

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

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2019

or

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

Commission File No.	Exact Name of Registrants as Specified in their Charters, Address and Telephone Number	State of Incorporation	I.R.S. Employer Identification Nos.	Former name, former address and former fiscal year, if changed since last report
1-14201	SEMPRA ENERGY 488 8th Avenue San Diego, California 92101 (619) 696-2000	California	33-0732627	No change
1-03779	SAN DIEGO GAS & ELECTRIC COMPANY 8326 Century Park Court San Diego, California 92123 (619) 696-2000	California	95-1184800	No change
1-01402	SOUTHERN CALIFORNIA GAS COMPANY 555 West Fifth Street Los Angeles, California 90013 (213) 244-1200	California	95-1240705	No change

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

Title of Each Class	Trading Symbol	Name of Each Exchange on Which Registered
SEMPRA ENERGY:		
Sempra Energy Common Stock, without par value	SRE	NYSE
Sempra Energy 6% Mandatory Convertible Preferred Stock, Series A, \$100 liquidation preference	SREPRA	NYSE
Sempra Energy 6.75% Mandatory Convertible Preferred Stock, Series B, \$100 liquidation preference	SREPRB	NYSE
Sempra Energy 5.75% Junior Subordinated Notes Due 2079, \$25 par value	SREA	NYSE

SAN DIEGO GAS & ELECTRIC COMPANY:

None

SOUTHERN CALIFORNIA GAS COMPANY:

None

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

Yes No

Indicate by check mark whether the registrants have submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrants were required to submit such files).

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Sempra Energy:

Large Accelerated Filer Accelerated Filer Non-accelerated Filer Smaller Reporting Company Emerging Growth Company

San Diego Gas & Electric Company:

Large Accelerated Filer Accelerated Filer Non-accelerated Filer Smaller Reporting Company Emerging Growth Company

Southern California Gas Company:

Large Accelerated Filer Accelerated Filer Non-accelerated Filer Smaller Reporting Company Emerging Growth Company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

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

Indicate the number of shares outstanding of each of the issuers’ classes of common stock, as of the latest practicable date.

Common stock outstanding on October 28, 2019:

Sempra Energy	281,895,936 shares
San Diego Gas & Electric Company	Wholly owned by Enova Corporation, which is wholly owned by Sempra Energy
Southern California Gas Company	Wholly owned by Pacific Enterprises, which is wholly owned by Sempra Energy

SEMPRA ENERGY FORM 10-Q
SAN DIEGO GAS & ELECTRIC COMPANY FORM 10-Q
SOUTHERN CALIFORNIA GAS COMPANY FORM 10-Q
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This combined Form 10-Q is separately filed by Sempra Energy, San Diego Gas & Electric Company and Southern California Gas Company. Information contained herein relating to any individual company is filed by such company on its own behalf. Each company makes representations only as to itself and makes no other representation whatsoever as to any other company.

You should read this report in its entirety as it pertains to each respective reporting company. No one section of the report deals with all aspects of the subject matter. Separate Part I – Item 1 sections are provided for each reporting company, except for the Notes to Condensed Consolidated Financial Statements. The Notes to Condensed Consolidated Financial Statements for all of the reporting companies are combined. All Items other than Part I – Item 1 are combined for the reporting companies.

The following terms and abbreviations appearing in the text of this report have the meanings indicated below.

GLOSSARY

2016 GRC FD	final decision in the California Utilities' 2016 General Rate Case
2019 GRC FD	final decision in the California Utilities' 2019 General Rate Case
AB	Assembly Bill
AEP	American Electric Power Company, Inc.
AFUDC	allowance for funds used during construction
Annual Report	Annual Report on Form 10-K for the year ended December 31, 2018
AOCI	accumulated other comprehensive income (loss)
ARO	asset retirement obligation
ASC	Accounting Standards Codification
Asset Exchange Agreement	agreement and plan of merger among Oncor, SDTS and SU
ASU	Accounting Standards Update
Bay Gas	Bay Gas Storage Company, Ltd.
Bcf	billion cubic feet
Blade	Blade Energy Partners
BP	British Petroleum or its subsidiaries
bps	basis points
California Utilities	San Diego Gas & Electric Company and Southern California Gas Company, collectively
Cameron LNG JV	Cameron LNG Holdings, LLC
CARB	California Air Resources Board
CEC	California Energy Commission
CFE	Comisión Federal de Electricidad (Federal Electricity Commission of Mexico)
Chilquinta Energía	Chilquinta Energía S.A. and its subsidiaries
CPUC	California Public Utilities Commission
CRR	congestion revenue right
DOE	U.S. Department of Energy
DOGGR	California Department of Conservation's Division of Oil, Gas, and Geothermal Resources
DPH	Los Angeles County Department of Public Health
DWR	California Department of Water Resources
ECA	Energía Costa Azul
Ecogas	Ecogas México, S. de R.L. de C.V.
Edison	Southern California Edison Company, a subsidiary of Edison International
EFH	Energy Future Holdings Corp. (renamed Sempra Texas Holdings Corp.)
EFIH	Energy Future Intermediate Holding Company LLC (renamed Sempra Texas Intermediate Holding Company LLC)
Eletrans	Eletrans S.A., Eletrans II S.A. and Eletrans III S.A., collectively
EPA	U.S. Environmental Protection Agency
EPC	engineering, procurement and construction
EPS	earnings per common share
ETR	effective income tax rate
FERC	Federal Energy Regulatory Commission
Fitch	Fitch Ratings
FTA	Free Trade Agreement
GCIM	Gas Cost Incentive Mechanism
GHG	greenhouse gas
GRC	General Rate Case
HLBV	hypothetical liquidation at book value
HMRC	United Kingdom's Revenue and Customs Department
IEnova	Infraestructura Energética Nova, S.A.B. de C.V.
IMG	Infraestructura Marina del Golfo
InfraREIT	InfraREIT, Inc. (merged into a wholly owned subsidiary of Oncor)
InfraREIT Merger Agreement	agreement and plan of merger among Oncor, 1912 Merger Sub LLC (a wholly owned subsidiary of Oncor), Oncor T&D Partners, LP (a wholly owned indirect subsidiary of Oncor), InfraREIT and InfraREIT Partners
InfraREIT Partners	InfraREIT Partners, LP (renamed Oncor NTU Partnership LP)
IOU	investor-owned utility
IRS	Internal Revenue Service
ISFSI	independent spent fuel storage installation
ISO	Independent System Operator
JP Morgan	J.P. Morgan Chase & Co.
JV	joint venture

GLOSSARY (CONTINUED)

LA Superior Court	Los Angeles County Superior Court
Leak	the leak at the SoCalGas Aliso Canyon natural gas storage facility injection-and-withdrawal well, SS25, discovered by SoCalGas on October 23, 2015
LNG	liquefied natural gas
LPG	liquid petroleum gas
Luz del Sur	Luz del Sur S.A.A. and its subsidiaries
MD&A	Management's Discussion and Analysis of Financial Condition and Results of Operations
Merger	the merger of EFH with an indirect subsidiary of Sempra Energy, with EFH continuing as the surviving company and as an indirect, wholly owned subsidiary of Sempra Energy
Merger Agreement	Agreement and Plan of Merger dated August 21, 2017, as supplemented by a Waiver Agreement dated October 3, 2017 and an amendment dated February 15, 2018, between Sempra Energy, EFH, EFIH and an indirect subsidiary of Sempra Energy
Merger Consideration	Pursuant to the Merger Agreement, Sempra Energy paid consideration of \$9.45 billion in cash
Mississippi Hub	Mississippi Hub, LLC
MMBtu	million British thermal units (of natural gas)
Moody's	Moody's Investors Service
MOU	Memorandum of Understanding
Mtpa	million tonnes per annum
MW	megawatt
MWh	megawatt hour
NCI	noncontrolling interest(s)
NDT	nuclear decommissioning trusts
NEIL	Nuclear Electric Insurance Limited
NOL	net operating loss
NRC	Nuclear Regulatory Commission
OCI	other comprehensive income (loss)
OII	Order Instituting Investigation
OIR	Order Instituting a Rulemaking
O&M	operation and maintenance expense
OMEC	Otay Mesa Energy Center
OMEC LLC	Otay Mesa Energy Center LLC
OMI	Oncor Management Investment LLC
Oncor	Oncor Electric Delivery Company LLC
Oncor Holdings	Oncor Electric Delivery Holdings Company LLC
Otay Mesa VIE	OMEC LLC VIE
PG&E	Pacific Gas & Electric Company
PHMSA	Pipeline and Hazardous Materials Safety Administration
PPA	power purchase agreement
PP&E	property, plant and equipment
PSEP	Pipeline Safety Enhancement Plan
PUCT	Public Utility Commission of Texas
RBS	The Royal Bank of Scotland plc
RBS SEE	RBS Sempra Energy Europe
RBS Sempra Commodities	RBS Sempra Commodities LLP
ROE	return on equity
ROU	right-of-use
RSU	restricted stock unit
SB	California Senate Bill
SDG&E	San Diego Gas & Electric Company
SDTS	Sharyland Distribution & Transmission Services, L.L.C. (a subsidiary of InfraREIT Partners, renamed Oncor Electric Delivery Company NTU LLC)
SEC	U.S. Securities and Exchange Commission
Securities Purchase Agreement	Securities Purchase Agreement among SU, SU Investment Partners, L.P., Sempra Texas Utilities Holdings I, LLC (a wholly owned subsidiary of Sempra Energy) and Sempra Energy
SEDATU	Secretaría de Desarrollo Agrario, Territorial y Urbano (Mexican agency in charge of agriculture, land and urban development)
Sempra Global	holding company for most of Sempra Energy's subsidiaries not subject to California or Texas utility regulation
series A preferred stock	6% mandatory convertible preferred stock, series A
series B preferred stock	6.75% mandatory convertible preferred stock, series B
Sharyland Holdings	Sharyland Holdings, L.P.
SoCalGas	Southern California Gas Company

GLOSSARY (CONTINUED)

SONGS	San Onofre Nuclear Generating Station
S&P	Standard & Poor's
SU	Sharyland Utilities, L.L.C. (formerly known as Sharyland Utilities, L.P.)
TAG	TAG Pipelines Norte, S. de R.L. de C.V.
TC Energy	TC Energy Corporation (formerly known as TransCanada Corporation)
TCJA	Tax Cuts and Jobs Act of 2017
TdM	Termoeléctrica de Mexicali
Tecnored	Tecnored S.A.
Tecsur	Tecsur S.A.
TO5	Electric Transmission Owner Formula Rate, new application
TTI	Texas Transmission Investment LLC
U.S. GAAP	accounting principles generally accepted in the United States of America
VAT	value-added tax
VIE	variable interest entity

INFORMATION REGARDING FORWARD-LOOKING STATEMENTS

We make statements in this report that are not historical fact and constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements are based on assumptions with respect to the future, involve risks and uncertainties, and are not guarantees of performance. Future results may differ materially from those expressed in the forward-looking statements. These forward-looking statements represent our estimates and assumptions only as of the filing date of this report. We assume no obligation to update or revise any forward-looking statement as a result of new information, future events or other factors.

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

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

- the greater degree and prevalence of wildfires in California in recent years and the risk that we may be found liable for damages regardless of fault, such as where inverse condemnation applies, and the risk that we may not be able to recover any such costs from insurance, the California wildfire fund or in rates from customers in California or otherwise;
- actions and the timing of actions, including decisions, investigations, new regulations and issuances of permits and other authorizations and renewal of franchises by the CFE, CPUC, DOE, DOGGR, DPH, EPA, FERC, PHMSA, PUCT, states, cities and counties, and other regulatory and governmental bodies in the U.S. and other countries in which we operate;
- the success of business development efforts, construction projects, and major acquisitions, divestitures and internal structural changes, including risks in (i) obtaining or maintaining authorizations; (ii) completing construction projects on schedule and budget; (iii) obtaining the consent of partners; (iv) counterparties’ financial ability or otherwise to fulfill contractual commitments; (v) winning competitively bid infrastructure projects; (vi) the ability to complete contemplated acquisitions and/or divestitures and the disruptions caused by such efforts; and (vii) the ability to realize anticipated benefits from any of these efforts once completed;
- the resolution of civil and criminal litigation, regulatory investigations and proceedings, and arbitrations;
- actions by credit rating agencies to downgrade our credit ratings or those of our subsidiaries or to place those ratings on negative outlook and our ability to borrow at favorable interest rates;
- deviations from regulatory precedent or practice that result in a reallocation of benefits or burdens among shareholders and ratepayers; denial of approvals of proposed settlements; delays in, or denial of, regulatory agency authorizations to recover costs in rates from customers or regulatory agency approval for projects required to enhance safety and reliability; and moves to reduce or eliminate reliance on natural gas;
- weather conditions, natural disasters, accidents, equipment failures, computer system outages, explosions, terrorist attacks and other events that disrupt our operations, damage our facilities and systems, cause the release of harmful materials, cause fires and subject us to third-party liability for property damage or personal injuries, fines and penalties, some of which may not be covered by insurance (including costs in excess of applicable policy limits), may be disputed by insurers or may otherwise not be recoverable through regulatory mechanisms or may impact our ability to obtain satisfactory levels of affordable insurance;
- the availability of electric power and natural gas and natural gas storage capacity, including disruptions caused by failures in the transmission grid, limitations on the withdrawal or injection of natural gas from or into storage facilities, and equipment failures;
- risks posed by actions of third parties who control the operations of our investments;
- cybersecurity threats to the energy grid, storage and pipeline infrastructure, the information and systems used to operate our businesses, and the confidentiality of our proprietary information and the personal information of our customers and employees;
- expropriation of assets, the failure to honor the terms of contracts by foreign governments and state-owned entities such as the CFE, and other property disputes;
- the impact at SDG&E on competitive customer rates and reliability of electric transmission and distribution systems due to the growth in distributed and local power generation and from possible departing retail load resulting from customers transferring to Direct Access and Community Choice Aggregation or other forms of distributed and local power generation and the potential risk of nonrecovery for stranded assets and contractual obligations;

- Oncor’s ability to eliminate or reduce its quarterly dividends due to regulatory capital requirements and other regulatory and governance commitments, including the determination by a majority of Oncor’s independent directors or a minority member director to retain such amounts to meet future requirements;
- changes in capital markets, energy markets and economic conditions, including the availability of credit; and volatility in foreign currency exchange, interest and inflation rates and commodity prices and our ability to effectively hedge the risk of such volatility;
- changes in foreign and domestic trade policies and laws, including border tariffs and revisions to or replacement of international trade agreements, such as the North American Free Trade Agreement, that may increase our costs or impair our ability to resolve trade disputes;
- actions of activist shareholders, which could disrupt our operations by, among other things, requiring significant time by management and our board of directors;
- the impact of federal or state tax reform and our ability to mitigate adverse impacts; and
- other uncertainties, some of which may be difficult to predict and are beyond our control.

We caution you not to rely unduly on any forward-looking statements. You should review and consider carefully the risks, uncertainties and other factors that affect our business as described herein, in our most recent Annual Report and in other reports that we file with the SEC.

PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

SEMPRA ENERGY

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Dollars in millions, except per share amounts; shares in thousands)

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
	(unaudited)			
REVENUES				
Utilities	\$ 2,398	\$ 2,102	\$ 6,808	\$ 6,112
Energy-related businesses	360	463	1,078	1,164
Total revenues	2,758	2,565	7,886	7,276
EXPENSES AND OTHER INCOME				
Utilities:				
Cost of natural gas	(122)	(255)	(789)	(782)
Cost of electric fuel and purchased power	(410)	(446)	(929)	(1,037)
Energy-related businesses cost of sales	(94)	(119)	(265)	(258)
Operation and maintenance	(845)	(792)	(2,515)	(2,275)
Depreciation and amortization	(402)	(366)	(1,174)	(1,115)
Franchise fees and other taxes	(127)	(131)	(369)	(352)
Impairment losses	(43)	(4)	(43)	(1,304)
(Loss) gain on sale of assets	(3)	—	63	—
Other (expense) income, net	(7)	96	103	192
Interest income	22	19	64	66
Interest expense	(279)	(222)	(797)	(656)
Income (loss) from continuing operations before income taxes and equity earnings	448	345	1,235	(245)
Income tax (expense) benefit	(61)	(139)	(150)	221
Equity earnings	266	74	485	49
Income from continuing operations, net of income tax	653	280	1,570	25
Income from discontinued operations, net of income tax	256	54	292	137
Net income	909	334	1,862	162
Earnings attributable to noncontrolling interests	(60)	(24)	(146)	(12)
Mandatory convertible preferred stock dividends	(36)	(36)	(107)	(89)
Preferred dividends of subsidiary	—	—	(1)	(1)
Earnings attributable to common shares	\$ 813	\$ 274	\$ 1,608	\$ 60
Basic earnings (losses) per common share:				
Earnings (losses) from continuing operations attributable to common shares	\$ 2.04	\$ 0.83	\$ 4.86	\$ (0.21)
Earnings from discontinued operations attributable to common shares	\$ 0.89	\$ 0.17	\$ 0.97	\$ 0.44
Earnings attributable to common shares	\$ 2.93	\$ 1.00	\$ 5.83	\$ 0.23
Weighted-average common shares outstanding	277,360	273,944	275,684	265,963
Diluted earnings (losses) per common share:				
Earnings (losses) from continuing operations attributable to common shares	\$ 2.00	\$ 0.82	\$ 4.79	\$ (0.21)
Earnings from discontinued operations attributable to common shares	\$ 0.84	\$ 0.17	\$ 0.95	\$ 0.44
Earnings attributable to common shares	\$ 2.84	\$ 0.99	\$ 5.74	\$ 0.23
Weighted-average common shares outstanding	295,789	275,907	279,809	265,963

See Notes to Condensed Consolidated Financial Statements.

SEMPRA ENERGY
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(Dollars in millions)

	Sempra Energy shareholders' equity					Total
	Pretax amount	Income tax benefit (expense)	Net-of-tax amount	Noncontrolling interests (after-tax)		
	(unaudited)					
Three months ended September 30, 2019 and 2018						
2019:						
Net income	\$ 762	\$ 87	\$ 849	\$ 60	\$	909
Other comprehensive income (loss):						
Foreign currency translation adjustments	(91)	—	(91)	(8)		(99)
Financial instruments	(55)	18	(37)	(4)		(41)
Pension and other postretirement benefits	(3)	1	(2)	—		(2)
Total other comprehensive loss	(149)	19	(130)	(12)		(142)
Comprehensive income	\$ 613	\$ 106	\$ 719	\$ 48	\$	767
2018:						
Net income	\$ 477	\$ (167)	\$ 310	\$ 24	\$	334
Other comprehensive income (loss):						
Foreign currency translation adjustments	(16)	—	(16)	(2)		(18)
Financial instruments	22	(7)	15	4		19
Pension and other postretirement benefits	(14)	4	(10)	—		(10)
Total other comprehensive (loss) income	(8)	(3)	(11)	2		(9)
Comprehensive income	\$ 469	\$ (170)	\$ 299	\$ 26	\$	325
Nine months ended September 30, 2019 and 2018						
2019:						
Net income	\$ 1,898	\$ (182)	\$ 1,716	\$ 146	\$	1,862
Other comprehensive income (loss):						
Foreign currency translation adjustments	(45)	—	(45)	(2)		(47)
Financial instruments	(213)	70	(143)	(16)		(159)
Pension and other postretirement benefits	22	(6)	16	—		16
Total other comprehensive loss	(236)	64	(172)	(18)		(190)
Comprehensive income	1,662	(118)	1,544	128		1,672
Preferred dividends of subsidiary	(1)	—	(1)	—		(1)
Comprehensive income, after preferred dividends of subsidiary	\$ 1,661	\$ (118)	\$ 1,543	\$ 128	\$	1,671
2018:						
Net income	\$ 23	\$ 127	\$ 150	\$ 12	\$	162
Other comprehensive income (loss):						
Foreign currency translation adjustments	(78)	—	(78)	(5)		(83)
Financial instruments	145	(45)	100	20		120
Pension and other postretirement benefits	(8)	3	(5)	—		(5)
Total other comprehensive income	59	(42)	17	15		32
Comprehensive income	82	85	167	27		194
Preferred dividends of subsidiary	(1)	—	(1)	—		(1)
Comprehensive income, after preferred dividends of subsidiary	\$ 81	\$ 85	\$ 166	\$ 27	\$	193

See Notes to Condensed Consolidated Financial Statements.

SEMPRA ENERGY
CONDENSED CONSOLIDATED BALANCE SHEETS
(Dollars in millions)

	September 30, 2019	December 31, 2018 ⁽¹⁾
	(unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 106	\$ 102
Restricted cash	28	35
Accounts receivable – trade, net	976	1,215
Accounts receivable – other, net	455	320
Dividends receivable from discontinued operations	422	—
Due from unconsolidated affiliates	40	37
Income taxes receivable	98	60
Inventories	270	258
Regulatory assets	183	138
Greenhouse gas allowances	59	59
Assets held for sale	—	713
Assets held for sale in discontinued operations	720	459
Other	309	249
Total current assets	3,666	3,645
Other assets:		
Restricted cash	3	21
Due from unconsolidated affiliates	712	644
Regulatory assets	1,942	1,589
Nuclear decommissioning trusts	1,049	974
Investment in Oncor Holdings	11,145	9,652
Other investments	2,076	2,320
Goodwill	1,602	1,602
Other intangible assets	216	224
Dedicated assets in support of certain benefit plans	439	416
Insurance receivable for Aliso Canyon costs	354	461
Deferred income taxes	157	141
Greenhouse gas allowances	483	289
Right-of-use assets – operating leases	595	—
Wildfire fund	381	—
Assets held for sale in discontinued operations	3,395	3,259
Sundry	850	962
Total other assets	25,399	22,554
Property, plant and equipment:		
Property, plant and equipment	48,139	46,615
Less accumulated depreciation and amortization	(12,619)	(12,176)
Property, plant and equipment, net (\$295 at December 31, 2018 related to Otay Mesa VIE)	35,520	34,439
Total assets	\$ 64,585	\$ 60,638

⁽¹⁾ Derived from audited financial statements.
See Notes to Condensed Consolidated Financial Statements.

SEMPRA ENERGY
CONDENSED CONSOLIDATED BALANCE SHEETS (CONTINUED)

(Dollars in millions)

	September 30, 2019	December 31, 2018 ⁽¹⁾
	(unaudited)	
LIABILITIES AND EQUITY		
Current liabilities:		
Short-term debt	\$ 3,588	\$ 2,024
Accounts payable – trade	959	1,160
Accounts payable – other	170	138
Due to unconsolidated affiliates	12	10
Dividends and interest payable	517	480
Accrued compensation and benefits	362	440
Regulatory liabilities	445	105
Current portion of long-term debt and finance leases (\$28 at December 31, 2018 related to Otay Mesa VIE)	1,623	1,644
Reserve for Aliso Canyon costs	45	160
Greenhouse gas obligations	59	59
Liabilities held for sale in discontinued operations	804	368
Other	914	935
Total current liabilities	<u>9,498</u>	<u>7,523</u>
Long-term debt and finance leases (\$190 at December 31, 2018 related to Otay Mesa VIE)	<u>20,995</u>	<u>20,903</u>
Deferred credits and other liabilities:		
Due to unconsolidated affiliates	39	37
Pension and other postretirement benefit plan obligations, net of plan assets	1,120	1,143
Deferred income taxes	2,360	2,321
Deferred investment tax credits	22	24
Regulatory liabilities	3,823	4,016
Asset retirement obligations	2,824	2,786
Greenhouse gas obligations	281	131
Liabilities held for sale in discontinued operations	1,023	1,013
Deferred credits and other	2,049	1,493
Total deferred credits and other liabilities	<u>13,541</u>	<u>12,964</u>
Commitments and contingencies (Note 11)		
Equity:		
Preferred stock (50 million shares authorized):		
6% mandatory convertible preferred stock, series A (17.25 million shares issued and outstanding)	1,693	1,693
6.75% mandatory convertible preferred stock, series B (5.75 million shares issued and outstanding)	565	565
Common stock (750 million shares authorized; 282 million and 274 million shares outstanding at September 30, 2019 and December 31, 2018, respectively; no par value)	6,374	5,540
Retained earnings	10,966	10,104
Accumulated other comprehensive income (loss)	(978)	(764)
Total Sempra Energy shareholders' equity	<u>18,620</u>	<u>17,138</u>
Preferred stock of subsidiary	20	20
Other noncontrolling interests	1,911	2,090
Total equity	<u>20,551</u>	<u>19,248</u>
Total liabilities and equity	<u>\$ 64,585</u>	<u>\$ 60,638</u>

⁽¹⁾ Derived from audited financial statements.

See Notes to Condensed Consolidated Financial Statements.

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

	Nine months ended September 30,	
	2019	2018
	(unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 1,862	\$ 162
Less: Income from discontinued operations, net of income tax	(292)	(137)
Income from continuing operations, net of income tax	1,570	25
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,174	1,115
Deferred income taxes and investment tax credits	12	(328)
Impairment losses	43	1,304
Gain on sale of assets	(63)	—
Equity earnings	(485)	(49)
Share-based compensation expense	56	50
Fixed-price contracts and other derivatives	(12)	(44)
Other	16	36
Intercompany activities with discontinued operations, net	184	72
Net change in other working capital components	(200)	491
Insurance receivable for Aliso Canyon costs	107	(56)
Wildfire fund, current and noncurrent	(323)	—
Changes in other noncurrent assets and liabilities, net	(250)	(177)
Net cash provided by continuing operations	1,829	2,439
Net cash provided by discontinued operations	289	220
Net cash provided by operating activities	2,118	2,659
CASH FLOWS FROM INVESTING ACTIVITIES		
Expenditures for property, plant and equipment	(2,590)	(2,654)
Expenditures for investments and acquisition	(1,449)	(9,921)
Proceeds from sale of assets	899	1
Decrease in cash from deconsolidation of Otay Mesa VIE	(8)	—
Purchases of nuclear decommissioning trust assets	(728)	(703)
Proceeds from sales of nuclear decommissioning trust assets	728	703
Advances to unconsolidated affiliates	(16)	(81)
Repayments of advances to unconsolidated affiliates	12	4
Intercompany activities with discontinued operations, net	(257)	(18)
Other	33	38
Net cash used in continuing operations	(3,376)	(12,631)
Net cash used in discontinued operations	(63)	(161)
Net cash used in investing activities	(3,439)	(12,792)

See Notes to Condensed Consolidated Financial Statements.

SEMPRA ENERGY
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

(Dollars in millions)

	Nine months ended September 30,	
	2019	2018
	(unaudited)	
CASH FLOWS FROM FINANCING ACTIVITIES		
Common dividends paid	(734)	(645)
Preferred dividends paid	(107)	(53)
Issuances of mandatory convertible preferred stock, net	—	2,259
Issuances of common stock, net	757	2,261
Repurchases of common stock	(23)	(20)
Issuances of debt (maturities greater than 90 days)	3,269	8,458
Payments on debt (maturities greater than 90 days) and finance leases	(2,500)	(2,836)
Increase in short-term debt, net	888	715
Proceeds from sale of noncontrolling interests, net	5	90
Purchases of noncontrolling interests	(30)	—
Contributions from (distributions to) noncontrolling interests, net	171	(88)
Intercompany activities with discontinued operations, net	(128)	70
Other	(42)	(112)
Net cash provided by continuing operations	1,526	10,099
Net cash provided by (used in) discontinued operations	49	(34)
Net cash provided by financing activities	1,575	10,065
Effect of exchange rate changes in continuing operations	—	—
Effect of exchange rate changes in discontinued operations	(3)	(8)
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(3)	(8)
Increase (decrease) in cash, cash equivalents and restricted cash, including discontinued operations	251	(76)
Cash, cash equivalents and restricted cash, including discontinued operations, January 1	246	364
Cash, cash equivalents and restricted cash, including discontinued operations, September 30	\$ 497	\$ 288
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest payments, net of amounts capitalized	\$ 766	\$ 555
Income tax payments, net of refunds	289	69
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Acquisition:		
Assets acquired	\$ —	\$ 9,670
Liabilities assumed	—	(104)
Cash paid	\$ —	\$ 9,566
Accrued interest receivable from unconsolidated affiliate	\$ 55	\$ 45
Accrued capital expenditures	390	396
Increase in finance lease obligations for investment in property, plant and equipment	27	7
Preferred dividends declared but not paid	36	36
Common dividends receivable from discontinued operations	422	—
Common dividends issued in stock	41	41
Common dividends declared but not paid	272	244

See Notes to Condensed Consolidated Financial Statements.

SEMPRA ENERGY
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(Dollars in millions)

	Preferred stock	Common stock	Retained earnings	Accumulated other comprehensive income (loss)	Sempra Energy shareholders' equity	Non- controlling interests	Total equity
(unaudited)							
Three months ended September 30, 2019							
Balance at June 30, 2019	\$ 2,258	\$ 5,605	\$ 10,425	\$ (848)	\$ 17,440	\$ 1,994	\$ 19,434
Net income			849		849	60	909
Other comprehensive loss				(130)	(130)	(12)	(142)
Share-based compensation expense		17			17		17
Dividends declared:							
Series A preferred stock (\$1.50/share)			(26)		(26)		(26)
Series B preferred stock (\$1.68/share)			(10)		(10)		(10)
Common stock (\$0.96/share)			(272)		(272)		(272)
Issuances of common stock		751			751		751
Repurchases of common stock		(5)			(5)		(5)
Noncontrolling interest activities:							
Contributions						175	175
Distributions		2			2	(7)	(5)
Purchases						(2)	(2)
Sale		4			4	1	5
Acquisition						3	3
Deconsolidation						(281)	(281)
Balance at September 30, 2019	\$ 2,258	\$ 6,374	\$ 10,966	\$ (978)	\$ 18,620	\$ 1,931	\$ 20,551
Three months ended September 30, 2018							
Balance at June 30, 2018	\$ 1,693	\$ 5,279	\$ 9,455	\$ (601)	\$ 15,826	\$ 2,538	\$ 18,364
Net income			310		310	24	334
Other comprehensive (loss) income				(11)	(11)	2	(9)
Share-based compensation expense		17			17		17
Dividends declared:							
Series A preferred stock (\$1.50/share)			(26)		(26)		(26)
Series B preferred stock (\$1.73/share)			(10)		(10)		(10)
Common stock (\$0.90/share)			(244)		(244)		(244)
Issuance of series B preferred stock	566				566		566
Issuances of common stock		185			185		185
Noncontrolling interest activities:							
Contributions						2	2
Distributions						(86)	(86)
Sales, net of offering costs		4			4	1	5
Acquisition						13	13
Balance at September 30, 2018	\$ 2,259	\$ 5,485	\$ 9,485	\$ (612)	\$ 16,617	\$ 2,494	\$ 19,111

See Notes to Condensed Consolidated Financial Statements.

SEMPRA ENERGY
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (CONTINUED)
(Dollars in millions)

	Preferred stock	Common stock	Retained earnings	Accumulated other comprehensive income (loss)	Sempra Energy shareholders' equity	Non-controlling interests	Total equity
(unaudited)							
Nine months ended September 30, 2019							
Balance at December 31, 2018	\$ 2,258	\$ 5,540	\$ 10,104	\$ (764)	\$ 17,138	\$ 2,110	\$ 19,248
Cumulative-effect adjustments from change in accounting principles			57	(42)	15		15
Net income			1,716		1,716	146	1,862
Other comprehensive loss				(172)	(172)	(18)	(190)
Share-based compensation expense		56			56		56
Dividends declared:							
Series A preferred stock (\$4.50/share)			(78)		(78)		(78)
Series B preferred stock (\$5.06/share)			(29)		(29)		(29)
Common stock (\$2.90/share)			(803)		(803)		(803)
Preferred dividends of subsidiary			(1)		(1)		(1)
Issuances of common stock		798			798		798
Repurchases of common stock		(23)			(23)		(23)
Noncontrolling interest activities:							
Contributions						175	175
Distributions		2			2	(19)	(17)
Purchases		(3)			(3)	(27)	(30)
Sale		4			4	1	5
Acquisition						3	3
Deconsolidations						(440)	(440)
Balance at September 30, 2019	\$ 2,258	\$ 6,374	\$ 10,966	\$ (978)	\$ 18,620	\$ 1,931	\$ 20,551
Nine months ended September 30, 2018							
Balance at December 31, 2017	\$ —	\$ 3,149	\$ 10,147	\$ (626)	\$ 12,670	\$ 2,470	\$ 15,140
Cumulative-effect adjustments from change in accounting principles			2	(3)	(1)		(1)
Net income			150		150	12	162
Other comprehensive income				17	17	15	32
Share-based compensation expense		50			50		50
Dividends declared:							
Series A preferred stock (\$4.60/share)			(79)		(79)		(79)
Series B preferred stock (\$1.73/share)			(10)		(10)		(10)
Common stock (\$2.69/share)			(724)		(724)		(724)
Preferred dividends of subsidiary			(1)		(1)		(1)
Issuance of series A preferred stock	1,693				1,693		1,693
Issuance of series B preferred stock	566				566		566
Issuances of common stock		2,302			2,302		2,302
Repurchases of common stock		(20)			(20)		(20)
Noncontrolling interest activities:							
Contributions						3	3
Distributions						(104)	(104)
Purchases						(1)	(1)
Sales, net of offering costs		4			4	86	90
Acquisition						13	13
Balance at September 30, 2018	\$ 2,259	\$ 5,485	\$ 9,485	\$ (612)	\$ 16,617	\$ 2,494	\$ 19,111

See Notes to Condensed Consolidated Financial Statements.

SAN DIEGO GAS & ELECTRIC COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Dollars in millions)

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
	(unaudited)			
Operating revenues				
Electric	\$ 1,271	\$ 1,192	\$ 3,184	\$ 3,014
Natural gas	156	107	482	391
Total operating revenues	1,427	1,299	3,666	3,405
Operating expenses				
Cost of electric fuel and purchased power	411	448	934	1,045
Cost of natural gas	23	30	136	110
Operation and maintenance	295	262	857	761
Depreciation and amortization	196	174	571	509
Franchise fees and other taxes	79	85	220	217
Total operating expenses	1,004	999	2,718	2,642
Operating income	423	300	948	763
Other income, net	19	24	60	77
Interest income	1	1	3	3
Interest expense	(106)	(56)	(311)	(161)
Income before income taxes	337	269	700	682
Income tax expense	(71)	(53)	(111)	(151)
Net income	266	216	589	531
Earnings attributable to noncontrolling interest	(3)	(11)	(7)	(10)
Earnings attributable to common shares	\$ 263	\$ 205	\$ 582	\$ 521

See Notes to Condensed Consolidated Financial Statements.

SAN DIEGO GAS & ELECTRIC COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(Dollars in millions)

	SDG&E shareholder's equity				Noncontrolling interest (after-tax)	Total
	Pretax amount	Income tax (expense) benefit	Net-of-tax amount			
	(unaudited)					
Three months ended September 30, 2019 and 2018						
2019:						
Net income	\$ 334	\$ (71)	\$ 263	\$ 3	\$ 266	
Other comprehensive income (loss):						
Financial instruments	—	—	—	1	1	
Total other comprehensive income	—	—	—	1	1	
Comprehensive income	\$ 334	\$ (71)	\$ 263	\$ 4	\$ 267	
2018:						
Net income	\$ 258	\$ (53)	\$ 205	\$ 11	\$ 216	
Other comprehensive income (loss):						
Financial instruments	—	—	—	2	2	
Pension and other postretirement benefits	(8)	2	(6)	—	(6)	
Total other comprehensive (loss) income	(8)	2	(6)	2	(4)	
Comprehensive income	\$ 250	\$ (51)	\$ 199	\$ 13	\$ 212	
Nine months ended September 30, 2019 and 2018						
2019:						
Net income	\$ 693	\$ (111)	\$ 582	\$ 7	\$ 589	
Other comprehensive income (loss):						
Financial instruments	—	—	—	2	2	
Pension and other postretirement benefits	1	—	1	—	1	
Total other comprehensive income	1	—	1	2	3	
Comprehensive income	\$ 694	\$ (111)	\$ 583	\$ 9	\$ 592	
2018:						
Net income	\$ 672	\$ (151)	\$ 521	\$ 10	\$ 531	
Other comprehensive income (loss):						
Financial instruments	—	—	—	7	7	
Pension and other postretirement benefits	(8)	2	(6)	—	(6)	
Total other comprehensive (loss) income	(8)	2	(6)	7	1	
Comprehensive income	\$ 664	\$ (149)	\$ 515	\$ 17	\$ 532	

See Notes to Condensed Consolidated Financial Statements.

SAN DIEGO GAS & ELECTRIC COMPANY
CONDENSED CONSOLIDATED BALANCE SHEETS

(Dollars in millions)

	September 30, 2019	December 31, 2018 ⁽¹⁾
	(unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 24	\$ 8
Restricted cash	—	11
Accounts receivable – trade, net	446	368
Accounts receivable – other, net	106	106
Due from unconsolidated affiliates	1	—
Inventories	92	102
Prepaid expenses	160	74
Regulatory assets	171	123
Fixed-price contracts and other derivatives	26	82
Greenhouse gas allowances	15	15
Other	25	5
Total current assets	1,066	894
Other assets:		
Restricted cash	—	18
Regulatory assets	519	454
Nuclear decommissioning trusts	1,049	974
Greenhouse gas allowances	194	155
Right-of-use assets – operating leases	126	—
Wildfire fund	381	—
Sundry	390	420
Total other assets	2,659	2,021
Property, plant and equipment:		
Property, plant and equipment	22,038	21,662
Less accumulated depreciation and amortization	(5,427)	(5,352)
Property, plant and equipment, net (\$295 at December 31, 2018 related to VIE)	16,611	16,310
Total assets	\$ 20,336	\$ 19,225

⁽¹⁾ Derived from audited financial statements.

See Notes to Condensed Consolidated Financial Statements.

SAN DIEGO GAS & ELECTRIC COMPANY
CONDENSED CONSOLIDATED BALANCE SHEETS (CONTINUED)

(Dollars in millions)

	September 30, 2019	December 31, 2018 ⁽¹⁾
	(unaudited)	
LIABILITIES AND EQUITY		
Current liabilities:		
Short-term debt	\$ —	\$ 291
Accounts payable	444	439
Due to unconsolidated affiliates	26	61
Accrued compensation and benefits	103	117
Accrued franchise fees	46	64
Regulatory liabilities	118	53
Current portion of long-term debt and finance leases (\$28 at December 31, 2018 related to VIE)	55	81
Customer deposits	72	70
Greenhouse gas obligations	15	15
Asset retirement obligations	98	96
Other	268	141
Total current liabilities	1,245	1,428
Long-term debt and finance leases (\$190 at December 31, 2018 related to VIE)	6,307	6,138
Deferred credits and other liabilities:		
Pension and other postretirement benefit plan obligations, net of plan assets	213	212
Deferred income taxes	1,715	1,616
Deferred investment tax credits	15	16
Regulatory liabilities	2,400	2,404
Asset retirement obligations	770	778
Greenhouse gas obligations	65	30
Deferred credits and other	686	488
Total deferred credits and other liabilities	5,864	5,544
Commitments and contingencies (Note 11)		
Equity:		
Preferred stock (45 million shares authorized; none issued)	—	—
Common stock (255 million shares authorized; 117 million shares outstanding; no par value)	1,660	1,338
Retained earnings	5,271	4,687
Accumulated other comprehensive income (loss)	(11)	(10)
Total SDG&E shareholder's equity	6,920	6,015
Noncontrolling interest	—	100
Total equity	6,920	6,115
Total liabilities and equity	\$ 20,336	\$ 19,225

⁽¹⁾ Derived from audited financial statements.

See Notes to Condensed Consolidated Financial Statements.

SAN DIEGO GAS & ELECTRIC COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in millions)

	Nine months ended September 30,	
	2019	2018
	(unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 589	\$ 531
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	571	509
Deferred income taxes and investment tax credits	(20)	88
Other	7	(31)
Net change in other working capital components	(60)	150
Wildfire fund, current and noncurrent	(323)	—
Changes in other noncurrent assets and liabilities, net	(10)	(16)
Net cash provided by operating activities	<u>754</u>	<u>1,231</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Expenditures for property, plant and equipment	(1,071)	(1,194)
Decrease in cash from deconsolidation of Otay Mesa VIE	(8)	—
Purchases of nuclear decommissioning trust assets	(728)	(703)
Proceeds from sales of nuclear decommissioning trust assets	728	703
Increase in loans to affiliate, net	(25)	—
Other	7	—
Net cash used in investing activities	<u>(1,097)</u>	<u>(1,194)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Equity contribution from Sempra Energy	322	—
Issuances of debt (maturities greater than 90 days)	400	398
Payments on debt (maturities greater than 90 days) and finance leases	(269)	(204)
Decrease in short-term debt, net	(291)	(205)
Contributions from (distributions to) noncontrolling interest, net	172	(8)
Debt issuance costs	(4)	(3)
Net cash provided by (used in) financing activities	<u>330</u>	<u>(22)</u>
(Decrease) increase in cash, cash equivalents and restricted cash	(13)	15
Cash, cash equivalents and restricted cash, January 1	37	29
Cash, cash equivalents and restricted cash, September 30	<u>\$ 24</u>	<u>\$ 44</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest payments, net of amounts capitalized	\$ 285	\$ 139
Income tax payments, net of refunds	131	79
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Accrued capital expenditures	\$ 117	\$ 113
Increase in finance lease obligations for investment in property, plant and equipment	12	—
Common dividends declared but not paid	—	250

See Notes to Condensed Consolidated Financial Statements.

