the shares covered by your option.
Term	Your option will expire at the close of business at Sempra Energy headquarters on the day before the 10th anniversary of the Date of Option Grant shown on the cover sheet, and is subject to earlier expiration (as described below) if your employment with the Company terminates.
Termination of Employment	
Regular Termination	If your employment with the Company terminates for any reason (other than under the circumstances set forth below), your option will expire at the close of business at Sempra Energy headquarters on the 90th day after your termination date or the earlier expiration of the ten-year term of the option. Your option will not continue to vest after such termination of employment and will be exercisable only as to the number of shares for which it was exercisable on the date of your termination.
Disability	If your employment with the Company terminates because of your total and permanent disability, then your option will expire at the close of business at Sempra Energy headquarters on the date 12 months after your termination date or the earlier expiration of the ten-year term of the option. Your option will not continue to vest after such termination of employment and will be exercisable only as to the number of shares for which it was exercisable on the date of your termination.
	"Total and permanent disability" means that you are unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or which has lasted, or can be expected to last, for a continuous period of not less than one year.
Retirement/Death	If you retire under the Company's pension plan or die <i>and</i> your retirement or death occurs (a) after you have attained age 55 <i>and</i> (b) while you are still an employee of the Company, your option will expire at the close of business at Sempra Energy headquarters on the date three years (five years if you retire or die after you have attained age 62) after the date of your retirement or death or the earlier expiration of the ten-year term of the option. Your option will continue to vest during such period.
	If you die while an employee of the Company before attaining age 55, your option will expire at the close of business at Sempra Energy headquarters on the date 12 months after the date of death or the earlier expiration of the ten-year term of the option. Your option will not continue to vest following your death and will be exercisable only as to the number of shares for which it was exercisable on the date of your death. Your estate or heirs may exercise the vested portion of your option following your death.
Leaves of Absence	For purposes of this plan, your employment does not terminate when you go on: <ul style="list-style-type: none"> • Military leave, • Sick leave that is approved in writing by the Company, or • Other <i>bona fide</i> leave of absence that is approved in writing by the Company.

	Your employment will be deemed to have terminated at the end of your approved leave unless (a) you immediately return to active work when your approved leave ends; or (b) your right to return to active work is otherwise guaranteed by law or contract; or (c) for military leaves, you return to active work within the 90-day period prescribed by law.
Restrictions on Exercise	You will not be permitted to exercise your option at any time at which Sempra Energy determines that the issuance of shares may violate any law or regulation.
Notice of Exercise	When you wish to exercise your option, you must notify Sempra Energy by filing the proper "Notice of Exercise" form at the address given on the form. Your notice must specify how many shares you wish to purchase. Your notice must also specify how your shares should be registered. The notice will be effective when Sempra Energy receives it.
	If someone else wants to exercise your option after your death, that person must prove to Sempra Energy's satisfaction that he or she is entitled to do so.
Form of Payment	When you submit your notice of exercise, you must include payment of the option price for the shares you are purchasing. Payment may be made in one (or a combination of two or more) of the following forms:
	<ul style="list-style-type: none"> Your personal check, a cashier's check or a money order.
	<ul style="list-style-type: none"> Shares of Sempra Energy common stock that you have owned for at least six months, along with any forms needed to effect a transfer of the shares to Sempra Energy. The value of the shares, determined as of the effective date of the option exercise, will be applied to the option price.
	<ul style="list-style-type: none"> To the extent permitted by law, arrangements can be made to permit a "cashless exercise" whereby you direct a securities broker approved by Sempra Energy to sell your option shares and to deliver sufficient sale proceeds to Sempra Energy in payment of the option price and any required withholding. The directions must be given by signing a special "Notice of Exercise" form provided by the Company.
Withholding Taxes	You will not be permitted to exercise this option unless you make acceptable arrangements to pay any withholding taxes that may be due as a result of the option exercise. Payment of withholding taxes may be made by any combination of the methods described under "Form of Payment."
Restrictions on Resale	You agree not to sell any option shares at a time when applicable laws or Sempra Energy policies prohibit a sale.
Transfer of Option	Prior to your death, only you or the trustee of a revocable living trust established by you or your spouse may exercise this option. You cannot otherwise transfer or assign this option. For example, you may not sell this option or use it as security for a loan. If you attempt to do any of these things, your option will immediately become invalid. You may, however, dispose of your option in your will, and your option may be transferred pursuant to a "qualified domestic relations order" as defined in the Internal Revenue Code of 1986, as amended, or Title I of the Employee Retirement Income Security Act of 1974, as amended.
Retention Rights	Neither your option nor this Agreement gives you the right to be retained by the Company in any capacity. The Company reserves the right to terminate your employment at any time, with or without cause. The value of the shares subject to your option will not be included as compensation or earnings for purposes of any other benefit plan offered by the Company or any of its subsidiaries.
Shareholder Rights	You have no rights as a shareholder of Sempra Energy until your option shares have been issued. No adjustments are made for

	dividends or other rights if the applicable record date occurs before your option shares are issued.
Adjustments	In the event of a stock split, a stock dividend or a similar change in Sempra Energy common stock the number of shares covered by this option and the exercise price per share may be adjusted pursuant to the Plan.
Change in Control	Subject to certain limitations set forth in the Plan, in the event of a Change in Control (as defined in the Plan) of Sempra Energy, your option will automatically become fully vested and exercisable as of the date of the Change in Control, and may, in the discretion of Sempra Energy's compensation committee, be cashed-out.
Nonqualified Stock Option	This option is not intended to be an incentive stock option under section 422 of the Internal Revenue Code.
Applicable Law	This Agreement will be interpreted and enforced under the laws of the State of California.
The Plan and Other Agreements	<p>The text of the Plan is incorporated in this Agreement by reference.</p> <p>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 such other agreement shall prevail.</p>

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

SEMPRA ENERGY
1998 NON-EMPLOYEE DIRECTORS' STOCK PLAN
NONQUALIFIED STOCK OPTION AGREEMENT

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

Date of Option Grant: *May 4, 2004*

Name of Optionee: *Name*
SSN

Optionee's Social Security Number:

Number of Shares of Sempra Energy Common Stock Covered by Option: *5,000*

Exercise Price per Share: *\$32.45*

Normal Vesting Date: *2005 Annual Meeting of Shareholders*

Expiration Date: *Tenth anniversary of Date of Option Grant or if earlier five years after termination of service*

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

Optionee:

(Signature)

Sempra Energy:

(Signature)

Title: Chairman, President & Chief Executive Officer

Attachment

SEMPRA ENERGY
1998 NON-EMPLOYEE DIRECTORS' STOCK PLAN
NONQUALIFIED STOCK OPTION AGREEMENT

Vesting	Your right to exercise this option fully vests and becomes exercisable on the date of the Sempra Energy 2005 Annual Meeting of Shareholders.
	In the event that you cease to be a member of the Board of Directors of Sempra Energy (the "Board") as a result of death, disability, Retirement (as defined in the Plan) or your involuntary termination of service on the Board other than for cause, your option shall thereupon become fully vested and exercisable.
Term	Your option will expire at the close of business at Sempra Energy headquarters on the day before the 10th anniversary of the Date of Option Grant shown on the cover sheet, and is subject to earlier expiration (as described below) if your service on the Board terminates.
Exercise of Option Following Termination of Service	If you cease to be a member of the Board for any reason, then (A) you shall have the right, subject to the terms and conditions of this Agreement and the Plan, to exercise your option, to the extent that it has vested as of the date of such termination of service, at any time within five years after the date of such termination or the earlier

	expiration of the ten-year term of the option, and (B) the unvested portion of your option shall be forfeited as of the date of such termination.
Restrictions on Exercise	Sempra Energy will not permit you to exercise this option if the issuance of shares at that time would violate any law or regulation.
Notice of Exercise	When you wish to exercise this option, you must notify Sempra Energy by filing the proper "Notice of Exercise" form at the address given on the form. Your notice must specify how many shares you wish to purchase. Your notice must also specify how your shares should be registered (in your name only or in your and your spouse's names as community property or as joint tenants with right of survivorship). The notice will be effective when it is received.
	If someone else wants to exercise this option after your death, that person must establish that he or she is entitled to do so.
Form of Payment	When you submit your notice of exercise, you must include payment of the option price for the shares you are purchasing. Payment may be made in one (or a combination of two or more) of the following forms:
	<ul style="list-style-type: none"> Your personal check, a cashier's check or a money order.
	<ul style="list-style-type: none"> Certificates for shares of Sempra Energy common stock that you have owned for at least six months, along with any forms needed to effect a transfer of the shares to Sempra Energy. The value of the shares, determined as of the effective date of the option exercise, will be applied to the option price.
	<ul style="list-style-type: none"> To the extent permitted by law, arrangements can be made to permit a "cashless exercise" whereby you direct a securities broker approved by Sempra Energy to sell your option shares and to deliver sufficient sale proceeds to Sempra Energy in payment of the option price and any required withholding. The directions must be given by signing a special "Notice of Exercise" form provided by Sempra Energy.
Withholding Taxes	You will not be permitted to exercise this option unless you make acceptable arrangements to pay any withholding taxes that may be due as a result of the option exercise. Payment of withholding taxes may be made by any combination of the methods described under "Form of Payment."
Restrictions on Resale	By signing this Agreement, you agree not to sell any option shares at a time when applicable laws or Sempra Energy policies prohibit a sale.
Transfer of Option	Prior to your death, only you or the trustee of a revocable living trust established by you or your spouse may exercise this option. You cannot otherwise transfer or assign this option. For example, you may not sell this option or use it as security for a loan. If you attempt to do any of these things, this option will immediately become invalid. You may, however, dispose of this option in your will, and this option may be transferred pursuant to a "qualified domestic relations order" as defined in the Internal Revenue Code of 1986, as amended, or Title I of the Employee Retirement Income Security Act of 1974, as amended.
Retention Rights	Neither your option nor this Agreement creates any obligation on the part of the Board to nominate you for reelection to the Board, or confers upon you the right to remain a member of the Board for any period of time, or at any particular rate of compensation.
Shareholder Rights	You, or your estate or heirs, have no rights as a shareholder of Sempra Energy until a certificate for your option shares has been issued. No adjustments are made for dividends or other rights if the applicable record date occurs before your stock certificate is issued, except as described in the Plan.
Adjustments	In the event of a stock split, a stock dividend or a similar change in Sempra Energy common stock, the number of shares covered by this option and the exercise price per share may be adjusted pursuant to the Plan.
Change in Control	Subject to certain limitations set forth in the Plan, in the event of a Change in Control (as defined in the Plan), your option will automatically become fully vested and exercisable as of the date of the

	Change in Control, and may, in the discretion of Sempra Energy's compensation committee, be cashed-out.
No Dividend Equivalents	No dividend equivalents will be paid by Sempra Energy with respect to your option or the shares covered by your option.
Nonqualified Stock Option	This option is not intended to be an incentive stock option under section 422 of the Internal Revenue Code.
Applicable Law	This Agreement will be interpreted and enforced under the laws of the State of California.
The Plan and Other Agreements	<p>The text of the Plan is incorporated in this Agreement by reference.</p> <p>This Agreement and the Plan constitute the entire understanding between you and Sempra Energy regarding this option. Any prior agreements, commitments or negotiations concerning this option are superseded.</p>

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

SEMPRA ENERGY

SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN

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This Supplemental Executive Retirement Plan provides retirement income, disability income and death benefits to key executives and their spouses under specified circumstances.