SAN DIEGO GAS & ELECTRIC COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(Dollars in millions)

	Common stock	Retained earnings	Accumulated other comprehensive income (loss)	SDG&E shareholder's equity	Noncontrolling interest	Total equity
(unaudited)						
Three months ended September 30, 2019						
Balance at June 30, 2019	\$ 1,338	\$ 5,008	\$ (11)	\$ 6,335	\$ 103	\$ 6,438
Net income		263		263	3	266
Other comprehensive income					1	1
Equity contribution	322			322		322
Noncontrolling interest activities:						
Contributions					175	175
Distributions					(1)	(1)
Decrease from deconsolidation					(281)	(281)
Balance at September 30, 2019	\$ 1,660	\$ 5,271	\$ (11)	\$ 6,920	\$ —	\$ 6,920
Three months ended September 30, 2018						
Balance at June 30, 2018	\$ 1,338	\$ 4,584	\$ (8)	\$ 5,914	\$ 29	\$ 5,943
Net income		205		205	11	216
Other comprehensive (loss) income			(6)	(6)	2	(4)
Common stock dividends declared (\$2.14/share)		(250)		(250)		(250)
Noncontrolling interest activities:						
Contributions					1	1
Distributions					(6)	(6)
Balance at September 30, 2018	\$ 1,338	\$ 4,539	\$ (14)	\$ 5,863	\$ 37	\$ 5,900
Nine months ended September 30, 2019						
Balance at December 31, 2018	\$ 1,338	\$ 4,687	\$ (10)	\$ 6,015	\$ 100	\$ 6,115
Cumulative-effect adjustment from change in accounting principle		2	(2)	—		—
Net income		582		582	7	589
Other comprehensive income			1	1	2	3
Equity contribution	322			322		322
Noncontrolling interest activities:						
Contributions					175	175
Distributions					(3)	(3)
Decrease from deconsolidation					(281)	(281)
Balance at September 30, 2019	\$ 1,660	\$ 5,271	\$ (11)	\$ 6,920	\$ —	\$ 6,920
Nine months ended September 30, 2018						
Balance at December 31, 2017	\$ 1,338	\$ 4,268	\$ (8)	\$ 5,598	\$ 28	\$ 5,626
Net income		521		521	10	531
Other comprehensive (loss) income			(6)	(6)	7	1
Common stock dividends declared (\$2.14/share)		(250)		(250)		(250)
Noncontrolling interest activities:						
Contributions					2	2
Distributions					(10)	(10)
Balance at September 30, 2018	\$ 1,338	\$ 4,539	\$ (14)	\$ 5,863	\$ 37	\$ 5,900

See Notes to Condensed Consolidated Financial Statements.

SOUTHERN CALIFORNIA GAS COMPANY
CONDENSED STATEMENTS OF OPERATIONS

(Dollars in millions)

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
	(unaudited)			
Operating revenues	\$ 975	\$ 802	\$ 3,142	\$ 2,700
Operating expenses				
Cost of natural gas	101	224	660	663
Operation and maintenance	427	394	1,291	1,160
Depreciation and amortization	154	141	449	414
Franchise fees and other taxes	43	38	132	111
Impairment losses	37	—	37	—
Total operating expenses	762	797	2,569	2,348
Operating income	213	5	573	352
Other income, net	1	3	18	49
Interest income	—	—	1	1
Interest expense	(36)	(29)	(104)	(82)
Income (loss) before income taxes	178	(21)	488	320
Income tax (expense) benefit	(35)	7	(50)	(75)
Net income (loss)	143	(14)	438	245
Preferred dividends	—	—	(1)	(1)
Earnings (losses) attributable to common shares	\$ 143	\$ (14)	\$ 437	\$ 244

See Notes to Condensed Financial Statements.

SOUTHERN CALIFORNIA GAS COMPANY
CONDENSED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(Dollars in millions)

	Pretax amount	Income tax (expense) benefit	Net-of-tax amount
	(unaudited)		
	Three months ended September 30, 2019 and 2018		
2019:			
Net income	\$ 178	\$ (35)	\$ 143
Other comprehensive income (loss):			
Financial instruments	1	—	1
Total other comprehensive income	1	—	1
Comprehensive income	\$ 179	\$ (35)	\$ 144
2018:			
Net loss/Comprehensive loss	\$ (21)	\$ 7	\$ (14)
	Nine months ended September 30, 2019 and 2018		
2019:			
Net income	\$ 488	\$ (50)	\$ 438
Other comprehensive income (loss):			
Financial instruments	1	—	1
Pension and other postretirement benefits	6	(2)	4
Total other comprehensive income	7	(2)	5
Comprehensive income	\$ 495	\$ (52)	\$ 443
2018:			
Net income	\$ 320	\$ (75)	\$ 245
Other comprehensive income (loss):			
Pension and other postretirement benefits	1	—	1
Total other comprehensive income	1	—	1
Comprehensive income	\$ 321	\$ (75)	\$ 246

See Notes to Condensed Financial Statements.

SOUTHERN CALIFORNIA GAS COMPANY
CONDENSED BALANCE SHEETS

(Dollars in millions)

	September 30, 2019	December 31, 2018 ⁽¹⁾
	(unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 5	\$ 18
Accounts receivable – trade, net	356	634
Accounts receivable – other, net	67	97
Due from unconsolidated affiliates	—	7
Inventories	134	134
Regulatory assets	7	12
Greenhouse gas allowances	37	37
Other	39	31
Total current assets	<u>645</u>	<u>970</u>
Other assets:		
Regulatory assets	1,341	1,051
Insurance receivable for Aliso Canyon costs	354	461
Greenhouse gas allowances	261	116
Right-of-use assets – operating leases	99	—
Sundry	360	352
Total other assets	<u>2,415</u>	<u>1,980</u>
Property, plant and equipment:		
Property, plant and equipment	18,904	18,138
Less accumulated depreciation and amortization	<u>(5,941)</u>	<u>(5,699)</u>
Property, plant and equipment, net	<u>12,963</u>	<u>12,439</u>
Total assets	<u>\$ 16,023</u>	<u>\$ 15,389</u>

⁽¹⁾ Derived from audited financial statements.
See Notes to Condensed Financial Statements.

SOUTHERN CALIFORNIA GAS COMPANY
CONDENSED BALANCE SHEETS (CONTINUED)

(Dollars in millions)

	September 30, 2019	December 31, 2018 ⁽¹⁾
	(unaudited)	
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Short-term debt	\$ 108	\$ 256
Accounts payable – trade	320	556
Accounts payable – other	111	93
Due to unconsolidated affiliates	187	34
Accrued compensation and benefits	146	159
Regulatory liabilities	327	52
Current portion of long-term debt and finance leases	5	3
Customer deposits	70	101
Reserve for Aliso Canyon costs	45	160
Greenhouse gas obligations	37	37
Asset retirement obligations	89	90
Other	223	217
Total current liabilities	<u>1,668</u>	<u>1,758</u>
Long-term debt and finance leases	<u>3,784</u>	<u>3,427</u>
Deferred credits and other liabilities:		
Pension obligation, net of plan assets	747	760
Deferred income taxes	1,225	1,177
Deferred investment tax credits	7	8
Regulatory liabilities	1,423	1,612
Asset retirement obligations	2,015	1,973
Greenhouse gas obligations	184	86
Deferred credits and other	422	330
Total deferred credits and other liabilities	<u>6,023</u>	<u>5,946</u>
Commitments and contingencies (Note 11)		
Shareholders' equity:		
Preferred stock (11 million shares authorized; 1 million shares outstanding)	22	22
Common stock (100 million shares authorized; 91 million shares outstanding; no par value)	866	866
Retained earnings	3,679	3,390
Accumulated other comprehensive income (loss)	(19)	(20)
Total shareholders' equity	<u>4,548</u>	<u>4,258</u>
Total liabilities and shareholders' equity	<u>\$ 16,023</u>	<u>\$ 15,389</u>

⁽¹⁾ Derived from audited financial statements.
See Notes to Condensed Financial Statements.

SOUTHERN CALIFORNIA GAS COMPANY
CONDENSED STATEMENTS OF CASH FLOWS

(Dollars in millions)

	Nine months ended September 30,	
	2019	2018
	(unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 438	\$ 245
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	449	414
Deferred income taxes and investment tax credits	(79)	70
Impairment losses	37	—
Other	(5)	(4)
Net change in other working capital components	194	391
Insurance receivable for Aliso Canyon costs	107	(56)
Changes in other noncurrent assets and liabilities, net	(328)	(178)
Net cash provided by operating activities	<u>813</u>	<u>882</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Expenditures for property, plant and equipment	(1,019)	(1,127)
Increase in loans to affiliate, net	—	(88)
Other	1	6
Net cash used in investing activities	<u>(1,018)</u>	<u>(1,209)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Preferred dividends paid	(1)	(1)
Issuances of debt (maturities greater than 90 days)	349	949
Payments on debt (maturities greater than 90 days) and finance leases	(4)	(500)
Decrease in short-term debt, net	(148)	(116)
Debt issuance costs	(4)	(9)
Net cash provided by financing activities	<u>192</u>	<u>323</u>
Decrease in cash and cash equivalents	(13)	(4)
Cash and cash equivalents, January 1	18	8
Cash and cash equivalents, September 30	<u>\$ 5</u>	<u>\$ 4</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest payments, net of amounts capitalized	\$ 92	\$ 71
Income tax payments (refunds), net	115	(1)
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Accrued capital expenditures	\$ 167	\$ 178
Increase in finance lease obligations for investment in property, plant and equipment	15	7
Common dividends declared but not paid	150	50

See Notes to Condensed Financial Statements.

SOUTHERN CALIFORNIA GAS COMPANY
CONDENSED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(Dollars in millions)

	Preferred stock	Common stock	Retained earnings	Accumulated other comprehensive income (loss)	Total shareholders' equity
	(unaudited)				
	Three months ended September 30, 2019				
Balance at June 30, 2019	\$ 22	\$ 866	\$ 3,686	\$ (20)	\$ 4,554
Net income			143		143
Other comprehensive income				1	1
Dividends declared:					
Preferred stock (\$0.38/share)			—		—
Common stock (\$1.64/share)			(150)		(150)
Balance at September 30, 2019	\$ 22	\$ 866	\$ 3,679	\$ (19)	\$ 4,548
	Three months ended September 30, 2018				
Balance at June 30, 2018	\$ 22	\$ 866	\$ 3,298	\$ (20)	\$ 4,166
Net loss			(14)		(14)
Dividends declared:					
Preferred stock (\$0.38/share)			—		—
Common stock (\$0.55/share)			(50)		(50)
Balance at September 30, 2018	\$ 22	\$ 866	\$ 3,234	\$ (20)	\$ 4,102
	Nine months ended September 30, 2019				
Balance at December 31, 2018	\$ 22	\$ 866	\$ 3,390	\$ (20)	\$ 4,258
Cumulative-effect adjustment from change in accounting principle			2	(4)	(2)
Net income			438		438
Other comprehensive income				5	5
Dividends declared:					
Preferred stock (\$1.13/share)			(1)		(1)
Common stock (\$1.64/share)			(150)		(150)
Balance at September 30, 2019	\$ 22	\$ 866	\$ 3,679	\$ (19)	\$ 4,548
	Nine months ended September 30, 2018				
Balance at December 31, 2017	\$ 22	\$ 866	\$ 3,040	\$ (21)	\$ 3,907
Net income			245		245
Other comprehensive income				1	1
Dividends declared:					
Preferred stock (\$1.13/share)			(1)		(1)
Common stock (\$0.55/share)			(50)		(50)
Balance at September 30, 2018	\$ 22	\$ 866	\$ 3,234	\$ (20)	\$ 4,102

See Notes to Condensed Financial Statements.

SEMPRA ENERGY AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. GENERAL INFORMATION AND OTHER FINANCIAL DATA

PRINCIPLES OF CONSOLIDATION

Sempra Energy

Sempra Energy's Condensed Consolidated Financial Statements include the accounts of Sempra Energy, a California-based energy-services holding company, and its consolidated subsidiaries and VIEs. Sempra Global is the holding company for most of our subsidiaries that are not subject to California or Texas utility regulation. Sempra Energy's businesses were managed within six separate reportable segments until April 2019 and five separate reportable segments thereafter, which we discuss in Note 12. In the first quarter of 2019, our Sempra LNG & Midstream segment was renamed "Sempra LNG." This segment name change had no impact on our historical position, results of operations, cash flow or segment level results previously reported. All references in these Notes to our reportable segments are not intended to refer to any legal entity with the same or similar name.

SDG&E

SDG&E's Condensed Consolidated Financial Statements include its accounts and the accounts of a VIE of which SDG&E was the primary beneficiary until August 23, 2019, at which time SDG&E deconsolidated the VIE, as we discuss below in "Variable Interest Entities." SDG&E's common stock is wholly owned by Enova Corporation, which is a wholly owned subsidiary of Sempra Energy.

SoCalGas

SoCalGas' common stock is wholly owned by Pacific Enterprises, which is a wholly owned subsidiary of Sempra Energy.

In this report, we refer to SDG&E and SoCalGas collectively as the California Utilities.

BASIS OF PRESENTATION

This is a combined report of Sempra Energy, SDG&E and SoCalGas. We provide separate information for SDG&E and SoCalGas as required. References in this report to "we," "our" and "Sempra Energy Consolidated" are to Sempra Energy and its consolidated entities, unless otherwise indicated by the context. We have eliminated intercompany accounts and transactions within the consolidated financial statements of each reporting entity.

Throughout this report, we refer to the following as Condensed Consolidated Financial Statements and Notes to Condensed Consolidated Financial Statements when discussed together or collectively:

- the Condensed Consolidated Financial Statements and related Notes of Sempra Energy and its subsidiaries and VIEs;
- the Condensed Consolidated Financial Statements and related Notes of SDG&E and its VIE (until deconsolidation of the VIE on August 23, 2019); and
- the Condensed Financial Statements and related Notes of SoCalGas.

We have prepared the Condensed Consolidated Financial Statements in conformity with U.S. GAAP and 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. We evaluated events and transactions that occurred after September 30, 2019 through the date the financial statements were issued and, in the opinion of management, the accompanying statements reflect all adjustments necessary for a fair presentation. These adjustments are only of a normal, recurring nature.

All December 31, 2018 balance sheet information in the Condensed Consolidated Financial Statements has been derived from our audited 2018 Consolidated Financial Statements in the Annual Report, which for Sempra Energy has been retrospectively adjusted for discontinued operations, as we discuss below. Certain information and note disclosures normally included in annual financial statements prepared in accordance with U.S. GAAP have been condensed or omitted pursuant to the interim-period-reporting provisions of U.S. GAAP and the SEC.

We describe our significant accounting policies in Note 1 of the Notes to Consolidated Financial Statements in the Annual Report and the impact of the adoption of new accounting standards on those policies in Note 2 below. We follow the same accounting policies for interim reporting purposes.

You should read the information in this Quarterly Report in conjunction with the Annual Report.

Discontinued Operations

On January 25, 2019, our board of directors approved a plan to sell our South American businesses based on our strategic focus on North America. We determined that these businesses, which previously constituted the Sempra South American Utilities segment, and certain activities associated with these businesses, met the held-for-sale criteria. These businesses are presented as discontinued operations, as the planned sales represent a strategic shift that will have a major effect on our operations and financial results. Throughout this report, the financial information for all periods presented has been adjusted to reflect the presentation of these businesses as discontinued operations, which we discuss further in Note 5. Our discussions in the Notes below relate only to our continuing operations unless otherwise noted.

Regulated Operations

The California Utilities and Sempra Mexico's natural gas distribution utility, Ecogas, prepare their financial statements in accordance with the provisions of U.S. GAAP governing rate-regulated operations. We discuss the effects of regulation and revenue recognition at our utilities in Notes 1 and 3 of the Notes to Consolidated Financial Statements in the Annual Report.

Our Sempra Texas Utilities segment is comprised of our equity method investments in holding companies that own interests in regulated electric transmission and distribution utilities in Texas and prepare their financial statements in accordance with the provisions of U.S. GAAP governing rate-regulated operations.

Our Sempra Mexico segment includes the operating companies of our subsidiary, IEnova. Certain business activities at IEnova are regulated by the Comisión Reguladora de Energía (Energy Regulatory Commission of Mexico) and meet the regulatory accounting requirements of U.S. GAAP. Pipeline projects under construction at IEnova that meet the regulatory accounting requirements of U.S. GAAP record the impact of AFUDC related to equity. We discuss AFUDC below and in Note 1 of the Notes to Consolidated Financial Statements in the Annual Report.

CASH, CASH EQUIVALENTS AND RESTRICTED CASH

The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported on the Condensed Consolidated Balance Sheets to the sum of such amounts reported on the Condensed Consolidated Statements of Cash Flows. We provide information about the nature of restricted cash in Note 1 of the Notes to Consolidated Financial Statements in the Annual Report.

RECONCILIATION OF CASH, CASH EQUIVALENTS AND RESTRICTED CASH

(Dollars in millions)

	September 30, 2019	December 31, 2018
Sempra Energy Consolidated:		
Cash and cash equivalents	\$ 106	\$ 102
Restricted cash, current	28	35
Restricted cash, noncurrent	3	21
Cash, cash equivalents and restricted cash in discontinued operations	360	88
Total cash, cash equivalents and restricted cash on the Condensed Consolidated Statements of Cash Flows	<u>\$ 497</u>	<u>\$ 246</u>
SDG&E:		
Cash and cash equivalents	\$ 24	\$ 8
Restricted cash, current	—	11
Restricted cash, noncurrent	—	18
Total cash, cash equivalents and restricted cash on the Condensed Consolidated Statements of Cash Flows	<u>\$ 24</u>	<u>\$ 37</u>

INVENTORIES

The following table presents the components of inventories by segment.

INVENTORY BALANCES									
<i>(Dollars in millions)</i>									
	Natural gas		LNG		Materials and supplies		Total		
	September 30, 2019	December 31, 2018	September 30, 2019	December 31, 2018	September 30, 2019	December 31, 2018	September 30, 2019	December 31, 2018	
SDG&E	\$ 1	\$ —	\$ —	\$ —	\$ 91	\$ 102	\$ 92	\$ 102	
SoCalGas	87	92	—	—	47	42	134	134	
Sempra Mexico	—	—	6	4	16	15	22	19	
Sempra LNG	22	3	—	—	—	—	22	3	
Sempra Energy Consolidated	\$ 110	\$ 95	\$ 6	\$ 4	\$ 154	\$ 159	\$ 270	\$ 258	

WILDFIRE FUND

On July 12, 2019, AB 1054 and AB 111 (together, the Wildfire Legislation) were signed into law. The Wildfire Legislation addresses certain issues related to catastrophic wildfires in the State of California and their impact on electric IOUs. Investor-owned gas distribution utilities such as SoCalGas are not covered by this legislation. The issues addressed include wildfire mitigation, cost recovery standards and requirements, a wildfire fund, a cap on liability, and the establishment of a wildfire safety board.

The Wildfire Legislation requires SDG&E to install at least \$215 million of fire risk mitigation capital improvements, which will be the first \$215 million of capital included in its wildfire mitigation plan, and recover its securitized financing costs without a ROE.

The Wildfire Legislation establishes a revised legal standard for the recovery of wildfire costs (Revised Prudent Manager Standard) and establishes a fund (the Wildfire Fund) to provide liquidity to SDG&E, PG&E and Edison (each a California electric IOU) to pay IOU wildfire-related claims in the event that the governmental agency responsible for determining causation determines the applicable IOU's equipment caused the ignition of a wildfire, the primary insurance coverage is exceeded and certain other conditions are satisfied. The primary purpose of the Wildfire Fund is to pool resources provided by shareholders and ratepayers of the IOUs and make those resources available to reimburse the IOUs for third-party wildfire claims incurred after July 12, 2019, the effective date of the Wildfire Legislation, subject to certain limitations.

An IOU may seek payment from the Wildfire Fund for settled or adjudicated third-party damage claims arising from certain wildfires that exceed, in aggregate in a calendar year, the greater of \$1 billion or the IOU's required amount of insurance coverage as recommended by the Wildfire Fund's administrator. Wildfire claims approved by the Wildfire Fund's administrator will be paid by the Wildfire Fund to the IOU to the extent funds are available. These utilized funds will be subject to review by the CPUC, which will make a determination as to the degree an IOU's conduct related to an ignition of a wildfire was prudent or imprudent. The Revised Prudent Manager Standard requires that the CPUC apply clear standards when reviewing wildfire liability losses paid when determining the reasonableness of an IOU's conduct related to an ignition. Under this standard, the conduct under review related to the ignition may include factors within and beyond the IOU's control, including humidity, temperature and winds. Costs and expenses may be allocated for cost recovery in full or in part. Also, under this standard, an IOU's conduct will be deemed reasonable if a valid annual safety certification is in place at the time of the ignition, unless a serious doubt is raised, in which case the burden shifts to the utility to dispel that doubt. The IOUs will receive an annual safety certification from the CPUC if they meet various requirements.

If an IOU has maintained a valid annual safety certification, to the extent it is found to be imprudent, claims will be reimbursable by the IOU to the Wildfire Fund up to a cap based on the IOU's rate base. The aggregate requirement to reimburse the Wildfire Fund over a trailing three calendar year period is capped at 20 percent of the equity portion of an IOU's electric transmission and distribution rate base in the year of the prudency determination. SDG&E received its annual safety certification from the CPUC on July 26, 2019, which is valid for 12 months. Based on 2018 rate base, the initial liability cap for SDG&E is approximately \$825 million, which will be adjusted annually. The liability cap will apply on a rolling three-year basis so long as future annual safety certifications are received and the Wildfire Fund has not been terminated, which could occur if funds are exhausted. Amounts in excess of the liability cap and amounts that are determined to be prudently incurred do not need to be reimbursed by an IOU to the Wildfire Fund. The Wildfire Fund does not have a specified term and coverage will continue until the assets of the Wildfire Fund are exhausted and the Wildfire Fund is terminated, in which case, the remaining funds will be transferred to California's general fund to be used for fire risk mitigation programs.

The Wildfire Fund could initially be funded up to \$10.5 billion by a loan from the State of California Surplus Money Investment Fund, \$2 billion of which was loaned to the Wildfire Fund in August 2019. Such lending will subsequently be financed through an anticipated DWR bond, securitized through a dedicated surcharge on ratepayers' bills attributable to the DWR. In October 2019, the CPUC adopted a decision authorizing a non-bypassable charge to be collected by the IOUs to support the anticipated DWR bond issuance authorized by AB 1054. The CPUC decision also determined that ratepayers of non-participating electrical corporations shall not pay the non-bypassable charge. PG&E has agreed to participate in the Wildfire Fund, subject to bankruptcy court approval. Accordingly, if PG&E is unable to participate in the Wildfire Fund, its customers will not pay the non-bypassable charge, resulting in significantly lower Wildfire Fund contributions from ratepayers than the anticipated \$10.5 billion.

The Wildfire Fund could also be funded by up to \$7.5 billion in initial shareholder contributions from the IOUs (SDG&E's share is \$322.5 million, PG&E's share is \$4.8 billion and Edison's share is \$2.4 billion). The IOUs could also be required to make annual shareholder contributions to the Wildfire Fund with an aggregate value of \$3 billion over a 10-year period (SDG&E's share is \$129 million, PG&E's share is \$1.9 billion and Edison's share is \$945 million). If PG&E is unable to participate in the Wildfire Fund, SDG&E's and Edison's aggregate shareholder contributions to the Wildfire Fund will not change and are expected to total approximately \$3.8 billion. When estimating the period of benefit of the Wildfire Fund asset that we discuss below, we assume PG&E will participate in the Wildfire Fund. The contributions are not subject to rate recovery.

SDG&E paid its initial shareholder contribution of \$322.5 million to the Wildfire Fund in September 2019. SDG&E funded this contribution with proceeds from an equity contribution from Sempra Energy. Sempra Energy funded the equity contribution to SDG&E with proceeds from settling forward sale agreements through physical delivery of shares of Sempra Energy common stock in exchange for cash, which we discuss in "Shareholders' Equity and Noncontrolling Interests – Sempra Energy Common Stock Offerings" in Note 1. Edison paid its initial shareholder contribution in September 2019.

In a complaint filed in U.S. District Court for the Northern District of California in July 2019, plaintiffs seek to invalidate AB 1054 based on allegations that the legislation violates federal law. The California Attorney General has moved to dismiss the complaint.

Wildfire Fund Asset

SDG&E recorded a Wildfire Fund asset for its commitment to make shareholder contributions totaling \$451.5 million, measured at present value as of July 25, 2019 (the date by which both Edison and SDG&E opted to contribute to the Wildfire Fund). SDG&E is amortizing the Wildfire Fund asset to O&M on a straight-line basis over a 10-year estimated period of benefit, as adjusted for utilization by the IOUs. The estimated period of benefit of the Wildfire Fund asset is based on several assumptions, including, but not limited to:

- historical wildfire experience of each IOU in the State of California, including frequency and severity of the wildfires;
- the value of property potentially damaged by wildfires;
- the effectiveness of wildfire risk mitigation efforts by each IOU;
- liability cap of each IOU;
- IOU prudency determination levels;
- FERC jurisdictional allocation levels; and
- insurance coverage levels.

The use of different assumptions, or changes to the assumptions used, could have a significant impact on the estimated period of benefit of the Wildfire Fund asset.

We will periodically reevaluate the estimated period of benefit of the Wildfire Fund asset based on actual experience and changes in the above assumptions. SDG&E may recognize a reduction of its Wildfire Fund asset and record a charge against earnings in the period when there is a reduction of the available coverage due to recoverable claims from the IOUs. The reduction to the Wildfire Fund asset may be proportionate to the Wildfire Fund's consumption (i.e., recoveries for outstanding wildfire claims that are recoverable from the Wildfire Fund, net of anticipated or actual reimbursement to the Wildfire Fund by the responsible IOU, would decrease the Wildfire Fund asset and remaining available coverage). In the three months ended September 30, 2019, there were no such known claims from the IOUs requiring an incremental reduction of the Wildfire Fund asset.

At September 30, 2019, the current portion of the Wildfire Fund asset was \$43 million in Other Current Assets on Sempra Energy's Condensed Consolidated Balance Sheet and in Prepaid Expenses on SDG&E's Condensed Consolidated Balance Sheet, and the noncurrent portion of \$381 million was in Wildfire Fund on Sempra Energy's and SDG&E's Condensed Consolidated Balance Sheets.

Wildfire Fund Obligation

SDG&E recorded a Wildfire Fund obligation for its commitment to make shareholder contributions totaling \$451.5 million, measured at present value as of July 25, 2019 (the date by which both Edison and SDG&E opted to contribute to the Wildfire Fund). SDG&E paid its initial shareholder contribution of \$322.5 million to the Wildfire Fund in September 2019. At September 30, 2019, SDG&E expects to make annual shareholder contributions of \$12.9 million in each of the next 10 years by January 1 of each year, beginning July 25, 2019. SDG&E accretes the present value of the Wildfire Fund obligation to O&M until the liability is settled.

At September 30, 2019, the Wildfire Fund obligation was \$12.9 million in Other Current Liabilities and \$97 million in Deferred Credits and Other on Sempra Energy's and SDG&E's Condensed Consolidated Balance Sheets.

CAPITALIZED FINANCING COSTS

Capitalized financing costs include capitalized interest costs and AFUDC related to both debt and equity financing of construction projects. We capitalize interest costs incurred to finance capital projects and interest on equity method investments that have not commenced planned principal operations.

The table below summarizes capitalized interest and AFUDC.

CAPITALIZED FINANCING COSTS				
<i>(Dollars in millions)</i>				
	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Sempra Energy Consolidated	\$ 46	\$ 47	\$ 144	\$ 150
SDG&E	19	20	56	67
SoCalGas	13	10	35	39

VARIABLE INTEREST ENTITIES

We consolidate a VIE if we are the primary beneficiary of the VIE. Our determination of whether we are the primary beneficiary is based on qualitative and quantitative analyses, which assess:

- the purpose and design of the VIE;
- the nature of the VIE's risks and the risks we absorb;
- the power to direct activities that most significantly impact the economic performance of the VIE; and
- the obligation to absorb losses or the right to receive benefits that could be significant to the VIE.

We will continue to evaluate our VIEs for any changes that may impact our determination of the primary beneficiary.

SDG&E

SDG&E's power procurement is subject to reliability requirements that may require SDG&E to enter into various PPAs that include variable interests. SDG&E evaluates the respective entities to determine if variable interests exist and, based on the qualitative and quantitative analyses described above, if SDG&E, and thereby Sempra Energy, is the primary beneficiary.

Tolling Agreements

SDG&E has agreements under which it purchases power generated by facilities for which it supplies all of the natural gas to fuel the power plant (i.e., tolling agreements). SDG&E's obligation to absorb natural gas costs may be a significant variable interest. In addition, SDG&E has the power to direct the dispatch of electricity generated by these facilities. Based on our analysis, the ability to direct the dispatch of electricity may have the most significant impact on the economic performance of the entity owning the generating facility because of the associated exposure to the cost of natural gas, which fuels the plants, and the value of electricity produced. To the extent that SDG&E (1) is obligated to purchase and provide fuel to operate the facility, (2) has the power to direct the dispatch, and (3) purchases all of the output from the facility for a substantial portion of the facility's useful life, SDG&E may be the primary beneficiary of the entity owning the generating facility. SDG&E determines if it is the primary beneficiary in these cases based on a qualitative approach in which we consider the operational characteristics of the facility, including its expected power generation output relative to its capacity to generate and the financial structure of the entity, among other factors. If we determine that SDG&E is the primary beneficiary, SDG&E and Sempra Energy consolidate the entity that owns the facility as a VIE.

Otay Mesa VIE

Through October 3, 2019, SDG&E had a tolling agreement to purchase power generated at OMEC, a 605-MW generating facility owned by OMEC LLC, which is a VIE that we refer to as Otay Mesa VIE. Under the terms of a related agreement, OMEC LLC could have required SDG&E to purchase the power plant (referred to as the put option) on or before October 3, 2019 for \$280 million, subject to adjustments, or upon earlier termination of the PPA. SDG&E determined that it was the primary beneficiary of Otay Mesa VIE, and therefore, SDG&E and Sempra Energy consolidated Otay Mesa VIE.

In October 2018, SDG&E and OMEC LLC signed a resource adequacy capacity agreement for a term that would commence at the expiration of the current tolling agreement in October 2019 and end in August 2024. The capacity agreement was approved by OMEC LLC's lenders and the CPUC in December 2018 and February 2019, respectively. However, given certain then pending requests for rehearing of the CPUC's decision approving the capacity agreement, on March 28, 2019, OMEC LLC exercised the put option requiring SDG&E to purchase the power plant. On August 6, 2019, the CPUC denied the rehearing requests, and on August 23, 2019, SDG&E and OMEC LLC executed an amended resource adequacy capacity agreement that irrevocably rescinded exercise of the put option. Consequently, SDG&E and Sempra Energy deconsolidated Otay Mesa VIE on August 23, 2019. No gain or loss was recognized upon deconsolidation.

Prior to deconsolidation, on August 14, 2019, OMEC LLC paid in full its variable-rate loan that was scheduled to mature in August 2024, which we describe in Note 7.

The following table summarizes the deconsolidation:

DECONSOLIDATION OF OTAY MESA VIE	
<i>(Dollars in millions)</i>	
	August 23, 2019
Cash and cash equivalents	\$ 8
Accounts receivable, net	11
Inventories	4
Total current assets	23
Property, plant and equipment, net	272
Other noncurrent assets	27
Total assets	\$ 322
Accounts payable	\$ 10
Other	2
Total current liabilities	12
Asset retirement obligations	2
Deferred credits and other	27
Total deferred credits and other liabilities	29
Noncontrolling interest	281
Total liabilities and equity	\$ 322

Otay Mesa VIE's equity of \$100 million at December 31, 2018 is included on the Condensed Consolidated Balance Sheets in Other Noncontrolling Interests for Sempra Energy and in Noncontrolling Interest for SDG&E.

The Condensed Consolidated Statements of Operations of Sempra Energy and SDG&E include the following amounts associated with Otay Mesa VIE until its deconsolidation on August 23, 2019. The amounts are net of eliminations of transactions between SDG&E and Otay Mesa VIE. The captions in the table below correspond to SDG&E's Condensed Consolidated Statements of Operations.

AMOUNTS ASSOCIATED WITH OTAY MESA VIE

(Dollars in millions)

	Three months ended September 30,		Nine months ended September 30,	
	2019 ⁽¹⁾	2018	2019 ⁽¹⁾	2018
Operating expenses				
Cost of electric fuel and purchased power	\$ (17)	\$ (28)	\$ (52)	\$ (60)
Operation and maintenance	2	3	10	11
Depreciation and amortization	8	8	23	23
Total operating expenses	(7)	(17)	(19)	(26)
Operating income	7	17	19	26
Interest expense	(4)	(6)	(12)	(16)
Income before income taxes/Net income	3	11	7	10
Earnings attributable to noncontrolling interest	(3)	(11)	(7)	(10)
Earnings attributable to common shares	\$ —	\$ —	\$ —	\$ —

⁽¹⁾ Amounts for 2019 include activity until deconsolidation on August 23, 2019.

SDG&E determined that none of its contracts resulted in SDG&E being the primary beneficiary of a VIE at September 30, 2019. In addition to the tolling agreements described above, other variable interests involve various elements of fuel and power costs and other components of cash flows expected to be paid to or received by our counterparties. In most of these cases, the expectation of variability is not substantial, and SDG&E generally does not have the power to direct activities that most significantly impact the economic performance of the other VIEs. If our ongoing evaluation of these VIEs were to conclude that SDG&E becomes the primary beneficiary and consolidation by SDG&E becomes necessary, the effects could be significant to the financial position and liquidity of SDG&E and Sempra Energy. We provide additional information about PPAs with power plant facilities that are VIEs of which SDG&E is not the primary beneficiary in Note 16 of the Notes to Consolidated Financial Statements in the Annual Report.

We provide additional information regarding Otay Mesa VIE in Note 11 below and in Note 1 of the Notes to Consolidated Financial Statements in the Annual Report.

Sempra Texas Utilities

On March 9, 2018, we completed the acquisition of an indirect, 100-percent interest in Oncor Holdings, a VIE that owns an 80.25-percent interest in Oncor. Sempra Energy is not the primary beneficiary of the VIE because of the structural and operational ring-fencing and governance measures in place that prevent us from having the power to direct the significant activities of Oncor Holdings. As a result, we do not consolidate Oncor Holdings and instead account for our ownership interest as an equity method investment. See Note 6 for additional information about our equity method investment in Oncor Holdings and restrictions on our ability to influence its activities. Our maximum exposure to loss, which fluctuates over time, from our interest in Oncor Holdings does not exceed the carrying value of our investment, which was \$11,145 million at September 30, 2019 and \$9,652 million at December 31, 2018.

Sempra Renewables

Certain of Sempra Renewables' wind and solar power generation projects were held by limited liability companies whose members were Sempra Renewables and financial institutions. The financial institutions were noncontrolling tax equity investors to which earnings, tax attributes and cash flows were allocated in accordance with the respective limited liability company agreements. These entities were VIEs and Sempra Energy was the primary beneficiary, generally due to Sempra Energy's power as the operator of the renewable energy projects to direct the activities that most significantly impacted the economic performance of these VIEs. As the primary beneficiary of these tax equity limited liability companies, we consolidated them. We sold the solar entities in December 2018 and the wind entities in April 2019.

Sempra Energy's Condensed Consolidated Balance Sheet includes equity of \$158 million at December 31, 2018 of Other Noncontrolling Interests associated with these entities. Sempra Energy's Condensed Consolidated Statements of Operations include the following amounts associated with the tax equity limited liability companies, net of eliminations of transactions between Sempra Energy and these entities.

AMOUNTS ASSOCIATED WITH TAX EQUITY ARRANGEMENTS⁽¹⁾

(Dollars in millions)

	Three months ended September 30,		Nine months ended September 30,	
	2018	2019	2018	2018
REVENUES				
Energy-related businesses	\$ 28	\$ 8	\$	77
EXPENSES				
Operation and maintenance	(5)	(2)		(13)
Depreciation and amortization	(13)	(4)		(36)
Income before income taxes	10	2		28
Income tax expense	(4)	—		(16)
Net income	6	2		12
Losses (earnings) attributable to noncontrolling interests ⁽²⁾	9	(1)		50
Earnings attributable to common shares	\$ 15	\$ 1	\$	62

⁽¹⁾ Amounts for 2019 include activity until deconsolidation of the wind entities in April 2019. Amounts for 2018 include activity until deconsolidation of the solar entities in December 2018.

⁽²⁾ Net income or loss attributable to NCI is computed using the HLBV method and is not based on ownership percentages.

We provide additional information regarding the tax equity limited liability companies in Note 1 of the Notes to Consolidated Financial Statements in the Annual Report.

Sempra LNG

Cameron LNG JV is a VIE principally due to contractual provisions that transfer certain risks to customers. Sempra Energy is not the primary beneficiary of the VIE because we do not have the power to direct the most significant activities of Cameron LNG JV, and therefore we account for our investment in Cameron LNG JV under the equity method. The carrying value of our investment, including amounts recognized in AOCI related to interest-rate cash flow hedges at Cameron LNG JV, was \$1,216 million at September 30, 2019 and \$1,271 million at December 31, 2018. Our maximum exposure to loss, which fluctuates over time, includes the carrying value of our investment and the guarantees that we discuss in Note 6 of the Notes to Consolidated Financial Statements in the Annual Report.

Other Variable Interest Entities

Sempra Energy's other businesses also enter into arrangements that could include variable interests. We evaluate these arrangements and applicable entities based on the qualitative and quantitative analyses described above. Certain of these entities are service or project companies that are VIEs because the total equity at risk is not sufficient for the entities to finance their activities without additional subordinated financial support. As the primary beneficiary of these companies, we consolidate them. The assets of these VIEs totaled approximately \$779 million at September 30, 2019 and \$286 million at December 31, 2018 and consisted primarily of PP&E and other long-term assets. Sempra Energy's exposure to loss is equal to the carrying value of these assets. In all other cases, we have determined that these arrangements are not variable interests in a VIE and therefore are not subject to the U.S. GAAP requirements concerning the consolidation or disclosures of VIEs.

PENSION AND OTHER POSTRETIREMENT BENEFITS

Settlement Accounting for Lump Sum Payments

In the nine months ended September 30, 2019, Sempra Energy recorded settlement charges of \$22 million in net periodic benefit cost for lump sum payments from its non-qualified pension plan that were in excess of the plan's service cost plus interest cost.

Sale of Qualified Pension Plan Annuity Contracts

In March 2018, an insurance company purchased certain annuities for current annuitants in the SDG&E and SoCalGas qualified pension plans and assumed the obligation for payment of these annuities. At SDG&E in the first quarter of 2018 and at SoCalGas in the second quarter of 2018, the liability transferred for these annuities, plus the total year-to-date lump-sum payments, exceeded the settlement threshold, which triggered settlement accounting. This resulted in a reduction of the recorded pension liability and pension plan assets of \$300 million at Sempra Energy Consolidated, including \$108 million at SDG&E and \$192 million at SoCalGas. This also resulted in settlement charges in net periodic benefit cost of \$3 million and \$42 million at Sempra Energy Consolidated, including \$1 million and \$17 million at SDG&E and \$2 million and \$25 million at SoCalGas in the three months and nine months ended September 30, 2018, respectively. The settlement charges were recorded as regulatory assets on the Condensed Consolidated Balance Sheets.

Net Periodic Benefit Cost

The following three tables provide the components of net periodic benefit cost.