Except as provided in Appendix B, and except as to key executives who retired before July 1, 1998, this Plan shall amend, restate and supercede the Prior Plan.

SECTION 1

DEFINITIONS

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.

1.2 "**Average Bonus**" means the average of the three highest annual incentive awards earned by a Participant under the Executive Incentive Plan during the Participant's last ten years of Service, determined as follows:

(a) Annual incentive awards shall be counted whether or not deferred under the Deferred Compensation Plan.

(b) If a Participant was designated as a participant in the Executive Incentive Plan for a year, but earned no annual incentive award during that year, the award will be counted as zero, and if the Participant did not earn three annual incentive awards during the other years during the last ten years of Service, the zero amount will be used to attain the average of the three highest annual incentive awards.

(c) If the Participant was not designated as a participant in the Executive Incentive Plan for three full years of the last ten years of Service, the average shall be based on the number of full years the Participant was designated as a participant in the Executive Incentive Plan during the last ten years of Service.

(d) As to a Participant in the Executive Incentive Plan who did not earn annual incentive awards during the last ten years of Service solely due to a disability which qualified him for a Basic Disability Plan Benefit, a Supplemental Disability Benefit or both, the applicable ten year period will be extended backwards for each year of such occurrence.

(e) Prorated annual incentive awards earned under the Executive Incentive Plan will not be used in determining the average.

(f)

1.3 "**Average Earnings**" means the average Earnings of the highest two years of Service in the last ten years while a Participant was not receiving a Basic Disability Plan Benefit, a Supplemental Disability Benefit or both.

1.4 "**Basic Disability Plan**" means a disability plan maintained by Sempra Energy or a subsidiary which provides coverage for most full time employees of the plan sponsor.

1.5 "**Basic Disability Plan Benefit**" means the annual amount of benefit payable from the Basic Disability Plan to a Participant.

1.6 "**Basic Pension Plan**" means the Sempra Energy Cash Balance Plan, and where applicable by the context, the pension plan of a subsidiary of Sempra Energy.

1.7 "**Basic Pension Plan Benefit**" means the annual amount of benefit payable from the Basic Pension Plan to a Participant on his Retirement Date in the form of a straight life annuity without a cost-of-living feature unless one is provided under the Basic Pension Plan.

1.8 "**Committee**" means the Compensation Committee of the Company's Board of Directors.

1.9 "**Company**" means Sempra Energy.

1.10 "**Deferred Compensation Plan**" means the Sempra Energy Deferred Compensation & Excess Savings Plan.

1.11 "**Earnings**" means base compensation only including any deferral under the Savings Plan, the Supplemental Savings Plan and the Deferred Compensation Plan.

1.12 "**Employer**" means the Company and any of its subsidiaries (any corporation of which 50% or more of the issued and outstanding stock having ordinary voting rights is owned directly or indirectly by the Company or any other business entity or association of which 50% or more of the outstanding equity interest is so owned) which adopt this Plan.

1.13 "**Employment**" means employment by the Employer, including the period during which a Participant is receiving a Basic Disability Plan Benefit, and any additional period during which a Participant is receiving a Supplemental Disability Benefit under this Plan.

1.14 "**Executive Incentive Plan**" means the Sempra Energy Executive Incentive Plan, or such other Plan or Plans as may be designated by the Committee from time to time.

1.15 "**Participant**" means an employee of the Employer designated to participate in this Plan as specified in Section 2.1.

1.16 "**Plan**" means this Supplemental Executive Retirement Plan.

1.17 "**Preretirement Spouse's Benefit**" means the benefit payable or paid under the Basic Pension Plan and Excess Cash Balance Plan to a Surviving Spouse of a Participant who dies in Employment.

1.18 "**Prior Plan**" shall mean the Pacific Enterprises Supplemental Retirement and Survivor Plan and the San Diego Gas and Electric Supplemental Executive Retirement Plan.

1.19 "**Retirement**" means the termination of a Participant's Employment with the Employer after five years of Service on or after the Participant attains age 55.

1.20 "**Retirement Date**" means the first day of the month following a Participant's Retirement.

1.21 "**Service**" means a Participant's credited service which would be used to compute retirement benefits under the Basic Pension Plan.

1.22 "**Social Security Benefit**" means the annual Primary Insurance Amount estimated to be payable to the Participant at age 65 under the Federal Social Security Act in effect at the time of the event.

1.23 "**Spouse's Supplemental Retirement Benefit**" means the benefit payable to the Surviving Spouse of a Participant under Section 2.3 of this Plan after the Participant has died on or after his Retirement Date.

1.24 "**Supplemental Disability Benefit**" means the benefit payable to a disabled Participant under Section 2.5 of this Plan.

1.25 "**Excess Cash Balance Plan**" means the Sempra Energy Excess Cash Balance Plan, or any other supplemental pension plan of any Employer providing essentially the same benefits for one or more Participants.

1.26 "**Excess Cash Balance Plan Benefits**" means the annual amount of benefit payable or paid from the Excess Cash Balance Plan to a Participant on his Retirement Date in the form of a straight life annuity without a cost-of-living adjustment feature unless one is provided under the Excess Cash Balance Plan.

1.27 "**Supplemental Retirement Benefit**" means the benefit payable to a Participant under Section 2.2 of this Plan on his Retirement Date.

1.28 "**Surviving Spouse**" means in the case of a Spouse's Death Benefit, a spouse married to the Participant for at least the one-year period ending on the Participant's date of death, and means in the case of a Spouse's Supplemental Retirement Benefit, a spouse who is married to the Participant for at least the one-year period ending on the Participant's Retirement Date and who is still married to the Participant on the date of the Participant's death. Surviving Spouse also means a Spousal Equivalent as defined by the Company (subject to the one-year requirements) under the Company Medical Plan.

1.29 The masculine pronoun whenever used shall include the feminine pronoun, and the singular shall include the plural where the context requires it.

1.30 "**Vesting Factor**" means the following for a Participant who qualifies for Retirement under paragraph 1.19.

Vesting Schedule

		AGE					
		55	56	57	58	59	60 or older
YEARS OF SERVICE	5	50%	60%	70%	80%	90%	100%
	6	55%	60%	70%	80%	90%	100%
	7	60%	65%	70%	80%	90%	100%
	8	65%	70%	75%	80%	90%	100%
	9	70%	75%	80%	85%	90%	100%
	10	75%	80%	85%	90%	95%	100%
	11	80%	85%	90%	95%	100%	100%
	12	85%	90%	95%	100%	100%	100%
	13	90%	95%	100%	100%	100%	100%
	14	95%	100%	100%	100%	100%	100%
	15 or more	100%	100%	100%	100%	100%	100%

Based on attained age and completed years of service.

SECTION 2

ELIGIBILITY FOR BENEFITS

2.1 Participation

Executive Officers of the Company as designated shall be eligible to participate in this Plan. The Committee may designate additional officers and key employees of the Employer who shall participate in this Plan and the effective date of such participation, subject to agreement by the Board of Directors of the executive's Employer (if not the Company) that such executive participate and that such Employer pay the costs of this Plan for the executive and his Surviving Spouse.

2.2 Supplemental Retirement Benefit

Each Participant is eligible to retire and receive a benefit under this Plan as specified in Sections 3.1 and 3.4 beginning on his Retirement Date. No Supplemental Retirement Benefit will be paid to a Participant who leaves Employment prior to attaining age 55 or completing five years of Service, except as provided under other agreements.

2.3 Spouse's Supplemental Retirement Benefit

The Surviving Spouse of a Participant who dies on or after his Retirement Date who did not receive a lump sum payment is eligible for a Spouse's Supplemental Retirement Benefit in accordance with Sections 3.2 and 3.4.

2.4 Spouse's Death Benefit

The Surviving Spouse of a Participant who dies in Employment is eligible for a Spouse's Death Benefit as specified in Sections 4.1 and 4.2 in either the form of a lump sum benefit or lifetime annuity benefit as elected by the Participant. There is no cost to the Participant for this benefit. If a Participant dies during Employment without an eligible Surviving Spouse, no Spouse's Death Benefit is payable under this Plan.

2.5 Supplemental Disability Benefit

A Participant who becomes disabled may be eligible to receive a supplemental Disability Benefit as specified in Section 5.

SECTION 3

RETIREMENT BENEFITS

3.1 Amount of Supplemental Retirement Benefit

The Supplemental Retirement Benefit payable to a Participant as of his Retirement Date is equal to (a) minus (b) with the resultant product multiplied by the Participant's Vesting Factor and then the resultant product multiplied by the early retirement reduction (pursuant to Appendix A) for Retirement Dates which precede attainment of 62 years of age. The benefit will also be reduced as provided in Section 8.

(a) is a lump sum using the actuarial and mortality assumptions in the Basic Pension Plan 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

- i. 1/3% for each month of Service through 120 (40% for 10 years of Service), plus
- ii. 1/6% for each month of Service in excess of 120, through 240 (60% for 20 years of Service), plus
- iii. 1/48% for each month of Service in excess of 240 (65% for 40 years of Service).

(b) is a lump sum which is the sum of his

- i. Basic Pension Plan Benefit, plus
- ii. Excess Cash Balance Plan Benefit

Provided however, that if a Participant commences receipt of benefits under this Plan on a different date than the Participant commences receipt of benefits under the Basic Pension Plan, this paragraph (b) shall be calculated based on the benefits the Participant would have received if the Participant elected the same Retirement Date under the Basic Pension Plan that he elected under this Plan.

If (a) minus (b) results in zero or less, then no Supplemental Retirement Benefit is payable.

The Participant may elect to receive the Supplemental Retirement Benefit, payable on his behalf, paid in an actuarially equivalent annuity, provided the Participant elects the annuity one year prior to retirement. The initial election of benefit form shall be made at the time of commencement of participation, or as soon thereafter as is reasonably practicable.

3.2 Amount of Spouse's Supplemental Retirement Benefit

The annual Spouse's Supplemental Retirement Benefit payable to a Surviving Spouse of a Participant who did not receive a lump sum payment is equal to 50% of the Participant's Supplemental Retirement Benefit as determined in accordance with in Section 3.1(a) without the reduction in 3.1(b) but adjusted by the Vesting Factor and the early retirement reduction pursuant to appendix A.

3.3 Adjustments

The annual Supplemental Retirement Benefit or the annual Spouse's Supplemental Retirement Benefit will not be decreased or increased on account of any increase or decrease in the Basic Pension Plan Benefit, Supplemental Pension Plan Benefit, or Social Security Benefit occurring after a Participant's Retirement Date or death.

3.4 Payment

A Supplemental Retirement Benefit will be paid as soon after the Participant's Retirement Date as is reasonably practicable. If an annuity payment is elected pursuant to Section 3.1, the Supplemental Retirement Benefit will be paid monthly, beginning on the last day of the month of the Participant's Retirement Date, and will continue to be paid monthly during the life of the Participant, the

last payment to be made to the Participant's spouse, or if none, to the Participant's estate, on the last day of the month in which the death of the Participant occurs. In all cases, the monthly benefit shall equal the annual benefit divided by 12. If the Participant is survived by a Surviving Spouse, the Surviving Spouse will receive a Spouse's Supplemental Retirement Benefit. The Spouse's Supplemental Retirement Benefit will be paid monthly, and will commence on the last day of the month following the month in which the Participant dies and will continue during the life of the Surviving Spouse.

SECTION 4

SUPPLEMENTAL PRERETIREMENT SPOUSE'S DEATH BENEFITS

4.1 Benefit

The Spouse's Death Benefit that will be paid to a Surviving Spouse of a Participant who dies in Employment prior to his Retirement Date is a lump sum payment based on the Actuarial Value of an annuity equal to (a) minus (b) when:

(a) is 100% of the Participant's accrued benefit calculated in accordance with 3.1(a). If the Participant is under age 55 at the time of death, the age 55 early retirement factor shall be used, and

(b) is the Surviving Spouse's Preretirement Spouse's Benefit, plus any life insurance benefit payable under any Split Dollar Life Insurance purchased in accordance with Section 8.1 herein.

4.2 Form of Benefit

The Spouse's Death Benefit shall be paid in the form of a lump sum payment unless the Participant has elected at least one year prior to the Participant's date of death to have his Surviving Spouse receive an annuity benefit that is the Actuarial Equivalent of the lump sum payment described above . . . Spouse's Death Benefit shall automatically cease upon the earliest of:

- (i) the Participant's termination of Employment,
- (ii) the death of the Surviving Spouse, and
- (iii) the Participant's Retirement Date.

SECTION 5

SUPPLEMENTAL DISABILITY BENEFITS

5.1 Amount

The annual Supplemental Disability Benefit payable to a Participant is equal to (a) minus (b) when (a) is 60% multiplied by the total of the Participant's Average Bonus and annual rate of Earnings in effect on the day immediately preceding the day the Participant becomes eligible, and (b) is the sum of

- (i) the Participant's Basic Disability Plan Benefit, and any other Company provided disability plan, plus
- (ii) the amount of benefits for which the Participant is eligible under the provisions of any federal or state law providing payments on account of disability, as these payments are defined in the Basic Disability Plan, during the period of eligibility for a Supplemental Disability Benefit. If (a) minus (b) results in zero or less, then no Supplemental Disability Benefit is payable. If the Basic Disability Plan Benefit increases under the Basic Disability Plan, the Supplemental Disability Benefit will be decreased by the same amount.

5.2 Payment

Eligibility for a Supplemental Disability Benefit is determined by the Committee. The Supplemental Disability Benefit will be paid monthly. The last Supplemental Disability Benefit will be paid to the Participant at the earliest of (i) when the Committee deems that the Participant is no longer disabled, (ii) when Participant starts receiving a Supplemental Retirement Benefit, or (iii) when the Participant attains age 65.

SECTION 6

ADMINISTRATION

6.1 Authority of Committee

This Plan shall be administered by the Committee. Subject to the express provisions of this Plan, the Committee shall have full and final authority to interpret this Plan, to prescribe, amend and rescind rules, regulations and guides relating to the Plan, and to make any other determinations that it believes necessary or advisable for the administration of the Plan. The Committee may delegate certain responsibilities in the administration of the Plan. All decisions and determinations by the Committee shall be final and binding upon all parties.

6.2 Calculation of Benefits

Any and all payments to be made under this Plan and all Actuarial Equivalents shall be calculated by the Company's regularly employed independent actuaries, and their determinations shall be final and binding on all parties.

SECTION 7

MISCELLANEOUS

7.1 Amendment, Termination or Removal of Participant

The Committee may, in its sole discretion, terminate, suspend, or amend this Plan at any time, in whole or in part. However, no amendment or suspension of the Plan will affect a retired or disabled Participant's right or the right of a Surviving Spouse to continue receiving a benefit in accordance with this Plan as in effect on the date such Participant or Surviving Spouse began to receive a benefit under this Plan. The Committee may, in its sole discretion, remove an executive as a Participant in this Plan due to changed job responsibilities or other changed circumstances as long as no benefits are then being paid to the Participant under this Plan.

7.2 No Employment Right

Nothing contained herein will confer upon any Participant the right to be retained in Employment, nor will it interfere with the right of his Employer to discharge or otherwise deal with the Participant without regard to the existence of this Plan.

7.3 Funding

This Plan is unfunded, and the Employer will make Plan Benefit Payments solely on a current disbursement basis. Participants and their Beneficiaries shall have no legal or equitable rights, claims, or interest in any specific property or assets of the Employer, and the rights of the Participants and Beneficiaries shall be no greater than those of unsecured general creditors.

7.4 Allocation of Costs

Amounts accrued as expenses under this Plan, and the cost of any life insurance policies purchased to fund for benefits payable under this Plan, shall be allocated to Employers whose employees are Participants in this Plan.

7.5 Nonassignment

To the maximum extent permitted by law, no benefit under this Plan will be assignable or subject in any manner to alienation, sale, transfer, claims of creditors, pledge, attachment, or encumbrances of any kind.

7.6 Governing Law

This Plan is established under and will be construed according to the laws of the State of California.

SECTION 8

OFFSET FOR CERTAIN BENEFITS PAYABLE UNDER

OTHER PLANS

8.1 Some of the Participants under this Plan own life insurance policies (the "Policies") purchased on their behalf by the Company. The ownership of these Policies by each Participant is, however, subject to certain conditions (set forth in a "Split Dollar Life Insurance Agreement" or other comparable agreements between the Participant and the Company) and, if the Participant fails to meet the conditions set forth in the Split Dollar Life Insurance Agreement, the Participant may lose certain rights under the Policy. In the event that a Participant satisfies the conditions specified in Section 5 or 6 of the Split Dollar Life Insurance Agreement, so that the Participant or his beneficiary becomes entitled to benefits under one of those sections, the value of those benefits shall constitute an offset to any benefits otherwise payable under this Plan. As the case may be, this offset (the "Offset Value") shall be calculated by determining the value of benefits payable under the Split Dollar Life Insurance Agreement, that is, the cash surrender value of the Policy, or in the case of the Participant's death, the death benefits payable to the beneficiary under the Policy. The Offset Value shall then be compared to the Actuarial Equivalent (as defined in Section 8.4) of the benefits payable under this Plan (the "Plan Values), and the Plan Value shall be reduced by the Offset Value.

8.2 At the time when the Participant terminates employment for any reason, if the Plan Value exceeds the present value (determined using the interest rate specified in Section 8.4) of the Offset Value, the excess of the Plan Value over the present value of the Offset Value shall be paid to the Participant or beneficiary at that time in a lump sum,. . The Participant may choose, one year prior to the date of termination, to receive the remaining amount as an annuity. Such payment shall completely discharge all obligations owed under this Plan on account of Participant's participation in this Plan.

8.3 If the Policy described in Section 8.1 is not on the life of the Participant, the insured dies prior to the Participant becoming eligible for benefits under the Plan, and the Participant or the Participant's beneficiary subsequently becomes eligible for benefits hereunder, the Actuarial Equivalent of the benefits payable hereunder shall be offset by the Actuarial Equivalent of the payments previously paid to the Participant in the Split Dollar Life Insurance Agreement. Any remaining amount due the Participant or the Participant's beneficiary shall thereupon be paid in a cash lump sum.

8.4 Notwithstanding anything contained herein to the contrary, in the event that a Participant has a benefit under Excess Cash Balance Plan, the Offset Value shall first be applied to reduce benefits paid under the Excess Cash Balance Plan and any remaining Offset Value shall then be applied to reduce the Plan Value under this Plan; provided, however, that for purposes of determining the amount of benefits payable under this Plan, any benefits payable under the Excess Cash Balance Plan shall be determined without regard to such offset.

8.5 The Committee may offer additional options which are of equivalent value.

SECTION 9

OFFSET FOR EBP

9.1 The benefit, if any, to be received under this Plan shall be reduced dollar for dollar, but not below zero, by the benefits that a Participant (and/or his or her Beneficiary) receives under the Sempra Energy Executive Security Bonus Plan ("EBP") multiplied by a fraction the numerator of which is the present value of the Participant's accrued benefit hereunder measured as of the date payment is received under the EBP and the denominator of which is the sum of the value of the Participant's account balance under the Sempra Energy Deferred Compensation and Excess Savings Plan and the

present value of the accrued benefit under this Plan, both measured as of the date payment is received under the EBP. Such reduction shall be further enhanced by interest on the offset amount accruing at the rate of ___% per annum from the time of distribution from the EBP to the time of distribution hereunder.

SECTION 10

BENEFITS DEFERRED UNDER DEFERRED COMPENSATION PLAN

10.1 Notwithstanding any other provision of the Plan, if a Participant has elected to defer the Participant's "SERP Lump Sum" as defined in the Sempra Energy Deferred Compensation & Excess Savings Plan, pursuant to the terms of the Sempra Energy Deferred Compensation & Excess Savings Plan, no retirement benefits shall be payable under this Plan to the Participant, to the Participant's Surviving Spouse or to any other person effective immediately at and after the SERP Lump Sum has been credited to the Participant's account under the Sempra Energy Deferred Compensation & Excess Savings Plan.

APPENDIX A

EARLY RETIREMENT REDUCTION FACTOR

Age	Early Retirement Factor
62 and later	100%
61	97
60	94
59	90
58	86
57	82
56	78
55	74

***Reduction factors vary by age and months.**

APPENDIX B

GRANDFATHER BENEFIT

Current Participants in the Prior Plans are permanently grandfathered under the Prior Plan provisions if the benefit is greater.

SEMPRA ENERGY

1998 LONG TERM INCENTIVE PLAN

2004 RESTRICTED STOCK AWARD

You have been granted a restricted stock award consisting of the number of shares of Sempra Energy Common Stock set forth below. The shares, as well as additional shares purchased through dividend reinvestment, may not be sold or assigned and will be subject to forfeiture unless and until they vest.