NET PERIODIC BENEFIT COST – SEMPRA ENERGY CONSOLIDATED

(Dollars in millions)

	Pension benefits				Other postretirement benefits			
	Three months ended September 30,							
	2019		2018		2019		2018	
Service cost	\$	27	\$	29	\$	4	\$	4
Interest cost		34		35		9		9
Expected return on assets		(36)		(35)		(17)		(18)
Amortization of:								
Prior service cost		3		3		—		—
Actuarial loss (gain)		8		6		(3)		(2)
Settlement charges		4		9		—		—
Special termination benefits		—		—		—		5
Net periodic benefit cost (credit)		40		47		(7)		(2)
Regulatory adjustments		3		(11)		8		2
Total expense recognized	\$	43	\$	36	\$	1	\$	—

	Nine months ended September 30,							
	2019		2018		2019		2018	
	Service cost	\$	82	\$	95	\$	12	\$
Interest cost		104		104		27		27
Expected return on assets		(108)		(117)		(52)		(53)
Amortization of:								
Prior service cost		9		8		—		—
Actuarial loss (gain)		29		25		(8)		(4)
Settlement charges		26		48		—		—
Special termination benefits		—		—		—		5
Net periodic benefit cost (credit)		142		163		(21)		(10)
Regulatory adjustments		(30)		(91)		22		11
Total expense recognized	\$	112	\$	72	\$	1	\$	1

NET PERIODIC BENEFIT COST – SDG&E*(Dollars in millions)*

	Pension benefits				Other postretirement benefits			
	Three months ended September 30,							
	2019		2018		2019		2018	
Service cost	\$	7	\$	7	\$	1	\$	1
Interest cost		9		9		1		2
Expected return on assets		(9)		(10)		(3)		(3)
Amortization of:								
Prior service cost		—		—		1		—
Actuarial loss (gain)		2		—		—		(1)
Settlement charges		—		1		—		—
Special termination benefits		—		—		—		3
Net periodic benefit cost		9		7		—		2
Regulatory adjustments		(1)		(7)		—		(2)
Total expense recognized	\$	8	\$	—	\$	—	\$	—

	Nine months ended September 30,							
	2019		2018		2019		2018	
	Service cost	\$	22	\$	23	\$	3	\$
Interest cost		26		26		5		5
Expected return on assets		(29)		(35)		(9)		(10)
Amortization of:								
Prior service cost		2		1		2		2
Actuarial loss (gain)		9		3		(1)		(2)
Settlement charges		—		17		—		—
Special termination benefits		—		—		—		3
Net periodic benefit cost		30		35		—		1
Regulatory adjustments		(13)		(34)		—		(1)
Total expense recognized	\$	17	\$	1	\$	—	\$	—

NET PERIODIC BENEFIT COST – SOCALGAS*(Dollars in millions)*

	Pension benefits				Other postretirement benefits			
	Three months ended September 30,							
	2019		2018		2019		2018	
Service cost	\$	17	\$	19	\$	3	\$	3
Interest cost		23		23		6		6
Expected return on assets		(24)		(22)		(14)		(13)
Amortization of:								
Prior service cost (credit)		2		2		(1)		(1)
Actuarial loss (gain)		3		3		(2)		(1)
Settlement charges		—		2		—		—
Special termination benefits		—		—		—		2
Net periodic benefit cost (credit)		21		27		(8)		(4)
Regulatory adjustments		4		(4)		8		4
Total expense recognized	\$	25	\$	23	\$	—	\$	—

	Nine months ended September 30,							
	2019		2018		2019		2018	
	Service cost	\$	51	\$	62	\$	9	\$
Interest cost		68		68		20		20
Expected return on assets		(71)		(73)		(43)		(41)
Amortization of:								
Prior service cost (credit)		6		6		(2)		(2)
Actuarial loss (gain)		14		15		(6)		(2)
Settlement charges		—		25		—		—
Special termination benefits		—		—		—		2
Net periodic benefit cost (credit)		68		103		(22)		(12)
Regulatory adjustments		(17)		(57)		22		12
Total expense recognized	\$	51	\$	46	\$	—	\$	—

Benefit Plan Contributions

The following table shows our year-to-date contributions to pension and other postretirement benefit plans and the amounts we expect to contribute in 2019.

BENEFIT PLAN CONTRIBUTIONS*(Dollars in millions)*

	Sempra Energy Consolidated		SDG&E		SoCalGas	
Contributions through September 30, 2019:						
Pension plans	\$	130	\$	17	\$	51
Other postretirement benefit plans		6		—		1
Total expected contributions in 2019:						
Pension plans	\$	280	\$	53	\$	152
Other postretirement benefit plans		8		1		1

RABBI TRUST

In support of its Supplemental Executive Retirement, Cash Balance Restoration and Deferred Compensation Plans, Sempra Energy maintains dedicated assets, including a Rabbi Trust and investments in life insurance contracts, which totaled \$439 million and \$416 million at September 30, 2019 and December 31, 2018, respectively.

EARNINGS PER COMMON SHARE

Basic EPS is calculated by dividing earnings attributable to common shares (from both continuing and discontinued operations) by the weighted-average number of common shares outstanding for the period. Diluted EPS includes the potential dilution of common stock equivalent shares that could occur if securities or other contracts to issue common stock were exercised or converted into common stock.

EARNINGS (LOSSES) PER COMMON SHARE COMPUTATIONS

(Dollars in millions, except per share amounts; shares in thousands)

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Numerator for continuing operations:				
Income from continuing operations, net of income tax	\$ 653	\$ 280	\$ 1,570	\$ 25
(Earnings) losses attributable to noncontrolling interests	(52)	(16)	(121)	10
Mandatory convertible preferred stock dividends	(36)	(36)	(107)	(89)
Preferred dividends of subsidiary	—	—	(1)	(1)
Earnings (losses) from continuing operations attributable to common shares for basic EPS	565	228	1,341	(55)
Add back dividends for dilutive mandatory convertible preferred stock ⁽¹⁾	26	—	—	—
Earnings (losses) from continuing operations attributable to common shares for diluted EPS	\$ 591	\$ 228	\$ 1,341	\$ (55)
Numerator for discontinued operations:				
Income from discontinued operations, net of income tax	\$ 256	\$ 54	\$ 292	\$ 137
Earnings attributable to noncontrolling interests	(8)	(8)	(25)	(22)
Earnings from discontinued operations attributable to common shares	\$ 248	\$ 46	\$ 267	\$ 115
Numerator for earnings:				
Earnings attributable to common shares for basic EPS	\$ 813	\$ 274	\$ 1,608	\$ 60
Add back dividends for dilutive mandatory convertible preferred stock ⁽¹⁾	26	—	—	—
Earnings attributable to common shares for diluted EPS	\$ 839	\$ 274	\$ 1,608	\$ 60
Denominator:				
Weighted-average common shares outstanding for basic EPS ⁽²⁾	277,360	273,944	275,684	265,963
Dilutive effect of stock options and RSUs ⁽³⁾⁽⁴⁾	1,636	854	1,381	—
Dilutive effect of common shares sold forward ⁽³⁾	3,555	1,109	2,744	—
Dilutive effect of mandatory convertible preferred stock	13,238	—	—	—
Weighted-average common shares outstanding for diluted EPS	295,789	275,907	279,809	265,963
Basic EPS:				
Earnings (losses) from continuing operations attributable to common shares	\$ 2.04	\$ 0.83	\$ 4.86	\$ (0.21)
Earnings from discontinued operations attributable to common shares	\$ 0.89	\$ 0.17	\$ 0.97	\$ 0.44
Earnings attributable to common shares	\$ 2.93	\$ 1.00	\$ 5.83	\$ 0.23
Diluted EPS:				
Earnings (losses) from continuing operations attributable to common shares	\$ 2.00	\$ 0.82	\$ 4.79	\$ (0.21)
Earnings from discontinued operations attributable to common shares	\$ 0.84	\$ 0.17	\$ 0.95	\$ 0.44
Earnings attributable to common shares	\$ 2.84	\$ 0.99	\$ 5.74	\$ 0.23

⁽¹⁾ In the three months ended September 30, 2019, due to the dilutive effect of the series A preferred stock, the numerator used to calculate diluted EPS includes an add-back of series A preferred stock dividends declared in that quarter.

⁽²⁾ Includes 618 and 645 average fully vested RSUs held in our Deferred Compensation Plan for the three months ended September 30, 2019 and 2018, respectively, and 615 and 638 of such RSUs for the nine months ended September 30, 2019 and 2018, respectively. These fully vested RSUs are included in weighted-average common shares outstanding for basic EPS because there are no conditions under which the corresponding shares will not be issued.

⁽³⁾ In the nine months ended September 30, 2018, the total weighted-average potentially dilutive stock options and RSUs of 736 and common stock shares sold forward of 945 were not included in the computation of diluted EPS since to do so would have decreased the losses from continuing operations attributable to common shares.

⁽⁴⁾ Due to market fluctuations of both Sempra Energy common stock and the comparative indices used to determine the vesting percentage of our total shareholder return performance-based RSUs, which we discuss in Note 10 of the Notes to Consolidated Financial Statements in the Annual Report, dilutive RSUs may vary widely from period-to-period.

The potentially dilutive impact from stock options and RSUs is calculated under the treasury stock method. Under this method, proceeds based on the exercise price and unearned compensation are assumed to be used to repurchase shares on the open market at the average market price for the period, reducing the number of potential new shares to be issued and sometimes causing an antidilutive effect. The computation of diluted EPS for the three months ended September 30, 2019 and 2018 excludes zero and 508 potentially dilutive shares, respectively, because to include them would be antidilutive for the period. The computation of diluted EPS for the nine months ended September 30, 2019 and 2018 excludes 107,042 and 1,552 such potentially dilutive shares, respectively. However, these shares could potentially dilute basic EPS in the future.

The potentially dilutive impact from the forward sale of our common stock pursuant to the forward sale agreements that we entered into in 2018 is reflected in our diluted EPS calculation using the treasury stock method. We anticipate there will be a dilutive effect on our EPS when the average market price of shares of our common stock is above the applicable adjusted forward sale price, subject to increase or decrease based on the overnight bank funding rate, less a spread, and subject to decrease by amounts related to expected dividends on shares of our common stock during the term of the forward sale agreements. The computation of diluted EPS for both the three months and nine months ended September 30, 2019 excludes zero potentially dilutive shares because to include them would be antidilutive for those periods. The computation of diluted EPS for the three months and nine months ended September 30, 2018 excludes zero and 2,857,143 potentially dilutive shares, respectively, because to include them would be antidilutive for the period. Additionally, if we decide to physically settle or net share settle the forward sale agreements, delivery of our shares to the forward purchasers on any such physical settlement or net share settlement of the forward sale agreements would result in dilution to our EPS.

The potentially dilutive impact from mandatory convertible preferred stock that we issued in 2018 is calculated under the if-converted method. The computation of diluted EPS for the three months and nine months ended September 30, 2019 excludes 4,219,350 and 17,457,000 potentially dilutive shares, respectively, because to include them would be antidilutive for those periods. The computation of diluted EPS for the three months and nine months ended September 30, 2018 excludes 19,152,109 and 15,863,530 such potentially dilutive shares, respectively.

Pursuant to our Sempra Energy share-based compensation plans, Sempra Energy's Board of Directors granted 261,075 non-qualified stock options that are exercisable over a three-year period, 389,825 performance-based RSUs and 260,594 service-based RSUs in the nine months ended September 30, 2019, primarily in January.

We discuss share-based compensation plans and related awards further in Note 10 of the Notes to Consolidated Financial Statements in the Annual Report.

COMPREHENSIVE INCOME

The following tables present the changes in AOCI by component and amounts reclassified out of AOCI to net income, excluding amounts attributable to NCI.

CHANGES IN ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS) BY COMPONENT⁽¹⁾

(Dollars in millions)

	Foreign currency translation adjustments	Financial instruments	Pension and other postretirement benefits	Total accumulated other comprehensive income (loss)
Three months ended September 30, 2019 and 2018				
Sempra Energy Consolidated⁽²⁾:				
Balance as of June 30, 2019	\$ (518)	\$ (213)	\$ (117)	\$ (848)
OCI before reclassifications	(91)	(41)	(7)	(139)
Amounts reclassified from AOCI	—	4	5	9
Net OCI	(91)	(37)	(2)	(130)
Balance as of September 30, 2019	\$ (609)	\$ (250)	\$ (119)	\$ (978)
Balance as of June 30, 2018	\$ (482)	\$ (40)	\$ (79)	\$ (601)
OCI before reclassifications	(16)	19	(18)	(15)
Amounts reclassified from AOCI	—	(4)	8	4
Net OCI	(16)	15	(10)	(11)
Balance as of September 30, 2018	\$ (498)	\$ (25)	\$ (89)	\$ (612)
SDG&E:				
Balance as of June 30, 2019 and September 30, 2019			\$ (11)	\$ (11)
Balance as of June 30, 2018			\$ (8)	\$ (8)
OCI before reclassifications			(6)	(6)
Net OCI			(6)	(6)
Balance as of September 30, 2018			\$ (14)	\$ (14)
SoCalGas:				
Balance as of June 30, 2019		\$ (14)	\$ (6)	\$ (20)
Amounts reclassified from AOCI		1	—	1
Net OCI		1	—	1
Balance as of September 30, 2019		\$ (13)	\$ (6)	\$ (19)
Balance as of June 30, 2018 and September 30, 2018		\$ (13)	\$ (7)	\$ (20)

⁽¹⁾ All amounts are net of income tax, if subject to tax, and exclude NCI.

⁽²⁾ Includes discontinued operations.

CHANGES IN ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS) BY COMPONENT⁽¹⁾ (CONTINUED)
(Dollars in millions)

	Foreign currency translation adjustments	Financial instruments	Pension and other postretirement benefits	Total accumulated other comprehensive income (loss)
Nine months ended September 30, 2019 and 2018				
Sempra Energy Consolidated⁽²⁾:				
Balance as of December 31, 2018	\$ (564)	\$ (82)	\$ (118)	\$ (764)
Cumulative-effect adjustment from change in accounting principle	—	(25)	(17)	(42)
OCI before reclassifications ⁽³⁾	(45)	(153)	(13)	(211)
Amounts reclassified from AOCI ⁽³⁾	—	10	29	39
Net OCI	(45)	(143)	16	(172)
Balance as of September 30, 2019	\$ (609)	\$ (250)	\$ (119)	\$ (978)
Balance as of December 31, 2017	\$ (420)	\$ (122)	\$ (84)	\$ (626)
Cumulative-effect adjustment from change in accounting principle	—	(3)	—	(3)
OCI before reclassifications	(78)	104	(17)	9
Amounts reclassified from AOCI	—	(4)	12	8
Net OCI	(78)	100	(5)	17
Balance as of September 30, 2018	\$ (498)	\$ (25)	\$ (89)	\$ (612)
SDG&E:				
Balance as of December 31, 2018			\$ (10)	\$ (10)
Cumulative-effect adjustment from change in accounting principle			(2)	(2)
Amounts reclassified from AOCI			1	1
Net OCI			1	1
Balance as of September 30, 2019			\$ (11)	\$ (11)
Balance as of December 31, 2017			\$ (8)	\$ (8)
OCI before reclassifications			(6)	(6)
Net OCI			(6)	(6)
Balance as of September 30, 2018			\$ (14)	\$ (14)
SoCalGas:				
Balance as of December 31, 2018	\$ (12)	\$ (8)	\$ (20)	
Cumulative-effect adjustment from change in accounting principle	(2)	(2)	(4)	
Amounts reclassified from AOCI ⁽³⁾	1	4	5	
Net OCI	1	4	5	
Balance as of September 30, 2019	\$ (13)	\$ (6)	\$ (19)	
Balance as of December 31, 2017	\$ (13)	\$ (8)	\$ (21)	
Amounts reclassified from AOCI	—	1	1	
Net OCI	—	1	1	
Balance as of September 30, 2018	\$ (13)	\$ (7)	\$ (20)	

⁽¹⁾ All amounts are net of income tax, if subject to tax, and exclude NCI.

⁽²⁾ Includes discontinued operations.

⁽³⁾ Pension and Other Postretirement Benefits and Total AOCI include a \$4 million transfer of liabilities from SoCalGas to Sempra Energy related to the nonqualified pension plan.

RECLASSIFICATIONS OUT OF ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)
(Dollars in millions)

Details about accumulated other comprehensive income (loss) components	Amounts reclassified from accumulated other comprehensive income (loss)		Affected line item on Condensed Consolidated Statements of Operations
	Three months ended September 30,		
	2019	2018	
Sempra Energy Consolidated:			
Financial instruments:			
Interest rate and foreign exchange instruments(1)	\$ 1	\$ —	Interest Expense
	5	(11)	Other (Expense) Income, Net
Interest rate and foreign exchange instruments	2	3	Equity Earnings
Total before income tax	8	(8)	
	(2)	4	Income Tax (Expense) Benefit
Net of income tax	6	(4)	
	(2)	—	Earnings Attributable to Noncontrolling Interests
	\$ 4	\$ (4)	
Pension and other postretirement benefits:			
Amortization of actuarial loss(2)	\$ 3	\$ 9	Other (Expense) Income, Net
Amortization of prior service cost(2)	1	1	Other (Expense) Income, Net
Settlement charges(2)	4	—	Other (Expense) Income, Net
Total before income tax	8	10	
	(3)	(2)	Income Tax (Expense) Benefit
Net of income tax	\$ 5	\$ 8	
Total reclassifications for the period, net of tax	\$ 9	\$ 4	
SDG&E:			
Financial instruments:			
Interest rate instruments(1)	\$ 1	\$ 2	Interest Expense
	(1)	(2)	Earnings Attributable to Noncontrolling Interest
Total reclassifications for the period, net of tax	\$ —	\$ —	
SoCalGas:			
Financial instruments:			
Interest rate instruments	\$ 1	\$ —	Interest Expense
Total reclassifications for the period, net of tax	\$ 1	\$ —	

(1) Amounts include Otay Mesa VIE. All of SDG&E's interest rate derivative activity relates to Otay Mesa VIE.

(2) Amounts are included in the computation of net periodic benefit cost (see "Pension and Other Postretirement Benefits" above).

RECLASSIFICATIONS OUT OF ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS) (CONTINUED)
(Dollars in millions)

Details about accumulated other comprehensive income (loss) components	Amounts reclassified from accumulated other comprehensive income (loss)		Affected line item on Condensed Consolidated Statements of Operations
	Nine months ended September 30,		
	2019	2018	
Sempra Energy Consolidated:			
Financial instruments:			
Interest rate and foreign exchange instruments ⁽¹⁾	\$ 2	\$ (1)	Interest Expense
	—	(11)	Other (Expense) Income, Net
Interest rate instruments	10	—	(Loss) Gain on Sale of Assets
Interest rate and foreign exchange instruments	3	8	Equity Earnings
Foreign exchange instruments	1	(1)	Revenues: Energy-Related Businesses
Total before income tax	16	(5)	
	(3)	3	Income Tax (Expense) Benefit
Net of income tax	13	(2)	
	(3)	(2)	Earnings Attributable to Noncontrolling Interests
	\$ 10	\$ (4)	
Pension and other postretirement benefits:			
Amortization of actuarial loss ⁽²⁾	\$ 7	\$ 15	Other (Expense) Income, Net
Amortization of prior service cost ⁽²⁾	2	1	Other (Expense) Income, Net
Settlement charges ⁽²⁾	26	—	Other (Expense) Income, Net
Total before income tax	35	16	
	(10)	(4)	Income Tax (Expense) Benefit
Net of income tax	\$ 25	\$ 12	
Total reclassifications for the period, net of tax	\$ 35	\$ 8	
SDG&E:			
Financial instruments:			
Interest rate instruments ⁽¹⁾	\$ 3	\$ 6	Interest Expense
	(3)	(6)	Earnings Attributable to Noncontrolling Interest
	\$ —	\$ —	
Pension and other postretirement benefits:			
Amortization of prior service cost ⁽²⁾	\$ 1	\$ —	Other Income, Net
Total reclassifications for the period, net of tax	\$ 1	\$ —	
SoCalGas:			
Financial instruments:			
Interest rate instruments	\$ 1	\$ —	Interest Expense
Pension and other postretirement benefits:			
Amortization of actuarial loss ⁽²⁾	\$ —	\$ 1	Other Income, Net
Total reclassifications for the period, net of tax	\$ 1	\$ 1	

⁽¹⁾ Amounts include Otay Mesa VIE. All of SDG&E's interest rate derivative activity relates to Otay Mesa VIE.

⁽²⁾ Amounts are included in the computation of net periodic benefit cost (see "Pension and Other Postretirement Benefits" above).

SHAREHOLDERS' EQUITY AND NONCONTROLLING INTERESTS
Sempra Energy Mandatory Convertible Preferred Stock Offerings

In January 2018, we issued 17,250,000 shares of our series A preferred stock in a registered public offering resulting in net proceeds of approximately \$1.69 billion. In July 2018, we issued 5,750,000 shares of our series B preferred stock in a registered public offering resulting in net proceeds of approximately \$565 million. Each share of series A preferred stock and series B preferred stock has a liquidation value of \$100.00. We discuss the preferred stock offerings in Note 13 of the Notes to Consolidated Financial Statements in the Annual Report.

Sempra Energy Common Stock Offerings

In January 2018, we completed the offering of 26,869,158 shares of our common stock, no par value, in a registered public offering at \$107.00 per share (approximately \$105.07 per share after deducting underwriting discounts), pursuant to forward sale agreements. Through September 30, 2019, we received net proceeds totaling approximately \$2.8 billion to fully settle these shares, as follows:

- \$367 million (net of underwriting discounts and equity issuance costs of \$8 million) to cover overallocation shares of 3,504,672 in the first quarter of 2018;
- \$900 million (net of underwriting discounts of \$16 million) from the settlement of 8,556,630 shares in the first quarter of 2018;
- \$800 million (net of underwriting discounts of \$14 million) from the settlement of 7,651,671 shares in the second quarter of 2018; and
- \$728 million (net of underwriting discounts of \$13 million) from the settlement of 7,156,185 shares in the third quarter of 2019.

In July 2018, we completed the offering of 11,212,500 shares of our common stock, no par value, in a registered public offering at \$113.75 per share (approximately \$111.87 per share after deducting underwriting discounts), pursuant to forward sale agreements. We received net proceeds of approximately \$164 million (net of underwriting discounts and equity issuance costs of \$3 million) from the sale of 1,462,500 shares in the third quarter of 2018 to cover overallocations.

As of November 1, 2019, a total of 9,750,000 shares of Sempra Energy common stock are subject to future settlement under the July 2018 forward sale agreements, which may be settled on one or more dates specified by us occurring no later than December 15, 2019, the final settlement date under the agreements. Although we expect to settle the forward sale agreements entirely by the physical delivery of shares of our common stock in exchange for cash proceeds, we may, subject to certain conditions, elect cash settlement or net share settlement for all or a portion of our obligations under the forward sale agreements. The forward sale agreements are also subject to acceleration by the forward purchasers upon the occurrence of certain events.

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

SoCalGas Preferred Stock

The preferred stock at SoCalGas is presented at Sempra Energy as a noncontrolling interest. Sempra Energy records charges against income related to NCI for preferred stock dividends declared by SoCalGas. We provide additional information regarding preferred stock in Note 13 of the Notes to Consolidated Financial Statements in the Annual Report.

Other Noncontrolling Interests

Ownership interests that are held by owners other than Sempra Energy and SDG&E in subsidiaries or entities consolidated by them are accounted for and reported as NCI.

SDG&E

As we discuss in “Variable Interest Entities” above, on August 23, 2019, SDG&E and Sempra Energy deconsolidated Otay Mesa VIE after SDG&E determined that it is no longer the primary beneficiary of the VIE.

Sempra Mexico

In the nine months ended September 30, 2019, IEnova repurchased 2,620,000 shares of its outstanding common stock held by NCI for approximately \$10 million, resulting in an increase in Sempra Energy’s ownership interest in IEnova from 66.5 percent at December 31, 2018 to 66.6 percent at September 30, 2019.

Sempra Renewables

As we discuss in Note 5, in April 2019, Sempra Renewables sold its remaining wind assets and investments, which included its wind tax equity arrangements. The remaining ownership interest in PXiSE Energy Solutions, LLC was subsumed into Parent and other.

Sempra LNG

On February 7, 2019, Sempra LNG purchased for \$20 million the 9.1-percent minority interest in Bay Gas immediately prior to the sale of 100 percent of Bay Gas, which we discuss in Note 5.

Sempra LNG and IEnova are jointly developing a proposed natural gas liquefaction project at the site of IEnova's existing regasification terminal at ECA. Sempra LNG consolidates the proposed project. Thus, Sempra Energy's NCI in IEnova's 50-percent interest in the proposed project is reported at Sempra LNG.

The following table provides information on noncontrolling ownership interests held by others (not including preferred shareholders) in Other Noncontrolling Interests in Total Equity on Sempra Energy's Condensed Consolidated Balance Sheets.

OTHER NONCONTROLLING INTERESTS				
<i>(Dollars in millions)</i>				
	Percent ownership held by noncontrolling interests		Equity (deficit) held by noncontrolling interests	
	September 30, 2019	December 31, 2018	September 30, 2019	December 31, 2018
SDG&E:				
Otay Mesa VIE	— %	100 %	\$ —	\$ 100
Sempra Mexico:				
IEnova	33.4	33.5	1,676	1,592
IEnova subsidiaries ⁽¹⁾	10.0 – 46.3	10.0 – 49.0	16	13
Sempra Renewables:				
Tax equity arrangements – wind ⁽²⁾	—	NA	—	158
PXiSE Energy Solutions, LLC ⁽³⁾	—	11.1	—	1
Sempra LNG:				
Bay Gas	—	9.1	—	18
Liberty Gas Storage, LLC	24.6	24.6	(13)	(12)
ECA LNG proposed liquefaction project	16.7	—	3	—
Parent and other:				
PXiSE Energy Solutions, LLC ⁽³⁾	20.0	—	1	—
Discontinued Operations:				
Chilquinta Energía subsidiaries ⁽¹⁾	19.7 – 43.4	19.7 – 43.4	23	23
Luz del Sur	16.4	16.4	200	193
Tecsur	9.8	9.8	5	4
Total Sempra Energy			\$ 1,911	\$ 2,090

⁽¹⁾ IEnova and Chilquinta Energía have subsidiaries with NCI held by others. Percentage range reflects the highest and lowest ownership percentages among these subsidiaries.

⁽²⁾ Net income or loss attributable to NCI is computed using the HLBV method and is not based on ownership percentages.

⁽³⁾ In April 2019, PXiSE Energy Solutions, LLC was subsumed into Parent and other.

TRANSACTIONS WITH AFFILIATES

We summarize amounts due from and to unconsolidated affiliates at Sempra Energy Consolidated, SDG&E and SoCalGas in the following table.

AMOUNTS DUE FROM (TO) UNCONSOLIDATED AFFILIATES

(Dollars in millions)

	September 30, 2019	December 31, 2018
Sempra Energy Consolidated:		
Total due from various unconsolidated affiliates – current	\$ 40	\$ 37
Sempra Mexico ⁽¹⁾ :		
IMG – Note due March 15, 2022 ⁽²⁾	\$ 712	\$ 641
Energía Sierra Juárez – Note ⁽³⁾	—	3
Total due from unconsolidated affiliates – noncurrent	\$ 712	\$ 644
Total due to various unconsolidated affiliates – current	\$ (12)	\$ (10)
Sempra Mexico ⁽¹⁾ :		
Total due to unconsolidated affiliates – noncurrent – TAG – Note due December 20, 2021 ⁽⁴⁾	\$ (39)	\$ (37)
SDG&E:		
Total due from unconsolidated affiliates – current – SoCalGas	\$ 1	\$ —
Sempra Energy ⁽¹⁾⁽⁵⁾		
SoCalGas	—	(6)
Various affiliates	(12)	(12)
Total due to unconsolidated affiliates – current	\$ (26)	\$ (61)
Income taxes due from Sempra Energy ⁽⁶⁾	\$ 5	\$ 5
SoCalGas:		
SDG&E	\$ —	\$ 6
Various affiliates	—	1
Total due from unconsolidated affiliates – current	\$ —	\$ 7
Sempra Energy	\$ (35)	\$ (34)
Pacific Enterprises	(150)	—
SDG&E	(1)	—
Various affiliates	(1)	—
Total due to unconsolidated affiliates – current	\$ (187)	\$ (34)
Income taxes due to Sempra Energy ⁽⁶⁾	\$ (19)	\$ (4)

⁽¹⁾ Amounts include principal balances plus accumulated interest outstanding.

⁽²⁾ Mexican peso-denominated revolving line of credit for up to 14.2 billion Mexican pesos or approximately \$718 million U.S. dollar-equivalent, at a variable interest rate based on the 91-day Interbank Equilibrium Interest Rate plus 220 bps (10.13 percent at September 30, 2019), to finance construction of the natural gas marine pipeline.

⁽³⁾ U.S. dollar-denominated loan, at a variable interest rate based on the 30-day LIBOR plus 637.5 bps (8.89 percent at December 31, 2018).

⁽⁴⁾ U.S. dollar-denominated loan, at a variable interest rate based on the 6-month LIBOR plus 290 bps (4.96 percent at September 30, 2019).

⁽⁵⁾ At September 30, 2019, net payable includes outstanding advances to Sempra Energy of \$25 million at an interest rate of 2.03 percent.

⁽⁶⁾ SDG&E and SoCalGas are included in the consolidated income tax return of Sempra Energy and their respective income tax expense is computed as an amount equal to that which would result from each company having always filed a separate return.

The following table summarizes revenues and cost of sales from unconsolidated affiliates.

REVENUES AND COST OF SALES FROM UNCONSOLIDATED AFFILIATES				
<i>(Dollars in millions)</i>				
	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Revenues:				
Sempra Energy Consolidated	\$ 13	\$ 17	\$ 40	\$ 49
SDG&E	2	1	5	4
SoCalGas	16	15	50	47
Cost of Sales:				
Sempra Energy Consolidated	\$ 12	\$ 9	\$ 40	\$ 36
SDG&E	16	21	56	56
SoCalGas	2	—	6	—

Guarantees

Sempra Energy has provided guarantees related to the financing of the Cameron LNG JV project, as we discuss in Note 6 below and in Note 6 of the Notes to Consolidated Financial Statements in the Annual Report.

OTHER (EXPENSE) INCOME, NET

Other (Expense) Income, Net on the Condensed Consolidated Statements of Operations consisted of the following:

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
OTHER (EXPENSE) INCOME, NET				
<i>(Dollars in millions)</i>				
Sempra Energy Consolidated:				
Allowance for equity funds used during construction	\$ 25	\$ 23	\$ 69	\$ 79
Investment gains ⁽¹⁾	9	8	46	13
(Losses) gains on interest rate and foreign exchange instruments, net	(17)	39	7	46
Foreign currency transaction (losses) gains, net ⁽²⁾	(13)	28	(2)	16
Non-service component of net periodic benefit (cost) credit	(13)	(3)	(19)	37
Penalties related to billing practices OII	—	—	(8)	—
Interest on regulatory balancing accounts, net	4	1	9	2
Sundry, net	(2)	—	1	(1)
Total	\$ (7)	\$ 96	\$ 103	\$ 192
SDG&E:				
Allowance for equity funds used during construction	\$ 15	\$ 15	\$ 42	\$ 49
Non-service component of net periodic benefit credit	—	8	8	25
Interest on regulatory balancing accounts, net	4	2	10	4
Sundry, net	—	(1)	—	(1)
Total	\$ 19	\$ 24	\$ 60	\$ 77
SoCalGas:				
Allowance for equity funds used during construction	\$ 9	\$ 8	\$ 25	\$ 30
Non-service component of net periodic benefit (cost) credit	(5)	(1)	9	27
Penalties related to billing practices OII	—	—	(8)	—
Interest on regulatory balancing accounts, net	—	(1)	(1)	(2)
Sundry, net	(3)	(3)	(7)	(6)
Total	\$ 1	\$ 3	\$ 18	\$ 49

⁽¹⁾ Represents investment gains on dedicated assets in support of our executive retirement and deferred compensation plans. These amounts are partially offset by corresponding changes in compensation expense related to the plans, recorded in O&M on the Condensed Consolidated Statements of Operations.

⁽²⁾ Includes losses of \$17 million and a negligible amount in the three months and nine months ended September 30, 2019, respectively, and gains of \$33 million and \$25 million in the three months and nine months ended September 30, 2018, respectively, from translation to U.S. dollars of a Mexican peso-denominated loan to the IMG JV, which are offset by corresponding amounts included in Equity Earnings on the Condensed Consolidated Statements of Operations.

INCOME TAXES

We provide our calculations of ETRs in the following table.

INCOME TAX EXPENSE (BENEFIT) AND EFFECTIVE INCOME TAX RATES				
<i>(Dollars in millions)</i>				
	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Sempra Energy Consolidated:				
Income tax expense (benefit) from continuing operations	\$ 61	\$ 139	\$ 150	\$ (221)
Income (loss) from continuing operations before income taxes and equity earnings	\$ 448	\$ 345	\$ 1,235	\$ (245)
Equity earnings (losses), before income tax ⁽¹⁾	17	(52)	24	(236)
Pretax income (loss)	\$ 465	\$ 293	\$ 1,259	\$ (481)
Effective income tax rate	13%	47%	12%	46%
SDG&E:				
Income tax expense	\$ 71	\$ 53	\$ 111	\$ 151
Income before income taxes	\$ 337	\$ 269	\$ 700	\$ 682
Effective income tax rate	21%	20%	16%	22%
SoCalGas:				
Income tax expense (benefit)	\$ 35	\$ (7)	\$ 50	\$ 75
Income (loss) before income taxes	\$ 178	\$ (21)	\$ 488	\$ 320
Effective income tax rate	20%	33%	10%	23%

⁽¹⁾ We discuss how we recognize equity earnings in Note 6 of the Notes to Consolidated Financial Statements in the Annual Report.

Sempra Energy, SDG&E and SoCalGas record income taxes for interim periods utilizing a forecasted ETR anticipated for the full year. Unusual and infrequent items and items that cannot be reliably estimated are recorded in the interim period in which they occur, which can result in variability in the ETR.

For SDG&E and SoCalGas, the CPUC requires flow-through rate-making treatment for the current income tax benefit or expense arising from certain property-related and other temporary differences between the treatment for financial reporting and income tax, which will reverse over time. Under the regulatory accounting treatment required for these flow-through temporary differences, deferred income tax assets and liabilities are not recorded to deferred income tax expense, but rather to a regulatory asset or liability, which impacts the ETR. As a result, changes in the relative size of these items compared to pretax income, from period to period, can cause variations in the ETR. The following items are subject to flow-through treatment:

- repairs expenditures related to a certain portion of utility plant fixed assets;
- the equity portion of AFUDC, which is non-taxable;
- a portion of the cost of removal of utility plant assets;
- utility self-developed software expenditures;
- depreciation on a certain portion of utility plant assets; and
- state income taxes.

The AFUDC related to equity recorded for regulated construction projects at Sempra Mexico has similar flow-through treatment.

We record income tax (expense) benefit from the transactional effects of foreign currency and inflation. Such effects are partially mitigated by net gains (losses) from foreign currency derivatives that are hedging Sempra Mexico parent's exposure to movements in the Mexico peso from its controlling interest in IEnova.

In the nine months ended September 30, 2019, SDG&E and SoCalGas recorded income tax benefits of \$31 million and \$38 million, respectively, from the release of a regulatory liability established in connection with 2017 tax reform for excess deferred income tax balances that the CPUC directed be allocated to shareholders in a January 2019 decision.

Discontinued Operations

On January 25, 2019, our board of directors approved a plan to sell our South American businesses, as we discuss in Note 5. Prior to this decision, our repatriation estimate excluded post-2017 earnings and other basis differences related to our South American businesses. Because of our decision to sell our South American businesses, we no longer assert indefinite reinvestment of these basis differences and have recorded the following in discontinued operations in the nine months ended September 30, 2019:

- \$89 million income tax benefit primarily related to outside basis differences existing as of the January 25, 2019 approval of our plan to sell our South American businesses. The amount is comprised of \$103 million of income tax expense recorded in the first quarter of 2019, which was then reduced by \$192 million in the third quarter of 2019 as a result of a change in the anticipated structure of the sale; and
- \$32 million income tax expense related to the increase in outside basis differences from 2019 earnings since January 25, 2019.

We have not changed our indefinite reinvestment assertion or repatriation plan for our continuing international operations.

NOTE 2. NEW ACCOUNTING STANDARDS

We describe below recent accounting pronouncements that have had or may have a significant effect on our financial condition, results of operations, cash flows or disclosures.

ASU 2016-02, “Leases,” ASU 2018-01, “Land Easement Practical Expedient for Transition to Topic 842,” ASU 2018-10, “Codification Improvements to Topic 842, Leases,” ASU 2018-11, “Leases (Topic 842): Targeted Improvements,” ASU 2018-20, “Narrow-Scope Improvements for Lessors” and ASU 2019-01, “Leases (Topic 842): Codification Improvements” (collectively referred to as the “lease standard”): In 2016, the Financial Accounting Standards Board began issuing the first in a series of ASUs intended to increase transparency and comparability among organizations with leasing activities. The most significant provision of the lease standard is the requirement that lessees recognize operating lease ROU assets and lease liabilities on the balance sheet.

We adopted the lease standard on January 1, 2019, using the optional transition method to apply the new guidance prospectively as of January 1, 2019, rather than as of the earliest period presented. We elected the package of practical expedients that permits us to not reassess (a) whether a contract is or contains a lease, (b) lease classification or (c) determination of initial direct costs, which allows us to carry forward accounting conclusions under previous U.S. GAAP on contracts that commenced prior to adoption of the lease standard. We also elected the land easement practical expedient, which allows us to continue to account for pre-existing land easements under our accounting policy that existed before adoption of the lease standard. We did not elect the practical expedient to use hindsight in making judgments when determining the lease term.

The adoption of the lease standard did not change our previously reported financial statements. However, in accordance with the lease standard, on a prospective basis, a significant portion of finance lease costs for PPAs that have historically been presented in Cost of Electric Fuel and Purchased Power are now presented in Depreciation and Amortization Expense and Interest Expense on Sempra Energy’s and SDG&E’s statements of operations. Additionally, the adoption of the lease standard had a material impact on our balance sheets at January 1, 2019 due to the initial recognition of ROU assets and lease liabilities for operating leases. Our finance leases were already included on our balance sheets prior to adoption of the lease standard, consistent with previous U.S. GAAP for capital leases.

The following table shows the initial increases (decreases) on our balance sheets at January 1, 2019 from adoption of the lease standard.

IMPACT FROM ADOPTION OF THE LEASE STANDARD			
<i>(Dollars in millions)</i>			
	Sempra Energy Consolidated	SDG&E	SoCalGas
Assets held for sale	\$ 13	\$ —	\$ —
Sundry	(71)	—	—
Property, plant and equipment, net	(147)	—	—
Right-of-use assets – operating leases	603	130	116
Deferred income tax assets	(3)	—	—
Other current liabilities	80	20	23
Long-term debt	(138)	—	—
Deferred credits and other	436	110	93
Retained earnings	17	—	—

As a result of the adoption of the lease standard, we derecognized our corporate headquarters building lease in accordance with the transition provisions for build-to-suit arrangements. On a prospective basis, we will account for the corporate headquarters building lease as an operating lease. The initial impact is included in the above table.

We include additional disclosures about our leases in Note 11.

ASU 2016-13, “Measurement of Credit Losses on Financial Instruments”: ASU 2016-13, as amended by subsequently issued ASUs, changes how entities will measure credit losses for most financial assets and certain other instruments. The standard introduces an “expected credit loss” impairment model that requires immediate recognition of estimated credit losses expected to occur over the remaining life of most financial assets measured at amortized cost, including trade and other receivables, loan commitments and financial guarantees. ASU 2016-13 also requires use of an allowance to record estimated credit losses on available-for-sale debt securities and expands disclosure requirements regarding an entity’s assumptions, models and methods for estimating the credit losses.

For public entities, ASU 2016-13 is effective for fiscal years beginning after December 15, 2019, including interim periods therein, with early adoption permitted for fiscal years beginning after December 15, 2018. The amendments are to be applied using a modified retrospective approach through a cumulative-effect adjustment to retained earnings at the beginning of the first reporting period in the year of adoption.

We are currently evaluating the effect of the standard on our ongoing financial reporting. On a prospective basis, the new standard will primarily apply to our accounts receivable balances, amounts due from unconsolidated affiliates and off-balance sheet financial guarantees. We will adopt the standard on January 1, 2020.

ASU 2017-04, “Simplifying the Test for Goodwill Impairment”: ASU 2017-04 removes the second step of the goodwill impairment test, which requires a hypothetical purchase price allocation. An entity will be required to apply a one-step quantitative test and record the amount of goodwill impairment as the excess of a reporting unit’s carrying amount over its fair value, not to exceed the carrying amount of goodwill. For public entities, ASU 2017-04 is effective for annual or interim goodwill impairment tests in fiscal years beginning after December 15, 2019, with early adoption permitted. The amendments are to be applied on a prospective basis. We will adopt the standard on January 1, 2020.

ASU 2018-02, “Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income”: ASU 2018-02 contains amendments that allow a reclassification from AOCI to retained earnings for stranded tax effects resulting from the TCJA. Under ASU 2018-02, an entity is required to provide certain disclosures regarding stranded tax effects, including its accounting policy related to releasing the income tax effects from AOCI. The amendments in this update can be applied either as of the beginning of the period of adoption or retrospectively as of the date of enactment of the TCJA and to each period in which the effect of the TCJA is recognized. We adopted ASU 2018-02 on January 1, 2019 and reclassified the income tax effects of the TCJA from AOCI to retained earnings.

The impact from adoption of ASU 2018-02 on January 1, 2019 was as follows:

- Sempra Energy: increase of \$40 million to beginning Retained Earnings, \$2 million to noncurrent Regulatory Liabilities and \$42 million to Accumulated Other Comprehensive Loss;
- SDG&E: increase of \$2 million to beginning Retained Earnings and Accumulated Other Comprehensive Loss; and
- SoCalGas: increase of \$2 million to beginning Retained Earnings, \$2 million to noncurrent Regulatory Liabilities and \$4 million to Accumulated Other Comprehensive Loss.

NOTE 3. REVENUES

We discuss revenue recognition for revenues from contracts with customers and from sources other than contracts with customers in Note 3 of the Notes to Consolidated Financial Statements in the Annual Report.

The following table disaggregates our revenues from contracts with customers by major service line and market and provides a reconciliation to total revenues by segment. The majority of our revenue is recognized over time.

DISAGGREGATED REVENUES

(Dollars in millions)

	Three months ended September 30, 2019						
	SDG&E	SoCalGas	Sempra Mexico	Sempra Renewables	Sempra LNG	Consolidating adjustments, Parent & Other	Sempra Energy Consolidated
By major service line:							
Utilities	\$ 1,370	\$ 765	\$ 14	\$ —	\$ —	\$ (18)	\$ 2,131
Midstream	—	—	158	—	48	(39)	167
Renewables	—	—	32	—	—	2	34
Other	—	—	52	—	2	(3)	51
Revenues from contracts with customers	\$ 1,370	\$ 765	\$ 256	\$ —	\$ 50	\$ (58)	\$ 2,383
By market:							
Gas	\$ 100	\$ 765	\$ 171	\$ —	\$ 48	\$ (55)	\$ 1,029
Electric	1,270	—	85	—	2	(3)	1,354
Revenues from contracts with customers	\$ 1,370	\$ 765	\$ 256	\$ —	\$ 50	\$ (58)	\$ 2,383
Revenues from contracts with customers	\$ 1,370	\$ 765	\$ 256	\$ —	\$ 50	\$ (58)	\$ 2,383
Utilities regulatory revenues	57	210	—	—	—	—	267
Other revenues	—	—	101	—	50	(43)	108
Total revenues	\$ 1,427	\$ 975	\$ 357	\$ —	\$ 100	\$ (101)	\$ 2,758
By major service line:							
Utilities	\$ 3,604	\$ 3,170	\$ 56	\$ —	\$ —	\$ (56)	\$ 6,774
Midstream	—	—	472	—	134	(109)	497
Renewables	—	—	82	5	—	1	88
Other	—	—	147	—	5	(5)	147
Revenues from contracts with customers	\$ 3,604	\$ 3,170	\$ 757	\$ 5	\$ 139	\$ (169)	\$ 7,506
By market:							
Gas	\$ 441	\$ 3,170	\$ 527	\$ —	\$ 134	\$ (160)	\$ 4,112
Electric	3,163	—	230	5	5	(9)	3,394
Revenues from contracts with customers	\$ 3,604	\$ 3,170	\$ 757	\$ 5	\$ 139	\$ (169)	\$ 7,506
Revenues from contracts with customers	\$ 3,604	\$ 3,170	\$ 757	\$ 5	\$ 139	\$ (169)	\$ 7,506
Utilities regulatory revenues	62	(28)	—	—	—	—	34
Other revenues	—	—	301	5	188	(148)	346
Total revenues	\$ 3,666	\$ 3,142	\$ 1,058	\$ 10	\$ 327	\$ (317)	\$ 7,886

DISAGGREGATED REVENUES (CONTINUED)
(Dollars in millions)

	Three months ended September 30, 2018						
	SDG&E	SoCalGas	Sempra Mexico	Sempra Renewables	Sempra LNG	Consolidating adjustments	Sempra Energy Consolidated
By major service line:							
Utilities	\$ 1,577	\$ 719	\$ 17	\$ —	\$ —	\$ (16)	\$ 2,297
Midstream	—	—	194	—	82	(71)	205
Renewables	—	—	32	14	1	(1)	46
Other	—	—	71	—	1	(2)	70
Revenues from contracts with customers	\$ 1,577	\$ 719	\$ 314	\$ 14	\$ 84	\$ (90)	\$ 2,618
By market:							
Gas	\$ 91	\$ 719	\$ 214	\$ —	\$ 82	\$ (86)	\$ 1,020
Electric	1,486	—	100	14	2	(4)	1,598
Revenues from contracts with customers	\$ 1,577	\$ 719	\$ 314	\$ 14	\$ 84	\$ (90)	\$ 2,618
Revenues from contracts with customers	\$ 1,577	\$ 719	\$ 314	\$ 14	\$ 84	\$ (90)	\$ 2,618
Utilities regulatory revenues	(278)	83	—	—	—	—	(195)
Other revenues	—	—	96	24	63	(41)	142
Total revenues	\$ 1,299	\$ 802	\$ 410	\$ 38	\$ 147	\$ (131)	\$ 2,565
Nine months ended September 30, 2018							
By major service line:							
Utilities	\$ 3,707	\$ 2,529	\$ 58	\$ —	\$ —	\$ (51)	\$ 6,243
Midstream	—	—	484	—	171	(105)	550
Renewables	—	—	85	37	2	(1)	123
Other	—	—	142	—	5	(5)	142
Revenues from contracts with customers	\$ 3,707	\$ 2,529	\$ 769	\$ 37	\$ 178	\$ (162)	\$ 7,058
By market:							
Gas	\$ 372	\$ 2,529	\$ 545	\$ —	\$ 171	\$ (153)	\$ 3,464
Electric	3,335	—	224	37	7	(9)	3,594
Revenues from contracts with customers	\$ 3,707	\$ 2,529	\$ 769	\$ 37	\$ 178	\$ (162)	\$ 7,058
Revenues from contracts with customers	\$ 3,707	\$ 2,529	\$ 769	\$ 37	\$ 178	\$ (162)	\$ 7,058
Utilities regulatory revenues	(302)	171	—	—	—	—	(131)
Other revenues	—	—	259	66	152	(128)	349
Total revenues	\$ 3,405	\$ 2,700	\$ 1,028	\$ 103	\$ 330	\$ (290)	\$ 7,276

Remaining Performance Obligations

For contracts greater than one year, at September 30, 2019, we expect to recognize revenue related to the fixed fee component of the consideration as shown below. SoCalGas did not have any such remaining performance obligations at September 30, 2019.

REMAINING PERFORMANCE OBLIGATIONS⁽¹⁾
(Dollars in millions)

	Sempra Energy Consolidated	SDG&E
2019 (excluding first nine months of 2019)	\$ 87	\$ 1
2020	409	4
2021	401	4
2022	405	4
2023	401	4
Thereafter	4,986	75
Total revenues to be recognized	\$ 6,689	\$ 92

⁽¹⁾ Excludes intercompany transactions.

Contract Balances from Revenues from Contracts with Customers

Activities within Sempra Energy's contract liabilities are presented below. There were no contract liabilities at SDG&E in the nine months ended September 30, 2018 or SoCalGas in the nine months ended September 30, 2019 and 2018.

CONTRACT LIABILITIES			
<i>(Dollars in millions)</i>			
	Sempra Energy Consolidated		SDG&E
Balance at January 1, 2019	\$	(70)	\$ —
Revenue from performance obligations satisfied during reporting period		1	—
Payments received in advance		(95)	(92)
Balance at September 30, 2019 ⁽¹⁾	\$	(164)	\$ (92)
Balance at January 1, 2018	\$	—	
Adoption of ASC 606 adjustment		(61)	
Revenue from performance obligations satisfied during reporting period		6	
Payments received in advance		(9)	
Balance at September 30, 2018	\$	(64)	

⁽¹⁾ Includes \$3 million and \$3 million in Other Current Liabilities and \$161 million and \$89 million in Deferred Credits and Other on the Sempra Energy and SDG&E Condensed Consolidated Balance Sheets, respectively.

Receivables from Revenues from Contracts with Customers

The table below shows receivable balances associated with revenues from contracts with customers on our Condensed Consolidated Balance Sheets.

RECEIVABLES FROM REVENUES FROM CONTRACTS WITH CUSTOMERS			
<i>(Dollars in millions)</i>			
	September 30, 2019		December 31, 2018
Sempra Energy Consolidated:			
Accounts receivable – trade, net	\$	875	\$ 1,106
Accounts receivable – other, net		10	11
Due from unconsolidated affiliates – current ⁽¹⁾		6	4
Assets held for sale		—	6
Total	\$	891	\$ 1,127
SDG&E:			
Accounts receivable – trade, net	\$	446	\$ 368
Accounts receivable – other, net		7	6
Due from unconsolidated affiliates – current ⁽¹⁾		3	3
Total	\$	456	\$ 377
SoCalGas:			
Accounts receivable – trade, net	\$	356	\$ 634
Accounts receivable – other, net		3	5
Total	\$	359	\$ 639

⁽¹⁾ Amount is presented net of amounts due to unconsolidated affiliates on the Condensed Consolidated Balance Sheets, when right of offset exists.

NOTE 4. REGULATORY MATTERS

We discuss regulatory matters in Note 4 of the Notes to Consolidated Financial Statements in the Annual Report, and provide updates to those discussions and information about new regulatory matters below.

REGULATORY ASSETS AND LIABILITIES

We show the details of regulatory assets and liabilities in the following table.

REGULATORY ASSETS (LIABILITIES)		
<i>(Dollars in millions)</i>		
	September 30, 2019	December 31, 2018
SDG&E:		
Fixed-price contracts and other derivatives	\$ (136)	\$ (150)
Deferred income taxes refundable in rates	(118)	(236)
Pension and other postretirement benefit plan obligations	186	186
Removal obligations	(1,999)	(1,848)
Environmental costs	26	28
Sunrise Powerlink fire mitigation	120	120
Regulatory balancing accounts ⁽¹⁾		
Commodity – electric	142	(8)
Gas transportation	17	45
Safety and reliability	76	70
Public purpose programs	(117)	(62)
2019 GRC retroactive impacts	81	—
Other balancing accounts	46	145
Other regulatory liabilities, net ⁽²⁾	(152)	(170)
Total SDG&E	<u>(1,828)</u>	<u>(1,880)</u>
SoCalGas:		
Pension and other postretirement benefit plan obligations	452	470
Employee benefit costs	49	49
Removal obligations	(754)	(833)
Deferred income taxes refundable in rates	(214)	(336)
Environmental costs	28	28
Regulatory balancing accounts ⁽¹⁾		
Commodity – gas, including transportation	(85)	196
Safety and reliability	310	332
Public purpose programs	(329)	(325)
2019 GRC retroactive impacts	286	—
Other balancing accounts	(30)	(68)
Other regulatory liabilities, net ⁽²⁾	(115)	(114)
Total SoCalGas	<u>(402)</u>	<u>(601)</u>
Sempra Mexico:		
Deferred income taxes recoverable in rates	81	81
Other regulatory assets	6	6
Total Sempra Energy Consolidated	<u>\$ (2,143)</u>	<u>\$ (2,394)</u>

⁽¹⁾ At September 30, 2019 and December 31, 2018, the noncurrent portion of regulatory balancing accounts – net undercollected for SDG&E was \$117 million and \$78 million, respectively, and for SoCalGas was \$475 million and \$185 million, respectively.

⁽²⁾ Includes regulatory assets earning a rate of return.

CALIFORNIA UTILITIES

CPUC General Rate Case

The CPUC uses GRC proceedings to set rates designed to allow the California Utilities to recover their reasonable operating costs and to provide the opportunity to realize their authorized rates of return on their investments.

2019 General Rate Case

On September 26, 2019, the CPUC issued a final decision in the 2019 GRC approving SDG&E's and SoCalGas' test year revenues for 2019 and attrition year adjustments for 2020 and 2021. This is the first GRC that includes revenues authorized for risk assessment mitigation phase activities.

The 2019 GRC FD adopts a test year 2019 revenue requirement of \$1,990 million for SDG&E's combined operations (\$1,590 million for its electric operations and \$400 million for its natural gas operations), which is \$213 million lower than the \$2,203 million that SDG&E had requested in its updated application. SDG&E's adopted 2019 revenue requirement represents an increase of \$107 million (5.70 percent) over its authorized 2018 revenue requirement.

The 2019 GRC FD adopts a test year 2019 revenue requirement of \$2,770 million for SoCalGas, which is \$167 million lower than the \$2,937 million that SoCalGas had requested in its updated application. SoCalGas' adopted 2019 revenue requirement represents an increase of \$314 million (12.80 percent) over its authorized 2018 revenue requirement.

The 2019 GRC FD retains a three-year GRC cycle for both utilities, specifying the 2020 and 2021 revenue requirement increases. The increases include separately authorized components for O&M and capital-related costs, as follows:

AUTHORIZED REVENUE REQUIREMENT INCREASES FOR 2020 AND 2021				
<i>(Dollars in millions)</i>				
	2020 increase from 2019		2021 increase from 2020	
	Revenue increase	Percent increase	Revenue increase	Percent increase
SDG&E:				
O&M	\$ 20	2.64%	\$ 19	2.47%
Capital-related costs	114	9.74	83	6.47
Total increase	\$ 134	6.74	\$ 102	4.83
SoCalGas:				
O&M	\$ 36	2.64%	\$ 34	2.40%
Capital-related costs	184	14.36	116	7.93
Total increase	\$ 220	7.92	\$ 150	5.00

We expect the adopted revenue requirements associated with the period from January 1, 2019 through September 30, 2019 to be recovered in rates through December 2021. At September 30, 2019, SDG&E recorded an associated regulatory asset of \$81 million, with \$51 million as noncurrent, and SoCalGas recorded an associated regulatory asset of \$286 million, with \$179 million as noncurrent.

The 2019 GRC FD approves for the California Utilities the establishment of two-way liability insurance premium balancing accounts, including wildfire insurance premium costs based on a specific level of coverage. The 2019 GRC FD also permits the California Utilities to seek recovery of additional liability insurance coverage.

As we discuss in Notes 4 and 8 of the Notes to Consolidated Financial Statements in the Annual Report, pursuant to the 2016 GRC FD, SDG&E and SoCalGas each established a two-way income tax expense memorandum account to track, among other items, certain revenue variances resulting from certain differences between the income tax expense forecasted in the GRC and the income tax expense incurred from 2016 through 2018. SDG&E and SoCalGas recorded regulatory liabilities associated with the 2016 through 2018 tracked forecasting differences of \$86 million and \$88 million, respectively. The 2019 GRC FD clarifies that forecasting differences, which we previously included in this tracked activity, are not subject to tracking in the income tax expense memorandum account. However, its disposition is unclear. Final resolution of the scope of the two-way income tax expense memorandum account for the 2016 through 2018 period could impact the disposition of these regulatory liabilities.

The 2016 GRC FD revenue requirement was authorized using a federal income tax rate of 35 percent. As a result of the TCJA, the federal income tax rate of 21 percent became effective January 1, 2018. Since SDG&E and SoCalGas continued to collect authorized revenues based on a 35 percent tax rate, SDG&E and SoCalGas recorded regulatory liabilities of \$88 million and \$75 million, respectively. The 2019 GRC FD instructs SDG&E and SoCalGas to refund these balances to customers in future rates. SDG&E also recorded a \$79 million regulatory liability at September 30, 2019, relating to its FERC jurisdictional rates, in anticipation of amounts that will benefit customers in future rates for the decrease in the federal income tax rate.

The California Utilities recorded revenues in the first six months of 2019 based on levels authorized for 2018 under the 2016 GRC FD because a final decision in the 2019 GRC was not issued by June 30, 2019. Since the 2019 GRC FD is effective retroactive to January 1, 2019, the California Utilities recorded the retroactive impacts in the third quarter of 2019. For SDG&E and SoCalGas, these amounts include an incremental earnings impact of \$92 million (\$66 million after tax) and \$181 million (\$130 million after tax), respectively, related to the first six months of 2019.

CPUC Cost of Capital

In April 2019, SDG&E and SoCalGas filed separate applications with the CPUC to update their cost of capital effective January 1, 2020. SDG&E proposed to adjust its authorized capital structure by increasing the amount of its common equity from 52 percent to 56 percent. SDG&E also proposed to increase its authorized ROE from 10.2 percent to 14.3 percent (with the aggregate ROE proposal including a quantified premium for wildfire liability risk), and to increase its authorized return on rate base from 7.55 percent to 10.03 percent. On August 1, 2019, SDG&E filed supplemental testimony to update its ROE request to reflect the impacts of AB 1054 and AB 111. In that supplementary testimony, SDG&E modified its proposal to increase its authorized ROE from 10.2 percent to 12.38 percent, including a revised premium for wildfire liability risk, and its authorized return on rate base from 7.55 percent to 8.95 percent. SoCalGas proposed to adjust its authorized capital structure by increasing the amount of its common equity from 52 percent to 56 percent. SoCalGas also proposed to increase its authorized ROE from 10.05 percent to 10.7 percent and to increase its authorized return on rate base from 7.34 percent to 7.85 percent. Intervenor are proposing a ROE for SDG&E ranging from 8.49 percent to 9.65 percent and for SoCalGas ranging from 8.49 percent to 9.63 percent. Intervenor have also proposed authorized returns on rate base for SDG&E ranging from 6.62 percent to 7.22 percent and for SoCalGas ranging from 6.45 percent to 6.72 percent. Intervenor also propose that the common equity levels remain authorized at 52 percent at both SDG&E and SoCalGas. The schedule for the proceeding indicates a final decision in the fourth quarter of 2019.

SDG&E

FERC Formulaic Rate Filing

In October 2018, SDG&E submitted its TO5 filing to the FERC. This proceeding establishes the transmission revenue requirement, including rate of return, for SDG&E's FERC-regulated electric transmission operations and assets. SDG&E's TO5 filing proposed, among other items, an increase to SDG&E's current authorized FERC ROE from 10.05 percent to 11.2 percent. On December 31, 2018, the FERC issued its order accepting and suspending SDG&E's TO5 filing and established hearing and settlement procedures. In the order, the FERC suspended the TO5 filing for five months, during which the existing TO4 rates remained in effect. The suspension period ended on June 1, 2019, when the proposed TO5 rates took effect, subject to refund and the outcome of the rate filing. As a result, until a new ROE is authorized, the current ROE of 10.05 percent is the basis of SDG&E's FERC-related revenue recognition. In July 2019, the settlement judge reported that SDG&E and the parties engaged in settlement negotiations had reached an impasse and directed the matter forward to hearings, which does not preclude continued settlement discussions among SDG&E and settling parties.

In September 2019, the settlement judge issued an order suspending the hearing schedule for 60 days in anticipation of a settlement between the parties. In October 2019, SDG&E and settling parties reached an agreement on all issues set for hearing in the proceeding. The agreement provides for a ROE of 10.60 percent, consisting of a base ROE of 10.10 percent plus an additional 50 bps for participation in the California ISO. SDG&E will refund the California ISO additional 50 bps of ROE as of the refund effective date (June 1, 2019) in this proceeding if the FERC issues an order ruling that California IOUs are no longer eligible for the additional California ISO ROE. The agreement also includes the collection of additional FERC revenues of \$17 million to conclude a rate base matter, net of certain refunds to be paid to CPUC-jurisdictional customers. We expect a FERC order on the settlement terms in the first half of 2020.

When we receive a final decision, SDG&E expects to record the cumulative earnings effect of retroactive application to June 1, 2019 for any difference between the current ROE and the approved ROE.

SOCALGAS

Billing Practices OII

In May 2017, the CPUC issued an OII to determine whether SoCalGas violated any provisions of the California Public Utilities Code, General Orders, CPUC decisions, or other requirements pertaining to billing practices from 2014 through 2016. The CPUC examined the timeliness of monthly bills, extending the billing period for customers, and issuing estimated bills, including an examination of SoCalGas' gas tariff rules. In January 2019, the CPUC ordered SoCalGas to pay \$8 million in penalties, including \$3 million that was paid in July 2019 to California's general fund and \$5 million to be credited to customers that received delayed bills (greater than 45 days) in the form of a \$100 bill credit. SoCalGas filed an appeal of the CPUC's conclusions in the order, which, in April 2019, the CPUC denied. SoCalGas filed a rehearing request on May 28, 2019, which is pending before the CPUC. The CPUC granted SoCalGas' request to delay distribution of the \$100 bill credit to customers until a final decision on the rehearing.

NOTE 5. ACQUISITIONS, DIVESTITURES AND DISCONTINUED OPERATIONS

We consolidate assets acquired and liabilities assumed as of the purchase date and include earnings from acquisitions in consolidated earnings after the purchase date.

ACQUISITIONS

Sempra Texas Utilities

Oncor Holdings

On March 9, 2018, Sempra Energy completed the acquisition of an indirect, 100-percent interest in Oncor Holdings, which owned 80.03 percent of Oncor, and other EFH assets and liabilities unrelated to Oncor, pursuant to the Merger Agreement with EFH. Under the Merger Agreement, we paid Merger Consideration of \$9.45 billion in cash and an additional \$31 million representing an adjustment for dividends and payments pursuant to a tax sharing agreement with Oncor and Oncor Holdings. Also on March 9, 2018, in a separate transaction, Sempra Energy, through its interest in Oncor Holdings, acquired an additional 0.22 percent of the outstanding membership interests in Oncor from OMI for \$26 million in cash, bringing Sempra Energy's indirect ownership in Oncor to 80.25 percent. TTI, an investment vehicle indirectly owned by third parties unaffiliated with Oncor Holdings or Sempra Energy, continues to own 19.75 percent of Oncor's outstanding membership interests. We discuss this acquisition, including the purchase price allocation, in Note 5 of the Notes to Consolidated Financial Statements in the Annual Report.

After satisfying all conditions precedent, including final approval from the PUCT, on May 16, 2019, Oncor completed the acquisition of 100 percent of the issued and outstanding shares of InfraREIT and 100 percent of the limited partnership units of its subsidiary, InfraREIT Partners, pursuant to the InfraREIT Merger Agreement. Under the InfraREIT Merger Agreement, Oncor paid merger consideration of \$1,275 million, or \$21 per share, plus certain transaction costs incurred by InfraREIT and its subsidiaries and paid by Oncor on their behalf, including \$40 million for a management agreement termination fee. In connection with and immediately after the closing, Oncor also extinguished all of InfraREIT's outstanding debt (totaling \$953 million) by repaying an aggregate principal amount of \$602 million on behalf of InfraREIT's subsidiaries (using proceeds from a term loan and issuances of commercial paper), and exchanging an aggregate principal amount of \$351 million of secured senior notes issued by InfraREIT subsidiaries for secured senior notes issued by Oncor. Oncor received a total of \$1,330 million in capital contributions from Sempra Energy and certain indirect equity holders of TTI, proportionate to their respective ownership interest in Oncor, to fund the purchase price and certain expenses. We discuss Sempra Energy's contribution in Note 6.

As part of Oncor's acquisition of interests in InfraREIT, immediately prior to closing the InfraREIT Merger Agreement, SDTS accepted and assumed certain assets and liabilities of SU in exchange for certain SDTS assets, pursuant to the Asset Exchange Agreement. SDTS received real property and other assets used in the electric transmission and distribution business in Central, North and West Texas, as well as the equity interests in GS Project Entity, LLC (a wholly owned subsidiary of SU) and SU received real property and other assets used in the electric transmission and distribution business near the Texas-Mexico border. Pursuant to the Asset Exchange Agreement, immediately prior to the completion of the exchange, SDTS became a wholly owned, indirect subsidiary of InfraREIT Partners.

Sharyland Holdings

On May 16, 2019, Sempra Energy acquired an indirect, 50-percent interest in Sharyland Holdings for \$102 million (subject to customary closing adjustments) pursuant to the Securities Purchase Agreement. In connection with and prior to the consummation of the Securities Purchase Agreement, Sharyland Holdings owned 100 percent of the membership interests in SU and SU converted into a limited liability company, named Sharyland Utilities, L.L.C. We account for our indirect, 50-percent interest in Sharyland Holdings as an equity method investment.

Sempra South American Utilities

Compañía Transmisora del Norte Grande S.A.

On December 18, 2018, Chilquinta Energía acquired a 100-percent interest in Compañía Transmisora del Norte Grande S.A. through a sales and purchase agreement with AES Gener S.A. and its subsidiary Sociedad Eléctrica Angamos S.A. We completed the acquisition for a purchase price of \$226 million and paid \$208 million (net of \$18 million cash acquired) with available cash on hand at Sempra South American Utilities.

We accounted for this business combination using the acquisition method of accounting. We allocated the \$208 million in cash paid (\$226 million purchase price less \$18 million of cash acquired) to the identifiable assets acquired and liabilities assumed based on their respective fair values, with the excess recognized as goodwill, which is included in assets held for sale in discontinued operations. We consider the purchase price allocation at the acquisition date to be final.

We discuss this acquisition, including the purchase price allocation, in Note 5 of the Notes to Consolidated Financial Statements in the Annual Report.

DIVESTITURES

In June 2018, our board of directors approved a plan to divest certain non-utility natural gas storage assets in the southeast U.S., and all our U.S. wind and U.S. solar assets (collectively, the Assets). As a result of our plan to sell the Assets, we recorded impairment charges totaling \$1.5 billion (\$900 million after tax and NCI) in June 2018. These charges included \$1.3 billion (\$755 million after tax and NCI) at Sempra LNG, which is included in Impairment Losses on Sempra Energy's Condensed Consolidated Statements of Operations, and \$200 million (\$145 million after tax) at Sempra Renewables, which is included in Equity Earnings on Sempra Energy's Condensed Consolidated Statements of Operations for the nine months ended September 30, 2018. These impairment charges primarily represented an adjustment of the related assets' carrying values to estimated fair values, less costs to sell when applicable, which we discuss in Notes 6 and 12 of the Notes to Consolidated Financial Statements in the Annual Report.

Sempra Renewables

In April 2019, Sempra Renewables completed the sale of its remaining wind assets and investments to AEP for \$569 million, net of transaction costs, and recorded a \$61 million (\$45 million after tax and NCI) gain, which is included in Gain on Sale of Assets on the Condensed Consolidated Statements of Operations for the nine months ended September 30, 2019. Upon completion of the sale, remaining nominal business activities at Sempra Renewables were subsumed into Parent and other and the Sempra Renewables segment ceased to exist.

Sempra LNG

On February 7, 2019, Sempra LNG completed the sale of its non-utility natural gas storage assets in the southeast U.S. (comprised of Mississippi Hub and Bay Gas), which we classified as held for sale at December 31, 2018, to an affiliate of ArcLight Capital Partners and received cash proceeds of \$322 million, net of transaction costs. In January 2019, Sempra LNG completed the sale of other non-utility assets for \$5 million.

DISCONTINUED OPERATIONS

On January 25, 2019, our board of directors approved a plan to sell our South American businesses. We determined that these businesses, which previously constituted the Sempra South American Utilities segment, and certain activities associated with those businesses, met the held-for-sale criteria. These businesses are presented as discontinued operations, as the planned sales represent a strategic shift that will have a major effect on our operations and financial results. We do not plan to have significant continuing involvement in or be able to exercise significant influence on the operating or financial policies of these operations after they are sold. Accordingly, the results of operations, financial position and cash flows for these businesses have been reclassified to discontinued operations for all periods presented.

Discontinued operations that were previously in the Sempra South American Utilities segment include our 100-percent interest in Chilquinta Energía in Chile, our 83.6-percent interest in Luz del Sur in Peru and our interests in two energy-services companies, Tecnored and Tecsur, which provide electric construction and infrastructure services to Chilquinta Energía and Luz del Sur, respectively, as well as third parties.

On September 27, 2019, we entered into a Purchase and Sale Agreement with China Yangtze Power International (Hongkong) Co., Limited to sell our equity interests in our Peruvian businesses, including our 83.6-percent interest in Luz del Sur and its indirect ownership interest in Tecsur, for an aggregate base purchase price of \$3.59 billion, subject to customary closing adjustments for working capital and changes in net indebtedness. The sale is subject to various conditions to closing, including approvals from the Peruvian anti-trust authority and the Bermuda Monetary Authority. We expect the sale to close in the first quarter of 2020.

On October 12, 2019, we entered into a Purchase and Sale Agreement with State Grid International Development Limited to sell our equity interests in our Chilean businesses, including our 100-percent interest in Chilquinta Energía and Tecnored and our 50-percent interest in Eletrans, for an aggregate base purchase price of \$2.23 billion, subject to customary adjustments for working capital and changes in net indebtedness and other adjustments. Chilquinta Energía also agreed to purchase the remaining 50-percent interest in Eletrans from Sociedad Austral de Electricidad S.A., contingent on the sale of our Chilean businesses to State Grid International Development Limited. This acquisition by Chilquinta Energía would result in State Grid International Development Limited acquiring 100 percent of Eletrans, which we do not expect will have a significant economic impact on the sale of our Chilean businesses. The sale of our Chilean businesses is subject to various conditions to closing, including approval by the Chilean anti-trust authority, certain Chinese regulatory approvals and approval by the Bermuda Monetary Authority, but is not subject to Chilquinta Energía purchasing the remaining 50-percent interest in Eletrans. We expect the sale to close in the first quarter of 2020.

Summarized results from discontinued operations were as follows:

DISCONTINUED OPERATIONS

(Dollars in millions)

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Revenues	\$ 398	\$ 375	\$ 1,222	\$ 1,190
Cost of sales	(249)	(246)	(765)	(794)
Operating expenses	(38)	(41)	(123)	(151)
Interest and other	(3)	(6)	(12)	(15)
Income before income taxes and equity earnings	108	82	322	230
Income tax benefit (expense)	148	(28)	(32)	(94)
Equity earnings	—	—	2	1
Income from discontinued operations, net of income tax	256	54	292	137
Earnings attributable to noncontrolling interests	(8)	(8)	(25)	(22)
Earnings from discontinued operations attributable to common shares	\$ 248	\$ 46	\$ 267	\$ 115

The following table summarizes the carrying amounts of the major classes of assets and related liabilities classified as held for sale in discontinued operations.

ASSETS HELD FOR SALE IN DISCONTINUED OPERATIONS

(Dollars in millions)

	September 30, 2019	December 31, 2018
Cash and cash equivalents	\$ 359	\$ 88
Restricted cash ⁽¹⁾	1	—
Accounts receivable, net	290	315
Due from unconsolidated affiliates	2	2
Inventories	44	38
Other current assets	24	16
Current assets	<u>\$ 720</u>	<u>\$ 459</u>
Due from unconsolidated affiliates	\$ 51	\$ 44
Goodwill and other intangible assets	803	819
Property, plant and equipment, net	2,502	2,357
Other noncurrent assets	39	39
Noncurrent assets	<u>\$ 3,395</u>	<u>\$ 3,259</u>
Short-term debt	\$ 75	\$ 55
Accounts payable	165	176
Dividends payable	428	8
Current portion of long-term debt and finance leases	39	29
Other current liabilities	97	100
Current liabilities	<u>\$ 804</u>	<u>\$ 368</u>
Long-term debt and finance leases	\$ 687	\$ 708
Deferred income taxes	274	250
Other noncurrent liabilities	62	55
Noncurrent liabilities	<u>\$ 1,023</u>	<u>\$ 1,013</u>

⁽¹⁾ Primarily represents funds held in accordance with Peruvian tax law.

At September 30, 2019 and December 31, 2018, \$549 million and \$506 million, respectively, of cumulative foreign currency translation adjustments related to our South American businesses are included in AOCI.

NOTE 6. INVESTMENTS IN UNCONSOLIDATED ENTITIES

We generally account for investments under the equity method when we have significant influence over, but do not have control of, these entities. Equity earnings and losses, both before and net of income tax, are combined and presented as Equity Earnings on the Condensed Consolidated Statements of Operations. See Note 1 for information on how equity earnings and losses before income taxes are factored into the calculations of our pretax income or loss and ETR.

Our equity method investments include various domestic and foreign entities. Our domestic equity method investees are typically partnerships that are pass-through entities for income tax purposes and therefore they do not record income tax. Sempra Energy's income tax on earnings from these equity method investees, other than Oncor Holdings as we discuss below, is included in Income Tax (Expense) Benefit on the Condensed Consolidated Statement of Operations. Our foreign equity method investees are corporations whose operations are generally taxable on a standalone basis in the countries in which they operate, and we recognize our equity in such income or loss net of investee income tax.

Oncor is a domestic partnership for U.S. federal income tax purposes and is not included in the consolidated income tax return of Sempra Energy. Rather, only our pretax equity earnings from our investment in Oncor Holdings (a disregarded entity for tax purposes) are included in our consolidated income tax return. A tax sharing agreement with TTI, Oncor Holdings and Oncor provides for the calculation of an income tax liability substantially as if Oncor Holdings and Oncor were taxed as corporations.

and requires tax payments determined on that basis. While partnerships are not subject to income taxes, in consideration of the tax sharing agreement and Oncor being subject to the provisions of U.S. GAAP governing rate-regulated operations, Oncor recognizes amounts determined under cost-based regulatory rate-setting processes (with such costs including income taxes), as if it were taxed as a corporation. As a result, since Oncor Holdings consolidates Oncor, we recognize equity earnings from our investment in Oncor Holdings net of its recorded income tax.

We provide additional information concerning our equity method investments in Note 5 above and in Notes 5 and 6 of the Notes to Consolidated Financial Statements in the Annual Report.

SEMPRA TEXAS UTILITIES

Oncor Holdings

We account for our 100-percent ownership interest in Oncor Holdings as an equity method investment. Due to the ring-fencing measures, governance mechanisms, and commitments in effect following the Merger, we do not have the power to direct the significant activities of Oncor Holdings and Oncor. See Note 6 of the Notes to Consolidated Financial Statements in the Annual Report for additional information related to the restrictions on our ability to direct the significant activities of Oncor Holdings and Oncor.

Sempra Energy contributed cash of \$1,236 million and \$117 million to Oncor in the nine months ended September 30, 2019 and 2018, respectively. The 2019 contributions include \$1,067 million to fund Oncor's May 2019 acquisition of interests in InfraREIT and certain acquisition-related expenses, which we discuss in Note 5. In the nine months ended September 30, 2019 and 2018, Oncor Holdings distributed to Sempra Energy \$162 million and \$9 million, respectively, in dividends and \$9 million and \$15 million, respectively, in tax sharing payments.

We provide summarized income statement information for Oncor Holdings in the following table.

SUMMARIZED FINANCIAL INFORMATION – ONCOR HOLDINGS

(Dollars in millions)

	Three months ended September 30,		Nine months ended September	
	2019	2018	30, 2019	March 9 - September 30, 2018
Operating revenues	\$ 1,211	\$ 1,095	\$ 3,268	\$ 2,352
Operating expense	(787)	(748)	(2,319)	(1,663)
Income from operations	424	347	949	689
Interest expense	(97)	(89)	(276)	(198)
Income tax expense	(53)	(53)	(106)	(105)
Net income	261	191	511	351
Noncontrolling interest held by TTI	(52)	(38)	(102)	(70)
Earnings attributable to Sempra Energy	209	153	409	281

Sharyland Holdings

As we discuss in Note 5, on May 16, 2019, we acquired an indirect, 50-percent interest in Sharyland Holdings for \$102 million (subject to customary closing adjustments), which we account for as an equity method investment.

SEMPRA MEXICO

Sempra Mexico invested cash of \$45 million in the IMG JV in the nine months ended September 30, 2018.

SEMPRA RENEWABLES

As we discuss in Note 5, Sempra Renewables recorded an other-than-temporary impairment on certain of its wind equity method investments totaling \$200 million in June 2018. In April 2019, Sempra Renewables completed the sale of its remaining wind assets and investments.

SEMPRA LNG

Sempra LNG capitalized \$32 million and \$34 million of interest in the nine months ended September 30, 2019 and 2018, respectively, related to its investment in Cameron LNG JV. In August 2019, the first of three trains of the Cameron LNG liquefaction project commenced commercial operation under the JV's tolling agreements. In the nine months ended September 30, 2019 and 2018, Sempra LNG invested cash of \$77 million and \$149 million, respectively, in this unconsolidated JV.

RBS SEMPra COMMODITIES

In September 2018, we fully impaired our remaining equity method investment in RBS Sempra Commodities by recording a charge of \$65 million in Equity Earnings on Sempra Energy's Condensed Consolidated Statement of Operations. We discuss matters related to RBS Sempra Commodities further in Note 11.

GUARANTEES

At September 30, 2019, we had outstanding guarantees aggregating a maximum of \$3.9 billion. The related carrying value of these guarantees was fully amortized at September 30, 2019. We discuss these guarantees in Note 6 of the Notes to Consolidated Financial Statements in the Annual Report.

NOTE 7. DEBT AND CREDIT FACILITIES

LINES OF CREDIT

Primary U.S. Committed Lines of Credit

Sempra Energy and Sempra Global

On May 17, 2019, Sempra Energy and Sempra Global each entered into a separate five-year credit agreement, both expiring in May 2024. The credit agreements permit borrowings of up to \$1.25 billion by Sempra Energy and \$3.19 billion by Sempra Global. For both credit facilities, Citibank, N.A. serves as administrative agent for a syndicate of 23 lenders and no single lender has greater than a 6-percent share of either credit facility. The credit agreements supersede Sempra Energy's \$1.25 billion credit agreement and Sempra Global's \$3.19 billion credit agreement, which were both set to expire in 2020. Borrowings for each credit facility bear interest at benchmark rates plus a margin based on Sempra Energy's credit ratings.

California Utilities

On May 17, 2019, SDG&E and SoCalGas each entered into a separate five-year credit agreement, both expiring in May 2024. The credit agreements permit borrowings of up to \$1.5 billion by SDG&E and \$750 million by SoCalGas. For both credit facilities, JPMorgan Chase Bank, N.A. serves as administrative agent for a syndicate of 23 lenders and no single lender has greater than a 6-percent share of either credit facility. The credit agreements replaced the California Utilities' combined \$1 billion credit agreement, which had a maximum of \$750 million that could be borrowed by either utility, that was set to expire in 2020. Borrowings for each credit facility bear interest at benchmark rates plus a margin based on the borrowing utility's credit ratings.

At September 30, 2019, these four primary U.S. committed lines of credit permit Sempra Energy Consolidated to borrow an aggregate amount of approximately \$6.69 billion. The principal terms of these committed lines of credit, which provide liquidity and support commercial paper, are described below.

PRIMARY U.S. COMMITTED LINES OF CREDIT*(Dollars in millions)*

	September 30, 2019		
	Total facility	Commercial paper outstanding ⁽¹⁾	Available unused credit
Sempra Energy ⁽²⁾	\$ 1,250	\$ —	\$ 1,250
Sempra Global ⁽³⁾	3,185	(2,345)	840
SDG&E ⁽⁴⁾	1,500	—	1,500
SoCalGas ⁽⁴⁾	750	(108)	642
Total	\$ 6,685	\$ (2,453)	\$ 4,232

⁽¹⁾ Because the commercial paper programs are supported by these lines, we reflect the amount of commercial paper outstanding as a reduction to the available unused credit.

⁽²⁾ The facility also provides for issuance of \$200 million of letters of credit on behalf of Sempra Energy with the amount of borrowings otherwise available under the facility reduced by the amount of outstanding letters of credit. Subject to obtaining commitments from existing or new lenders and satisfaction of other specified conditions, Sempra Energy has the right to increase the letter of credit commitment up to \$500 million. No letters of credit were outstanding at September 30, 2019.

⁽³⁾ Commercial paper outstanding is before reductions of unamortized discount of \$3 million. Sempra Energy guarantees Sempra Global's obligations under the credit facility.

⁽⁴⁾ The facility also provides for issuance of \$100 million of letters of credit on behalf of the borrowing utility with the amount of borrowings otherwise available under the facility reduced by the amount of outstanding letters of credit. Subject to obtaining commitments from existing or new lenders and satisfaction of other specified conditions, the borrowing utility has the right to increase the letter of credit commitment up to \$250 million. No letters of credit were outstanding at September 30, 2019.

Sempra Energy, SDG&E and SoCalGas each must maintain a ratio of indebtedness to total capitalization (as defined in each of the applicable credit facilities) of no more than 65 percent at the end of each quarter. At September 30, 2019, each entity was in compliance with this ratio and all other financial covenants under its respective credit facility.

Foreign Committed Lines of Credit

In February 2019, IEnova revised the terms of its five-year revolving credit facility by increasing the amount available under the facility from \$1.17 billion to \$1.50 billion, extending the expiration of the facility from August 2020 to February 2024 and increasing the syndicate of lenders from eight to 10. At September 30, 2019, available unused credit on this line was approximately \$642 million.

On April 11, 2019, IEnova entered into a three-year, \$100 million revolving credit agreement with Scotiabank Inverlat, S.A. Under the agreement, withdrawals may be made for up to one year in either U.S. dollars or Mexican pesos. At September 30, 2019, available unused credit was \$100 million.

On September 23, 2019, IEnova entered into a two-year, \$280 million revolving credit agreement with The Bank of Nova Scotia. Under the agreement, withdrawals may be made for up to two years in U.S. dollars. At September 30, 2019, there was no available unused credit.

Letters of Credit

Outside of our domestic and foreign committed credit facilities, we have bilateral unsecured standby letter of credit capacity with select lenders that is uncommitted and supported by reimbursement agreements. At September 30, 2019, we had approximately \$648 million in standby letters of credit outstanding under these agreements.