The terms and conditions of your award are set forth in the attached Year 2004 Restricted Stock Award Agreement and in the Sempra Energy 1998 Long Term Incentive Plan, which is enclosed. 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: June 8, 2004

Name of Recipient: Neal Schmale

Recipient's Social Security No: ###-##-####

Number of Shares of Common Stock: 100,000

Award Date Market Value per Share: \$33.89

Vesting/Forfeiture of Shares:

The award will vest in two installments. The first installment of 50% of the shares initially subject to your award (together with additional shares attributable to reinvested dividends on the vesting shares) will vest on January 1, 2008 and second installment of 50% of the shares initially subject to your award (together with additional shares attributable to reinvested dividends on the vesting shares) will vest on January 1, 2010. If your employment with Sempra Energy and its subsidiaries is terminated all or a portion of your unvested shares may be forfeited. (See "Vesting/Forfeiture" and "Termination of Employment")

Transfer Restrictions:

Your shares, as well as additional shares purchased through reinvested dividends, may not be sold or otherwise transferred until they are vested. (See "Transfer Restrictions")

Termination of Employment:

If your employment with Sempra Energy and its subsidiaries is terminated by death, "Disability," "Involuntary Termination," or under certain circumstances following a failure to have elected you to the position of Chief Operating Officer (or to a higher position), all or a portion of the next unvested installment of your shares will immediately vest. All shares that otherwise remain unvested upon the termination of your employment (for any reason whatsoever) will be forfeited. (See "Vesting/Forfeiture and "Termination of Employment")

Dividends:

Cash dividends attributable to your shares will be reinvested to purchase additional shares that will be subject to the same transfer restrictions and forfeiture and vesting conditions as the shares to which the dividends are attributable. (See "Dividends and Distributions")

Taxes:

Upon vesting you will become subject to income taxes on the value of the vested shares at the time of vesting. You must also pay applicable withholding taxes to Sempra Energy for payment over to tax authorities on your behalf. (See "Taxes")

To accept your award you must sign the accompanying copy of this page and promptly return it to Sempra Energy together with payment of \$.01 per share for each of your restricted shares. By doing so, you agree to all of the terms and conditions described in the attached Year 2004 Restricted Stock Award Agreement and in the Sempra Energy 1998 Long Term Incentive Plan.

Recipient:

(Signature)

Sempra Energy:

(Signature)

Title:

Sr. Vice President, Human Resources

SEMPRA ENERGY

1998 LONG TERM INCENTIVE PLAN

Year 2004 Restricted Stock Award Agreement

Award:	<p>You have been granted a restricted stock award under Sempra Energy's 1998 Long Term Incentive Plan. The award consists of the number of shares of Sempra Energy Common Stock set forth on the Cover Page/Summary to this Agreement.</p> <p>Unless and until they vest and all related withholding taxes have been paid, your shares and additional shares purchased through reinvested dividends will be subject to transfer restrictions and forfeiture conditions. Upon the termination of your employment all or a portion of your unvested shares may be forfeited. Your vested shares also may be forfeited if you do not promptly pay related withholding taxes. See "Vesting/Forfeiture," "Transfer Restrictions," "Termination of Employment" and "Taxes" below.</p>
Vesting/Forfeiture:	<p>The shares subject to your award will vest in two installments if you are employed by Sempra Energy or its subsidiaries on the applicable vesting date.</p> <p>The first installment of 50% of the shares initially subject to your award (together with additional shares attributable to reinvested dividends on the vesting shares) will vest on January 1, 2008 if you are employed by Sempra Energy or its subsidiaries on that date.</p> <p>The second installment of the remaining 50% of the shares initially subject to your award (together with additional shares attributable to reinvested dividends on the vesting shares) will vest on January 1, 2010 if you are employed by Sempra Energy or its subsidiaries on that date.</p> <p>If your employment with Sempra Energy and its subsidiaries is terminated by death, "Disability," "Involuntary Termination," or under certain circumstances following a failure to have elected you to the position of Chief Operating Officer (or to a higher position), all or a portion of the next unvested installment of your shares will immediately vest. All shares otherwise remaining unvested upon the termination of your employment (for any reason) will be forfeited. (See "Termination of Employment" below).</p> <p>After you have paid vesting-related withholding taxes (see "Taxes" below) your vested shares will no longer be subject to transfer restrictions or forfeiture conditions and certificates for the vested shares will be issued to you or the vested shares transferred to an unrestricted account designated by you. Until then, your shares will be held by Sempra Energy or recorded in a restricted share account.</p>
Transfer Restrictions:	<p>You may not sell or otherwise transfer or assign your shares or any additional shares purchased through dividend reinvestment until they have vested and all related withholding taxes have been paid.</p>
Dividends and Distributions:	<p>Cash dividends and distributions attributable to your shares will be reinvested to purchase additional shares of Sempra Energy Common Stock pursuant to Sempra Energy's dividend reinvestment plan. These additional shares (including shares attributable to successive reinvested dividends) will be subject to the same transfer restrictions, forfeiture and vesting conditions and other terms and conditions that are applicable to the shares to which they are attributable.</p> <p>Shares issued as stock dividends or as the result of a stock-split, recapitalization, reorganization or other similar transaction in respect of your shares will also be subject to the same transfer restrictions, forfeiture and vesting conditions and other terms and conditions that are applicable to the shares to which they are attributable.</p>
Voting:	<p>You have the right to vote your shares even when they have not yet vested.</p>
Termination of Employment:	

<ul style="list-style-type: none"> • <i>Involuntary Termination</i> 	<p>If your employment with Sempra Energy and its subsidiaries is terminated by reason of an "Involuntary Termination" unvested shares will vest as follows:</p> <ol style="list-style-type: none"> If the termination occurs on or prior to January 1, 2008, the first installment of 50% of the shares initially subject to your award (together with additional shares attributable to reinvested dividends on the vesting shares) will immediately vest. All shares otherwise remaining unvested (including the second installment of 50% of the shares initially subject to your award) will be immediately forfeited. If the termination occurs after January 1, 2008, the remaining second installment of 50% of the shares initially subject to your award (together with additional shares attributable to reinvested dividends on the vesting shares) will immediately vest. <p>"Involuntary Termination" has the meaning for that term set forth in your Severance Pay Agreement with Sempra Energy dated June 8, 2004 except that, for purposes of this Agreement, "Good Reason" as used in that term does not include a failure (at any time) to have elected you to the position of Chief Operating Officer of Sempra Energy or to a higher position.</p>
<ul style="list-style-type: none"> • <i>Death or Disability</i> 	<p>If your employment by Sempra Energy and its subsidiaries is terminated by reason of your death or "Disability" (as defined in your Severance Pay Agreement with Sempra Energy dated June 8, 2004) unvested shares will vest as follows:</p>
	<p>(a) If the termination occurs on or prior to January 1, 2008, a portion of the first installment of 50% of the shares initially subject to your award (together with additional shares attributable to reinvested dividends on such shares) will vest using the following vesting factor: X # of days divided by 1,301 days where X equals the number of days beginning June 8, 2004 and ending on the date of the termination. All shares otherwise remaining unvested upon such termination of your employment (including the second installment of 50% of the shares initially subject to your award) will be immediately forfeited.</p> <p>(b) If the termination occurs after January 1, 2008, a portion of the remaining second installment of 50% of the shares initially subject to your award (together with additional shares attributable to reinvested dividends on such shares) will vest using the following vesting factor: Y # of days divided by 731 days where Y equals the number of days beginning January 1, 2008 and ending on the date of the termination. All shares otherwise remaining unvested upon such termination of your employment will be immediately forfeited.</p>
<ul style="list-style-type: none"> • <i>Failure to Promote</i> 	<p>If (a) your employment with Sempra Energy and its subsidiaries is terminated on or prior to January 1, 2008 and after the retirement, or other termination, of Sempra Energy's current Chairman and Chief Executive Officer; (b) you have not been elected to the position of Chief Operating Officer of Sempra Energy (or to a higher position) within 30 days following such retirement, or other termination, of Sempra Energy's current Chairman and Chief Executive Officer, and (c) such termination of your employment is not for "Cause" (as defined in your Severance Pay Agreement with Sempra Energy dated June 8, 2004) and is for reasons other than an "Involuntary Termination" or your death or "Disability," then a portion of the first installment of 50% of the shares initially subject to your award (together with additional shares attributable to reinvested dividends on such shares) will vest as described in the section entitled "Death or Disability" Subpart (a).</p>
<ul style="list-style-type: none"> • <i>Other</i> 	<p>If your employment with Sempra Energy and its subsidiaries is otherwise terminated (for "Cause," retirement, or any other reason whatsoever other than as set forth above) all of your unvested shares will be immediately forfeited.</p> <p>Your employment does not terminate when you go on 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.</p>

Taxes:	<i>The following is a general summary of the federal income tax consequences of your Restricted Stock Award. The summary may not cover your particular circumstances because it does not consider foreign, state, local or other tax laws and does not describe future changes in federal tax rules. You are urged to consult your tax advisor regarding the specific tax consequences applicable to you rather than relying on this general summary.</i>
<ul style="list-style-type: none"> • <i>Generally:</i> 	<p>You will not be subject to taxes on your award until your shares vest.</p> <p>When your shares vest, you will realize taxable income based on the fair market value of the vested shares at the time of vesting.</p> <p>When you sell your shares you may also realize taxable gain based upon the difference between the sales price and the amount that you have previously recognized as income.</p>
<ul style="list-style-type: none"> • <i>Withholding Taxes:</i> 	<p>When you become subject to income taxes upon the vesting of your shares, Sempra Energy is required to pay related withholding taxes on your behalf. You must pay these taxes to Sempra Energy. You may do so directly or by making arrangements with Sempra Energy to direct a securities broker to sell a sufficient number of the vesting shares to cover the required withholding. Sempra Energy may, but is not obligated to, accept shares for payment of withholding taxes.</p> <p>If you do not promptly pay these withholding taxes or make arrangements satisfactory to Sempra Energy to pay them, Sempra Energy (after notice to you and providing you with reasonable time, which need not exceed ten days, to make payment or satisfactory payment arrangements) may in its sole discretion elect that all of your shares be forfeited to Sempra Energy. Upon the effectiveness of that election all of your interest in your shares will terminate.</p>
Retention Rights:	Neither your Restricted Stock 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:	Subject to certain limitations set forth in the 1998 Long Term Incentive Plan, in the event of a Change in Control (as defined in the plan) of Sempra Energy, your shares will automatically become fully vested and non-forfeitable.
Further Actions:	<p>You agree to take all actions and execute all documents appropriate to carry out the provisions of this Agreement.</p> <p>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 your shares, including any forfeiture of your shares, that is authorized by this Agreement.</p>
Applicable Law:	This Agreement will be interpreted and enforced under the laws of the State of California.
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 such other agreement shall prevail.