WEIGHTED-AVERAGE INTEREST RATES

The weighted-average interest rates on total short-term debt at Sempra Energy Consolidated were 2.62 percent and 2.99 percent at September 30, 2019 and December 31, 2018, respectively. The weighted-average interest rate on total short-term debt at SDG&E was 2.97 percent at December 31, 2018. The weighted-average interest rates on total short-term debt at SoCalGas were 2.06 percent and 2.58 percent at September 30, 2019 and December 31, 2018, respectively.

LONG-TERM DEBT

Sempra Energy

In June 2019, we issued \$758 million of 5.75-percent, junior subordinated notes maturing in 2079, with a par value of \$25 per note. We received proceeds of \$735 million (net of underwriting discounts of \$23 million). We used the proceeds from the offering to repay outstanding commercial paper and for other general corporate purposes. We may redeem some or all of the notes before their maturity, as follows:

- on or after October 1, 2024, at a redemption price equal to 100 percent of the principal amount, plus accrued and unpaid interest;
- before October 1, 2024, if the U.S. federal tax law or regulations are amended or certain other events occur such that there is more than insubstantial risk that interest payable on the notes would no longer be deductible for federal income tax purposes, at a redemption price equal to 100 percent of the principal amount, plus accrued and unpaid interest; or
- before October 1, 2024, if a credit rating agency publicly changes certain equity credit methodology for securities such as these notes that results in a shortening of the length of time for equity credit initially assigned or lowers the equity credit initially assigned, at a redemption price equal to 102 percent of the principal amount, plus accrued and unpaid interest.

The notes are unsecured obligations and rank junior and subordinate in right of payment to our existing and future senior indebtedness. The notes will rank equally in right of payment with any future unsecured indebtedness that we may incur if the terms of such indebtedness provide that it ranks equally with the notes in right of payment. The notes are effectively subordinated in right of payment to any secured indebtedness that we have or may incur and to all indebtedness and other liabilities of our subsidiaries.

SDG&E

In May 2019, SDG&E issued \$400 million of 4.10-percent, first mortgage bonds maturing in 2049. We received proceeds of \$396 million (net of underwriting discounts and debt issuance costs of \$4 million). SDG&E used the proceeds from the offering to repay outstanding commercial paper and for other general corporate purposes.

As we discuss in “Variable Interest Entities” in Note 1, on August 23, 2019, SDG&E deconsolidated Otay Mesa VIE. Prior to deconsolidation, on August 14, 2019, OMEC LLC paid in full the \$211 million outstanding balance on its variable-rate loan that was scheduled to mature in August 2024. We describe this loan agreement and related floating-to-fixed interest rate swaps in Note 7 of the Notes to Consolidated Financial Statements in the Annual Report. We provide additional information concerning the interest rate swaps in Note 8.

SoCalGas

In June 2019, SoCalGas issued \$350 million of 3.95-percent, first mortgage bonds maturing in 2050. We received proceeds of \$346 million (net of debt discount, underwriting discounts and debt issuance costs of \$4 million). SoCalGas used the proceeds from the offering to repay outstanding commercial paper and for other general corporate purposes.

INTEREST RATE SWAPS

In February 2019, Sempra Energy entered into floating-to-fixed interest rate swaps to hedge interest payments on the \$850 million of variable rate notes issued in October 2017 and maturing in March 2021, resulting in an all-in fixed rate of 3.069 percent. We discuss our interest rate swaps to hedge cash flows in Note 8.

NOTE 8. DERIVATIVE FINANCIAL INSTRUMENTS

We use derivative instruments primarily to manage exposures arising in the normal course of business. Our principal exposures are commodity market risk, benchmark interest rate risk and foreign exchange rate exposures. Our use of derivatives for these risks is integrated into the economic management of our anticipated revenues, anticipated expenses, assets and liabilities. Derivatives may be effective in mitigating these risks (1) that could lead to declines in anticipated revenues or increases in anticipated expenses, or (2) that our asset values may fall or our liabilities increase. Accordingly, our derivative activity summarized below generally represents an impact that is intended to offset associated revenues, expenses, assets or liabilities that are not included in the tables below.

In certain cases, we apply the normal purchase or sale exception to derivative instruments and have other commodity contracts that are not derivatives. These contracts are not recorded at fair value and are therefore excluded from the disclosures below.

In all other cases, we record derivatives at fair value on the Condensed Consolidated Balance Sheets. We have derivatives that are either (1) cash flow hedges, (2) fair value hedges, or (3) undesignated. Depending on the applicability of hedge accounting and, for the California Utilities and other operations subject to regulatory accounting, the requirement to pass impacts through to customers, the impact of derivative instruments may be offset in OCI (cash flow hedges), on the balance sheet (regulatory offsets), or recognized in earnings (fair value hedges). We classify cash flows from the principal settlements of cross-currency swaps that hedge exposure related to Mexican peso-denominated debt as financing activities and settlements of other derivative instruments as operating activities on the Condensed Consolidated Statements of Cash Flows.

HEDGE ACCOUNTING

We may designate a derivative as a cash flow hedging instrument if it effectively converts anticipated cash flows associated with revenues or expenses to a fixed dollar amount. We may utilize cash flow hedge accounting for derivative commodity instruments, foreign currency instruments and interest rate instruments. Designating cash flow hedges is dependent on the business context in which the instrument is being used, the effectiveness of the instrument in offsetting the risk that the future cash flows of a given revenue or expense item may vary, and other criteria.

ENERGY DERIVATIVES

Our market risk is primarily related to natural gas and electricity price volatility and the specific physical locations where we transact. We use energy derivatives to manage these risks. The use of energy derivatives in our various businesses depends on the particular energy market, and the operating and regulatory environments applicable to the business, as follows:

- The California Utilities use natural gas and electricity derivatives, for the benefit of customers, with the objective of managing price risk and basis risks, and stabilizing and lowering natural gas and electricity costs. These derivatives include fixed price natural gas and electricity positions, options, and basis risk instruments, which are either exchange-traded or over-the-counter financial instruments, or bilateral physical transactions. This activity is governed by risk management and transacting activity plans that have been filed with and approved by the CPUC. Natural gas and electricity derivative activities are recorded as commodity costs that are offset by regulatory account balances and are recovered in rates. Net commodity cost impacts on the Condensed Consolidated Statements of Operations are reflected in Cost of Electric Fuel and Purchased Power or in Cost of Natural Gas.
- SDG&E is allocated and may purchase CRRs, which serve to reduce the regional electricity price volatility risk that may result from local transmission capacity constraints. Unrealized gains and losses do not impact earnings, as they are offset by regulatory account balances. Realized gains and losses associated with CRRs, which are recoverable in rates, are recorded in Cost of Electric Fuel and Purchased Power on the Condensed Consolidated Statements of Operations.
- Sempra Mexico and Sempra LNG may use natural gas and electricity derivatives, as appropriate, to optimize the earnings of their assets which support the following businesses: LNG, natural gas transportation and storage, and power generation. Gains and losses associated with undesignated derivatives are recognized in Energy-Related Businesses Revenues or in Energy-Related Businesses Cost of Sales on the Condensed Consolidated Statements of Operations. Certain of these derivatives may also be designated as cash flow hedges. Sempra Mexico may also use natural gas energy derivatives with the objective of managing price risk and lowering natural gas prices at its distribution operations. These derivatives, which are recorded as commodity costs that are offset by regulatory account balances and recovered in rates, are recognized in Cost of Natural Gas on the Condensed Consolidated Statements of Operations.
- From time to time, our various businesses, including the California Utilities, may use other energy derivatives to hedge exposures such as the price of vehicle fuel and GHG allowances.

The following table summarizes net energy derivative volumes.

NET ENERGY DERIVATIVE VOLUMES				
<i>(Quantities in millions)</i>				
Commodity	Unit of measure	September 30, 2019	December 31, 2018	
Sempra Energy Consolidated:				
Natural gas	MMBtu	30	35	
Electricity	MWh	2	2	
Congestion revenue rights	MWh	47	52	
SDG&E:				
Natural gas	MMBtu	34	33	
Electricity	MWh	2	2	
Congestion revenue rights	MWh	47	52	

In addition to the amounts noted above, we use commodity derivatives to manage risks associated with the physical locations of contractual obligations and assets, such as natural gas purchases and sales.

INTEREST RATE DERIVATIVES

We are exposed to interest rates primarily as a result of our current and expected use of financing. The California Utilities, as well as Sempra Energy and its other subsidiaries and JVs, periodically enter into interest rate derivative agreements intended to moderate our exposure to interest rates and to lower our overall costs of borrowing. In addition, we may utilize interest rate swaps, typically designated as cash flow hedges, to lock in interest rates on outstanding debt or in anticipation of future financings. Separately, Otay Mesa VIE previously entered into interest rate swap agreements, designated as cash flow hedges, to moderate its exposure to interest rate changes.

The following table presents the net notional amounts of our interest rate derivatives, excluding JVs.

INTEREST RATE DERIVATIVES					
<i>(Dollars in millions)</i>					
	September 30, 2019			December 31, 2018	
	Notional debt	Maturities		Notional debt	Maturities
Sempra Energy Consolidated:					
Cash flow hedges ⁽¹⁾	\$ 1,259	2019-2032		\$ 594	2019-2032
SDG&E:					
Cash flow hedge ⁽¹⁾	—	—		142	2019

⁽¹⁾ Includes Otay Mesa VIE. All of SDG&E's interest rate derivatives relate to Otay Mesa VIE. On August 14, 2019, OMEC LLC paid in full its variable-rate loan and terminated its interest rate swaps.

FOREIGN CURRENCY DERIVATIVES

We utilize cross-currency swaps to hedge exposure related to Mexican peso-denominated debt at our Mexican subsidiaries and JVs. These cash flow hedges exchange our Mexican peso-denominated principal and interest payments into the U.S. dollar and swap Mexican variable interest rates for U.S. fixed interest rates. From time to time, Sempra Mexico and its JVs may use other foreign currency derivatives to hedge exposures related to cash flows associated with revenues from contracts denominated in Mexican pesos that are indexed to the U.S. dollar.

We are also exposed to exchange rate movements at our Mexican subsidiaries and JVs, which have U.S. dollar-denominated cash balances, receivables, payables and debt (monetary assets and liabilities) that give rise to Mexican currency exchange rate movements for Mexican income tax purposes. They also have deferred income tax assets and liabilities denominated in the Mexican peso, which must be translated to U.S. dollars for financial reporting purposes. In addition, monetary assets and liabilities and certain nonmonetary assets and liabilities are adjusted for Mexican inflation for Mexican income tax purposes. We utilize foreign currency derivatives as a means to manage the risk of exposure to significant fluctuations in our income tax expense and equity earnings from these impacts; however, we generally do not hedge our deferred income tax assets and liabilities or for inflation.

The following table presents the net notional amounts of our foreign currency derivatives, excluding JVs.

FOREIGN CURRENCY DERIVATIVES				
<i>(Dollars in millions)</i>				
	September 30, 2019		December 31, 2018	
	Notional amount	Maturities	Notional amount	Maturities
Sempra Energy Consolidated:				
Cross-currency swaps	\$ 306	2019-2023	\$ 306	2019-2023
Other foreign currency derivatives	1,242	2019-2021	1,158	2019-2020

FINANCIAL STATEMENT PRESENTATION

The Condensed Consolidated Balance Sheets reflect the offsetting of net derivative positions and cash collateral with the same counterparty when a legal right of offset exists. The following tables provide the fair values of derivative instruments on the Condensed Consolidated Balance Sheets, including the amount of cash collateral receivables that were not offset, as the cash collateral was in excess of liability positions.

DERIVATIVE INSTRUMENTS ON THE CONDENSED CONSOLIDATED BALANCE SHEETS
(Dollars in millions)

September 30, 2019

	Current assets: Other ⁽¹⁾	Other assets: Sundry	Current liabilities: Other	Deferred credits and other liabilities: Deferred credits and other
Sempra Energy Consolidated:				
Derivatives designated as hedging instruments:				
Interest rate and foreign exchange instruments	\$ —	\$ —	\$ (12)	\$ (157)
Derivatives not designated as hedging instruments:				
Foreign exchange instruments	12	—	(3)	—
Associated offsetting foreign exchange instruments	(3)	—	3	—
Commodity contracts not subject to rate recovery	31	11	(39)	(9)
Associated offsetting commodity contracts	(29)	(1)	29	1
Commodity contracts subject to rate recovery	22	245	(48)	(53)
Associated offsetting commodity contracts	(5)	(2)	5	2
Associated offsetting cash collateral	—	—	13	2
Net amounts presented on the balance sheet	28	253	(52)	(214)
Additional cash collateral for commodity contracts not subject to rate recovery	18	—	—	—
Additional cash collateral for commodity contracts subject to rate recovery	17	—	—	—
Total ⁽²⁾	\$ 63	\$ 253	\$ (52)	\$ (214)
SDG&E:				
Derivatives not designated as hedging instruments:				
Commodity contracts subject to rate recovery	\$ 14	\$ 245	\$ (42)	\$ (53)
Associated offsetting commodity contracts	(3)	(2)	3	2
Associated offsetting cash collateral	—	—	13	2
Net amounts presented on the balance sheet	11	243	(26)	(49)
Additional cash collateral for commodity contracts subject to rate recovery	14	—	—	—
Total ⁽²⁾	\$ 25	\$ 243	\$ (26)	\$ (49)
SoCalGas:				
Derivatives not designated as hedging instruments:				
Commodity contracts subject to rate recovery	\$ 8	\$ —	\$ (6)	\$ —
Associated offsetting commodity contracts	(2)	—	2	—
Net amounts presented on the balance sheet	6	—	(4)	—
Additional cash collateral for commodity contracts subject to rate recovery	3	—	—	—
Total	\$ 9	\$ —	\$ (4)	\$ —

⁽¹⁾ Included in Current Assets: Fixed-Price Contracts and Other Derivatives for SDG&E.

⁽²⁾ Normal purchase contracts previously measured at fair value are excluded.

DERIVATIVE INSTRUMENTS ON THE CONDENSED CONSOLIDATED BALANCE SHEETS
(Dollars in millions)

December 31, 2018

	Current assets: Other ⁽¹⁾	Other assets: Sundry	Current liabilities: Other	Deferred credits and other liabilities: Deferred credits and other
Sempra Energy Consolidated:				
Derivatives designated as hedging instruments:				
Interest rate and foreign exchange instruments ⁽²⁾	\$ 2	\$ —	\$ (3)	\$ (147)
Derivatives not designated as hedging instruments:				
Commodity contracts not subject to rate recovery	153	7	(164)	(6)
Associated offsetting commodity contracts	(133)	(3)	133	3
Commodity contracts subject to rate recovery	64	233	(42)	(72)
Associated offsetting commodity contracts	(6)	(2)	6	2
Associated offsetting cash collateral	—	—	—	2
Net amounts presented on the balance sheet	80	235	(70)	(218)
Additional cash collateral for commodity contracts not subject to rate recovery	19	—	—	—
Additional cash collateral for commodity contracts subject to rate recovery	33	—	—	—
Total ⁽³⁾	\$ 132	\$ 235	\$ (70)	\$ (218)
SDG&E:				
Derivatives designated as hedging instruments:				
Interest rate instruments ⁽²⁾	\$ —	\$ —	\$ (1)	\$ —
Derivatives not designated as hedging instruments:				
Commodity contracts subject to rate recovery	60	233	(37)	(72)
Associated offsetting commodity contracts	(6)	(2)	6	2
Associated offsetting cash collateral	—	—	—	2
Net amounts presented on the balance sheet	54	231	(32)	(68)
Additional cash collateral for commodity contracts subject to rate recovery	28	—	—	—
Total ⁽³⁾	\$ 82	\$ 231	\$ (32)	\$ (68)
SoCalGas:				
Derivatives not designated as hedging instruments:				
Commodity contracts subject to rate recovery	\$ 4	\$ —	\$ (5)	\$ —
Net amounts presented on the balance sheet	4	—	(5)	—
Additional cash collateral for commodity contracts subject to rate recovery	5	—	—	—
Total	\$ 9	\$ —	\$ (5)	\$ —

⁽¹⁾ Included in Current Assets: Fixed-Price Contracts and Other Derivatives for SDG&E.

⁽²⁾ Includes Otay Mesa VIE. All of SDG&E's amounts relate to Otay Mesa VIE.

⁽³⁾ Normal purchase contracts previously measured at fair value are excluded.

The table below includes the effects of derivative instruments designated as cash flow hedges on the Condensed Consolidated Statements of Operations and in OCI and AOCI:

CASH FLOW HEDGE IMPACTS									
<i>(Dollars in millions)</i>									
	Pretax (loss) gain recognized in OCI			Location	Pretax (loss) gain reclassified from AOCI into earnings				
	Three months ended September 30,				Three months ended September 30,				
	2019	2018			2019	2018			
Sempra Energy Consolidated:									
Interest rate and foreign exchange instruments ⁽¹⁾	\$	(7)	\$	16	Interest Expense ⁽¹⁾	\$	(1)	\$	—
					Other (Expense) Income, Net		(5)		11
Interest rate and foreign exchange instruments		(62)		20	Equity Earnings		(2)		(3)
Foreign exchange instruments		1		(5)	Revenues: Energy-Related Businesses		—		—
Total	\$	(68)	\$	31		\$	(8)	\$	8
SDG&E:									
Interest rate instruments ⁽¹⁾	\$	—	\$	—	Interest Expense ⁽¹⁾	\$	(1)	\$	(2)
SoCalGas:									
Interest rate instruments	\$	—	\$	—	Interest Expense	\$	(1)	\$	—
	Nine months ended September 30,			Location	Nine months ended September 30,				
	2019				2018				
	2019	2018			2019	2018			
Sempra Energy Consolidated:									
Interest rate and foreign exchange instruments ⁽¹⁾	\$	(25)	\$	57	Interest Expense ⁽¹⁾	\$	(2)	\$	1
					Other (Expense) Income, Net		—		11
Interest rate instruments		—		—	(Loss) Gain on Sale of Assets		(10)		—
Interest rate and foreign exchange instruments		(222)		123	Equity Earnings		(3)		(8)
Foreign exchange instruments		(3)		(7)	Revenues: Energy-Related Businesses		(1)		1
Total	\$	(250)	\$	173		\$	(16)	\$	5
SDG&E:									
Interest rate instruments ⁽¹⁾	\$	(1)	\$	1	Interest Expense ⁽¹⁾	\$	(3)	\$	(6)
SoCalGas:									
Interest rate instruments	\$	—	\$	—	Interest Expense	\$	(1)	\$	—

⁽¹⁾ Amounts include Otay Mesa VIE. All of SDG&E's interest rate derivative activity relates to Otay Mesa VIE.

For Sempra Energy Consolidated, we expect that net losses of \$12 million, which are net of income tax benefit, that are currently recorded in AOCI related to cash flow hedges will be reclassified into earnings during the next 12 months as the hedged items affect earnings. SoCalGas expects that \$1 million of losses, net of income tax benefit, that are currently recorded in AOCI related to cash flow hedges will be reclassified into earnings during the next 12 months as the hedged items affect earnings. Actual amounts ultimately reclassified into earnings depend on the interest rates in effect when derivative contracts mature.

For all forecasted transactions, the maximum remaining term over which we are hedging exposure to the variability of cash flows at September 30, 2019 is approximately 13 years for Sempra Energy Consolidated. The maximum remaining term for which we are hedging exposure to the variability of cash flows at our equity method investees is 15 years.

The following table summarizes the effects of derivative instruments not designated as hedging instruments on the Condensed Consolidated Statements of Operations.

		Pretax (loss) gain on derivatives recognized in earnings			
		Three months ended September 30,		Nine months ended September 30,	
		2019	2018	2019	2018
UNDESIGNATED DERIVATIVE IMPACTS					
<i>(Dollars in millions)</i>					
	Location				
Sempra Energy Consolidated:					
Foreign exchange instruments	Other (Expense) Income, Net	\$ (12)	\$ 28	\$ 7	\$ 35
Commodity contracts not subject to rate recovery	Revenues: Energy-Related Businesses	(8)	9	9	—
Commodity contracts subject to rate recovery	Cost of Electric Fuel and Purchased Power	18	62	(7)	70
Commodity contracts subject to rate recovery	Cost of Natural Gas	(3)	(2)	(1)	(1)
Total		\$ (5)	\$ 97	\$ 8	\$ 104
SDG&E:					
Commodity contracts subject to rate recovery	Cost of Electric Fuel and Purchased Power	\$ 18	\$ 62	\$ (7)	\$ 70
SoCalGas:					
Commodity contracts subject to rate recovery	Cost of Natural Gas	\$ (3)	\$ (2)	\$ (1)	\$ (1)

CONTINGENT FEATURES

For Sempra Energy Consolidated, SDG&E and SoCalGas, certain of our derivative instruments contain credit limits which vary depending on our credit ratings. Generally, these provisions, if applicable, may reduce our credit limit if a specified credit rating agency reduces our ratings. In certain cases, if our credit ratings were to fall below investment grade, the counterparty to these derivative liability instruments could request immediate payment or demand immediate and ongoing full collateralization.

For Sempra Energy Consolidated, the total fair value of this group of derivative instruments in a net liability position at September 30, 2019 and December 31, 2018 was \$7 million and \$16 million, respectively. For SoCalGas, the total fair value of this group of derivative instruments in a net liability position at September 30, 2019 and December 31, 2018 was \$4 million and \$5 million, respectively. At September 30, 2019, if the credit ratings of Sempra Energy or SoCalGas were reduced below investment grade, \$8 million and \$4 million, respectively, of additional assets could be required to be posted as collateral for these derivative contracts.

For Sempra Energy Consolidated, SDG&E and SoCalGas, some of our derivative contracts contain a provision that would permit the counterparty, in certain circumstances, to request adequate assurance of our performance under the contracts. Such additional assurance, if needed, is not material and is not included in the amounts above.

NOTE 9. FAIR VALUE MEASUREMENTS

We discuss the valuation techniques and inputs we use to measure fair value and the definition of the three levels of the fair value hierarchy in Note 1 of the Notes to Consolidated Financial Statements in the Annual Report.

RECURRING FAIR VALUE MEASURES

The three tables below, by level within the fair value hierarchy, set forth our financial assets and liabilities that were accounted for at fair value on a recurring basis at September 30, 2019 and December 31, 2018. We classify financial assets and liabilities in their entirety based on the lowest level of input that is significant to the fair value measurement. Our assessment of the significance of a particular input to the fair value measurement requires judgment, and may affect the valuation of fair valued assets and liabilities, and their placement within the fair value hierarchy. We have not changed the valuation techniques or types of inputs we use to measure recurring fair value since December 31, 2018.

The fair value of commodity derivative assets and liabilities is presented in accordance with our netting policy, as we discuss in Note 8 under “Financial Statement Presentation.”

The determination of fair values, shown in the tables below, incorporates various factors, including but not limited to, the credit standing of the counterparties involved and the impact of credit enhancements (such as cash deposits, letters of credit and priority interests).

Our financial assets and liabilities that were accounted for at fair value on a recurring basis in the tables below include the following (other than a \$6 million investment at September 30, 2019 measured at net asset value):

- Nuclear decommissioning trusts reflect the assets of SDG&E’s NDT, excluding cash balances. A third-party trustee values the trust assets using prices from a pricing service based on a market approach. We validate these prices by comparison to prices from other independent data sources. Securities are valued using quoted prices listed on nationally recognized securities exchanges or based on closing prices reported in the active market in which the identical security is traded (Level 1). Other securities are valued based on yields that are currently available for comparable securities of issuers with similar credit ratings (Level 2).
- For commodity contracts, interest rate derivatives and foreign exchange instruments, we primarily use a market or income approach with market participant assumptions to value these derivatives. Market participant assumptions include those about risk, and the risk inherent in the inputs to the valuation techniques. These inputs can be readily observable, market corroborated, or generally unobservable. We have exchange-traded derivatives that are valued based on quoted prices in active markets for the identical instruments (Level 1). We also may have other commodity derivatives that are valued using industry standard models that consider quoted forward prices for commodities, time value, current market and contractual prices for the underlying instruments, volatility factors, and other relevant economic measures (Level 2). Level 3 recurring items relate to CRRs and long-term, fixed-price electricity positions at SDG&E, as we discuss below in “Level 3 Information.”
- Rabbi Trust investments include marketable securities that we value using a market approach based on closing prices reported in the active market in which the identical security is traded (Level 1). These investments in marketable securities were negligible at both September 30, 2019 and December 31, 2018.

RECURRING FAIR VALUE MEASURES – SEMPRA ENERGY CONSOLIDATED
(Dollars in millions)

	Fair value at September 30, 2019			
	Level 1	Level 2	Level 3	Total
Assets:				
Nuclear decommissioning trusts:				
Equity securities	\$ 465	\$ 5	\$ —	\$ 470
Debt securities:				
Debt securities issued by the U.S. Treasury and other				
U.S. government corporations and agencies	39	12	—	51
Municipal bonds	—	291	—	291
Other securities	—	236	—	236
Total debt securities	39	539	—	578
Total nuclear decommissioning trusts ⁽¹⁾	504	544	—	1,048
Interest rate and foreign exchange instruments	—	9	—	9
Commodity contracts not subject to rate recovery	—	12	—	12
Effect of netting and allocation of collateral ⁽²⁾	18	—	—	18
Commodity contracts subject to rate recovery	1	6	253	260
Effect of netting and allocation of collateral ⁽²⁾	11	—	6	17
Total	\$ 534	\$ 571	\$ 259	\$ 1,364
Liabilities:				
Interest rate and foreign exchange instruments	\$ —	\$ 169	\$ —	\$ 169
Commodity contracts not subject to rate recovery	—	18	—	18
Commodity contracts subject to rate recovery	15	5	74	94
Effect of netting and allocation of collateral ⁽²⁾	(15)	—	—	(15)
Total	\$ —	\$ 192	\$ 74	\$ 266

	Fair value at December 31, 2018			
	Level 1	Level 2	Level 3	Total
Assets:				
Nuclear decommissioning trusts:				
Equity securities	\$ 407	\$ 4	\$ —	\$ 411
Debt securities:				
Debt securities issued by the U.S. Treasury and other				
U.S. government corporations and agencies	43	10	—	53
Municipal bonds	—	269	—	269
Other securities	—	234	—	234
Total debt securities	43	513	—	556
Total nuclear decommissioning trusts ⁽¹⁾	450	517	—	967
Interest rate and foreign exchange instruments	—	2	—	2
Commodity contracts not subject to rate recovery	—	24	—	24
Effect of netting and allocation of collateral ⁽²⁾	19	—	—	19
Commodity contracts subject to rate recovery	2	9	278	289
Effect of netting and allocation of collateral ⁽²⁾	28	—	5	33
Total	\$ 499	\$ 552	\$ 283	\$ 1,334
Liabilities:				
Interest rate and foreign exchange instruments	\$ —	\$ 150	\$ —	\$ 150
Commodity contracts not subject to rate recovery	—	34	—	34
Commodity contracts subject to rate recovery	2	5	99	106
Effect of netting and allocation of collateral ⁽²⁾	(2)	—	—	(2)
Total	\$ —	\$ 189	\$ 99	\$ 288

⁽¹⁾ Excludes cash and cash equivalents.

⁽²⁾ Includes the effect of the contractual ability to settle contracts under master netting agreements and with cash collateral, as well as cash collateral not offset.

RECURRING FAIR VALUE MEASURES – SDG&E
(Dollars in millions)

	Fair value at September 30, 2019			
	Level 1	Level 2	Level 3	Total
Assets:				
Nuclear decommissioning trusts:				
Equity securities	\$ 465	\$ 5	\$ —	\$ 470
Debt securities:				
Debt securities issued by the U.S. Treasury and other				
U.S. government corporations and agencies	39	12	—	51
Municipal bonds	—	291	—	291
Other securities	—	236	—	236
Total debt securities	39	539	—	578
Total nuclear decommissioning trusts ⁽¹⁾	504	544	—	1,048
Commodity contracts subject to rate recovery	—	1	253	254
Effect of netting and allocation of collateral ⁽²⁾	8	—	6	14
Total	\$ 512	\$ 545	\$ 259	\$ 1,316
Liabilities:				
Commodity contracts subject to rate recovery	\$ 15	\$ 1	\$ 74	\$ 90
Effect of netting and allocation of collateral ⁽²⁾	(15)	—	—	(15)
Total	\$ —	\$ 1	\$ 74	\$ 75

	Fair value at December 31, 2018			
	Level 1	Level 2	Level 3	Total
Assets:				
Nuclear decommissioning trusts:				
Equity securities	\$ 407	\$ 4	\$ —	\$ 411
Debt securities:				
Debt securities issued by the U.S. Treasury and other				
U.S. government corporations and agencies	43	10	—	53
Municipal bonds	—	269	—	269
Other securities	—	234	—	234
Total debt securities	43	513	—	556
Total nuclear decommissioning trusts ⁽¹⁾	450	517	—	967
Commodity contracts subject to rate recovery	1	6	278	285
Effect of netting and allocation of collateral ⁽²⁾	23	—	5	28
Total	\$ 474	\$ 523	\$ 283	\$ 1,280
Liabilities:				
Interest rate instruments	\$ —	\$ 1	\$ —	\$ 1
Commodity contracts subject to rate recovery	2	—	99	101
Effect of netting and allocation of collateral ⁽²⁾	(2)	—	—	(2)
Total	\$ —	\$ 1	\$ 99	\$ 100

⁽¹⁾ Excludes cash and cash equivalents.

⁽²⁾ Includes the effect of the contractual ability to settle contracts under master netting agreements and with cash collateral, as well as cash collateral not offset.

RECURRING FAIR VALUE MEASURES – SOCALGAS
(Dollars in millions)

	Fair value at September 30, 2019			
	Level 1	Level 2	Level 3	Total
Assets:				
Commodity contracts subject to rate recovery	\$ 1	\$ 5	\$ —	\$ 6
Effect of netting and allocation of collateral ⁽¹⁾	3	—	—	3
Total	\$ 4	\$ 5	\$ —	\$ 9
Liabilities:				
Commodity contracts subject to rate recovery	\$ —	\$ 4	\$ —	\$ 4
Total	\$ —	\$ 4	\$ —	\$ 4

	Fair value at December 31, 2018			
	Level 1	Level 2	Level 3	Total
Assets:				
Commodity contracts subject to rate recovery	\$ 1	\$ 3	\$ —	\$ 4
Effect of netting and allocation of collateral ⁽¹⁾	5	—	—	5
Total	\$ 6	\$ 3	\$ —	\$ 9
Liabilities:				
Commodity contracts subject to rate recovery	\$ —	\$ 5	\$ —	\$ 5
Total	\$ —	\$ 5	\$ —	\$ 5

⁽¹⁾ Includes the effect of the contractual ability to settle contracts under master netting agreements and with cash collateral, as well as cash collateral not offset.

Level 3 Information

The table below sets forth reconciliations of changes in the fair value of CRRs and long-term, fixed-price electricity positions classified as Level 3 in the fair value hierarchy for Sempra Energy Consolidated and SDG&E.

LEVEL 3 RECONCILIATIONS⁽¹⁾
(Dollars in millions)

	Three months ended September 30,	
	2019	2018
Balance at July 1	\$ 176	\$ (31)
Realized and unrealized (losses) gains	(24)	6
Settlements	27	13
Balance at September 30	\$ 179	\$ (12)
Change in unrealized gains (losses) relating to instruments still held at September 30	\$ 1	\$ 6
	Nine months ended September 30,	
	2019	2018
Balance at January 1	\$ 179	\$ (28)
Realized and unrealized (losses) gains	(32)	21
Allocated transmission instruments	—	3
Settlements	32	(8)
Balance at September 30	\$ 179	\$ (12)
Change in unrealized gains (losses) relating to instruments still held at September 30	\$ 12	\$ —

⁽¹⁾ Excludes the effect of the contractual ability to settle contracts under master netting agreements.

Inputs used to determine the fair value of CRRs and fixed-price electricity positions are reviewed and compared with market conditions to determine reasonableness. SDG&E expects all costs related to these instruments to be recoverable through customer rates. As such, there is no impact to earnings from changes in the fair value of these instruments.

CRRs are recorded at fair value based almost entirely on the most current auction prices published by the California ISO, an objective source. Annual auction prices are published once a year, typically in the middle of November, and are the basis for valuing CRRs settling in the following year. For the CRRs settling from January 1 to December 31, the auction price inputs, at a given location, were in the following ranges for the years indicated below:

CONGESTION REVENUE RIGHTS AUCTION PRICE INPUTS					
Settlement year	Price per MWh			Median price per MWh	
2019	\$	(8.57)	to	\$	35.21
2018		(7.25)	to		11.99
				\$	(2.94)
					0.09

The impact associated with discounting is negligible. Because these auction prices are a less observable input, these instruments are classified as Level 3. The fair value of these instruments is derived from auction price differences between two locations. Positive values between two locations represent expected future reductions in congestion costs, whereas negative values between two locations represent expected future charges. Valuation of our CRRs is sensitive to a change in auction price. If auction prices at one location increase (decrease) relative to another location, this could result in a higher (lower) fair value measurement. We summarize CRR volumes in Note 8.

Long-term, fixed-price electricity positions that are valued using significant unobservable data are classified as Level 3 because the contract terms relate to a delivery location or tenor for which observable market rate information is not available. The fair value of the net electricity positions classified as Level 3 is derived from a discounted cash flow model using market electricity forward price inputs. The range and weighted-average price of these inputs at September 30 were as follows:

LONG-TERM, FIXED-PRICE ELECTRICITY POSITIONS PRICE INPUTS					
Settlement year	Price per MWh			Weighted-average price per MWh	
2019	\$	21.60	to	\$	57.20
2018		20.40	to		57.70
				\$	38.29
					38.87

A significant increase (decrease) in market electricity forward prices would result in a significantly higher (lower) fair value. We summarize long-term, fixed-price electricity position volumes in Note 8.

Realized gains and losses associated with CRRs and long-term electricity positions, which are recoverable in rates, are recorded in Cost of Electric Fuel and Purchased Power on the Condensed Consolidated Statements of Operations. Because unrealized gains and losses are recorded as regulatory assets and liabilities, they do not affect earnings.

Fair Value of Financial Instruments

The fair values of certain of our financial instruments (cash, accounts and notes receivable, dividends receivable from discontinued operations, short-term amounts due to/from unconsolidated affiliates, dividends and accounts payable, short-term debt and customer deposits) approximate their carrying amounts because of the short-term nature of these instruments. Investments in life insurance contracts that we hold in support of our Supplemental Executive Retirement, Cash Balance Restoration and Deferred Compensation Plans are carried at cash surrender values, which represent the amount of cash that could be realized under the contracts. The following table provides the carrying amounts and fair values of certain other financial instruments that are not recorded at fair value on the Condensed Consolidated Balance Sheets.

FAIR VALUE OF FINANCIAL INSTRUMENTS
(Dollars in millions)

	September 30, 2019				
	Carrying amount	Fair value			Total
		Level 1	Level 2	Level 3	
Sempra Energy Consolidated:					
Long-term amounts due from unconsolidated affiliates	\$ 712	\$ —	\$ 735	\$ —	\$ 735
Long-term amounts due to unconsolidated affiliates	39	—	38	—	38
Total long-term debt ⁽¹⁾	21,554	—	23,142	26	23,168
SDG&E:					
Total long-term debt ⁽²⁾	\$ 5,141	\$ —	\$ 5,780	\$ —	\$ 5,780
SoCalGas:					
Total long-term debt ⁽³⁾	\$ 3,809	\$ —	\$ 4,290	\$ —	\$ 4,290
December 31, 2018					
	Carrying amount	Fair value			Total
		Level 1	Level 2	Level 3	
Sempra Energy Consolidated:					
Long-term amounts due from unconsolidated affiliates	\$ 644	\$ —	\$ 648	\$ 4	\$ 652
Long-term amounts due to unconsolidated affiliates	37	—	35	—	35
Total long-term debt ⁽⁴⁾⁽⁵⁾	21,340	—	20,616	247	20,863
SDG&E:					
Total long-term debt ⁽⁴⁾⁽⁶⁾	\$ 4,996	\$ —	\$ 4,897	\$ 220	\$ 5,117
SoCalGas:					
Total long-term debt ⁽⁷⁾	\$ 3,459	\$ —	\$ 3,505	\$ —	\$ 3,505

⁽¹⁾ Before reductions of unamortized discount and debt issuance costs of \$221 million and excluding finance lease obligations of \$1,285 million.

⁽²⁾ Before reductions of unamortized discount and debt issuance costs of \$49 million and excluding finance lease obligations of \$1,270 million.

⁽³⁾ Before reductions of unamortized discount and debt issuance costs of \$35 million and excluding finance lease obligations of \$15 million.

⁽⁴⁾ Level 3 instruments include \$220 million related to Otay Mesa VIE.

⁽⁵⁾ Before reductions of unamortized discount and debt issuance costs of \$206 million and excluding build-to-suit and capital lease obligations of \$1,413 million.

⁽⁶⁾ Before reductions of unamortized discount and debt issuance costs of \$49 million and excluding capital lease obligations of \$1,272 million.

⁽⁷⁾ Before reductions of unamortized discount and debt issuance costs of \$32 million and excluding capital lease obligations of \$3 million.

We provide the fair values for the securities held in the NDT related to SONGS in Note 10.

NOTE 10. SAN ONOFRE NUCLEAR GENERATING STATION

We provide below updates to ongoing matters related to SONGS, a nuclear generating facility near San Clemente, California that ceased operations in June 2013, and in which SDG&E has a 20 percent ownership interest. We discuss SONGS further in Note 15 of the Notes to Consolidated Financial Statements in the Annual Report.

NUCLEAR DECOMMISSIONING AND FUNDING

As a result of Edison's decision to permanently retire SONGS Units 2 and 3, Edison began the decommissioning phase of the plant. The majority of the dismantlement work is expected to take 10 years after receipt of the required permits. The coastal development permit was issued in October 2019 and we expect major decommissioning work to begin in 2020. Decommissioning of Unit 1, removed from service in 1992, is largely complete. The remaining work for Unit 1 will be completed once Units 2 and 3 are dismantled and the spent fuel is removed from the site. The spent fuel is currently being stored on-site, until the DOE identifies a spent fuel storage facility and puts in place a program for the fuel's disposal, as we discuss below. SDG&E is responsible for approximately 20 percent of the total contract price.

In accordance with state and federal requirements and regulations, SDG&E has assets held in the NDT to fund its share of decommissioning costs for SONGS Units 1, 2 and 3. The amounts collected in rates for SONGS' decommissioning are invested in the NDT, which is comprised of externally managed trust funds. Amounts held by the NDT are invested in accordance with

CPUC regulations. SDG&E classifies debt and equity securities held in the NDT as available-for-sale. The NDT assets are presented on the Sempra Energy and SDG&E Condensed Consolidated Balance Sheets at fair value with the offsetting credits recorded in noncurrent Regulatory Liabilities.

Except for the use of funds for the planning of decommissioning activities or NDT administrative costs, CPUC approval is required for SDG&E to access the NDT assets to fund SONGS decommissioning costs for Units 2 and 3. SDG&E has received authorization from the CPUC to access NDT funds of up to \$455 million for 2013 through 2019 (2019 forecasted) SONGS decommissioning costs. This includes up to \$93 million authorized by the CPUC in January 2019 to be withdrawn from the NDT for forecasted 2019 SONGS Units 2 and 3 costs as decommissioning costs are incurred.

In December 2016, the IRS and the U.S. Department of the Treasury issued proposed regulations that clarify the definition of “nuclear decommissioning costs,” which are costs that may be paid for or reimbursed from a qualified trust fund. The proposed regulations state that costs related to the construction and maintenance of independent spent fuel management installations are included in the definition of “nuclear decommissioning costs.” The proposed regulations will be effective prospectively once they are finalized; however, the IRS has stated that it will not challenge taxpayer positions consistent with the proposed regulations for taxable years ending on or after the date the proposed regulations were issued. SDG&E is awaiting the adoption of, or additional refinement to, the proposed regulations before determining whether the proposed regulations will allow SDG&E to access the NDT funds for reimbursement or payment of the spent fuel management costs incurred in 2017 and subsequent years. Further clarification of the proposed regulations could enable SDG&E to access the NDT to recover spent fuel management costs before Edison reaches final settlement with the DOE regarding the DOE’s reimbursement of these costs. Historically, the DOE’s reimbursements of spent fuel storage costs have not resulted in timely or complete recovery of these costs. We discuss the DOE’s responsibility for spent nuclear fuel below. The IRS held public hearings on the proposed regulations in October 2017. It is unclear when clarification of the proposed regulations might be provided or when the proposed regulations will be finalized.

The following table shows the fair values and gross unrealized gains and losses for the securities held in the NDT. We provide additional fair value disclosures for the NDT in Note 9.

NUCLEAR DECOMMISSIONING TRUSTS

(Dollars in millions)

	Cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
At September 30, 2019:				
Debt securities:				
Debt securities issued by the U.S. Treasury and other				
U.S. government corporations and agencies ⁽¹⁾	\$ 51	\$ —	\$ —	\$ 51
Municipal bonds ⁽²⁾	278	13	—	291
Other securities ⁽³⁾	228	9	(1)	236
Total debt securities	557	22	(1)	578
Equity securities	170	309	(9)	470
Cash and cash equivalents	1	—	—	1
Total	\$ 728	\$ 331	\$ (10)	\$ 1,049
At December 31, 2018:				
Debt securities:				
Debt securities issued by the U.S. Treasury and other				
U.S. government corporations and agencies	\$ 52	\$ 1	\$ —	\$ 53
Municipal bonds	266	4	(1)	269
Other securities	238	1	(5)	234
Total debt securities	556	6	(6)	556
Equity securities	168	253	(10)	411
Cash and cash equivalents	7	—	—	7
Total	\$ 731	\$ 259	\$ (16)	\$ 974

⁽¹⁾ Maturity dates are 2021-2050.

⁽²⁾ Maturity dates are 2020-2056.

⁽³⁾ Maturity dates are 2019-2060.

The following table shows the proceeds from sales of securities in the NDT and gross realized gains and losses on those sales.

SALES OF SECURITIES IN THE NDT					
<i>(Dollars in millions)</i>					
	Three months ended September 30,		Nine months ended September 30,		
	2019	2018	2019	2018	
Proceeds from sales	\$ 231	\$ 216	\$ 728	\$ 703	
Gross realized gains	5	3	18	32	
Gross realized losses	(1)	(1)	(4)	(6)	

Net unrealized gains and losses, as well as realized gains and losses that are reinvested in the NDT, are included in noncurrent Regulatory Liabilities on Sempra Energy's and SDG&E's Condensed Consolidated Balance Sheets. We determine the cost of securities in the trusts on the basis of specific identification.

ASSET RETIREMENT OBLIGATION AND SPENT NUCLEAR FUEL

SDG&E's ARO related to decommissioning costs for the SONGS units was \$614 million at September 30, 2019. That amount includes the cost to decommission Units 2 and 3, and the remaining cost to complete the decommissioning of Unit 1, which is substantially complete. The ARO for all three units is based on a cost study prepared in 2017 that is pending CPUC approval. The ARO for Units 2 and 3 reflects the acceleration of the start of decommissioning of these units as a result of the early closure of the plant. SDG&E's share of total decommissioning costs in 2019 dollars is approximately \$834 million.

U.S. DEPARTMENT OF ENERGY NUCLEAR FUEL DISPOSAL

Spent nuclear fuel from SONGS is currently stored on-site in an ISFSI licensed by the NRC or temporarily in spent fuel pools. In October 2015, the California Coastal Commission approved Edison's application for the proposed expansion of the ISFSI at SONGS. The ISFSI expansion began construction in 2016 and the transfer of the spent nuclear fuel from Units 2 and 3 to the ISFSI began in 2018. Edison suspended this transfer in August 2018 due to an incident that was subsequently resolved to the NRC's satisfaction according to the NRC's supplemental inspection report released in July 2019. Edison resumed spent fuel transfer operations in July 2019. The ISFSI will operate until 2049, when it is assumed that the DOE will have taken custody of all the SONGS spent fuel. The ISFSI would then be decommissioned, and the site restored to its original environmental state. Until then, SONGS owners are responsible for interim storage of spent nuclear fuel at SONGS.

The Nuclear Waste Policy Act of 1982 made the DOE responsible for accepting, transporting, and disposing of spent nuclear fuel. However, it is uncertain when the DOE will begin accepting spent nuclear fuel from SONGS. This delay will lead to increased costs for spent fuel storage. SDG&E will continue to support Edison in its pursuit of claims on behalf of the SONGS co-owners against the DOE for its failure to timely accept the spent nuclear fuel. However, it is unclear whether Edison will enter into a new settlement with the DOE or pursue litigation claims for spent fuel management costs incurred on or after January 1, 2017.

NUCLEAR INSURANCE

SDG&E and the other owners of SONGS have insurance to cover claims from nuclear liability incidents arising at SONGS. Currently, this insurance provides \$450 million in coverage limits, the maximum amount available, including coverage for acts of terrorism. In addition, the Price-Anderson Act provides an additional \$110 million of coverage. If a nuclear liability loss occurs at SONGS and exceeds the \$450 million insurance limit, this additional coverage would be available to provide a total of \$560 million in coverage limits per incident.

The SONGS owners, including SDG&E, also maintain nuclear property damage insurance at \$1.5 billion, with a \$500 million property damage sublimit on the ISFSI, which exceeds the minimum federal requirements of \$1.06 billion. This insurance coverage is provided through NEIL. The NEIL policies have specific exclusions and limitations that can result in reduced or eliminated coverage. Insured members as a group are subject to retrospective premium assessments to cover losses sustained by NEIL under all issued policies. SDG&E could be assessed up to \$10.4 million of retrospective premiums based on overall member claims.

The nuclear property insurance program includes an industry aggregate loss limit for non-certified acts of terrorism (as defined by the Terrorism Risk Insurance Act) of \$3.24 billion. This is the maximum amount that will be paid to insured members who suffer losses or damages from these non-certified terrorist acts.

NOTE 11. COMMITMENTS AND CONTINGENCIES

LEGAL PROCEEDINGS

We accrue losses for a legal proceeding when it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated. However, the uncertainties inherent in legal proceedings make it difficult to reasonably estimate the costs and effects of resolving these matters. Accordingly, actual costs incurred may differ materially from amounts accrued, may exceed applicable insurance coverage and could materially adversely affect our business, cash flows, results of operations, financial condition and prospects. Unless otherwise indicated, we are unable to estimate reasonably possible losses in excess of any amounts accrued.

At September 30, 2019, loss contingency accruals for legal matters, including associated legal fees, that are probable and estimable were \$97 million for Sempra Energy Consolidated, including \$50 million for SoCalGas. Amounts for Sempra Energy and SoCalGas include \$49 million for matters related to the Aliso Canyon natural gas storage facility gas leak, which we discuss below.

SDG&E

2007 Wildfire Litigation and Net Cost Recovery Status

SDG&E has resolved all civil litigation associated with three wildfires that occurred in October 2007.

As a result of a CPUC decision denying SDG&E's request to recover wildfire costs, SDG&E wrote off the wildfire regulatory asset, resulting in a charge of \$351 million (\$208 million after-tax) in the third quarter of 2017. SDG&E applied to the CPUC for rehearing of its decision but, in July 2018, the CPUC denied SDG&E's rehearing request. In November 2018, the California Court of Appeal denied SDG&E's petition to reverse the CPUC's decision. In January 2019, the California Supreme Court denied SDG&E's petition to reverse the decisions of the CPUC and the California Court of Appeal. In October 2019, the U.S. Supreme Court declined to review the case, effectively ending SDG&E's efforts to recover the wildfire regulatory asset.

SoCalGas

Aliso Canyon Natural Gas Storage Facility Gas Leak

On October 23, 2015, SoCalGas discovered a leak at one of its injection-and-withdrawal wells, SS25, at its Aliso Canyon natural gas storage facility in Los Angeles County. The Aliso Canyon natural gas storage facility has been operated by SoCalGas since 1972. SS25 is one of more than 100 injection-and-withdrawal wells at the storage facility. SoCalGas worked closely with several of the world's leading experts to stop the Leak, and on February 18, 2016, DOGGR confirmed that the well was permanently sealed.

As discussed in "Cost Estimates and Accounting Impact" below, SoCalGas incurred significant costs for temporary relocation, to control the well and to stop the Leak, as well as to purchase natural gas to replace that lost through the Leak. As discussed in "Local Community Mitigation Efforts" below, during the Leak and in the months following the sealing of the well, SoCalGas provided support to nearby residents who wished to temporarily relocate as a result of the Leak. These programs ended in July 2016.

SoCalGas has additionally incurred significant costs to defend against and, in certain cases, settle, civil and criminal litigation arising from the Leak; to pay the costs of the government-ordered response to the Leak including the costs for an independent third party to conduct a root cause analysis to investigate the technical cause of the Leak; to respond to various government and agency investigations regarding the Leak; and to comply with increased regulation imposed as a result of the Leak. As further described below in "Civil and Criminal Litigation," "Regulatory Proceedings" and "Governmental Investigations and Orders and Additional Regulation," these activities are ongoing and SoCalGas anticipates that it will incur additional such costs, which may also be significant.

Local Community Mitigation Efforts. Pursuant to a directive by the DPH and orders by the LA Superior Court, SoCalGas provided temporary relocation support to residents in the nearby community who requested it. The DPH issued a second directive generally requiring SoCalGas to professionally clean the homes of Porter Ranch residents (the Directive), which is addressed within the Government Plaintiffs Settlement that we discuss below in “Civil and Criminal Litigation.”

The costs incurred to mitigate local community impacts have been significant. If any of these costs are not covered by insurance (including any costs in excess of applicable policy limits), if there are significant delays in receiving insurance recoveries, or if the insurance recoveries are subject to income taxes while the associated costs are not tax deductible, such amounts could have a material adverse effect on SoCalGas’ and Sempra Energy’s cash flows, financial condition and results of operations.

Civil and Criminal Litigation. As of October 28, 2019, 390 lawsuits, including approximately 36,000 plaintiffs, are pending against SoCalGas, some of which have also named Sempra Energy. All these cases, other than a matter brought by the Los Angeles County District Attorney and the federal securities class action discussed below, are coordinated before a single court in the LA Superior Court for pretrial management.

In November 2017, the individuals and business entities asserting tort and Proposition 65 claims filed a Third Amended Consolidated Master Case Complaint for Individual Actions, through which their separate lawsuits will be managed for pretrial purposes. The consolidated complaint asserts causes of action for negligence, negligence per se, private and public nuisance (continuing and permanent), trespass, inverse condemnation, strict liability, negligent and intentional infliction of emotional distress, fraudulent concealment, loss of consortium, wrongful death and violations of Proposition 65 against SoCalGas, with certain causes also naming Sempra Energy. The consolidated complaint seeks compensatory and punitive damages for personal injuries, lost wages and/or lost profits, property damage and diminution in property value, injunctive relief, costs of future medical monitoring, civil penalties (including penalties associated with Proposition 65 claims alleging violation of requirements for warning about certain chemical exposures), and attorneys’ fees. The court has scheduled an initial trial for June 24, 2020 for a small number of randomly selected individual plaintiffs.

In January 2017, two consolidated class action complaints were filed against SoCalGas and Sempra Energy, one on behalf of a putative class of persons and businesses who own or lease real property within a five-mile radius of the well (the Property Class Action), and a second on behalf of a putative class of all persons and entities conducting business within five miles of the facility (the Business Class Action). Both complaints assert claims for strict liability for ultra-hazardous activities, negligence and violation of the California Unfair Competition Law. The Property Class Action also asserts claims for negligence per se, trespass, permanent and continuing public and private nuisance, and inverse condemnation. The Business Class Action also asserts a claim for negligent interference with prospective economic advantage. Both complaints seek compensatory, statutory and punitive damages, injunctive relief and attorneys’ fees. In May 2019, the California Supreme Court ruled that the purely economic damages alleged in the Business Class Action are not recoverable under the law, and in September 2019, in accordance with the ruling, the LA Superior Court dismissed the strict liability, negligence and negligent interference with prospective economic advantage causes of action in the Business Class Action complaint.

Complaints by property developers were filed in 2017 and 2018 against SoCalGas and Sempra Energy alleging causes of action for strict liability, negligence per se, negligence, continuing nuisance, permanent nuisance and violation of the California Unfair Competition Law, as well as claims for negligence against certain directors of SoCalGas. The complaints seek compensatory, statutory and punitive damages, injunctive relief and attorneys’ fees.

In October 2018 and January 2019, complaints were filed on behalf of 51 plaintiffs who are firefighters stationed near the Aliso Canyon natural gas storage facility and allege they were injured by exposure to chemicals released during the Leak. The complaints against SoCalGas and Sempra Energy assert causes of actions for negligence, negligence per se, private and public nuisance (continuing and permanent), trespass, inverse condemnation, strict liability, negligent and intentional infliction of emotional distress, fraudulent concealment and loss of consortium. The complaints seek compensatory and punitive damages for personal injuries, lost wages and/or lost profits, property damage and diminution in property value, and attorney’s fees.

In addition, a federal securities class action alleging violation of the federal securities laws was filed against Sempra Energy and certain of its officers and certain of its directors in the U.S. District Court for the Southern District of California. In March 2018, the court dismissed the action with prejudice. The plaintiffs filed a notice of appeal of the dismissal.

Five shareholder derivative actions are also pending alleging breach of fiduciary duties against certain officers and certain directors of Sempra Energy and/or SoCalGas, four of which were joined in a Consolidated Shareholder Derivative Complaint in August 2017.

Three actions by public entities were filed, including complaints by the County of Los Angeles, on behalf of itself and the people of the State of California, the California Attorney General, acting in an independent capacity and on behalf of the people of the State of California and the CARB, and the Los Angeles City Attorney alleging public nuisance, unfair competition, and violations

of California Health and Safety Code provisions regarding discharge of contaminants, among other things, which sought injunctive relief, abatement, civil penalties and damages. The County of Los Angeles also filed a petition seeking a writ of mandate requiring DOGGR and the State Oil and Gas Supervisor to comply with SB 380 and the California Environmental Quality Act, as well as declaratory and injunctive relief against their authorization allowing SoCalGas to inject natural gas at the facility.

In August 2018, SoCalGas entered into a settlement agreement with the Los Angeles City Attorney's Office, the County of Los Angeles, the California Office of the Attorney General and CARB (collectively, the Government Plaintiffs) to settle these public entity actions and the Directive for payments and funding for environmental projects totaling \$120 million, including \$21 million in civil penalties (the Government Plaintiffs Settlement). Under the settlement agreement, SoCalGas also agreed to continue its fence-line methane monitoring program, establish a safety committee and hire an independent ombudsman to monitor and report on the safety at the facility. This settlement also fully resolves SoCalGas' commitment to mitigate the actual natural gas released during the Leak and fulfills the requirements of the Governor's Order, described below, for SoCalGas to pay for a mitigation program developed by CARB. The Government Plaintiffs Settlement was approved by the LA Superior Court in February 2019.

Separately, in February 2016, the Los Angeles County District Attorney's Office filed a misdemeanor criminal complaint against SoCalGas seeking penalties and other remedies for alleged failure to provide timely notice of the Leak pursuant to California Health and Safety Code section 25510(a), Los Angeles County Code section 12.56.030, and Title 19 California Code of Regulations section 2703(a), and for allegedly violating California Health and Safety Code section 41700 prohibiting discharge of air contaminants that cause annoyance to the public. Pursuant to a settlement agreement with the Los Angeles County District Attorney's Office, SoCalGas agreed to plead no contest to the notice charge under Health and Safety Code section 25510(a) and agreed to pay the maximum fine of \$75,000, penalty assessments of approximately \$233,500, and operational commitments estimated to cost approximately \$6 million, reimbursements and assessments in exchange for the Los Angeles County District Attorney's Office moving to dismiss the remaining counts at sentencing and settling the complaint (the District Attorney Settlement). SoCalGas completed the commitments and obligations under the District Attorney Settlement, and in November 2016, the LA Superior Court approved the settlement and entered judgment on the notice charge. Certain individuals who object to the settlement petitioned the Court of Appeal to vacate the judgment, contending they should be granted restitution. In July 2019, the Court of Appeal denied the petition in part, but remanded the matter to the trial court to permit the petitioners to prove damages stemming only from the three-day delay in reporting the Leak.

The costs of defending against these civil and criminal lawsuits, and any compensatory, statutory or punitive damages, restitution, and civil, administrative and criminal fines, penalties and other costs, if awarded or imposed, as well as the costs of mitigating the actual natural gas released, could be significant. If any of these costs are not covered by insurance (including any costs in excess of applicable policy limits), if there are significant delays in receiving insurance recoveries, or if the insurance recoveries are subject to income taxes while the associated costs are not tax deductible, such amounts could have a material adverse effect on SoCalGas' and Sempra Energy's cash flows, financial condition and results of operations.

Regulatory Proceedings. In January 2016, DOGGR and the CPUC selected Blade to conduct, under their supervision, an independent analysis of the technical root cause of the Leak, to be funded by SoCalGas. In May 2019, Blade released its report regarding its root cause analysis of the Leak. The report concludes that the Leak occurred on the morning of October 23, 2015, beginning with an axial rupture of the production casing of the well caused by external microbial corrosion as a result of contact with groundwater, followed within hours by the complete separation of the casing. Blade asserts that attempts to stop the Leak were unsuccessful due to insufficient kill fluid density and pump rates. Blade's report assesses whether SoCalGas complied with gas storage regulations in existence at the time of the Leak, and did not identify any instances of non-compliance by SoCalGas. Blade concludes that SoCalGas' compliance activities conducted prior to the Leak did not find indications of a casing integrity issue. In Blade's opinion, however, there were measures, none of which were required by gas storage regulations at the time, that could have been taken to aid in the early identification of corrosion and that, in Blade's opinion, would have prevented or mitigated the Leak. The report also identified well safety practices and regulations that have since been adopted by DOGGR and implemented by SoCalGas, which address most of the root cause of the Leak identified during Blade's investigation.

In February 2017, the CPUC opened a proceeding pursuant to SB 380 to determine the feasibility of minimizing or eliminating the use of the Aliso Canyon natural gas storage facility, while still maintaining energy and electric reliability for the region. The CPUC indicated it intends to conduct the proceeding in two phases, with Phase 1 undertaking a comprehensive effort to develop the appropriate analyses and scenarios to evaluate the impact of reducing or eliminating the use of the Aliso Canyon natural gas storage facility and Phase 2 using those analyses and scenarios to evaluate the impacts of reducing or eliminating the use of the Aliso Canyon natural gas storage facility.

The order establishing the scope of the proceeding expressly excludes issues with respect to air quality, public health, causation, culpability or cost responsibility regarding the Leak. In January 2019, the CPUC concluded Phase 1 of the proceeding by

establishing a framework for the hydraulic, production cost and economic modeling assumptions for the potential reduction in usage or elimination of the Aliso Canyon natural gas storage facility. Phase 2 of the proceeding, which will evaluate the impacts of reducing or eliminating the Aliso Canyon natural gas storage facility using the established framework and models, began in the first quarter of 2019. The CPUC has indicated that it expects to issue its report in 2020.

In June 2019, the CPUC opened an OII to consider penalties against SoCalGas for the Leak. In September 2019, the CPUC issued an order bifurcating the proceeding into two phases and establishing the scope and schedule for the first phase. The issues to be determined in the first phase are whether SoCalGas violated Public Utilities Code section 451 or other laws, CPUC orders or decisions, rules or requirements, whether SoCalGas engaged in unreasonable and/or imprudent practices with respect to its operation and maintenance of the Aliso Canyon natural gas storage facility or its related record-keeping practices, whether SoCalGas cooperated sufficiently with the Safety Enforcement Division and Blade during the pre-formal investigation, and whether any of the mitigation proposed by Blade should be implemented to the extent not already done. The second phase will consider whether SoCalGas should be sanctioned for the Leak and what penalties, if any, should be imposed for any violations proven in the first phase, as well as determine the amounts of various costs incurred by SoCalGas and other parties in connection with the Leak and the ratemaking treatment or other disposition of such costs.

The costs to respond to this investigation and any sanctions, fines, penalties or other remedies imposed by the CPUC could be significant and may not be covered completely by insurance (including costs in excess of applicable policy limits). Such amounts could have a material adverse effect on SoCalGas' and Sempra Energy's cash flows, financial condition and results of operations.

Governmental Investigations and Orders and Additional Regulation. Various governmental agencies, including DOE, DOGGR, DPH, South Coast Air Quality Management District, CARB, Los Angeles Regional Water Quality Control Board, California Division of Occupational Safety and Health, CPUC, PHMSA, EPA, Los Angeles County District Attorney's Office and California Attorney General's Office, have investigated or are investigating this incident.

In January 2016, the Governor of the State of California proclaimed a state of emergency in Los Angeles County due to the Leak. The proclamation ordered various actions with respect to the Leak, including: (1) applicable agencies must convene an independent panel of scientific and medical experts to review public health concerns stemming from the Leak and evaluate whether additional measures are needed to protect public health; (2) the CPUC must ensure that SoCalGas covers costs related to the Leak and its response while protecting ratepayers; (3) CARB must develop a program, to be funded by SoCalGas, to fully mitigate the Leak's emissions of methane; and (4) DOGGR, CPUC, CARB and the CEC must submit to the Governor's Office a report that assesses the long-term viability of natural gas storage facilities in California. The Government Plaintiffs Settlement described above satisfies the mitigation requirement of the Governor's emergency proclamation.

Cost Estimates and Accounting Impact. At September 30, 2019, SoCalGas estimates its costs related to the Leak are \$1,099 million (the cost estimate), which includes \$1,069 million of costs recovered or probable of recovery from insurance. Approximately 52 percent of the cost estimate is for the temporary relocation program (including cleaning costs and certain labor costs). The remaining portion of the cost estimate includes costs incurred to defend litigation, the costs of the government-ordered response to the Leak including the costs for an independent third party to conduct a root cause analysis, efforts to control the well, to mitigate the natural gas released, the cost of replacing the lost gas, the costs of settlements with government entities and other costs. The cost estimate does not include potential additional litigation costs, regulatory-related costs or other costs described below, which could be material. SoCalGas adjusts the cost estimate as additional information becomes available. A substantial portion of the cost estimate has been paid, and \$45 million is accrued in Reserve for Aliso Canyon Costs and \$9 million is accrued in Deferred Credits and Other as of September 30, 2019 on SoCalGas' and Sempra Energy's Condensed Consolidated Balance Sheets.

As of September 30, 2019, we recorded the expected recovery of the cost estimate related to the Leak of \$354 million as Insurance Receivable for Aliso Canyon Costs on SoCalGas' and Sempra Energy's Condensed Consolidated Balance Sheets. This amount is net of insurance retentions and \$715 million of insurance proceeds we received through September 30, 2019. The Insurance Receivable for Aliso Canyon Costs and insurance proceeds received to date relate to portions of the cost estimate described above, including temporary relocation and associated processing costs, control-of-well expenses, costs of the government-ordered response including for an independent third party to conduct a root cause analysis, the costs to settle certain claims as described above, the estimated costs to perform obligations pursuant to settlement of some of those claims, legal costs and lost gas. If we were to conclude that this receivable or a portion of it is no longer probable of recovery from insurers, some or all of this receivable would be charged against earnings, which could have a material adverse effect on SoCalGas' and Sempra Energy's cash flows, financial condition and results of operations.

As described in "Civil and Criminal Litigation" above, the actions seek compensatory, statutory and punitive damages, restitution, and civil, administrative and criminal fines, penalties and other costs, which, except for the amounts paid or estimated to settle certain actions as described above, are not included in the cost estimate as it is not possible at this time to predict the outcome of

these actions or reasonably estimate the amount of damages, restitution or civil, administrative or criminal fines, penalties or other costs that may be imposed. The recorded amounts above also do not include future legal costs necessary to defend litigation, and other potential costs that we currently do not anticipate incurring or that we cannot reasonably estimate. Furthermore, the cost estimate does not include any sanctions, fines, penalties or other costs that may be imposed by the CPUC in connection with the OII opened in June 2019 and certain other costs incurred by Sempra Energy associated with defending against shareholder derivative lawsuits.

Insurance. Excluding directors' and officers' liability insurance, we have at least four kinds of insurance policies that together we estimate provide between \$1.2 billion to \$1.4 billion in insurance coverage, depending on the nature of the claims. At September 30, 2019, SoCalGas' estimate of costs related to the Leak of \$1,099 million include \$1,069 million of costs recovered or probable of recovery from insurance. This estimate may rise significantly as more information becomes available. Costs not included in the \$1,099 million cost estimate could be material. We cannot predict all of the potential categories of costs or the total amount of costs that we may incur as a result of the Leak. Subject to various policy limits, exclusions and conditions, based on what we know as of the filing date of this report, we believe that costs in the following categories should be recoverable through insurance: costs incurred for temporary relocation and associated processing costs (including cleaning costs and certain labor costs), costs to address the Leak and stop or reduce emissions, costs of the government-ordered response to the Leak including the costs for an independent third party to conduct a root cause analysis, the value of lost gas, costs incurred to mitigate the actual natural gas released, costs associated with litigation and claims by nearby residents and businesses, and, in some circumstances depending on their nature and manner of assessment, fines and penalties. We have been communicating with our insurance carriers and, as discussed above, we have received insurance payments for portions of the costs described above, including temporary relocation and associated processing costs, control-of-well expenses, costs of the government-ordered response to the Leak, legal costs and lost gas. We intend to pursue the full extent of our insurance coverage for the costs we have incurred or may incur. There can be no assurance that we will be successful in obtaining additional insurance recovery for these costs.

If any costs are not covered by insurance (including any costs in excess of applicable policy limits), if there are significant delays in receiving insurance recoveries, or if the insurance recoveries are subject to income taxes while the associated costs are not tax deductible, such amounts could have a material adverse effect on SoCalGas' and Sempra Energy's cash flows, financial condition and results of operations.

Natural Gas Storage Operations and Reliability. Natural gas withdrawn from storage is important for service reliability during peak demand periods, including peak electric generation needs in the summer and heating needs in the winter. The Aliso Canyon natural gas storage facility, with a capacity of 86 Bcf (representing 63 percent of SoCalGas' natural gas storage capacity), is the largest SoCalGas storage facility and an important element of SoCalGas' delivery system. As a result of the Leak, SoCalGas suspended injection of natural gas into the Aliso Canyon natural gas storage facility beginning in October 2015, and following a comprehensive safety review and authorization by DOGGR and the CPUC's Executive Director, resumed limited injection operations in July 2017.

During the suspension period, SoCalGas advised the California ISO, CEC, CPUC and PHMSA of its concerns that the inability to inject natural gas into the Aliso Canyon natural gas storage facility posed a risk to energy reliability in Southern California. Following the resumption of injection operations, the CPUC has issued a series of directives to SoCalGas specifying the range of working gas to be maintained in the Aliso Canyon natural gas storage facility to help ensure safety and reliability for the region and just and reasonable rates in California, the most recent of which, issued in July 2018, directed SoCalGas to maintain up to 34 Bcf of working gas. Limited withdrawals of natural gas from the facility were made in 2018 and 2019 to augment natural gas supplies during critical demand periods. In July 2019, the CPUC issued a protocol authorizing withdrawals of natural gas from the facility if gas supply is low in the region, to maintain system reliability and price stability.

If the Aliso Canyon natural gas storage facility were to be permanently closed, or if future cash flows were otherwise insufficient to recover its carrying value, it could result in an impairment of the facility and significantly higher than expected operating costs and/or additional capital expenditures, and natural gas reliability and electric generation could be jeopardized. At September 30, 2019, the Aliso Canyon natural gas storage facility had a net book value of \$771 million. Any significant impairment of this asset could have a material adverse effect on SoCalGas' and Sempra Energy's results of operations for the period in which it is recorded. Higher operating costs and additional capital expenditures incurred by SoCalGas may not be recoverable in customer rates and could have a material adverse effect on SoCalGas' and Sempra Energy's cash flows, financial condition and results of operations.

Sempra Mexico

Property Disputes and Permit Challenges

Energía Costa Azul. IEnova has been engaged in a long-running land dispute relating to property adjacent to its ECA LNG terminal near Ensenada, Mexico. A claimant to the adjacent property filed complaints in the federal Agrarian Court challenging the refusal of SEDATU in 2006 to issue a title to him for the disputed property. In November 2013, the federal Agrarian Court ordered that SEDATU issue the requested title and cause it to be registered. Both SEDATU and IEnova challenged the ruling, due to lack of notification of the underlying process. In May 2019, a federal court in Mexico reversed the ruling. IEnova expects additional proceedings regarding the claims.

Several administrative challenges are pending in Mexico before the Mexican environmental protection agency and the Federal Tax and Administrative Courts seeking revocation of the environmental impact authorization issued to ECA in 2003. These cases generally allege that the conditions and mitigation measures in the environmental impact authorization are inadequate and challenge findings that the activities of the terminal are consistent with regional development guidelines.

Additionally, in August 2018, a claimant filed a challenge in the federal district court in Ensenada, Baja California in relation to the environmental and social impact permits issued to ECA in September 2017 and December 2017, respectively, to allow natural gas liquefaction activities at the ECA LNG terminal. The court issued a provisional injunction on September 28, 2018 and maintained that provisional injunction at an April 11, 2019 hearing. In December 2018, the relevant Mexican regulators approved modifications to the environmental permit that facilitate the development of the proposed natural gas liquefaction facility at the ECA LNG terminal in two phases. On May 17, 2019, the court canceled the provisional injunction. The claimant has appealed the court's decision. That appeal and the claimant's underlying challenge to the permits remain pending.

Cases involving two parcels of real property have been filed against ECA. In one case, filed in the federal Agrarian Court in 2006, the plaintiffs seek to annul the recorded property title for a parcel on which the ECA LNG terminal is situated and to obtain possession of a different parcel that allegedly sits in the same place. Another civil complaint filed in the state court was served in April 2012 seeking to invalidate the contract by which ECA purchased another of the terminal parcels, on the grounds the purchase price was unfair; the plaintiff filed a second complaint in 2013 in the federal Agrarian Court seeking an order that SEDATU issue title to her. In January 2016, the federal Agrarian Court ruled against the plaintiff, and the plaintiff appealed the ruling. In May 2018, the state court dismissed the civil complaint, and the plaintiff has appealed. IEnova expects further proceedings on these two matters.

An unfavorable final decision on these property disputes or permit challenges could materially and adversely affect our existing natural gasification operations and our planned natural gas liquefaction projects currently in development at ECA.

Guaymas-El Oro Segment of the Sonora Pipeline. IEnova's Sonora natural gas pipeline consists of two segments, the Sasabe-Puerto Libertad-Guaymas segment, and the Guaymas-El Oro segment. Each segment has its own service agreement with the CFE. In 2015, the Yaqui tribe, with the exception of some members living in the Bácum community, granted its consent and a right-of-way easement agreement for the construction of the Guaymas-El Oro segment of the Sonora natural gas pipeline that crosses its territory. Representatives of the Bácum community filed a legal challenge in Mexican federal court demanding the right to withhold consent for the project, the stoppage of work in the Yaqui territory and damages. In 2016, the judge granted a suspension order that prohibited the construction of such segment through the Bácum community territory. Because the pipeline does not pass through the Bácum community, IEnova did not believe the 2016 suspension order prohibited construction in the remainder of the Yaqui territory. Construction of the Guaymas-El Oro segment was completed, and commercial operations began in May 2017.

Following the start of commercial operations of the Guaymas-El Oro segment, IEnova reported damage to the Guaymas-El Oro segment of the Sonora pipeline in the Yaqui territory that has made that section inoperable since August 23, 2017 and, as a result, IEnova declared a force majeure event. In 2017, an appellate court ruled that the scope of the 2016 suspension order encompassed the wider Yaqui territory, which has prevented IEnova from making repairs to put the pipeline back in service. In July 2019, a federal district court ruled in favor of IEnova and held that the Yaqui tribe was properly consulted and that consent from the Yaqui tribe was properly received. Representatives of the Bácum community appealed this decision, causing the suspension order preventing IEnova from repairing the damage to the Guaymas-El Oro segment of the Sonora pipeline in the Yaqui territory to remain in place until the appeals process is exhausted.

IEnova exercised its rights under the contract, which included seeking force majeure payments for the two-year period such force majeure payments were required to be made, which ended on August 22, 2019.

In July 2019, the CFE filed a request for arbitration generally to nullify certain contract terms that provide for fixed capacity payments in instances of force majeure and made a demand for substantial damages in connection with the force majeure event. In September 2019, the arbitration process ended when IEnova and the CFE reached an agreement to restart natural gas transportation service on the earlier of completion of repair of the damaged pipeline or January 15, 2020, and to modify the tariff structure and extend the term of the contract by 10 years. Under the revised agreement, the CFE will resume making payments only when the damaged section of the Guaymas-El Oro segment of the Sonora pipeline is repaired. If the pipeline is not repaired

by January 15, 2020 and the parties do not agree on a new service start date, IEnova retains the right to terminate the contract and seek to recover its reasonable and documented costs and lost profits.

If IEnova is unable to make such repairs and resume operations in the Guaymas-El Oro segment of the Sonora pipeline within this time frame or if IEnova terminates the contract and is unable to obtain recovery, there may be a material adverse impact on Sempra Energy's results of operations and cash flows and our ability to recover the carrying value of our investment. The Sasabe-Puerto Libertad-Guaymas segment of the Sonora pipeline remains in full operation and is not impacted by these developments.

Sur de Texas-Tuxpan Marine Pipeline. Sempra Mexico has a 40-percent interest in IMG, a JV with a subsidiary of TC Energy to build, own and operate the Sur de Texas-Tuxpan natural gas marine pipeline in Mexico. The JV has an agreement to provide the CFE with natural gas transportation services under a 25-year agreement, denominated in U.S. dollars. IMG previously received force majeure payments from the CFE from November 2018 through April 2019, after construction delays extended the commercial operation date. In June 2019, the CFE filed a request for arbitration generally to nullify certain contract terms that provide for fixed capacity payments in instances of force majeure and made a demand for substantial damages in connection with the force majeure event. In September 2019, the JV and the CFE amended the gas transportation services agreement to modify the tariff structure and extend the term of the contract by 10 years, which ended the arbitration process. Construction and commissioning activities on the pipeline were completed in June 2019, and, in September 2019, IMG received acceptance from the CFE allowing the pipeline to enter commercial operation and for service under the gas transportation contract to commence.

Other Litigation

Sempra Energy holds an NCI in RBS Sempra Commodities, a limited liability partnership in the process of being liquidated. NatWest Markets plc, formerly RBS, our partner in the JV, paid an assessment of £86 million (approximately \$138 million in U.S. dollars) in October 2014 to HMRC for denied VAT refund claims filed in connection with the purchase of carbon credit allowances by RBS SEE, a subsidiary of RBS Sempra Commodities. RBS SEE has since been sold to JP Morgan and later to Mercuria Energy Group, Ltd. HMRC asserted that RBS was not entitled to reduce its VAT liability by VAT paid on certain carbon credit purchases during 2009 because RBS knew or should have known that certain vendors in the trading chain did not remit their own VAT to HMRC. After paying the assessment, RBS filed a Notice of Appeal of the assessment with the First-Tier Tribunal. Trial on the matter has been scheduled between November 2, 2020 and December 11, 2020.

In 2015, liquidators filed a claim in the High Court of Justice against RBS and Mercuria Energy Europe Trading Limited (the Defendants) on behalf of 10 companies (the Liquidating Companies) that engaged in carbon credit trading via chains that included a company that traded directly with RBS SEE. The claim alleges that the Defendants' participation in the purchase and sale of carbon credits resulted in the Liquidating Companies' carbon credit trading transactions creating a VAT liability they were unable to pay, and that the Defendants are liable to provide for equitable compensation due to dishonest assistance and for compensation under the U.K. Insolvency Act of 1986. Trial on the matter was held in June and July of 2018, at the close of which the Liquidating Companies asserted that the Defendants were liable to the Liquidating Companies in the amount of £71.5 million (approximately \$88 million in U.S. dollars at September 30, 2019) for dishonest assistance and, to the extent that claim is unsuccessful, to the liquidators in the same amount under the U.K. Insolvency Act of 1986. If the High Court of Justice finds the Defendants liable, it will determine the amount. JP Morgan has notified us that Mercuria Energy Group, Ltd. has sought indemnity for the claim, and JP Morgan has in turn sought indemnity from Sempra Energy and RBS.

While the ultimate outcome remains uncertain, in the third quarter of 2018, we impaired our remaining \$65 million equity method investment in RBS Sempra Commodities.

Certain EFH subsidiaries that we acquired as part of the Merger are defendants in personal injury lawsuits brought in state courts throughout the U.S. As of October 28, 2019, 103 such lawsuits are pending and 1,608 such lawsuits have been filed but not served. These cases allege illness or death as a result of exposure to asbestos in power plants designed and/or built by companies whose assets were purchased by predecessor entities to the EFH subsidiaries, and generally assert claims for product defects, negligence, strict liability and wrongful death. They seek compensatory and punitive damages. Additionally, in connection with the EFH bankruptcy proceeding, approximately 28,000 proofs of claim were filed on behalf of persons who allege exposure to asbestos under similar circumstances and assert the right to file such lawsuits in the future. We anticipate additional lawsuits will be filed. None of these claims or lawsuits were discharged in the EFH bankruptcy proceeding.

We are also defendants in ordinary routine litigation incidental to our businesses, including personal injury, employment litigation, product liability, property damage and other claims. Juries have demonstrated an increasing willingness to grant large awards, including punitive damages, in these types of cases.

LEASES

A lease exists when a contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. We determine if an arrangement is or contains a lease at inception of the contract.

Some of our lease agreements contain nonlease components, which represent activities that transfer a separate good or service to the lessee. As the lessee for both operating and finance leases, we combine lease components and nonlease components for all existing classes of underlying assets as a single lease component, whereby fixed or in-substance fixed payments allocable to the nonlease component are accounted for as part of the related lease liability and ROU asset. As the lessor, if the timing and pattern of transfer of the lease components and nonlease components are the same, and the lease component would be classified as an operating lease if accounted for separately, we combine the lease components and nonlease components.

Lessee Accounting

We have operating and finance leases for real and personal property (including office space, land, fleet vehicles, machinery and equipment, warehouses and other operational facilities) and PPAs with renewable energy and peaker plant facilities.

Some of our leases include options to extend the lease terms for up to 25 years, while others include options to terminate the lease within one year. Our lease liabilities and ROU assets are based on lease terms that may include such options to extend or terminate the lease when it is reasonably certain that we will exercise that option.

Certain of our contracts are short-term leases, which have a lease term of 12 months or less at lease commencement. We do not recognize a lease liability or ROU asset arising from short-term leases for all existing classes of underlying assets. In such cases, we recognize short-term lease costs on a straight-line basis over the lease term. Our short-term lease costs for the period reasonably reflect our short-term lease commitments.

Certain of our leases contain escalation clauses requiring annual increases in rent ranging from 2 percent to 5 percent or based on the Consumer Price Index. The rentals payable under these leases may increase by a fixed amount each year or by a percentage of a base year. Variable lease payments that are based on an index or rate are included in the initial measurement of our lease liability and ROU asset based on the index or rate at lease commencement and are not remeasured because of changes to the index or rate. Rather, changes to the index or rate are treated as variable lease payments and recognized in the period in which the obligation for those payments is incurred.

Similarly, PPAs for the purchase of renewable energy at SDG&E require lease payments based on a stated rate per MWh produced by the facilities, and we are required to purchase substantially all the output from the facilities. SDG&E is required to pay additional amounts for capacity charges and actual purchases of energy that exceed the minimum energy commitments. Under these contracts, we do not recognize a lease liability or ROU asset for leases for which there are no fixed lease payments. Rather, these variable lease payments are recognized separately as variable lease costs.

As of the lease commencement date, we recognize a lease liability for our obligation to make future lease payments, which we initially measure at present value using our incremental borrowing rate at the date of lease commencement, unless the rate implicit in the lease is readily determinable. We determine our incremental borrowing rate based on the rate of interest that we would have to pay to borrow, on a collateralized basis over a similar term, an amount equal to the lease payments in a similar economic environment. We also record a ROU asset for our right to use the underlying asset, which is initially equal to the lease liability and adjusted for lease payments made at or before lease commencement, lease incentives, and any initial direct costs. Like other long-lived assets, we test ROU assets for recoverability whenever events or changes in circumstances have occurred that may affect the recoverability or the estimated useful lives of the ROU assets.

For our operating leases, our non-regulated entities recognize a single lease cost on a straight-line basis over the lease term in operating expenses. The California Utilities recognize this single lease cost on a basis that is consistent with the recovery of such costs in accordance with U.S. GAAP governing rate-regulated operations.

For our finance leases, the interest expense on the lease liability and amortization of the ROU asset are accounted for separately. Our non-regulated entities use the effective interest rate method to account for the imputed interest on the lease liability and amortize the ROU asset on a straight-line basis over the lease term. The California Utilities recognize amortization of the ROU asset on a basis that is consistent with the recovery of such costs in accordance with U.S. GAAP governing rate-regulated operations.

Our leases do not contain any material residual value guarantees, restrictions or covenants.

Classification of ROU assets and lease liabilities and the weighted-average remaining lease term and discount rate associated with operating and finance leases are summarized in the table below.