By signing the Cover Sheet/Summary of this Agreement, you agree to all of the terms and conditions described above and in the 1998 Long Term Incentive Plan

SEMPRA ENERGY
SEVERANCE PAY AGREEMENT

THIS AGREEMENT (this "Agreement"), dated as of August 17, 2004 (the "Effective Date") is made by and between SEMPR ENERGY, a California corporation, and DONALD E. FELSINGER (the "Executive").

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

WHEREAS, the Board of Directors of Sempra Energy (the "Board") has determined that it is in the best interests of the Company to institute formalized severance arrangements for certain of the executives of the Company, including the Executive.

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

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(b) hereof.

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

"Annual Base Salary" has the meaning assigned thereto in Section 2(a) hereof.

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

"Buyer" has the meaning assigned thereto in Section 17(i) hereof.

"Cause" means (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), (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 or (iii) the Executive's refusal to abstain from voting as a member of the Board, if applicable, on any of the following matters: (A) executive compensation, (B) assignments to committees of the Board or (C) nomination, appointment or election of directors. For purposes of clause (i) of this definition, no act, or failure to act, on the Executive's part shall be deemed "willful" unless done, or omitted to be done, by the Executive not in good faith and without reasonable belief that the Executive's act, or failure to act, was in the best interests of the Company. Notwithstanding the foregoing, the Executive shall not be deemed terminated for Cause pursuant to clause (i) of this definition 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 when:

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

d. 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 sale.

"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 13(e) hereof.

"Date of Termination" has the meaning assigned thereto in Section 3(b) 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 the occurrence without the written consent of the Executive of any one of the following acts by the Company, or failures by the Company to act, unless such act or failure to act is corrected (or denied in the event of clause (i) below) by the Company within 30 days after the Company receives the Notice of Termination given in respect thereof:

- a. a material diminution in the Executive's title, authority, duties, responsibilities or reporting lines;
- b. a reduction by the Company in (A) the Executive's Annual Base Salary as in effect on the date hereof or as the same may be increased from time to time or (B) the Executive's aggregate annualized compensation and benefits opportunities, except, in the case of both (A) and (B), for across-the-board reductions similarly affecting all executive officers (both of the Company and of any Person then in control of the Company) whose compensation is directly determined by the Compensation Committee (and the compensation committee of the board of directors of any Person then in control of the Company); *provided that*, the exception for across-the-board reductions shall not apply following a Change in Control;
- c. the relocation of the Executive's principal place of employment to a location away from the Company's headquarters or a relocation of the Company's headquarters to a location further away which is both further away from the Executive's residence and more than thirty (30) miles from such headquarters 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; *provided, however*, that any such relocation prior to a Change in Control shall not constitute Good Reason hereunder;
- d. the failure by the Company to pay to the Executive any portion of the Executive's current compensation and benefits or to pay to the Executive 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;
- e. any purported termination of the Executive's employment that is not effected pursuant to a Notice of Termination satisfying the requirements of Section 3(a) hereof; for purposes of this Agreement, no such purported termination shall be effective;
- f. the failure by the Company to obtain a satisfactory agreement from any successor of the Company requiring such successor to assume and agree to perform the Company's obligations under this Agreement, as contemplated in Section 15 hereof;
- g. the failure by the Company to provide the indemnification and D&O insurance protection Section 10 of this Agreement requires it to provide;
- h. the failure by the Company to comply with any material provision of this Agreement; or
- i. the announcement of the Company's intent to take one of the actions or omissions to act, as applicable, described in clauses (a) through (h) above.

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 12 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) a termination of employment by the Company other than for Cause, death, or Disability, or (b) the Executive's resignation of employment with the Company for Good Reason; *provided, however*, that except as provided in the last paragraph of Section 6 hereof, a termination of the Executive's employment by reason of his or her retirement prior to a Change in Control shall not constitute an Involuntary Termination hereunder.

"**JAMS Rules**" has the meaning assigned thereto in Section 12 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.

"**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(b) hereof.

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

"**Pre-Age 65 Benefit**" has the meaning assigned thereto in Section 5(e) hereof.

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

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

"**Proprietary Information**" has the meaning assigned thereto in Section 13(a) hereof.

"**Release**" has the meaning assigned thereto in Section 13(d) hereof.

"**SERP**" has the meaning assigned thereto in Section 5(c) hereof.

"**Underpayment**" has the meaning assigned thereto in Section 9(b) hereof.

2. **Compensation.**

- a. **Base Salary.** The Executive's annual base salary (the "**Annual Base Salary**") shall in no event be less than \$750,000 and shall be payable in accordance with the Company's general payroll practices. Subject to clause (b) of the definition of "Good Reason" in Section 1 hereof, the Board in its discretion may from time to time direct such upward adjustments in the Executive's Annual Base Salary as the Board deems to be necessary or desirable, including, without limitation, adjustments in order to reflect increases in the cost of living and the Executive's performance. Any increase in the Annual Base Salary shall not serve to limit or reduce any other obligation of the Company under this Agreement. For purposes of clause (b) of the definition of "Good Reason" in Section 1 hereof, and Sections 5(a), 5(b), 5(e), 6(a), 6(b), 6(e), and 13(d) hereof, reference to the Annual Base Salary shall mean the highest Annual Base Salary payable to the Executive at any time during the term of this Agreement.
- b. **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.

3. **Notice and Date of Termination**

- a. Any purported termination of the Executive's employment (other than by reason of death) shall be communicated by written Notice of Termination from one party hereto to the other party hereto in accordance with Section 17(b) hereof. For purposes of this Agreement, a "**Notice of Termination**" shall mean a notice that shall indicate the specific termination provision in this Agreement relied upon, if any, and shall set forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of the Executive's employment under the provision so indicated. Further, a Notice of Termination for Cause is required to include a copy of a resolution duly adopted by the affirmative vote of not less than three-fourths (3/4) of the independent directors of the Board at a meeting of the Board that was called and held no more than ninety (90) days after the date the Board had knowledge of the most recent act or omission giving rise to such breach for the purpose of considering such termination (after reasonable notice to the Executive and an opportunity for the Executive, together with the Executive's counsel, to be heard before the Board and, if possible with respect to clause (i) of the definition of Cause in Section 1 hereof, to cure the breach that was the basis for the Notice of Termination for Cause within a reasonable period) finding that, in the good faith opinion of the Board, the Executive was guilty of conduct set forth in clause (i) or (ii) of the definition of Cause in Section 1 hereof, and specifying the particulars thereof in detail. 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. "Date of Termination," with respect to any purported termination of the Executive's employment, shall mean the date specified in the Notice of Termination (which, in the case of a termination by the Company, shall not be less than thirty (30) days for reasons other than Cause and, in the case of a termination by the Executive, shall not be less than fifteen (15) days (thirty (30) days if the termination is with Good Reason) nor more than sixty (60) days from the date such Notice of Termination is given).
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.
5. **Severance Benefits upon Involuntary Termination Prior to Change in Control**

. Notwithstanding any other provision of this Agreement, the Company may terminate the Executive's employment other than by a termination for Cause, but only upon the affirmative vote of three-fourths (3/4) of the independent directors of the Board. Except as provided in Section 6 and Section 17(i) hereof, in the event of the Involuntary Termination of the Executive prior to a Change in Control, the Company shall pay to the Executive the amounts, and provide the Executive with the benefits, described in this Section 5 (hereinafter referred to as the "Pre-Change in Control Severance Payments") and any amounts or benefits described in Section 10 hereof. The amounts specified in this Section 5 shall be paid within thirty (30) days after the Date of Termination.

- a. **Lump Sum Payment.** In lieu of any further payments of the Annual Base Salary or annual Incentive Compensation Awards to the Executive for periods subsequent to the Date of Termination, the Company shall pay to the Executive a lump sum amount in cash equal to the sum of (A) the Executive's Annual Base Salary and (B) the greater of the Executive's target bonus for the year of termination under the Company's Executive Incentive Plan (or any successor plan) or the average of the three (3) years' highest gross annual bonus awards, not necessarily consecutive, paid by the Company (or its predecessor) to the Executive under the Company's Executive Incentive Plan (or any predecessor or successor plan) in the five (5) years preceding the year of termination.
- b. **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 equal to the target amount payable under any annual Incentive Compensation Awards for the fiscal year that includes the Date of Termination or, if greater, the average of the three (3) years' highest gross annual bonus awards, not necessarily consecutive, paid by the Company (or its predecessor) to the Executive under the Company's Executive Incentive Plan (or any predecessor or successor plan) in the five (5) years preceding the year of Termination multiplied by 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 each case to the extent not theretofore paid. (The amounts specified in clauses (A), (B), (C), (D) and (E) shall be hereinafter referred to as the "Pre-Change in Control Accrued Obligations").
- c. **Pension Supplement.** The Company shall pay the Executive's benefits under Section 3.1 of the Sempra Energy Supplemental Executive Retirement Plan (the "SERP") in the form of a lump sum; *provided, however*, that (A) the Company shall provide the Executive with such additional years of age and service credit for purposes of the calculation of retirement benefits under the SERP as if he had remained employed for no less than two (2) years, and (B) the applicable early retirement factor determined in accordance with Appendix A of the SERP shall be applied to the Executive's age and years of service only after he is credited with the additional age and service described above; and the Executive's termination shall be a "Qualifying Termination" as defined in the Split Dollar Life Insurance Agreement entered into between the Executive and the Company.
- d. **Accelerated Vesting and Payment of Long-Term Incentive Awards.** Notwithstanding the provisions of any applicable equity-based 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 stock options granted on or after June 26, 1998 shall remain outstanding and exercisable until the earlier of (A) the later of sixty months (60) 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 (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). Any such equity-based Incentive Compensation Awards tied to performance criteria shall be assumed to have been achieved at target levels. The Company shall pay to the Executive, with respect to all cash-based, long-term Incentive Compensation Awards (excluding those awards which constitute an equity award as described above) made to the Executive that are outstanding under any long-term Incentive Compensation Plan maintained by the Company or any Affiliate an amount equal to the target amount payable under such long-term Incentive Compensation Awards multiplied by a fraction, the numerator of which shall be the number of days from the beginning of the award cycle to and including the Date of Termination, and the denominator of which shall be the number of days in the cycle as originally granted.