LESSEE INFORMATION ON THE CONDENSED CONSOLIDATED BALANCE SHEETS

(Dollars in millions)

	September 30, 2019		
	Sempra Energy Consolidated	SDG&E	SoCalGas
Right-of-use assets:			
Operating leases:			
Right-of-use assets	\$ 595	\$ 126	\$ 99
Finance leases:			
Property, plant and equipment	1,342	1,322	20
Accumulated depreciation	(57)	(52)	(5)
Property, plant and equipment, net	1,285	1,270	15
Total right-of-use assets	\$ 1,880	\$ 1,396	\$ 114
Lease liabilities:			
Operating leases:			
Other current liabilities	\$ 47	\$ 22	\$ 19
Deferred credits and other	447	102	79
	494	124	98
Finance leases:			
Current portion of long-term debt and finance leases	24	19	5
Long-term debt and finance leases	1,261	1,251	10
	1,285	1,270	15
Total lease liabilities	\$ 1,779	\$ 1,394	\$ 113
Weighted-average remaining lease term (in years):			
Operating leases	14	7	6
Finance leases	20	20	6
Weighted-average discount rate:			
Operating leases	6.02%	3.69%	3.75%
Finance leases	14.81%	14.86%	3.41%

The components of lease costs were as follows:

LESSEE INFORMATION ON THE CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS⁽¹⁾

(Dollars in millions)

	Three months ended September 30, 2019			Nine months ended September 30, 2019		
	Sempra Energy Consolidated	SDG&E	SoCalGas	Sempra Energy Consolidated	SDG&E	SoCalGas
Operating lease costs	\$ 23	\$ 8	\$ 7	\$ 72	\$ 25	\$ 21
Finance lease costs:						
Amortization of ROU assets	6	4	2	17	13	4
Interest on lease liabilities	47	47	—	141	141	—
Total finance lease costs	53	51	2	158	154	4
Short-term lease costs ⁽²⁾	3	1	—	5	1	—
Variable lease costs ⁽²⁾	156	155	1	396	389	7
Total lease costs	\$ 235	\$ 215	\$ 10	\$ 631	\$ 569	\$ 32

⁽¹⁾ Includes costs capitalized in PP&E.

⁽²⁾ Short-term leases with variable lease costs are recorded and presented as variable lease costs.

Cash paid for amounts included in the measurement of lease liabilities was as follows:

LESSEE INFORMATION ON THE CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in millions)

	Nine months ended September 30, 2019		
	Sempra Energy Consolidated	SDG&E	SoCalGas
Operating activities:			
Cash paid for operating leases	\$ 81	\$ 25	\$ 21
Cash paid for finance leases	130	130	—
Financing activities:			
Cash paid for finance leases	17	13	4
Increase in operating lease obligations for right-of-use assets	571	147	117
Increase in finance lease obligations for investment in PP&E	27	12	15

The table below presents the maturity analysis of our lease liabilities and reconciliation to the present value of lease liabilities:

LESSEE MATURITY ANALYSIS OF LIABILITIES							
<i>(Dollars in millions)</i>							
	September 30, 2019						
	Sempra Energy Consolidated			SDG&E		SoCalGas	
	Operating leases	Finance leases		Operating leases	Finance leases	Operating leases	Finance leases
2019 (excluding first nine months of 2019)	\$ 17	\$ 50	\$	7	\$ 48	\$ 6	\$ 2
2020	72	195		26	191	23	4
2021	69	192		26	190	20	2
2022	62	191		22	189	17	2
2023	53	191		17	189	13	2
Thereafter	494	2,811		43	2,807	30	4
Total undiscounted lease payments	767	3,630		141	3,614	109	16
Less: imputed interest	(273)	(2,345)		(17)	(2,344)	(11)	(1)
Total lease liabilities	494	1,285		124	1,270	98	15
Less: current lease liabilities	(47)	(24)		(22)	(19)	(19)	(5)
Long-term lease liabilities	\$ 447	\$ 1,261	\$	102	\$ 1,251	\$ 79	\$ 10

Leases that Have Not Yet Commenced

SDG&E has PPAs for three battery storage facilities that are currently under construction. When construction is complete and delivery of contracted power commences, which is scheduled to occur in 2019 through 2021, we will account for the PPAs as finance leases. The future minimum lease payments are expected to be \$1 million per year in 2020 through 2023 and \$18 million thereafter. These PPAs expire at various dates from 2031 through 2039.

SDG&E and SoCalGas have lease agreements for future acquisitions of fleet vehicles with an aggregate maximum lease limit of \$180 million. SDG&E and SoCalGas have utilized \$53 million and \$74 million, respectively, as of September 30, 2019.

Lease Disclosures Under Previous U.S. GAAP

The table below presents the future minimum lease payments under previous U.S. GAAP:

FUTURE MINIMUM LEASE PAYMENTS								
<i>(Dollars in millions)</i>								
	December 31, 2018							
	Sempra Energy Consolidated			SDG&E		SoCalGas		
	Build-to-suit lease	Operating leases	Capital leases	Operating leases	Capital leases	Operating leases	Capital leases	
2019	\$ 10	\$ 77	\$ 215	\$ 23	\$ 212	\$ 26	\$ 3	
2020	11	55	210	22	210	22	—	
2021	11	53	211	22	211	21	—	
2022	11	50	211	21	211	20	—	
2023	11	42	211	17	211	16	—	
Thereafter	217	253	3,196	48	3,196	28	—	
Total undiscounted lease payments	\$ 271	\$ 530	4,254	\$ 153	4,251	\$ 133	3	
Less: estimated executory costs			(480)		(480)		—	
Less: imputed interest			(2,483)		(2,483)		—	
Total future minimum lease payments			\$ 1,291		\$ 1,288		\$ 3	

Lessor Accounting

Sempra Mexico is a lessor for certain of its natural gas and ethane pipelines, compressor stations and LPG storage facilities. These operating leases expire at various dates from 2021 through 2039.

Sempra Mexico expects to continue to derive value from the underlying assets associated with its pipelines following the end of their respective lease terms based on the expected remaining useful life, expected market conditions and plans to re-market and re-contract the underlying assets.

Generally, we recognize operating lease income on a straight-line basis over the lease term and evaluate the underlying asset for impairment. Certain of our leases contain rate adjustments or are based on foreign currency exchange rates that may result in lease payments received that vary from one period to the next.

We provide information below for leases for which we are the lessor.

LESSOR INFORMATION – SEMPRA ENERGY

(Dollars in millions)

	September 30, 2019	
Assets subject to operating leases:		
Property, plant and equipment ⁽¹⁾	\$	1,112
Accumulated depreciation		(181)
Property, plant and equipment, net	\$	931
Maturity analysis of operating lease payments:		
2019 (excluding first nine months of 2019)	\$	50
2020		199
2021		199
2022		199
2023		199
Thereafter		2,588
Total undiscounted cash flows	\$	3,434

⁽¹⁾ Included in Machinery and Equipment — Pipelines and Storage within the major functional categories of PP&E.

LESSOR INFORMATION ON THE CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS – SEMPRA ENERGY

(Dollars in millions)

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Minimum lease payments	\$ 51	\$ 47	\$ 150	\$ 143
Variable lease payments	—	26	6	63
Total revenues from operating leases	\$ 51	\$ 73	\$ 156	\$ 206
Depreciation expense	\$ 10	\$ 19	\$ 29	\$ 55

OTHER CONTRACTUAL COMMITMENTS

We discuss below significant changes in the first nine months of 2019 to contractual commitments discussed in Notes 1 and 16 of the Notes to Consolidated Financial Statements in the Annual Report.

LNG Purchase Agreement

Sempra LNG has a sale and purchase agreement for the supply of LNG to the ECA terminal. The commitment amount is calculated using a predetermined formula based on estimated forward prices of the index applicable from 2019 to 2029. At September 30, 2019, we expect the commitment amount to decrease by \$281 million in 2019, \$9 million in 2020, \$16 million in 2021, \$8 million in 2022, \$1 million in 2023 and \$24 million thereafter (through contract termination in 2029) compared to December 31, 2018, reflecting changes in estimated forward prices since December 31, 2018 and actual transactions for the first nine months of 2019. These LNG commitment amounts are based on the assumption that all LNG cargoes, less those already confirmed to be diverted, under the agreement are delivered. Although this agreement specifies a number of cargoes to be delivered, under its terms, the customer may divert certain cargoes, which would reduce amounts paid under the agreement by Sempra LNG. Actual LNG purchases in the current and prior years have been significantly lower than the maximum amount provided under the agreement due to the customer electing to divert cargoes as allowed by the agreement.

Purchased-Power Contracts

SDG&E's commitments under purchased-power contracts increased by \$372 million since December 31, 2018, primarily due to \$262 million from the resource adequacy capacity agreement that SDG&E entered into with OMEC LLC, which we discuss in "Variable Interest Entities – SDG&E – Otay Mesa VIE" in Note 1. Net future payments are expected to increase by \$13 million in 2019, \$45 million in 2020, \$52 million in 2021, \$69 million in 2022, \$74 million in 2023, and \$119 million thereafter compared to December 31, 2018.

CONCENTRATION OF CREDIT RISK

We maintain credit policies and systems designed to manage our overall credit risk. These policies include an evaluation of potential counterparties' financial condition and an assignment of credit limits. These credit limits are established based on risk and return considerations under terms customarily available in the industry. We grant credit to utility customers and counterparties, substantially all of whom are located in our service territory, which covers most of Southern California and a portion of central California for SoCalGas, and all of San Diego County and an adjacent portion of Orange County for SDG&E. Sempra Mexico also grants credit to its utility customers and counterparties in Mexico.

Projects and businesses owned or partially owned by Sempra Energy place significant reliance on the ability of their suppliers, customers and partners to perform on long-term agreements and on our ability to enforce contract terms in the event of nonperformance. We consider many factors, including the negotiation of supplier and customer agreements, when we evaluate and approve development projects and investment opportunities.

NOTE 12. SEGMENT INFORMATION

At September 30, 2019, we had five separately managed reportable segments, as follows:

- *SDG&E* provides electric service to San Diego and southern Orange counties and natural gas service to San Diego County.
- *SoCalGas* is a natural gas distribution utility, serving customers throughout most of Southern California and part of central California.
- *Sempra Texas Utilities* holds our investment in Oncor Holdings, which owns an 80.25-percent interest in Oncor, a regulated electric transmission and distribution utility serving customers primarily in the north-central, eastern, western and panhandle regions of Texas, and our indirect, 50-percent interest in Sharyland Holdings, which owns a regulated electric transmission and distribution utility serving customers near the Texas-Mexico border. As we discuss in Note 5, we acquired an indirect, 50-percent interest in Sharyland Holdings in May 2019.
- *Sempra Mexico* develops, owns and operates, or holds interests in, natural gas, electric, LNG, LPG, ethane and liquid fuels infrastructure, and has marketing operations for the purchase of LNG and the purchase and sale of natural gas in Mexico.
- *Sempra LNG* (previously known as Sempra LNG & Midstream) develops, owns and operates, or holds interests in, terminals for the import and export of LNG and sale of natural gas, natural gas pipelines and marketing operations, all within the U.S. and Mexico. In February 2019, we completed the sale of our natural gas storage assets at Mississippi Hub and Bay Gas.

In December 2018, Sempra Renewables completed the sale of all its operating solar assets, solar and battery storage development projects and one wind generation facility. In April 2019, Sempra Renewables completed the sale of its remaining wind assets and investments. Upon completion of this sale, remaining nominal business activities at Sempra Renewables were subsumed into Parent and other and the Sempra Renewables segment ceased to exist. The tables below include amounts from Sempra Renewables up until the cessation of the segment.

As we discuss in Note 5, the financial information related to our businesses that constituted the Sempra South American Utilities segment has been reclassified to discontinued operations for all periods presented. The information in the tables below excludes amounts from discontinued operations unless otherwise noted.

We evaluate each segment's performance based on its contribution to Sempra Energy's reported earnings and cash flows. The California Utilities operate in essentially separate service territories, under separate regulatory frameworks and rate structures set by the CPUC. The California Utilities' operations are based on rates set by the CPUC and the FERC. We describe the accounting policies of all of our segments in Note 1 of the Notes to Consolidated Financial Statements in the Annual Report.

The cost of common services shared by the business segments is assigned directly or allocated based on various cost factors, depending on the nature of the service provided. Interest income and expense is recorded on intercompany loans. The loan balances and related interest are eliminated in consolidation.

The following tables show selected information by segment from our Condensed Consolidated Statements of Operations and Condensed Consolidated Balance Sheets. Amounts labeled as "All other" in the following tables consist primarily of activities of parent organizations and include certain nominal amounts from our South American businesses that did not qualify for treatment as discontinued operations.

SEGMENT INFORMATION*(Dollars in millions)*

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
REVENUES				
SDG&E	\$ 1,427	\$ 1,299	\$ 3,666	\$ 3,405
SoCalGas	975	802	3,142	2,700
Sempra Mexico	357	410	1,058	1,028
Sempra Renewables	—	38	10	103
Sempra LNG	100	147	327	330
All other	1	—	1	—
Eliminations and adjustments	(2)	—	(3)	(2)
Intersegment revenues ⁽¹⁾	(100)	(131)	(315)	(288)
Total	\$ 2,758	\$ 2,565	\$ 7,886	\$ 7,276
INTEREST EXPENSE				
SDG&E ⁽²⁾	\$ 106	\$ 56	\$ 311	\$ 161
SoCalGas	36	29	104	82
Sempra Mexico	30	30	89	90
Sempra Renewables	—	5	3	15
Sempra LNG	11	3	18	18
All other	117	122	336	371
Intercompany eliminations	(21)	(23)	(64)	(81)
Total	\$ 279	\$ 222	\$ 797	\$ 656
INTEREST INCOME				
SDG&E	\$ 1	\$ 1	\$ 3	\$ 3
SoCalGas	—	—	1	1
Sempra Mexico	20	17	58	48
Sempra Renewables	—	2	11	6
Sempra LNG	15	10	45	36
All other	1	1	2	14
Intercompany eliminations	(15)	(12)	(56)	(42)
Total	\$ 22	\$ 19	\$ 64	\$ 66
DEPRECIATION AND AMORTIZATION				
SDG&E	\$ 196	\$ 174	\$ 571	\$ 509
SoCalGas	154	141	449	414
Sempra Mexico	46	45	136	131
Sempra Renewables	—	—	—	27
Sempra LNG	2	2	7	24
All other	4	4	11	10
Total	\$ 402	\$ 366	\$ 1,174	\$ 1,115
INCOME TAX EXPENSE (BENEFIT)				
SDG&E	\$ 71	\$ 53	\$ 111	\$ 151
SoCalGas	35	(7)	50	75
Sempra Mexico	—	126	116	226
Sempra Renewables	—	(2)	4	(67)
Sempra LNG	(2)	6	4	(488)
All other	(43)	(37)	(135)	(118)
Total	\$ 61	\$ 139	\$ 150	\$ (221)
EQUITY EARNINGS (LOSSES)				
Equity earnings (losses), before income tax:				
Sempra Texas Utilities	\$ —	\$ —	\$ 1	\$ —
Sempra Renewables	—	12	5	(170)
Sempra LNG	17	—	19	1
All other	—	(64)	(1)	(67)
	17	(52)	24	(236)
Equity earnings (losses), net of income tax:				
Sempra Texas Utilities	212	154	418	283

Sempra Mexico

	37	(28)	43	2
	249	126	461	285
Total	\$ 266	\$ 74	\$ 485	\$ 49

SEGMENT INFORMATION (CONTINUED)
(Dollars in millions)

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
EARNINGS (LOSSES) ATTRIBUTABLE TO COMMON SHARES				
SDG&E	\$ 263	\$ 205	\$ 582	\$ 521
SoCalGas	143	(14)	437	244
Sempra Texas Utilities	212	154	419	283
Sempra Mexico	84	44	214	161
Sempra Renewables	—	34	59	(54)
Sempra LNG	2	16	13	(764)
Discontinued operations	248	46	267	115
All other	(139)	(211)	(383)	(446)
Total	\$ 813	\$ 274	\$ 1,608	\$ 60
EXPENDITURES FOR PROPERTY, PLANT & EQUIPMENT				
SDG&E			\$ 1,071	\$ 1,194
SoCalGas			1,019	1,127
Sempra Mexico			420	255
Sempra Renewables			2	46
Sempra LNG			74	19
All other			4	13
Total			\$ 2,590	\$ 2,654

	September 30, 2019	December 31, 2018
ASSETS		
SDG&E	\$ 20,336	\$ 19,225
SoCalGas	16,023	15,389
Sempra Texas Utilities	11,248	9,652
Sempra Mexico	9,759	9,165
Sempra Renewables	—	2,549
Sempra LNG	3,755	4,060
Discontinued operations	4,115	3,718
All other	1,585	1,070
Intersegment receivables	(2,236)	(4,190)
Total	\$ 64,585	\$ 60,638

EQUITY METHOD AND OTHER INVESTMENTS

Sempra Texas Utilities	\$ 11,248	\$ 9,652
Sempra Mexico	750	747
Sempra Renewables	—	291
Sempra LNG	1,216	1,271
All other	7	11
Total	\$ 13,221	\$ 11,972

⁽¹⁾ Revenues for reportable segments include intersegment revenues of \$1 million, \$16 million, \$29 million and \$54 million for the three months ended September 30, 2019; \$4 million, \$50 million, \$89 million and \$172 million for the nine months ended September 30, 2019; \$1 million, \$15 million, \$31 million and \$84 million for the three months ended September 30, 2018; and \$3 million, \$47 million, \$88 million, and \$150 million for the nine months ended September 30, 2018 for SDG&E, SoCalGas, Sempra Mexico and Sempra LNG, respectively.

⁽²⁾ As we discuss in Note 2, in accordance with adoption of the lease standard on January 1, 2019, on a prospective basis, a significant portion of finance lease costs for PPAs that have historically been presented in Cost of Electric Fuel and Purchased Power are now presented in Interest Expense.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion in conjunction with the Condensed Consolidated Financial Statements and the Notes thereto contained in this Form 10-Q, and the Consolidated Financial Statements and the Notes thereto, "Item 7. MD&A" and "Item 1A. Risk Factors" contained in the Annual Report.

OVERVIEW

Sempra Energy is a California-based energy-services holding company whose businesses invest in, develop and operate energy infrastructure, and provide electric and gas services to customers in North America. Up until the April 2019 cessation of the Sempra Renewables segment that we discuss in Notes 5 and 12 of the Notes to Condensed Consolidated Financial Statements, our businesses consisted of six separately managed reportable segments.

On January 25, 2019, our board of directors approved a plan to sell our South American businesses, which were previously included in our Sempra South American Utilities segment. Our South American businesses and certain activities associated with those businesses have been reclassified to discontinued operations for all periods presented. Nominal activities that are not classified as discontinued operations have been subsumed into Parent and other. Our discussions below exclude discontinued operations, unless otherwise noted.

In the first quarter of 2019, our Sempra LNG & Midstream segment was renamed “Sempra LNG.” This segment name change had no impact on our historical position, results of operations, cash flow or segment results previously reported.

We provide additional information about discontinued operations in Note 5 of the Notes to Condensed Consolidated Financial Statements and about our reportable segments in Note 12 of the Notes to Condensed Consolidated Financial Statements herein and in “Item 1. Business” in the Annual Report.

This report includes information for the following separate registrants:

- Sempra Energy and its consolidated entities
- SDG&E and its consolidated VIE (until deconsolidation of the VIE on August 23, 2019)
- SoCalGas

References to “we,” “our” and “Sempra Energy Consolidated” are to Sempra Energy and its consolidated entities, collectively, unless otherwise indicated by the context. We refer to SDG&E and SoCalGas collectively as the California Utilities, which do not include our Texas utilities or the utility in our Sempra Mexico segment. It also does not include utilities within our South American businesses that have been reclassified as discontinued operations. All references in this MD&A to our reportable segments are not intended to refer to any legal entity with the same or similar name.

Throughout this report, we refer to the following as Condensed Consolidated Financial Statements and Notes to Condensed Consolidated Financial Statements when discussed together or collectively:

- the Condensed Consolidated Financial Statements and related Notes of Sempra Energy and its subsidiaries and VIEs;
- the Condensed Consolidated Financial Statements and related Notes of SDG&E and its VIE (until deconsolidation of the VIE on August 23, 2019); and
- the Condensed Financial Statements and related Notes of SoCalGas.

RESULTS OF OPERATIONS

We discuss the following in Results of Operations:

- Overall results of our operations
- Segment results
- Adjusted earnings and adjusted EPS
- Significant changes in revenues, costs and earnings between periods
- Impact of foreign currency and inflation rates on our results of operations

OVERALL RESULTS OF OPERATIONS OF SEMPRA ENERGY

In the three months ended September 30, 2019, we reported earnings of \$813 million and diluted EPS of \$2.84 compared to earnings of \$274 million and diluted EPS of \$0.99 for the same period in 2018. In the nine months ended September 30, 2019, we reported earnings of \$1,608 million and diluted EPS of \$5.74 compared to earnings of \$60 million and diluted EPS of \$0.23 for the same period in 2018. The change in diluted EPS in the three months and nine months ended September 30, 2019 included a decrease of \$0.20 and \$0.31, respectively, due to an increase in weighted-average common shares outstanding. Our results and diluted EPS were impacted by variances discussed in “Segment Results” below and by the items included in the table “Sempra Energy Adjusted Earnings and Adjusted EPS,” also below.

SEGMENT RESULTS

The following section presents earnings (losses) by Sempra Energy segment, as well as Parent and other, and the related discussion of the changes in segment earnings (losses). Throughout the MD&A, our reference to earnings represents earnings attributable to common shares. Variance amounts presented are the after-tax earnings impact (based on applicable statutory tax rates), unless otherwise noted, and before NCI, where applicable.

SEMPRA ENERGY EARNINGS (LOSSES) BY SEGMENT

(Dollars in millions)

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
SDG&E	\$ 263	\$ 205	\$ 582	\$ 521
SoCalGas	143	(14)	437	244
Sempra Texas Utilities	212	154	419	283
Sempra Mexico	84	44	214	161
Sempra Renewables	—	34	59	(54)
Sempra LNG	2	16	13	(764)
Parent and other ⁽¹⁾	(139)	(211)	(383)	(446)
Discontinued operations	248	46	267	115
Earnings (losses) attributable to common shares	\$ 813	\$ 274	\$ 1,608	\$ 60

⁽¹⁾ Includes intercompany eliminations recorded in consolidation and certain corporate costs.

The California Utilities recorded revenues in the first six months of 2019 based on levels authorized for 2018 under the 2016 GRC FD because a final decision in the 2019 GRC was not issued by June 30, 2019. The 2019 GRC FD was issued in September 2019 and is effective retroactive to January 1, 2019. The California Utilities recorded the retroactive impacts of the 2019 GRC FD in the third quarter of 2019.

SDG&E

The increase in earnings of \$58 million (28%) in the three months ended September 30, 2019 was primarily due to:

- \$66 million favorable impact from the retroactive application of the 2019 GRC FD for the first six months of 2019; and
- \$19 million higher CPUC base operating margin authorized for 2019, net of operating expenses; **offset by**
- \$24 million lower earnings from electric transmission operations, primarily due to a FERC formulaic rate adjustment benefit in 2018.

The increase in earnings of \$61 million (12%) in the first nine months of 2019 was primarily due to:

- \$38 million higher CPUC base operating margin authorized for 2019, net of operating expenses; and
- \$31 million income tax benefit from the release of a regulatory liability established in connection with 2017 tax reform for excess deferred income tax balances that the CPUC directed be allocated to shareholders in a January 2019 decision.

SoCalGas

Earnings of \$143 million in the three months ended September 30, 2019 compared to losses of \$14 million for the same period in 2018 was primarily due to:

- \$130 million favorable impact from the retroactive application of the 2019 GRC FD for the first six months of 2019; and
- \$41 million higher CPUC base operating margin authorized for 2019, net of operating expenses; **offset by**

- \$21 million impairment of non-utility native gas assets in 2019.

The increase in earnings of \$193 million in the first nine months of 2019 was primarily due to:

- \$166 million higher CPUC base operating margin authorized for 2019, net of operating expenses;
- \$38 million income tax benefit from the impact of the January 2019 CPUC decision allocating certain excess deferred income tax balances to shareholders; and
- \$22 million from impacts associated with Aliso Canyon natural gas storage facility litigation in 2018; **offset by**
- \$21 million impairment of non-utility native gas assets in 2019;
- \$16 million higher net interest expense; and
- \$8 million penalties in 2019 related to the SoCalGas billing practices OII.

Sempra Texas Utilities

The increase in earnings of \$58 million (38%) in the three months ended September 30, 2019 primarily represents higher equity earnings from Oncor Holdings driven primarily by the impacts of Oncor's acquisition of InfraREIT in May 2019, higher distribution revenues resulting from an increase in volumes driven primarily by weather, and higher transmission revenues due to rates.

The increase in earnings of \$136 million (48%) in the first nine months of 2019 primarily represents higher equity earnings from Oncor Holdings, which we acquired in March 2018, primarily as a result of higher revenues due to the impacts of Oncor's acquisition of InfraREIT in May 2019 and higher transmission revenues driven by rates.

Sempra Mexico

The increase in earnings of \$40 million in the three months ended September 30, 2019 was primarily due to:

- \$73 million favorable impact from foreign currency and inflation effects net of foreign currency derivatives effects, comprised of:
 - in 2019, \$30 million favorable foreign currency and inflation effects, offset by a \$9 million loss from foreign currency derivatives, and
 - in 2018, \$73 million unfavorable foreign currency and inflation effects, offset by a \$21 million gain from foreign currency derivatives. We discuss these effects below in "Impact of Foreign Currency and Inflation Rates on Results of Operations;" and
- \$13 million lower income tax expense in 2019 primarily from the outside basis differences in JV investments and a two-year tax abatement that expires in 2020; **offset by**
- \$50 million earnings attributable to NCI at IEnova in 2019 compared to \$15 million earnings in 2018; and
- \$8 million lower earnings primarily from force majeure payments that ended on August 22, 2019 with respect to the Guaymas-El Oro segment of the Sonora pipeline.

The increase in earnings of \$53 million (33%) in the first nine months of 2019 was primarily due to:

- \$51 million lower income tax expense in 2019 primarily from the outside basis differences in JV investments and a two-year tax abatement that expires in 2020; and
- \$40 million favorable impact from foreign currency and inflation effects net of foreign currency derivatives effects, comprised of:
 - in 2019, \$15 million unfavorable foreign currency and inflation effects, offset by a \$5 million gain from foreign currency derivatives, *offset by*
 - in 2018, \$77 million unfavorable foreign currency and inflation effects, offset by a \$27 million gain from foreign currency derivatives; **offset by**
- \$114 million earnings attributable to NCI at IEnova in 2019 compared to \$77 million earnings in 2018; and
- \$11 million lower earnings primarily from force majeure payments that ended on August 22, 2019 with respect to the Guaymas-El Oro segment of the Sonora pipeline.

Sempra Renewables

As we discuss in Note 5 of the Notes to Condensed Consolidated Financial Statements, Sempra Renewables sold its remaining wind assets and investments in April 2019, upon which date the segment ceased to exist.

Earnings of \$59 million in the first nine months of 2019 compared to losses of \$54 million for the same period in 2018 were primarily due to:

- \$145 million other-than-temporary impairment of certain U.S. wind equity method investments in 2018; and
- \$45 million gain on sale of wind assets in 2019; **offset by**
- lower earnings from assets sold in December 2018 and April 2019, net of lower general and administrative and other costs due to the wind-down of this business.

Sempra LNG

The decrease in earnings of \$14 million in the three months ended September 30, 2019 was primarily due to lower earnings from our marketing operations mainly driven by changes in natural gas prices, offset by \$9 million higher equity earnings from Cameron LNG JV primarily due to Train 1 commencing commercial operation under its tolling agreements in August 2019.

Earnings of \$13 million in the first nine months of 2019 compared to losses of \$764 million for the same period in 2018 were primarily due to:

- \$801 million impairment of certain non-utility natural gas storage assets in the southeast U.S. in 2018;
- \$23 million higher earnings from our marketing operations primarily driven by optimization of natural gas transport contracts;
- \$11 million higher equity earnings from Cameron LNG JV primarily due to Train 1 commencing commercial operation under its tolling agreements in August 2019; and
- \$9 million unfavorable adjustment in 2018 to TCJA provisional amounts recorded in 2017 related to the remeasurement of deferred income taxes; **offset by**
- \$46 million losses attributable to NCI in 2018 related to the impairment.

Parent and Other

The decrease in losses of \$72 million (34%) in the three months ended September 30, 2019 was primarily due to a \$65 million impairment of the RBS Sempra Commodities equity method investment in 2018.

The decrease in losses of \$63 million (14%) in the first nine months of 2019 was primarily due to:

- \$65 million impairment of the RBS Sempra Commodities equity method investment in 2018;
- \$25 million higher investment gains in 2019 on dedicated assets in support of our employee non-qualified benefit plan obligations, net of deferred compensation expenses; and
- \$10 million income tax benefit in 2019 to reduce a valuation allowance against certain NOL carryforwards as a result of our decision to sell our South American businesses; **offset by**
- \$18 million increase in mandatory convertible preferred stock dividends primarily from the issuance of series B preferred stock in July 2018; and
- \$16 million primarily related to settlement charges from our non-qualified pension plan.

Discontinued Operations

Discontinued operations that were previously in our Sempra South American Utilities segment include our 100-percent interest in Chilquinta Energía in Chile, our 83.6-percent interest in Luz del Sur in Peru and our interests in two energy-services companies, Tecnoed and Tecsur, which provide electric construction and infrastructure services to Chilquinta Energía and Luz del Sur, respectively, as well as third parties. Discontinued operations also include activities, mainly income taxes related to the South American businesses, that were previously included in the holding company of the South American businesses at Parent and other.

The increase in earnings of \$202 million in the three months ended September 30, 2019 was primarily due to:

- \$192 million income tax benefit in 2019 associated with outside basis differences in our South American businesses primarily related to a change in the anticipated structure of the sale of those businesses; and
- \$25 million higher earnings from South American operations mainly from higher rates, lower cost of purchased power at Peru, and including \$11 million lower depreciation expense due to assets classified as held for sale; **offset by**
- \$12 million income tax expense related to the increase in outside basis differences from 2019 earnings.

The increase in earnings of \$152 million in the first nine months of 2019 was primarily due to:

- \$89 million income tax benefit in 2019 from outside basis differences in our South American businesses primarily related to the change in our indefinite reinvestment assertion from our decision on January 25, 2019 to hold those businesses for sale and a change in the anticipated structure of the sale;
- \$76 million higher earnings from South American operations mainly from higher rates, lower cost of purchased power at Peru, and including \$27 million lower depreciation expense due to assets classified as held for sale; and

- \$16 million income tax expense in 2018 to adjust TCJA provisional amounts recorded in 2017 primarily related to withholding tax on our expected future repatriation of foreign undistributed earnings; **offset by**
- \$32 million income tax expense related to the increase in outside basis differences from 2019 earnings since January 25, 2019.

ADJUSTED EARNINGS AND ADJUSTED EPS

We prepare the Condensed Consolidated Financial Statements in conformity with U.S. GAAP. However, management may use earnings and diluted EPS adjusted to exclude certain items (referred to as Adjusted Earnings and Adjusted EPS) internally for financial planning, for analysis of performance and for reporting of results to the board of directors. We may also use Adjusted Earnings and Adjusted EPS when communicating our financial results and earnings outlook to analysts and investors. Adjusted Earnings and Adjusted EPS are non-GAAP financial measures. Because of the significance and/or nature of the excluded items, management believes that these non-GAAP financial measures provide a meaningful comparison of the performance of business operations to prior and future periods. Non-GAAP financial measures are supplementary information that should be considered in addition to, but not as a substitute for, the information prepared in accordance with U.S. GAAP.

For each period in which a non-GAAP financial measure is used, we provide in the table below a reconciliation of Sempra Energy Adjusted Earnings, Adjusted Diluted EPS and Weighted-Average Common Shares Outstanding – Adjusted to GAAP Earnings, GAAP Diluted EPS and Weighted-Average Common Shares Outstanding – GAAP, which we consider to be the most directly comparable financial measures calculated in accordance with U.S. GAAP.

SEMPRA ENERGY ADJUSTED EARNINGS AND ADJUSTED EPS
(Dollars in millions, except per share amounts; shares in thousands)

	Pretax amount	Income tax expense (benefit) ⁽¹⁾	Non-controlling interests	Earnings	Diluted EPS
Three months ended September 30, 2019					
Sempra Energy GAAP Earnings for GAAP EPS⁽²⁾				\$ 839	\$ 2.84
Less series A preferred stock dividends ⁽²⁾				(26)	(0.09)
Sempra Energy GAAP Earnings				813	
Impact of dilutive shares included in GAAP EPS ⁽²⁾					0.13
Excluded items:					
SDG&E retroactive impact of 2019 GRC FD for first half of 2019	\$ (92)	\$ 26	\$ —	(66)	(0.24)
SoCalGas retroactive impact of 2019 GRC FD for first half of 2019	(181)	51	—	(130)	(0.46)
Associated with holding the South American businesses for sale:					
Change in indefinite reinvestment assertion of basis differences and structure of sale of discontinued operations	—	(192)	—	(192)	(0.68)
Sempra Energy Adjusted Earnings				\$ 425	\$ 1.50
Weighted-average common shares outstanding, diluted – GAAP					295,789
Less series A preferred stock shares ⁽²⁾					(13,238)
Weighted-average common shares outstanding, diluted – Adjusted					282,551
Three months ended September 30, 2018					
Sempra Energy GAAP Earnings				\$ 274	\$ 0.99
Excluded item:					
Impairment of investment in RBS Sempra Commodities	\$ 65	\$ —	\$ —	65	0.24
Sempra Energy Adjusted Earnings				\$ 339	\$ 1.23
Weighted-average common shares outstanding, diluted – GAAP					275,907
Nine months ended September 30, 2019					
Sempra Energy GAAP Earnings				\$ 1,608	\$ 5.74
Excluded items:					
Gain on sale of certain Sempra Renewables assets	\$ (61)	\$ 16	\$ —	(45)	(0.16)
Associated with holding the South American businesses for sale:					
Change in indefinite reinvestment assertion of basis differences and structure of sale of discontinued operations	—	(89)	—	(89)	(0.32)
Reduction in tax valuation allowance against certain NOL carryforwards	—	(10)	—	(10)	(0.03)
Sempra Energy Adjusted Earnings				\$ 1,464	\$ 5.23
Weighted-average common shares outstanding, diluted – GAAP					279,809
Nine months ended September 30, 2018					
Sempra Energy GAAP Earnings				\$ 60	\$ 0.23
Impact of potentially dilutive shares excluded from GAAP EPS ⁽³⁾					(0.01)
Excluded items:					
Impacts associated with Aliso Canyon litigation	\$ 1	\$ 21	\$ —	22	0.08
Impairment of U.S. wind equity method investments	200	(55)	—	145	0.54
Impairment of non-utility natural gas storage assets	1,300	(499)	(46)	755	2.82
Impairment of investment in RBS Sempra Commodities	65	—	—	65	0.24
Impact from the TCJA	—	25	—	25	0.10
Sempra Energy Adjusted Earnings				\$ 1,072	\$ 4.00
Weighted-average common shares outstanding, diluted – GAAP					265,963
Add potentially dilutive shares ⁽³⁾					1,681
Weighted-average common shares outstanding, diluted – Adjusted					267,644

⁽¹⁾ Except for adjustments that are solely income tax and tax related to outside basis differences, income taxes on pretax amounts were primarily calculated based on applicable statutory tax rates.

⁽²⁾ In the three months ended September 30, 2019, the assumed conversion of the series A preferred stock is dilutive for GAAP Earnings, however, it is antidilutive for the lower Adjusted Earnings. As such, the series A preferred stock dividends have been subtracted from the numerator and the series A preferred stock shares have been subtracted from the denominator when calculating Adjusted EPS.

⁽³⁾ In the nine months ended September 30, 2018, the total weighted-average potentially dilutive stock options and RSUs of 736 and common shares sold forward of 945 were not included in the denominator of GAAP Diluted EPS due to the losses from continuing operations attributable to common shares, but have been added to the denominator when calculating Adjusted Diluted EPS.

For each period in which a non-GAAP financial measure is used, we provide in the tables below a reconciliation of SDG&E and SoCalGas Adjusted Earnings to GAAP Earnings, which we consider to be the most directly comparable financial measure calculated in accordance with U.S. GAAP.

SDG&E ADJUSTED EARNINGS			
<i>(Dollars in millions)</i>			
	Pretax amount	Income tax expense ⁽¹⁾	Earnings
Three months ended September 30, 2019			
SDG&E GAAP Earnings			\$ 263
Excluded item:			
Retroactive impact of 2019 GRC FD for first half of 2019	\$ (92)	\$ 26	(66)
SDG&E Adjusted Earnings			\$ 197

⁽¹⁾ Income taxes on pretax amounts were primarily calculated based on applicable statutory tax rates.

SOCALGAS ADJUSTED EARNINGS			
<i>(Dollars in millions)</i>			
	Pretax amount	Income tax expense ⁽¹⁾	Earnings
Three months ended September 30, 2019			
SoCalGas GAAP Earnings			\$ 143
Excluded item:			
Retroactive impact of 2019 GRC FD for first half of 2019	\$ (181)	\$ 51	(130)
SoCalGas Adjusted Earnings			\$ 13

Nine months ended September 30, 2018			
SoCalGas GAAP Earnings			\$ 244
Excluded item:			
Impacts associated with Aliso Canyon litigation	\$ 1	\$ 21	22
SoCalGas Adjusted Earnings			\$ 266

⁽¹⁾ Except for adjustments that are solely income tax, income taxes on pretax amounts were primarily calculated based on applicable statutory tax rates.

CHANGES IN REVENUES, COSTS AND EARNINGS

This section contains a discussion of the differences between periods in the specific line items of the Condensed Consolidated Statements of Operations for Sempra Energy, SDG&E and SoCalGas.

Utilities Revenues

Our utilities revenues include natural gas revenues at our California Utilities and Sempra Mexico's Ecogas and electric revenues at SDG&E. Intercompany revenues included in the separate revenues of each utility are eliminated in the Sempra Energy Condensed Consolidated Statements of Operations.

SoCalGas and SDG&E currently operate under a regulatory framework that:

- permits the cost of natural gas purchased for core customers (primarily residential and small commercial and industrial customers) to be passed through to customers in rates substantially as incurred. However, SoCalGas' GCIM provides SoCalGas the opportunity to share in the savings and/or costs from buying natural gas for its core customers at prices below or above monthly market-based benchmarks. This mechanism permits full recovery of costs incurred when average purchase costs are within a price range around the benchmark price. Any higher costs incurred or savings realized outside this range are shared between the core customers and SoCalGas. We provide further discussion in Note 3 of the Notes to Condensed Consolidated Financial Statements herein and in "Item 1. Business – Ratemaking Mechanisms" in the Annual Report.
- permits SDG&E to recover the actual cost incurred to generate or procure electricity based on annual estimates of the cost of electricity supplied to customers. The differences in cost between estimates and actual are recovered or refunded in subsequent periods through rates.
- permits the California Utilities to recover certain expenses for programs authorized by the CPUC, or "refundable programs."

Because changes in SoCalGas' and SDG&E's cost of natural gas and/or electricity are substantially recovered in rates, changes in

these costs are offset in the changes in revenues, and therefore do not impact earnings. In addition to the changes in cost or market prices, natural gas or electric revenues recorded during a period are impacted by customer billing cycles causing a difference between customer billings and recorded or authorized costs. These differences are required to be balanced over time, resulting in over- and undercollected regulatory balancing accounts. We discuss balancing accounts and their effects further in Note 4 of the Notes to Condensed Consolidated Financial Statements herein and in Note 4 of the Notes to Consolidated Financial Statements in the Annual Report.

The California Utilities' revenues are decoupled from, or not tied to, actual sales volumes. SoCalGas recognizes annual authorized revenue for core natural gas customers using seasonal factors established in the Triennial Cost Allocation Proceeding. Accordingly, a significant portion of SoCalGas' annual earnings are recognized in the first and fourth quarters of each year. SDG&E's authorized revenue recognition is also impacted by seasonal factors, resulting in higher earnings in the third quarter when electric loads are typically higher than in the other three quarters of the year. We discuss this decoupling mechanism and its effects further in Note 3 of the Notes to Consolidated Financial Statements in the Annual Report.

The table below summarizes revenues and cost of sales for our consolidated utilities.

UTILITIES REVENUES AND COST OF SALES					
<i>(Dollars in millions)</i>					
	Three months ended September 30,		Nine months ended September 30,		
	2019	2018	2019	2018	
Natural gas revenues:					
SoCalGas	\$ 975	\$ 802	\$ 3,142	\$ 2,700	
SDG&E	156	107	482	391	
Sempra Mexico	14	17	56	58	
Eliminations and adjustments	(16)	(15)	(52)	(48)	
Total	1,129	911	3,628	3,101	
Electric revenues:					
SDG&E	1,271	1,192	3,184	3,014	
Eliminations and adjustments	(2)	(1)	(4)	(3)	
Total	1,269	1,191	3,180	3,011	
Total utilities revenues	\$ 2,398	\$ 2,102	\$ 6,808	\$ 6,112	
Cost of natural gas:					
SoCalGas	\$ 101	\$ 224	\$ 660	\$ 663	
SDG&E	23	30	136	110	
Sempra Mexico	2	2	10	17	
Eliminations and adjustments	(4)	(1)	(17)	(8)	
Total	\$ 122	\$ 255	\$ 789	\$ 782	
Cost of electric fuel and purchased power:					
SDG&E	\$ 411	\$ 448	\$ 934	\$ 1,045	
Eliminations and adjustments	(1)	(2)	(5)	(8)	
Total	\$ 410	\$ 446	\$ 929	\$ 1,037	

Natural Gas Revenues and Cost of Natural Gas

The table below summarizes the average cost of natural gas sold by the California Utilities and included in Cost of Natural Gas. The average cost of natural gas sold at each utility is impacted by market prices, as well as transportation, tariff and other charges.