- e. **Continuation of Welfare Benefits.** For a period of two (2) years (and an additional one (1) year if the Executive provides consulting services under Section 13(e) hereof) or until the Executive is eligible for retiree medical benefits, whichever is longer, immediately following the Date of Termination, the Company shall arrange to provide the Executive and his dependents 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 Termination; *provided, however*, that if the Executive becomes employed with another employer and is eligible to receive life, disability, accident and health insurance benefits under another employer-provided plan, the benefits under the Company's plans shall be secondary to those provided under such other plan during such applicable period of eligibility. In the event the Executive is ineligible under the terms of such benefit plans to continue to be so covered, the Company shall provide the Executive with substantially equivalent coverage through other sources or shall provide the Executive with a lump sum payment in such amount that, after all taxes on that amount, shall be equal to the cost to the Executive of providing the Executive such benefit coverage. Following the Date of Termination, the Company shall continue to pay sufficient premiums under the Sempra Energy Executive Life Insurance Plan to provide (1) a death benefit equal to two (2) times the sum of (A) the Annual Base Salary plus (B) the average of the three (3) highest bonuses paid under the Company's Executive Incentive Plan (or any predecessor or successor plan) during the preceding ten years (the "**Pre-Age 65 Benefit**"), and (2) a cash value at age 65 sufficient to maintain that insurance in effect thereafter without any further premiums and with a death benefit of one-half (1/2) the Pre-Age 65 Benefit. All premiums will be grossed up for taxes using the maximum marginal federal and state income tax rates.
- f. **Outplacement Services.** The Executive shall receive outplacement services suitable to his position for a period of twenty-four (24) months following the Date of Termination, in the aggregate amount 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.
- g. **Financial Planning Services.** The Executive shall receive financial planning services for a period of twenty-four (24) months following the Date of Termination, at a level consistent with the benefits provided under the Company's financial planning program for the Executive as in effect immediately prior to the Date of Termination.
- h. **Deferral of Payments.** The Executive shall have the right to elect to defer any lump sum payments received by the Executive pursuant to this Section 5 under the terms and conditions of the Company's nonqualified deferred compensation plan.

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

. Notwithstanding any other provision of this Agreement, the Company may terminate the Executive's employment other than by a termination for Cause, but only upon the affirmative vote of three-fourths (3/4) of the independent directors of the Board. Notwithstanding the provisions of Section 5 above, in the event of the Involuntary Termination of the Executive 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 the amounts, and provide the Executive with the benefits, described in this Section 6 (hereinafter referred to as the "**Post-Change in Control Severance Payments**") and any amounts or benefits described in Section 10 hereof. The amounts specified in this Section 6 shall be paid within thirty (30) days after the Date of Termination.

- a. **Lump Sum Payment.** In lieu of any further payments of the Annual Base Salary or annual Incentive Compensation Awards to the Executive for periods subsequent to the Date of Termination, the Company shall pay to the Executive a lump sum amount in cash equal to two (2) times the sum of (A) the Executive's Annual Base Salary and (B) the greater of the Executive's target bonus for the year of termination under the Company's Executive Incentive Plan (or any successor plan) or the average of the three (3) years' highest gross annual bonus awards, not necessarily consecutive, paid by the Company (or its predecessor) to the Executive under the Company's Executive Incentive Plan (or any predecessor or successor plan) in the five (5) years preceding the year of termination.
- b. **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 equal to the target amount payable under any annual Incentive Compensation Awards for the fiscal year that includes the Date of Termination or, if greater, the average of the three (3) years' highest gross annual bonus awards, not necessarily consecutive, paid by the Company (or its predecessor) to the Executive under the Company's Executive Incentive Plan (or any predecessor or successor plan) in the five (5) years preceding the year of Termination multiplied by 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 each case 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**").
- c. **Pension Supplement.** The Company shall pay the Executive's benefits under Section 3.1 of the SERP in the form of a lump sum; *provided, however*, that (A) the Company shall provide the Executive with such additional years of age and service credit for purposes of the calculation of retirement benefits under the SERP as if he had remained employed for no less than three (3) years, and (B) the applicable early retirement factor determined in accordance with Appendix A of the SERP shall be applied to the Executive's age and years of service only after he is credited with the additional age and service described above; and the Executive's termination shall be a "Qualifying Termination" as defined in the Split Dollar Life Insurance Agreement entered into between the Executive and the Company.
- d. **Accelerated Vesting and Payment of Long-Term Incentive Awards.** Notwithstanding the provisions of any applicable equity-based 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 stock options granted on or after June 26, 1998 shall remain outstanding and exercisable until the earlier of (A) the later of sixty months (60) 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 (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). Any such equity-based Incentive Compensation Awards tied to performance criteria shall be assumed to have been achieved at target levels. The Company shall pay to the Executive, with respect to all cash-based, long-term Incentive Compensation Awards (excluding those awards which constitute an equity award as described above) made to the Executive that are outstanding under any long-term Incentive Compensation Plan maintained by the Company or any Affiliate an amount equal to the target amount payable under such long-term Incentive Compensation Awards multiplied by a fraction, the numerator of which shall be the number of days from the beginning of the award cycle to and including the Date of Termination, and the denominator of which shall be the number of days in the cycle as originally granted.

- e. **Continuation of Welfare Benefits.** For a period of two (2) years (and an additional one (1) year if the Executive provides consulting services under Section 13(e) hereof) or until the Executive is eligible for retiree medical benefits, whichever is longer, immediately following the Date of Termination, the Company shall arrange to provide the Executive and his dependents 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 Termination; *provided, however*, that if the Executive becomes employed with another employer and is eligible to receive life, disability, accident and health insurance benefits under another employer-provided plan, the benefits under the Company's plans shall be secondary to those provided under such other plan during such applicable period of eligibility; and *further provided, however*, that in the event of a termination following a Change in Control, such period shall not be less than the number of years until the Executive reaches normal retirement age as defined under the Company's tax-qualified plans. In the event the Executive is ineligible under the terms of such benefit plans to continue to be so covered, the Company shall provide the Executive with substantially equivalent coverage through other sources or shall provide the Executive with a lump sum payment in such amount that, after all taxes on that amount, shall be equal to the cost to the Executive of providing the Executive such benefit coverage. Following the Date of Termination, the Company shall continue to pay sufficient premiums under the Sempra Energy Executive Life Insurance Plan to provide (1) a death benefit equal to two (2) times the sum of (A) the Annual Base Salary plus (B) the Pre-Age 65 Benefit, and (2) a cash value at age 65 sufficient to maintain that insurance in effect thereafter without any further premiums and with a death benefit of one-half (1/2) the Pre-Age 65 Benefit. All premiums will be grossed up for taxes using the maximum marginal federal and state income tax rates.
- f. **Outplacement Services.** The Executive shall receive outplacement services suitable to his position for a period of thirty-six (36) months following the Date of Termination, in the aggregate amount 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.
- g. **Financial Planning Services.** The Executive shall receive financial planning services for a period of thirty-six (36) months following the Date of Termination, at a level consistent with the benefits provided under the Company's financial planning program for the Executive as in effect immediately prior to the Date of Termination.
- h. **Deferral of Payments.** The Executive shall have the right to elect to defer any lump sum payments received by the Executive pursuant to this Section 6 under the terms and conditions of the Company's nonqualified deferred compensation plan.

Notwithstanding anything contained herein, if a Change in Control occurs and the Executive's employment with the Company is terminated by reason of an Involuntary Termination prior to the Change in Control Date, and if such termination of employment (i) was at the request of a third party who has taken steps reasonably calculated to effect the Change in Control or (ii) otherwise arose in connection with or in anticipation of the Change in Control, then the Executive shall, in lieu of the Pre-Change in Control Severance Payments, be entitled to the Post-Change in Control Severance Payments as if such Involuntary Termination had occurred within two (2) years following the Change in Control.

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 10 hereof.
8. **Severance Benefits upon Termination due to Death or Disability.** If the Executive's employment shall terminate 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 and, solely in the case of termination by reason of Disability, the Pension Supplement described in Section 5(c) hereof, 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.
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. The Company's obligation to make Gross-Up Payments under this Section 9 shall not be conditioned upon the Executive's termination of employment. For purposes of determining the amount of any Gross-Up Payment, the Executive shall be deemed to pay federal income tax at the highest 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 highest 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 maximum 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.
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 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 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 executive officer of the Company or any Affiliate.
11. **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.
12. **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.

13. **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 13(a) and Section 13(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 13(a) or Section 13(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 the Executive's employment is terminated by the Company other than for Cause, death or Disability or the Executive shall terminate his employment for Good Reason, if the Executive agrees (i) to the covenants described in Section 13(a) and Section 13(b) above, (ii) to execute a release (the "Release") of all claims substantially in the form attached hereto as Exhibit A within forty-five (45) days after the applicable Date of Termination and does not revoke such release in accordance with the terms thereof, and (iii) to provide the consulting services described in Section 13(e) below, then in consideration for such covenants, the Company shall pay the Executive a lump sum amount in cash equal to the sum of (A) the Executive's Annual Base Salary and (B) the greater of the Executive's target bonus for the year of termination under the Company's Executive Incentive Plan (or any successor plan) or the average of the three (3) years' highest gross annual bonus awards, not necessarily consecutive, paid by the Company (or its predecessor) to the Executive under the Company's Executive Incentive Plan (or any predecessor or successor plan) in the five (5) years preceding the year of termination. The amount specified in this Section 13(d) shall be paid as soon as practicable following the Executive's execution of the Release, and the Executive shall have the right to elect to defer such payment under the terms and conditions of the Company's nonqualified deferred compensation plan.
- e. **Consulting.** If the Executive agrees to the covenants described in Section 13(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. 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.
14. **Legal Fees.** The Company shall pay to the Executive all legal fees and expenses incurred by the Executive in disputing in good faith any issue arising under this Agreement relating to the termination of the Executive's employment or in seeking in good faith to obtain or enforce any benefit or right provided by this Agreement, but in each case only to the extent the arbitrator or court determines that the Executive had a reasonable basis for such claim.
15. **Successors.**
- a. **Assignment by Executive.** This Agreement is personal to the Executive and without the prior written consent of the Company 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 Company.** This Agreement shall inure to the benefit of and be binding upon the Company, its successors and assigns. The Company may not assign this Agreement to any person or entity (except for a successor described in Section 15(c) below) without the Executive's written consent.
- c. **Assumption.** The Company shall require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company to assume expressly and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession had taken place. As used in this Agreement, "Company" shall mean the Company as hereinbefore defined and any successor to its businesses and/or assets as aforesaid that assumes and agrees to perform this Agreement by operation of law or otherwise.
16. **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 16 shall terminate and be of no further force and effect upon the occurrence of a Change in Control.

17. 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. 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 Payments, the Post-Change in Control Severance Payments 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. 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 the Company sells or otherwise disposes of any part of the business or assets of the Company (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 as a result of such transaction, (i) the Executive becomes an employee of the buyer of such business or assets (the "Buyer") or (ii) the Executive is offered employment by the Buyer in an executive position with reasonably comparable status, compensation, benefits and severance agreement and which is consistent with the Executive's experience and education, but the Executive declines to accept such offer.
- 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.
- l. Legal Fees. The Company agrees to reimburse the Executive for the reasonable attorneys' fees and costs incurred by the Executive in negotiating and documenting this Agreement.

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

/S/ G. JOYCE ROWLAND

G. Joyce Rowland

August 17, 2004

Date

EXECUTIVE

/S/ DONALD E. FELSINGER

Donald E. Felsing

August 17, 2004

Date

EXHIBIT A

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 _____, 2006 (the "Severance Pay Agreement"); and

WHEREAS, Section 13(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 13 of that certain Severance Pay Agreement between you and the Company, and except as otherwise provided in this Agreement, you and the Company hereby irrevocably and unconditionally release, acquit and forever discharge the other from any and all Claims either may have against the other. For purposes of this Agreement and the preceding sentence, the words "Releasee" or "Releasees" and "Claim" or "Claims" shall have the meanings set forth below:

(a) The words "Releasee" or "Releasees" shall refer to 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. Sec. 1981 (discrimination); (3) 29 U.S.C. Sec. 621 634 (age discrimination); (4) 29 U.S.C. Sec. 206(d)(1) (equal pay); (5) 42 U.S.C. Sec. 12101, et seq. (disability); (6) the California Constitution, Article I, Section 8 (discrimination); (7) the California Fair Employment and Housing Act (discrimination, including race, color, national origin, ancestry, physical handicap, medical condition, marital status, religion, sex or age); (8) California Labor Code Section 1102.1 (sexual orientation discrimination); (9) Executive Order 11246 (race, color, religion, sex and national origin

discrimination); (10) Executive Order 11141 (age discrimination); (11) Sec. 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 13(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 13(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 13(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 13(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 13(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
SEVERANCE PAY AGREEMENT

THIS AGREEMENT (this "Agreement"), dated as of August 18, 2004 (the "Effective Date") is made by and between SEMPR ENERGY, a California corporation, and NEAL SCHMALE (the "Executive").

WHEREAS, the Executive is currently employed by Sempra Energy or a 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 determined that it is in the best interests of the Company to institute formalized severance arrangements for certain of the executives of the Company, including the Executive.

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

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(b) hereof.

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

"Annual Base Salary" has the meaning assigned thereto in Section 2(a) hereof.

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

"Buyer" has the meaning assigned thereto in Section 17(i) hereof.

"Cause" means (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), (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 or (iii) the Executive's refusal to abstain from voting as a member of the Board, if applicable, on any of the following matters: (A) executive compensation, (B) assignments to committees of the Board or (C) nomination, appointment or election of directors. For purposes of clause (i) of this definition, no act, or failure to act, on the Executive's part shall be deemed "willful" unless done, or omitted to be done, by the Executive not in good faith and without reasonable belief that the Executive's act, or failure to act, was in the best interests of the Company. Notwithstanding the foregoing, the Executive shall not be deemed terminated for Cause pursuant to clause (i) of this definition 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 when:

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

d. 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 sale.

"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 13(e) hereof.

"Date of Termination" has the meaning assigned thereto in Section 3(b) 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 prior to the Date of Termination specified in the Notice of Termination (as discussed in Section 3 hereof):
- i. the failure of the Executive, except pursuant to his voluntary resignation, to be elected to the position of Chief Operating Officer or higher position upon the retirement or other termination of the Company's current Chairman and Chief Executive Officer;
 - ii. 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);
 - iii. 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; or the assignment to the Executive of any position not reporting to the Company's Chief Executive Officer;
 - iv. 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;
 - v. 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;
 - vi. 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;
 - vii. the failure by the Company to obtain a satisfactory agreement from any successor of the Company requiring such successor to assume and agree to perform the Company's obligations under this Agreement, as contemplated in Section 15(c) hereof;
 - viii. the failure by the Company to provide the indemnification and D&O insurance protection Section 10 of this Agreement requires it to provide; or
 - ix. the failure by the Company 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 prior to the Date of Termination specified in the Notice of Termination (as discussed in Section 3 hereof):
- i. the failure of the Executive, except pursuant to his voluntary resignation, to be elected to the position of Chief Operating Officer or higher position upon the retirement or other termination of the Company's current Chairman and Chief Executive Officer;
 - ii. an adverse change in the Executive's title, authority, duties, responsibilities or reporting lines as in effect immediately prior to the Change in Control;
 - iii. 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;
- iv. 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;
- v. 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;
- vi. 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;
- vii. the failure by the Company to obtain a satisfactory agreement from any successor of the Company requiring such successor to assume and agree to perform the Company's obligations under this Agreement, as contemplated in Section 15(c) hereof;
- viii. the failure by the Company to provide the indemnification and D&O insurance protection Section 10 of this Agreement requires it to provide; or
- ix. the failure by the Company 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 12 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) a termination of employment by the Company other than for Cause, death, or Disability, or (b) the Executive's resignation of employment with the Company for Good Reason; *provided, however*, that except as provided in the last paragraph of Section 6 hereof, a termination of the Executive's employment by reason of his retirement prior to a Change in Control shall not constitute an Involuntary Termination hereunder.

"JAMS Rules" has the meaning assigned thereto in Section 12 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.

"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)(iv) of the definition of Good Reason, above.

"Proprietary Information" has the meaning assigned thereto in Section 13(a) hereof.

"Release" has the meaning assigned thereto in Section 13(d) hereof.

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

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

2. Compensation.

- a. **Base Salary.** The Executive's annual base salary (the "Annual Base Salary") shall be payable in accordance with the Company's general payroll practices and, upon the Executive's commencement of service as Chief Operating Officer, shall in no event be less than \$750,000. Subject to clauses (a)(iv) and (b)(iii) of the definition of "Good Reason" in Section 1 hereof, the Board in its discretion may from time to time direct such upward adjustments in the Executive's Annual Base Salary as the Board deems to be necessary or desirable, including, without limitation, adjustments in order to reflect increases in the cost of living and the Executive's performance. Any increase in the Annual Base Salary shall not serve to limit or reduce any other obligation of the Company under this Agreement. For purposes of Sections 3(b), 5, 6, and 13(d) hereof, reference to the Annual Base Salary shall mean the highest Annual Base Salary payable to the Executive at any time during the term of this Agreement.
- b. **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.

3. Notice and Date of Termination

- a. Any purported termination of the Executive's employment (other than by reason of death) shall be communicated by written Notice of Termination from one party hereto to the other party hereto in accordance with Section 17(b) hereof. For purposes of this Agreement, a "Notice of Termination" shall mean a notice that shall indicate the specific termination provision in this Agreement relied upon, if any, and shall set forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of the Executive's employment under the provision so indicated. Further, a Notice of Termination for Cause is required to include a copy of a resolution duly adopted by the affirmative vote of not less than a majority of the independent directors of the Board at a meeting of the Board that was called and held no more than ninety (90) days after the date the Board had knowledge of the most recent act or omission giving rise to such breach for the purpose of considering such termination (after reasonable notice to the Executive and an opportunity for the Executive, together with the Executive's counsel, to be heard before the Board and, if possible with respect to clause (i) of the definition of Cause in Section 1 hereof, to cure the breach that was the basis for the Notice of Termination for Cause within a reasonable period) finding that, in the good faith opinion of the Board, the Executive was guilty of conduct set forth in clause (i) or (ii) of the definition of Cause in Section 1 hereof, and specifying the particulars thereof in detail. 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 employment is terminated by the Company, 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 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 Company, but shall not in any event be less than fifteen (15) days nor more than sixty (60) days from the date such Notice of Termination is given.
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.
5. **Severance Benefits upon Involuntary Termination Prior to Change in Control**

Notwithstanding any other provision of this Agreement, the Company may terminate the Executive's employment other than by a termination for Cause, but only upon the affirmative vote of a majority of the independent directors of the Board. Except as provided in Section 6 and Section 17(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 within thirty (30) days after the Date of Termination, (A) the full amount of any earned but unpaid Annual Base Salary through the Date of Termination at the rate in effect on such date, plus (B) an amount (the "Pre-Change in Control Severance Payment") equal to the sum of (X) the Executive's Annual Base Salary as in effect on the Date of Termination and (Y) the greater of his average annual bonus payment for the two (2) years immediately preceding the Date of Termination or the average of his target bonuses for the two (2) years immediately preceding the Date of Termination. In addition to the Pre-Change in Control Severance Payment, the Executive shall be entitled to the following additional benefits:

- 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. (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 11 below, for a period of one (1) year following the Date of Termination (and an additional one (1) year if the Executive provides consulting services under Section 13(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 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 Termination.
 - d. **Outplacement Services.** The Executive shall receive outplacement services suitable to his position for a period of twenty-four (24) months following the Date of Termination, in the aggregate amount 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.
 - e. **Financial Planning Services.** The Executive shall receive financial planning services for a period of twenty-four (24) months following the Date of Termination, at a level consistent with the benefits provided under the Company's financial planning program for the Executive as in effect immediately prior to the Date of Termination.
 - f. **Deferral of Payments.** The Executive shall have the right to elect to defer any lump sum payments received by the Executive pursuant to this Section 5 under the terms and conditions of the Company's nonqualified deferred compensation plan.
6. **Severance Benefits upon Involuntary Termination in Connection with and after Change in Control**

. Notwithstanding any other provision of this Agreement, the Company may terminate the Executive's employment other than by a termination for Cause, but only upon the affirmative vote of a majority of the independent directors of the Board. Notwithstanding the provisions of Section 5 above, in the event of the Involuntary Termination of the Executive 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 within thirty (30) days after the Date of Termination, (A) the full amount of any earned but unpaid Annual Base Salary through the Date of Termination at the rate in effect on such date, plus (B) an amount (the "**Post-Change in Control Severance Payment**") equal to two (2) times the sum of (X) 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 greater of his average annual bonus payment for the two (2) years immediately preceding the Date of Termination or the average of his target bonuses for the two (2) years immediately preceding the Date of Termination. In addition to the Post-Change in Control Severance Payment, the Executive shall be entitled to the following additional benefits:

- 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 equal to the target amount payable under any annual Incentive Compensation Awards for the fiscal year that includes the Date of Termination or, if greater, the average of the three (3) years' highest gross annual bonus awards, not necessarily consecutive, paid by the Company (or its predecessor) to the Executive under the Company's Executive Incentive Plan (or any predecessor or successor plan) in the five (5) years preceding the year of Termination multiplied by 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 each case 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 Company shall pay the Executive's benefits under Section 3.1 of the Sempra Energy Supplemental Executive Retirement Plan (the "**SERP**") in the form of a lump sum; *provided, however*, that (A) the Company shall provide the Executive with such additional years of age and service credit for purposes of the calculation of retirement benefits under the SERP as if he had remained employed for no less than three (3) years, and (B) the applicable early retirement factor determined in accordance with Appendix A of the SERP shall be applied to the Executive's age and years of service only after he is credited with the additional age and service described above.
- 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 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 (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 11 below, for a period of two (2) years following the Date of Termination (and an additional one (1) year if the Executive provides consulting services under Section 13(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 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 Termination or the Change in Control Date, whichever is more favorable to the Executive.

- e. Outplacement Services. The Executive shall receive outplacement services suitable to his position for a period of thirty-six (36) months following the Date of Termination, in the aggregate amount 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.
- f. Financial Planning Services. The Executive shall receive financial planning services for a period of thirty-six (36) months following the Date of Termination, at a level consistent with the benefits provided under the Company's financial planning program for the Executive as in effect immediately prior to the Date of Termination.
- g. Deferral of Payments. The Executive shall have the right to elect to defer any lump sum payments received by the Executive pursuant to this Section 6 under the terms and conditions of the Company's nonqualified deferred compensation plan.

Notwithstanding anything contained herein, if a Change in Control occurs and the Executive's employment with the Company is terminated by reason of an Involuntary Termination prior to the Change in Control Date, and if such termination of employment (i) was at the request of a third party who has taken steps reasonably calculated to effect the Change in Control or (ii) otherwise arose in connection with or in anticipation of the 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.

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 10 hereof.
8. Severance Benefits upon Termination due to Death or Disability. If the Executive's employment shall terminate 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 and, solely in the case of termination by reason of Disability, the Pension Supplement described in Section 6(b) hereof, 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.
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. The Company's obligation to make Gross-Up Payments under this Section 9 shall not be conditioned upon the Executive's termination of employment. For purposes of determining the amount of any Gross-Up Payment, the Executive shall be deemed to pay federal income tax at the highest 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 highest 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 maximum 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.
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 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 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 executive officer of the Company or any Affiliate.
11. **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.
12. **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, 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.

13. 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 13(a) and Section 13(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 13(a) or Section 13(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 the Executive's employment is terminated by the Company other than for Cause, death or Disability or the Executive shall terminate his employment for Good Reason, if the Executive agrees (i) to the covenants described in Section 13(a) and Section 13(b) above, (ii) to execute a release (the "Release") of all claims substantially in the form attached hereto as Exhibit A within forty-five (45) days after the applicable Date of Termination and does not revoke such release in accordance with the terms thereof, and (iii) to provide the consulting services described in Section 13(e) below, then in consideration for such covenants, the Company shall pay the Executive a lump sum amount

- in cash equal to the sum of (A) the Executive's Annual Base Salary and (B) the greater of the Executive's target bonus for the year of termination under the Company's Executive Incentive Plan (or any successor plan) or the average of the three (3) years' highest gross annual bonus awards, not necessarily consecutive, paid by the Company (or its predecessor) to the Executive under the Company's Executive Incentive Plan (or any predecessor or successor plan) in the five (5) years preceding the year of termination. The amount specified in this Section 13(d) shall be paid as soon as practicable following the Executive's execution of the Release, and the Executive shall have the right to elect to defer such payment under the terms and conditions of the Company's nonqualified deferred compensation plan.
- e. **Consulting.** If the Executive agrees to the covenants described in Section 13(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. 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.
14. **Legal Fees.** In the event of the termination of the Executive's employment within two (2) years following a Change in Control, the Company shall pay to the Executive all legal fees and expenses (including but not limited to fees and expenses in connection with any arbitration) incurred by the Executive in disputing in good faith any issue arising under this Agreement relating to the termination of the Executive's employment or in seeking in good faith to obtain or enforce any benefit or right provided by this Agreement, but in each case only to the extent the arbitrator or court determines that the Executive had a reasonable basis for such claim. Notwithstanding the foregoing, in the event of the termination of the Executive's employment prior to a Change in Control, the Executive, if he is the prevailing party, shall be entitled to recover all legal fees and expenses incurred in disputing in good faith any issue arising under this Agreement.
15. **Successors.**
- a. **Assignment by Executive.** This Agreement is personal to the Executive and without the prior written consent of the Company 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 Company.** This Agreement shall inure to the benefit of and be binding upon the Company, its successors and assigns. The Company may not assign this Agreement to any person or entity (except for a successor described in Section 15(c) below) without the Executive's written consent.
- c. **Assumption.** The Company shall require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company to assume expressly and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession had taken place. As used in this Agreement, "Company" shall mean the Company as hereinbefore defined and any successor to its businesses and/or assets as aforesaid that assumes and agrees to perform this Agreement by operation of law or otherwise.
16. **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 16 shall terminate and be of no further force and effect upon the occurrence of a Change in Control.
17. **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.** 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.** 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 the Company sells or otherwise disposes of any part of the business or assets of the Company (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 as a result of such transaction, (i) the Executive becomes an employee of the buyer of such business or assets (the "Buyer") or (ii) the Executive is offered employment by the Buyer in an executive position with reasonably comparable status, compensation, benefits and severance agreement and which is consistent with the Executive's experience and education, but the Executive declines to accept such offer.
- 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.
- l. **Legal Fees.** The Company agrees to reimburse the Executive for the reasonable attorneys' fees and costs incurred by the Executive in negotiating and documenting this Agreement.
- m. 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

/S/ G. JOYCE ROWLAND

G. Joyce Rowland

Senior Vice President, Human Resources

August 18, 2004

Date

EXECUTIVE

/S/ NEAL SCHMALE

Neal Schmale

August 18, 2004

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 _____, 2006 (the "Severance Pay Agreement"); and

WHEREAS, Section 13(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 13 of that certain Severance Pay Agreement between you and the Company, and except as otherwise provided in this Agreement, you and the Company hereby irrevocably and unconditionally release, acquit and forever discharge the other from any and all Claims either may have against the other. For purposes of this Agreement and the preceding sentence, the words "Releasee" or "Releasees" and "Claim" or "Claims" shall have the meanings set forth below:

(a) The words "Releasee" or "Releasees" shall refer to 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. Sec. 1981 (discrimination); (3) 29 U.S.C. Sec. 621 634 (age discrimination); (4) 29 U.S.C. Sec. 206(d)(1) (equal pay); (5) 42 U.S.C. Sec. 12101, et seq. (disability); (6) the California Constitution, Article I, Section 8 (discrimination); (7) the California Fair Employment and Housing Act (discrimination, including race, color, national origin, ancestry, physical handicap, medical condition, marital status, religion, sex or age); (8) California Labor Code Section 1102.1 (sexual orientation discrimination); (9) Executive Order 11246 (race, color, religion, sex and national origin discrimination); (10) Executive Order 11141 (age discrimination); (11) Sec. 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 13(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 13(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 13(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 13(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 13(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

EXECUTIVE PERSONAL FINANCIAL PLANNING PROGRAM

POLICY DOCUMENT

1. PURPOSE

The purpose of this program is to assist executives in the following areas of financial planning: investment and retirement planning, income tax and estate planning, cash management, and stock option strategies.

2. ADMINISTRATION

The program is administered by the Sempra Energy Executive Compensation department. The Senior Vice President of Human Resources has final authority with respect to all matters relating to this program.

3. PARTICIPATION

Senior Officers of Sempra Energy and any of its subsidiaries may be designated as participants. Current participation is limited to executives at the level of Vice President or higher. The Senior Vice President of Human Resources has final authority with respect to participation in the program.

4. BENEFIT

Sempra Energy will pay participants expenses related to the financial planning services described in paragraph one, up to the maximum annual reimbursement amount. Maximum annual reimbursement amounts are:

A. Chief Executive Officer

\$15,000 per year

B. Group President and Executive Vice President

\$10,000 per year

C. All Other Participants

\$10,000 for the first year of participation in the program

\$7,000 for each subsequent year

For purposes of paragraph 4C, the first year will be one year from the date the executive is designated as a program participant. The \$7,000 benefit for the second year will be pro-rated to reflect the portion of the second calendar year covered under the first year benefit. For example, if an executive is hired and designated as a program participant in June 2002, the executive is entitled to a maximum benefit of \$10,000, which may be used through June 2003. The regular 2003 maximum benefit of \$7,000 will be pro-rated and the participant will be entitled to a maximum benefit of \$3,500 for July 2003 through December 2003.

The benefit is taxable income to participants. If the participant incurs annual expense less than the maximum annual reimbursement amount, the unused benefit is available for tax gross up using the maximum federal and state marginal income tax rates.

5. PAYMENT OF EXPENSES

Participants must submit invoices for covered financial planning services to Executive Compensation. Sempra Energy will then remit payment to the service provider. Participants should not pay the service provider directly. Invoices should be directed to:

Sempra Energy

Mail Location: HQ 04D

101 Ash Street

San Diego, CA 92101

Attn: Executive Compensation

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

	1999	2000	2001	2002	2003	Nine months ended September 30, 2004
Fixed Charges and Preferred Stock Dividends:						
Interest	\$ 233	\$ 308	\$ 358	\$ 350	\$ 351	\$ 244
Interest portion of annual rentals	10	8	6	6	5	4
Preferred dividends of subsidiaries (1)	16	18	16	14	11	9
Combined fixed charges and preferred stock dividends for purpose of ratio	\$ 259	\$ 334	\$ 380	\$ 370	\$ 367	\$ 257
Earnings:						
Pretax income from continuing operations	\$ 573	\$ 699	\$ 731	\$ 721	\$ 742	\$ 772
Total fixed charges (from above)	259	334	380	370	367	257
Less:						
Interest capitalized	1	3	11	29	26	6
Equity in income (loss) of unconsolidated subsidiaries and joint ventures	-	62	12	(55)	8	23
Total earnings for purpose of ratio	\$ 831	\$ 968	\$ 1,088	\$ 1,117	\$ 1,075	\$ 1,000
Ratio of earnings to combined fixed charges and preferred stock dividends	3.21	2.90	2.86	3.02	2.93	3.89

(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.

CERTIFICATION

I, Stephen L. Baum, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Sempra Energy;
2. Based on my knowledge, this Quarterly 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 Quarterly Report;
3. Based on my knowledge, the financial statements and other financial information included in this Quarterly 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 Quarterly 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)) for the registrant and we 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 Quarterly Report is being prepared;
 - b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this Quarterly Report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this Quarterly Report, based on such evaluation; and
 - c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting;
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

November 4, 2004

/S/ STEPHEN L. BAUM
Stephen L. Baum
Chief Executive Officer

CERTIFICATION

I, Neal E. Schmale, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Sempra Energy;
2. Based on my knowledge, this Quarterly 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 Quarterly Report;
3. Based on my knowledge, the financial statements and other financial information included in this Quarterly 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 Quarterly 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)) for the registrant and we 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 Quarterly Report is being prepared;
 - b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this Quarterly Report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this Quarterly Report, based on such evaluation; and
 - c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting;
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

November 4, 2004

/S/ NEAL E. SCHMALE
Neal E. Schmale
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 Sempra Energy (the "Company") certifies that:

(i) the Quarterly Report on Form 10-Q of the Company filed with the Securities and Exchange Commission for the quarterly period ended September 30, 2004 (the "Quarterly 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 Quarterly Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

November 4, 2004

/S/ STEPHEN L. BAUM

Stephen L. Baum
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 Quarterly Report on Form 10-Q of the Company filed with the Securities and Exchange Commission for the quarterly period ended September 30, 2004 (the "Quarterly 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 Quarterly Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

November 4, 2004

/S/ NEAL E. SCHMALE

Neal E. Schmale
Chief Financial Officer