CALIFORNIA UTILITIES AVERAGE COST OF NATURAL GAS					
<i>(Dollars per thousand cubic feet)</i>					
	Three months ended September 30,		Nine months ended September 30,		
	2019	2018	2019	2018	
SoCalGas	\$ 2.12	\$ 4.82	\$ 2.89	\$ 3.17	
SDG&E	3.29	4.56	3.96	3.58	

In the three months ended September 30, 2019, Sempra Energy's natural gas revenues increased by \$218 million (24%) to \$1.1 billion primarily due to:

- \$173 million increase at SoCalGas, which included:
 - \$181 million favorable impact from the retroactive application of the 2019 GRC FD for the first six months of 2019,

- \$61 million higher authorized revenue in 2019, and
- \$35 million higher recovery of costs associated with CPUC-authorized refundable programs, which revenues are offset in O&M, *offset by*
- \$123 million decrease in cost of natural gas sold, which we discuss below; and
- \$49 million increase at SDG&E, which included:
 - \$38 million favorable impact from the retroactive application of the 2019 GRC FD for the first six months of 2019, and
 - \$11 million higher authorized revenue in 2019.

In the three months ended September 30, 2019, our cost of natural gas decreased by \$133 million to \$122 million primarily due to:

- \$123 million decrease at SoCalGas primarily due to lower average natural gas prices; and
- \$7 million decrease at SDG&E primarily due to lower average natural gas prices.

In the first nine months of 2019, Sempra Energy's natural gas revenues increased by \$527 million (17%) to \$3.6 billion primarily due to:

- \$442 million increase at SoCalGas, which included:
 - \$273 million higher authorized revenue in 2019,
 - \$98 million higher recovery of costs associated with CPUC-authorized refundable programs, which revenues are offset in O&M,
 - \$19 million lower non-service component of net periodic benefit credit in 2019, which fully offsets in Other (Expense) Income, Net,
 - \$12 million higher net revenues from capital projects, and
 - \$7 million higher regulatory awards in 2019; and
- \$91 million increase at SDG&E, which included:
 - \$49 million higher authorized revenue in 2019, and
 - \$26 million increase in cost of natural gas sold, which we discuss below.

In the first nine months of 2019, our cost of natural gas increased by \$7 million (1%) to \$789 million primarily due to:

- \$26 million increase at SDG&E, including \$13 million from higher average natural gas prices and \$13 million from higher volumes driven by weather; **offset by**
- \$9 million higher intercompany eliminations primarily associated with sales between Sempra LNG and SoCalGas; and
- \$3 million decrease at SoCalGas, including \$64 million due to lower average natural gas prices, offset by \$61 million from higher volumes driven by weather.

Electric Revenues and Cost of Electric Fuel and Purchased Power

In the three months ended September 30, 2019, our electric revenues, substantially all of which are at SDG&E, increased by \$78 million (7%) to \$1.3 billion, including:

- \$54 million favorable impact from the retroactive application of the 2019 GRC FD for the first six months of 2019, including \$50 million of liability insurance premium costs that are now balanced;
- \$37 million higher authorized revenue in 2019, including \$29 million of revenues to cover liability insurance premium costs that are now balanced and offset in O&M; and
- \$14 million higher cost of electric fuel and purchased power, which we discuss below; **offset by**
- \$27 million lower revenues from transmission operations, including a FERC formulaic rate adjustment benefit in 2018.

Our utility cost of electric fuel and purchased power, substantially all of which is at SDG&E, decreased by \$36 million (8%) to \$410 million in the three months ended September 30, 2019, including:

- \$51 million of finance lease costs for PPAs in 2018. Similar amounts are now included in Interest Expense and Depreciation and Amortization Expense as a result of the 2019 adoption of the lease standard, which we discuss in Note 2 of the Notes to Condensed Consolidated Financial Statements; **offset by**
- \$14 million higher electricity market costs and an additional capacity contract.

In the first nine months of 2019, our electric revenues, substantially all of which are at SDG&E, increased by \$169 million (6%) to \$3.2 billion, including:

- \$86 million higher authorized revenue in 2019, including \$79 million of revenues to cover liability insurance premium costs that are now balanced and offset in O&M;
- \$41 million higher cost of electric fuel and purchased power, which we discuss below;
- \$28 million higher recovery of costs associated with CPUC-authorized refundable programs, which revenues are offset in O&M; and
- \$17 million higher revenues from transmission operations, net of a FERC formulaic rate adjustment benefit in 2018.

Our utility cost of electric fuel and purchased power, substantially all of which is at SDG&E, decreased by \$108 million (10%) to \$929 million in the first nine months of 2019, including:

- \$152 million of finance lease costs for PPAs in 2018. Similar amounts are now included in Interest Expense and Depreciation and Amortization Expense as a result of the 2019 adoption of the lease standard; **offset by**
- \$41 million higher electricity market costs and an additional capacity contract.

Energy-Related Businesses: Revenues and Cost of Sales

The table below shows revenues and cost of sales for our energy-related businesses.

ENERGY-RELATED BUSINESSES: REVENUES AND COST OF SALES					
<i>(Dollars in millions)</i>					
	Three months ended September 30,		Nine months ended September 30,		
	2019	2018	2019	2018	
REVENUES					
Sempra Mexico	\$ 343	\$ 393	\$ 1,002	\$ 970	
Sempra Renewables	—	38	10	103	
Sempra LNG	100	147	327	330	
All other	1	—	1	—	
Eliminations and adjustments	(84)	(115)	(262)	(239)	
Total revenues	\$ 360	\$ 463	\$ 1,078	\$ 1,164	
COST OF SALES⁽¹⁾					
Sempra Mexico	\$ 99	\$ 132	\$ 284	\$ 259	
Sempra LNG	78	101	235	230	
All other	1	—	1	—	
Eliminations and adjustments	(84)	(114)	(255)	(231)	
Total cost of sales	\$ 94	\$ 119	\$ 265	\$ 258	

⁽¹⁾ Excludes depreciation and amortization, which are presented separately on the Sempra Energy Condensed Consolidated Statements of Operations.

In the three months ended September 30, 2019, revenues from our energy-related businesses decreased by \$103 million (22%) to \$360 million primarily due to:

- \$50 million decrease at Sempra Mexico primarily due to:
 - \$30 million from the marketing business primarily from lower natural gas prices,
 - \$17 million at TdM due to lower volumes and prices, offset by higher financial settlements, and
 - \$12 million lower revenues primarily from force majeure payments that ended on August 22, 2019 with respect to the Guaymas-El Oro segment of the Sonora pipeline;
- \$47 million decrease at Sempra LNG primarily due to:
 - \$21 million lower natural gas sales to Sempra Mexico due to lower natural gas prices and volumes,
 - \$10 million lower natural gas storage revenues primarily due to the sale of storage assets in February 2019, and
 - \$9 million from natural gas marketing activities primarily due to lower natural gas prices; and
- \$38 million decrease at Sempra Renewables primarily due to the sale of assets in December 2018 and April 2019; **offset by**
- \$31 million lower intercompany eliminations primarily associated with sales between Sempra LNG and Sempra Mexico.

In the three months ended September 30, 2019, the cost of sales for our energy-related businesses decreased by \$25 million (21%) to \$94 million primarily due to:

- \$33 million decrease at Sempra Mexico mainly associated with lower revenues from the marketing business as a result of lower natural gas prices, and lower prices at TdM; and
- \$23 million decrease at Sempra LNG mainly from natural gas marketing activities primarily from lower natural gas purchases; **offset by**
- \$30 million lower intercompany eliminations primarily associated with sales between Sempra LNG and Sempra Mexico.

In the first nine months of 2019, revenues from our energy-related businesses decreased by \$86 million (7%) to \$1.1 billion primarily due to:

- \$93 million decrease at Sempra Renewables primarily due to the sale of assets in December 2018 and April 2019;
- \$23 million higher intercompany eliminations primarily associated with sales between Sempra LNG and Sempra Mexico; and
- \$3 million decrease at Sempra LNG primarily due to:
 - \$34 million lower natural gas storage revenues primarily due to the sale of storage assets in February 2019, and
 - \$12 million from LNG sales to Cameron LNG JV in January 2018, *offset by*
 - \$39 million from natural gas marketing activities due to optimization of natural gas transport contracts; **offset by**
- \$32 million increase at Sempra Mexico primarily due to:
 - \$20 million from the marketing business, primarily from higher volumes, including higher volumes due to new regulations that went into effect on March 1, 2018 that require high consumption end users (previously serviced by Ecogas and other natural gas utilities) to procure their natural gas needs from natural gas marketers, including Sempra Mexico's marketing business, offset by lower natural gas prices,
 - \$11 million at TdM primarily due to higher financial settlements and resource adequacy revenues, offset by lower volumes, and
 - \$9 million from the Pima Solar project commencing operations in April 2019, *offset by*
 - \$17 million lower revenues primarily from force majeure payments that ended on August 22, 2019 with respect to the Guaymas-El Oro segment of the Sonora pipeline.

In the first nine months of 2019, the cost of sales for our energy-related businesses increased by \$7 million (3%) to \$265 million primarily due to:

- \$25 million increase at Sempra Mexico mainly associated with higher revenues from the marketing business as a result of higher volumes, including higher volumes due to new regulations that went into effect in 2018; **offset by**
- \$24 million higher intercompany eliminations primarily associated with sales between Sempra LNG and Sempra Mexico.

Operation and Maintenance

Our O&M increased by \$53 million (7%) to \$845 million in the three months ended September 30, 2019 primarily due to:

- \$33 million increase at SoCalGas primarily due to \$35 million higher expenses associated with CPUC-authorized refundable programs for which costs incurred are recovered in revenue (refundable program expenses); and
- \$27 million increase at SDG&E, excluding \$6 million of impairment losses discussed below, but including:
 - \$29 million higher expenses associated with CPUC-authorized refundable programs, including \$30 million of 2019 liability insurance premium costs that are now balanced in revenue, *offset by*
 - \$2 million lower non-refundable operating costs, including a \$21 million decrease from liability insurance premium costs for 2018 that were not balanced, offset by \$19 million higher operating costs; **offset by**
- \$24 million decrease at Sempra Renewables primarily due to lower general and administrative and other costs due to the wind-down of the business.

In the first nine months of 2019, O&M increased by \$240 million (11%) to \$2.5 billion primarily due to:

- \$131 million increase at SoCalGas, which included:
 - \$98 million higher expenses associated with CPUC-authorized refundable programs, and
 - \$30 million higher non-refundable operating costs, including higher administrative and support costs;
- \$90 million increase at SDG&E, excluding \$6 million of impairment losses discussed below, but including:
 - \$117 million higher expenses associated with CPUC-authorized refundable programs, including \$82 million of 2019 liability insurance premium costs that are now balanced in revenue, *offset by*
 - \$27 million lower non-refundable operating costs, including \$77 million decrease from liability insurance premium costs for 2018 that were not balanced, offset by \$50 million of higher operating costs;

- \$25 million increase at Sempra Mexico primarily due to expenses associated with growth in the business and operating lease costs in 2019; and
- \$24 million increase at Sempra LNG primarily from higher liquefaction project costs, net of reimbursements, and higher retained operating costs; **offset by**
- \$46 million decrease at Sempra Renewables primarily due to lower general and administrative and other costs due to the wind-down of the business.

Impairment Losses

In September 2019, SoCalGas recognized a \$29 million impairment loss related to non-utility native gas assets. In September 2019, SDG&E and SoCalGas recognized impairment losses of \$6 million and \$8 million, respectively, for certain disallowed capital costs in the 2019 GRC FD. In June 2018, Sempra LNG recognized a \$1.3 billion impairment loss for certain non-utility natural gas storage assets in the southeast U.S. These assets were sold in February 2019. We discuss the impairment and sale of the non-utility natural gas storage assets in Note 5 of the Notes to Condensed Consolidated Financial Statements.

Gain on Sale of Assets

In April 2019, Sempra Renewables recognized a \$61 million gain on the sale of its remaining wind assets and investments to AEP, as we discuss in Note 5 of the Notes to Condensed Consolidated Financial Statements.

Other (Expense) Income, Net

As part of our central risk management function, we enter into foreign currency derivatives to hedge Sempra Mexico parent's exposure to movements in the Mexican peso from its controlling interest in IEnova. The gains/losses associated with these derivatives are included in Other (Expense) Income, Net, as described below, and partially mitigate the transactional effects of foreign currency and inflation included in Income Taxes and in earnings from Sempra Mexico's equity method investments. We discuss policies governing our risk management in "Item 7A. Quantitative and Qualitative Disclosure about Market Risk" in the Annual Report.

Other expense, net, in the three months ended September 30, 2019 was \$7 million compared to other income, net, of \$96 million in the same period in 2018. The change was primarily due to:

- \$30 million net losses in 2019 from interest rate and foreign exchange instruments and foreign currency transactions compared to \$67 million net gains for the same period in 2018 primarily due to:
 - \$17 million foreign currency losses in 2019 compared to \$33 million foreign currency gains in 2018 on a Mexican peso-denominated loan to the IMG JV, which is offset in Equity Earnings, and
 - \$12 million losses in 2019 compared to \$28 million gains in 2018 on foreign currency derivatives as a result of fluctuation of the Mexican peso in 2019; and
- \$10 million higher non-service component of net periodic benefit cost in 2019.

Other income, net, decreased by \$89 million to \$103 million in the nine months ended September 30, 2019 primarily due to:

- \$57 million lower net gains from interest rate and foreign exchange instruments and foreign currency transactions primarily due to:
 - \$28 million lower gains on foreign currency derivatives as a result of fluctuation of the Mexican peso, and
 - negligible foreign currency losses in 2019 compared to \$25 million foreign currency gains in 2018 on a Mexican peso-denominated loan to the IMG JV, which is offset in Equity Earnings;
- \$19 million non-service component of net periodic benefit cost in 2019 compared to a \$37 million credit in 2018, including \$22 million settlement charges in 2019 for lump sum payments from our non-qualified pension plan;
- \$10 million decrease in equity-related AFUDC, including \$7 million at SDG&E and \$5 million at SoCalGas; and
- \$8 million penalties in 2019 related to the SoCalGas billing practices OII; **offset by**
- \$33 million higher investment gains in 2019 on dedicated assets in support of our executive retirement and deferred compensation plans.

Interest Expense

Interest expense increased by \$57 million (26%) to \$279 million and by \$141 million (21%) to \$797 million in the three months and nine months ended September 30, 2019, respectively, primarily due to the inclusion of finance lease costs for SDG&E's PPAs as a result of adoption of the lease standard. Prior to 2019, such costs were included in Cost of Electric Fuel and Purchased Power. The increase in the nine months ended September 30, 2019 was also due to higher interest expense at SoCalGas due to long-term

debt issuances net of maturities, partially offset by lower interest expense at Parent and other primarily due to long-term debt maturities net of issuances.

Income Taxes

The table below shows the income tax expense and ETR for Sempra Energy, SDG&E and SoCalGas.

INCOME TAX EXPENSE (BENEFIT) AND EFFECTIVE INCOME TAX RATES				
<i>(Dollars in millions)</i>				
	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Sempra Energy Consolidated:				
Income tax expense (benefit) from continuing operations	\$ 61	\$ 139	\$ 150	\$ (221)
Income (loss) from continuing operations before income taxes and equity earnings	\$ 448	\$ 345	\$ 1,235	\$ (245)
Equity earnings (losses), before income tax ⁽¹⁾	17	(52)	24	(236)
Pretax income (loss)	\$ 465	\$ 293	\$ 1,259	\$ (481)
Effective income tax rate	13%	47%	12%	46%
SDG&E:				
Income tax expense	\$ 71	\$ 53	\$ 111	\$ 151
Income before income taxes	\$ 337	\$ 269	\$ 700	\$ 682
Effective income tax rate	21%	20%	16%	22%
SoCalGas:				
Income tax expense (benefit)	\$ 35	\$ (7)	\$ 50	\$ 75
Income (loss) before income taxes	\$ 178	\$ (21)	\$ 488	\$ 320
Effective income tax rate	20%	33%	10%	23%

⁽¹⁾ We discuss how we recognize equity earnings in Note 6 of the Notes to Consolidated Financial Statements in the Annual Report.

Sempra Energy Consolidated

The decrease in income tax expense in the three months ended September 30, 2019 was due to a lower ETR offset by higher pretax income. The change in ETR was primarily due to a \$32 million income tax benefit in 2019 compared to a \$69 million income tax expense in 2018 from foreign currency and inflation effects primarily as a result of fluctuation of the Mexican peso.

Income tax expense in the nine months ended September 30, 2019 compared to an income tax benefit for the same period in 2018 was due to pretax income in 2019 compared to pretax loss in 2018 and a lower ETR. Pretax losses in 2018 include impairments at our Sempra LNG and Sempra Renewables segments. The change in ETR was primarily due to:

- \$69 million total income tax benefits from the release of regulatory liabilities at SDG&E and SoCalGas established in connection with 2017 tax reform for excess deferred income tax balances that the CPUC directed be allocated to shareholders in a January 2019 decision;
- \$57 million lower income tax expense in 2019 from foreign currency and inflation effects primarily as a result of fluctuation of the Mexican peso;
- \$21 million income tax expense in 2018 associated with Aliso Canyon natural gas storage facility litigation;
- \$11 million lower income tax expense related to share-based compensation;
- \$10 million income tax benefit in 2019 from a reduction in a valuation allowance against certain NOL carryforwards as a result of our decision to sell our South American businesses; and
- \$9 million income tax expense in 2018 to adjust provisional estimates recorded in 2017 for the effects of tax reform; **offset by**
- \$131 million income tax benefit in 2018 resulting from the reduced outside basis difference in Sempra LNG as a result of the impairment of certain non-utility natural gas storage assets.

We discuss the impact of foreign exchange rates and inflation on income taxes below in "Impact of Foreign Currency and Inflation Rates on Results of Operations." See Note 1 of the Notes to Condensed Consolidated Financial Statements herein and Notes 1 and 8 of the Notes to Consolidated Financial Statements in the Annual Report for further details about our accounting for income taxes and items subject to flow-through treatment.

SDG&E

The increase in SDG&E's income tax expense in the three months ended September 30, 2019 was primarily due to higher pretax income.

The decrease in SDG&E's income tax expense in the nine months ended September 30, 2019 was due to a lower ETR offset by higher pretax income. The change in ETR was primarily due to:

- \$31 million income tax benefit from the release of a regulatory liability established in connection with 2017 tax reform for excess deferred income tax balances that the CPUC directed be allocated to shareholders in a January 2019 decision; and
- higher income tax benefits from forecasted flow-through deductions.

SoCalGas

SoCalGas' income tax expense in the three months ended September 30, 2019 compared to an income tax benefit in the same period in 2018 was due to pretax income in 2019 compared to pretax loss in 2018.

The decrease in SoCalGas' income tax expense in the nine months ended September 30, 2019 was due to a lower ETR offset by higher pretax income. The change in ETR was primarily due to:

- \$38 million income tax benefit from the release of a regulatory liability established in connection with 2017 tax reform for excess deferred income tax balances that the CPUC directed be allocated to shareholders in a January 2019 decision; and
- \$21 million income tax expense in 2018 associated with Aliso Canyon natural gas storage facility litigation.

Equity Earnings

In the three months ended September 30, 2019, equity earnings increased by \$192 million to \$266 million primarily due to:

- \$65 million impairment of our RBS Sempra Commodities equity method investment in 2018;
- \$37 million equity earnings, net of income tax, at Sempra Mexico in 2019 compared to \$28 million equity losses, net of income tax, in 2018, which included:
 - \$17 million foreign currency gains in 2019 compared to \$33 million foreign currency losses in 2018 at the IMG JV on its Mexican peso-denominated loans from its JV owners, which is fully offset in Other (Expense) Income, Net, and
 - \$11 million higher equity earnings at the TAG JV primarily due to lower income tax expense;
- \$58 million higher equity earnings, net of income tax, from our investment in Oncor Holdings; and
- \$17 million higher equity earnings at Cameron LNG JV primarily due to Train 1 commencing commercial operation under its tolling agreements in August 2019.

In the first nine months of 2019, equity earnings increased by \$436 million to \$485 million primarily due to:

- \$200 million other-than-temporary impairment of certain wind equity method investments at Sempra Renewables in 2018;
- \$135 million higher equity earnings, net of income tax, from our investment in Oncor Holdings, which we acquired in March 2018;
- \$65 million impairment of our RBS Sempra Commodities equity method investment in 2018;
- negligible foreign currency gains in 2019 compared to \$25 million foreign currency losses in 2018 at the IMG JV on its Mexican peso-denominated loans from its JV owners, which is fully offset in Other (Expense) Income, Net; and
- \$18 million higher equity earnings at Cameron LNG JV primarily due to Train 1 commencing commercial operation under its tolling agreements in August 2019.

Earnings Attributable to Noncontrolling Interests

Earnings attributable to NCI increased by \$36 million to \$60 million in the three months ended September 30, 2019 primarily due to higher earnings attributable to NCI at Sempra Mexico.

Earnings attributable to NCI increased by \$134 million to \$146 million in the nine months ended September 30, 2019 primarily due to:

- \$1 million earnings attributable to NCI at Sempra Renewables in 2019 compared to \$50 million losses in 2018 primarily due to the sales of our tax equity investments in December 2018 and April 2019;
- \$46 million lower losses attributable to NCI at Sempra LNG related to the impairment of certain non-utility natural gas storage assets in 2018; and
- \$37 million higher earnings attributable to NCI at Sempra Mexico.

Mandatory Convertible Preferred Stock Dividends

In the nine months ended September 30, 2019, mandatory convertible preferred stock dividends increased by \$18 million to \$107 million primarily due to dividends associated with our series B preferred stock, which were issued in July 2018.

IMPACT OF FOREIGN CURRENCY AND INFLATION RATES ON RESULTS OF OPERATIONS

Because our natural gas distribution utility in Mexico uses its local currency as its functional currency, revenues and expenses are translated into U.S. dollars at average exchange rates for the period for consolidation in Sempra Energy Consolidated's results of operations. We discuss further the impact of foreign currency and inflation rates on results of operations, including impacts on income taxes and related hedging activity, in "Item 7. MD&A – Impact of Foreign Currency and Inflation Rates on Results of Operations" in the Annual Report.

Foreign Currency Translation

Any difference in average exchange rates used for the translation of income statement activity from year to year can cause a variance in Sempra Energy's comparative results of operations. In the three months and nine months ended September 30, 2019 compared to the prior-year periods, the changes in our earnings as a result of foreign currency translation were not material.

Foreign Currency Transactional Impacts

Income statement activities at our foreign operations and their JVs are also impacted by transactional gains and losses. A summary of these foreign currency transactional gains and losses included in our reported results is shown in the table below:

TRANSACTIONAL (LOSSES) GAINS FROM FOREIGN CURRENCY AND INFLATION					
<i>(Dollars in millions)</i>					
	Total reported amounts		Transactional (losses) gains included in reported amounts		
	Three months ended September 30,				
	2019	2018	2019	2018	
Other (expense) income, net	\$ (7)	\$ 96	\$ (30)	\$ 67	
Income tax (expense) benefit	(61)	(139)	32	(69)	
Equity earnings	266	74	17	(43)	
Income from continuing operations, net of income tax	653	280	21	(53)	
Income from discontinued operations, net of income tax	256	54	—	—	
Earnings attributable to common shares	813	274	11	(28)	
	Nine months ended September 30,				
	2019	2018	2019	2018	
Other (expense) income, net	\$ 103	\$ 192	\$ 5	\$ 62	
Income tax (expense) benefit	(150)	221	(7)	(64)	
Equity earnings	485	49	(5)	(40)	
Income from continuing operations, net of income tax	1,570	25	(10)	(51)	
Income from discontinued operations, net of income tax	292	137	1	1	
Earnings attributable to common shares	1,608	60	(4)	(24)	

CAPITAL RESOURCES AND LIQUIDITY

OVERVIEW

We expect to meet our cash requirements through cash flows from operations, unrestricted cash and cash equivalents, proceeds from recent and planned asset sales, borrowings under our credit facilities, distributions from our equity method investments, issuances of debt and equity securities (including through the physical settlement of forward sales agreements), project financing and other equity sales, including partnering in JVs.

Our lines of credit provide liquidity and support commercial paper. As we discuss in Note 7 of the Notes to Condensed Consolidated Financial Statements, Sempra Energy, Sempra Global, SDG&E and SoCalGas each have five-year credit agreements expiring in 2024. These credit agreements replaced the credit agreements that were set to expire in 2020. The table

below shows the amount of available funds at September 30, 2019, including available unused credit on these primary U.S. credit facilities. In addition, IEnova has \$1.88 billion in lines of credit, with approximately \$742 million available unused credit at September 30, 2019.

AVAILABLE FUNDS AT SEPTEMBER 30, 2019

(Dollars in millions)

	Sempra Energy Consolidated		SDG&E		SoCalGas	
Unrestricted cash and cash equivalents ⁽¹⁾	\$	106	\$	24	\$	5
Available unused credit ⁽²⁾⁽³⁾		4,232		1,500		642

⁽¹⁾ Amounts at Sempra Energy Consolidated include \$64 million held in non-U.S. jurisdictions. We discuss repatriation in Note 1 of the Notes to Condensed Consolidated Financial Statements.

⁽²⁾ Available unused credit is the total available on Sempra Energy's, Sempra Global's, SDG&E's and SoCalGas' credit facilities that we discuss in Note 7 of the Notes to Condensed Consolidated Financial Statements.

⁽³⁾ Because the commercial paper programs are supported by these lines, we reflect the amount of commercial paper outstanding as a reduction to the available unused credit.

Sempra Energy Consolidated

We believe that these available funds, combined with cash flows from operations, proceeds from recent and planned asset sales, distributions from our equity method investments, issuances of debt and equity securities (including through the physical settlement of forward sale agreements), project financing and other equity sales, including partnering in JVs, will be adequate to fund our current operations, including to:

- finance capital expenditures;
- meet liquidity requirements;
- fund dividends;
- fund new business or asset acquisitions or start-ups;
- fund capital contribution requirements;
- repay maturing long-term debt; and
- fund expenditures related to the natural gas leak at SoCalGas' Aliso Canyon natural gas storage facility.

Sempra Energy and the California Utilities currently have ready access to the long-term debt markets and are not currently constrained in their ability to borrow at reasonable rates. However, changing economic conditions, our financing activities and actions by credit rating agencies could negatively affect the availability and cost of both short-term and long-term financing. Also, cash flows from operations may be impacted by the timing of commencement and completion of large projects. If cash flows from operations were to be significantly reduced or we were unable to borrow under acceptable terms, we would likely first reduce or postpone discretionary capital expenditures (not related to safety) and investments in new businesses. We monitor our ability to finance the needs of our operating, investing and financing activities in a manner consistent with our intention to maintain our investment-grade credit ratings and capital structure.

We use short-term debt primarily to meet liquidity requirements, fund shareholder dividends, and temporarily finance capital expenditures, acquisitions or start-ups. Our corporate short-term, unsecured promissory notes, or commercial paper, were our primary sources of short-term debt funding in the first nine months of 2019. Our California Utilities use short-term debt primarily to meet working capital needs.

At September 30, 2019, Sempra Energy had a loan to an unconsolidated affiliate totaling \$712 million and a loan from an unconsolidated affiliate totaling \$39 million, which we discuss in Note 1 of the Notes to Condensed Consolidated Financial Statements.

We have significant investments in several trusts to provide for future payments of pensions and other postretirement benefits, and nuclear decommissioning. Changes in asset values, which are dependent on the activity in the equity and fixed income markets, have not affected the trust funds' abilities to make required payments. However, changes in asset values may, along with a number of other factors such as changes to discount rates, assumed rates of return, mortality tables, and regulations, impact funding requirements for pension and other postretirement benefit plans and SDG&E's NDT. At the California Utilities, funding requirements are generally recoverable in rates. We discuss our employee benefit plans and SDG&E's NDT, including our investment allocation strategies for assets in these trusts, in Notes 9 and 15, respectively, of the Notes to Consolidated Financial Statements in the Annual Report.

Common Stock Under Forward Sale Agreements

As we discuss in Note 14 of the Notes to Consolidated Financial Statements in the Annual Report, our forward sale agreements permit us to elect cash settlement or net share settlement for all or a portion of our obligations under the forward sale agreements. We have fully settled all shares under the January 2018 forward sale agreements, as we discuss in Note 1 of the Notes to Condensed Consolidated Financial Statements. We expect to settle the July 2018 forward sale agreements entirely by the physical delivery of shares of our common stock in exchange for cash proceeds. As of November 1, 2019, based on the initial forward sale price of approximately \$111.87 per share in July 2018, we expect that the net proceeds from full physical settlement of the 9,750,000 shares under the July 2018 forward sale agreements would be approximately \$1.1 billion (net of underwriting discounts, but before deducting equity issuance costs, and subject to certain adjustments pursuant to the forward sale agreements). If we were to elect cash settlement or net share settlement, the amount of cash proceeds we receive upon settlement could differ, perhaps substantially, or we may not receive any cash proceeds, or we may deliver cash (in an amount which could be significant) or shares of our common stock to the forward purchasers. We may settle the July 2018 forward sale agreements in one or more settlements no later than December 15, 2019, which is the final settlement date under the agreements.

Discontinued Operations

On January 25, 2019, our board of directors approved a plan to sell our South American businesses. As such, we have reclassified these businesses to held for sale and presented them as discontinued operations.

On September 27, 2019, we entered into a Purchase and Sale Agreement with China Yangtze Power International (Hongkong) Co., Limited to sell our equity interests in our Peruvian businesses, including our 83.6-percent interest in Luz del Sur and its indirect ownership interest in Tecsur, for an aggregate base purchase price of \$3.59 billion, subject to customary closing adjustments for working capital and changes in net indebtedness. The sale is subject to various conditions to closing, including approvals from the Peruvian anti-trust authority and the Bermuda Monetary Authority. We expect the sale to close in the first quarter of 2020.

On October 12, 2019, we entered into a Purchase and Sale Agreement with State Grid International Development Limited to sell our equity interests in our Chilean businesses, including our 100-percent interest in Chilquinta Energía and Tecored and our 50-percent interest in Eletrans, for an aggregate base purchase price of \$2.23 billion, subject to customary adjustments for working capital and changes in net indebtedness and other adjustments. Chilquinta Energía also agreed to purchase the remaining 50-percent interest in Eletrans from Sociedad Austral de Electricidad S.A., contingent on the sale of our Chilean businesses to State Grid International Development Limited. This acquisition by Chilquinta Energía would result in State Grid International Development Limited acquiring 100 percent of Eletrans, which we do not expect will have a significant economic impact on the sale of our Chilean businesses. The sale of our Chilean businesses is subject to various conditions to closing, including approval by the Chilean anti-trust authority, certain Chinese regulatory approvals and approval by the Bermuda Monetary Authority, but is not subject to Chilquinta Energía purchasing the remaining 50-percent interest in Eletrans. We expect the sale to close in the first quarter of 2020.

Our utilities in South America have historically provided relatively stable earnings and liquidity. We intend to use the proceeds from the sales to focus on capital investment in North America to support additional growth opportunities and strengthen our balance sheet by reducing debt. We expect the cash provided by earnings from our focused capital investment will exceed the absence of cash flows from these discontinued operations. However, there can be no assurance that we will derive these anticipated benefits. Further, there can be no assurance that we will be able to redeploy the capital that we obtain from such sales, if completed, in a way that would result in cash flows or earnings exceeding those historically generated by these businesses.

California Utilities

SDG&E and SoCalGas expect that the available unused credit from their credit facilities described above, cash flows from operations, and debt issuances will continue to be adequate to fund their respective operations. As we discuss below in “Item 3. Quantitative and Qualitative Disclosures About Market Risk – Credit Ratings,” the credit ratings of SDG&E and SoCalGas may affect the rates at which borrowings bear interest, collateral to be posted and fees on outstanding credit facilities. The California Utilities manage their capital structure and pay dividends when appropriate and as approved by their respective boards of directors.

SDG&E declared common stock dividends of \$250 million in the year ended December 31, 2018. SDG&E’s declared common stock dividends on an annual historical basis may not be indicative of future declarations, and could be impacted over the next few years in order for SDG&E to maintain its authorized capital structure while managing its capital investment program (approximately \$1.7 billion in 2019).

SoCalGas declared common stock dividends of \$150 million in the third quarter of 2019, which were paid on October 11, 2019, and declared and paid common stock dividends of \$50 million in the year ended December 31, 2018. SoCalGas' declared common stock dividends on an annual historical basis may not be indicative of future declarations, and could be impacted over the next few years in order for SoCalGas to maintain its authorized capital structure while managing its capital investment program (approximately \$1.6 billion in 2019).

As we discuss in Note 4 of the Notes to Condensed Consolidated Financial Statements herein and in Note 4 of the Notes to Consolidated Financial Statements in the Annual Report, changes in balancing accounts for significant costs at SDG&E and SoCalGas, particularly a change between over- and undercollected status, including commodity and transportation balancing accounts, may have a significant impact on cash flows. These changes generally represent the difference between when costs are incurred and when they are ultimately recovered in rates through billings to customers.

SoCalGas

Aliso Canyon Natural Gas Storage Facility Gas Leak

We provide information on the natural gas leak at the Aliso Canyon natural gas storage facility further in Note 11 of the Notes to Condensed Consolidated Financial Statements herein, in "Factors Influencing Future Performance" below and in "Item 1A. Risk Factors" in the Annual Report. The costs incurred to remediate and stop the Leak and to mitigate local community impacts are significant and may increase, and the costs of defending against the related civil and criminal lawsuits and cooperating with related investigations, and any damages, restitution, and civil, administrative and criminal fines, sanctions, penalties and other costs, if awarded or imposed, as well as costs of mitigating the actual natural gas released, could be significant, and to the extent not covered by insurance (including any costs in excess of applicable policy limits), if there were to be significant delays in receiving insurance recoveries, or if the insurance recoveries are subject to income taxes while the associated costs are not tax deductible, such amounts could have a material adverse effect on SoCalGas' and Sempra Energy's cash flows, financial condition and results of operations. Also, higher operating costs and additional capital expenditures incurred by SoCalGas as a result of new laws, orders, rules and regulations arising out of this incident or our responses thereto could be significant and may not be recoverable in customer rates, which may have a material adverse effect on SoCalGas' and Sempra Energy's cash flows, financial condition and results of operations.

Sempra Texas Utilities

Oncor's business is capital intensive, and it relies on external financing as a significant source of liquidity for its capital requirements. In the past, Oncor has financed a substantial portion of its cash needs from operations and with proceeds from indebtedness. In the event that Oncor fails to meet its capital requirements, we may be required to make additional investments in Oncor, or if Oncor is unable to access sufficient capital to finance its ongoing needs, we may elect to make additional investments in Oncor which could be substantial and which would reduce the cash available to us for other purposes, could increase our indebtedness and could ultimately materially adversely affect our results of operations, financial condition and prospects. In that regard, our commitments to the PUCT prohibit us from making loans to Oncor. As a result, if Oncor requires additional financing and cannot obtain it from other sources, we may be required to make a capital contribution to Oncor.

Sempra Mexico

We expect to fund operations and dividends at IEnova with available funds, including credit facilities, and funds internally generated by the Sempra Mexico businesses, as well as funds from project financing, sales of securities, interim funding from the parent or affiliates, and partnering in JVs.

In October 2019, IEnova's board of directors declared dividends of \$73 million to minority shareholders payable in November 2019. IEnova paid \$71 million of dividends to minority shareholders in the year ended December 31, 2018.

IEnova's shareholders approved the formation of a fund for IEnova to repurchase its own shares for a maximum amount of \$250 million. Repurchases shall not exceed IEnova's total net profits, including retained earnings, as stated in their financial statements. In the nine months ended September 30, 2019, IEnova repurchased 2,620,000 shares of its outstanding common stock held by NCI for approximately \$10 million, resulting in an increase in Sempra Energy's ownership interest in IEnova from 66.5 percent at December 31, 2018 to 66.6 percent at September 30, 2019.

Sempra Renewables

As we discuss in Note 5 of the Notes to Condensed Consolidated Financial Statements herein and below in “Factors Influencing Future Performance,” in April 2019, Sempra Renewables sold its remaining wind assets and investments for \$569 million, net of transaction costs. The proceeds from the sale were used to pay down debt and redeploy capital to support the strategic growth of Sempra Energy in North America.

Sempra LNG

Sempra LNG, through its interest in Cameron LNG JV, is constructing a natural gas liquefaction export facility at the Cameron LNG JV terminal. The majority of the costs of the current three-train liquefaction project is project-financed, with most or all of the remainder of the capital requirements to be provided by the project partners, including Sempra Energy, through equity contributions under the project equity agreements. In August 2019, the first train of the three-train project commenced commercial operation under the tolling agreements. We expect that our remaining equity requirements to complete the project will be met by a combination of our share of cash generated from each liquefaction train as it comes on line and, if required, additional cash contributions. Sempra Energy guarantees 50.2 percent of Cameron LNG JV’s obligations under the financing agreements for a maximum amount of up to \$3.9 billion. The guarantees will terminate upon satisfaction of certain conditions, including all three trains commencing commercial operation and meeting certain operational performance tests (Financial Completion). We anticipate that the guarantees will be terminated approximately nine months after all three trains commence commercial operation. However, if Financial Completion does not occur by September 30, 2021 (subject to extension by up to 365 days in case of force majeure) or if certain other events of default occur, a demand could be made under the guarantee for Sempra Energy’s 50.2 percent of Cameron LNG JV’s obligations under the financing agreements then due and payable. We discuss Cameron LNG JV and the JV financing further in Note 6 of the Notes to Consolidated Financial Statements, in “Item 1A. Risk Factors” and in “Item 7. MD&A – Factors Influencing Future Performance” in the Annual Report. We also discuss Cameron LNG JV below in “Factors Influencing Future Performance.”

We expect Sempra LNG to require funding for the development and expansion of its remaining portfolio of projects, which may be financed through a combination of operating cash flow, funding from the parent, project financing and partnering in JVs.

CASH FLOWS FROM OPERATING ACTIVITIES

CASH PROVIDED BY OPERATING ACTIVITIES

(Dollars in millions)

	Nine months ended September 30, 2019		2019 change		Nine months ended September 30, 2018	
Sempra Energy Consolidated	\$	2,118	\$	(541) (20)%	\$	2,659
SDG&E		754		(477) (39)		1,231
SoCalGas		813		(69) (8)		882

Sempra Energy Consolidated

Cash provided by operating activities at Sempra Energy decreased in 2019 primarily due to:

- \$323 million from SDG&E’s contribution to the Wildfire Fund in September 2019;
- \$74 million increase in net undercollected regulatory balancing accounts (including long-term amounts included in regulatory assets) at SDG&E in 2019 compared to a \$247 million decrease in 2018;
- \$220 million higher income tax payments, net of refunds;
- \$106 million net decrease in Reserve for Aliso Canyon Costs in 2019 compared to a \$57 million net increase in 2018. The \$106 million net decrease in 2019 includes \$150 million of cash paid, offset by \$44 million of additional accruals;
- \$148 million decrease in accounts payable in 2019 compared to a \$2 million increase in 2018;
- \$57 million increase in net undercollected regulatory balancing accounts (including long-term amounts included in regulatory assets) at SoCalGas in 2019 compared to a \$53 million decrease in 2018; and
- \$8 million increase in interest payable in 2019 compared to a \$79 million increase in 2018; **offset by**
- \$202 million higher net income, adjusted for noncash items included in earnings, in 2019 compared to 2018;
- \$205 million decrease in accounts receivable in 2019 compared to a \$15 million decrease in 2018;
- \$107 million net decrease in Insurance Receivable for Aliso Canyon Costs in 2019 compared to a \$56 million net increase in 2018. The \$107 million net decrease in 2019 includes \$149 million in insurance proceeds received, offset by \$44 million of additional accruals;

- \$153 million higher distributions of earnings from Oncor Holdings; and
- \$112 million higher intercompany activities with discontinued operations.

Our discontinued operations provided cash from operating activities of \$289 million in 2019 compared to \$220 million in 2018. The change was primarily due to a decrease in accounts receivable in 2019 compared to an increase in 2018.

SDG&E

Cash provided by operating activities at SDG&E decreased in 2019 primarily due to:

- \$323 million contribution to the Wildfire Fund in September 2019; and
- \$74 million increase in net undercollected regulatory balancing accounts (including long-term amounts included in regulatory assets) in 2019 compared to a \$247 million decrease in 2018; **offset by**
- \$57 million increase in accounts receivable in 2019 compared to a \$144 million increase in 2018; and
- \$50 million higher net income, adjusted for noncash items included in earnings, in 2019 compared to 2018.

SoCalGas

Cash provided by operating activities at SoCalGas decreased in 2019 primarily due to:

- \$192 million decrease in accounts payable in 2019 compared to a \$19 million decrease in 2018;
- \$106 million net decrease in Reserve for Aliso Canyon Costs in 2019 compared to a \$57 million net increase in 2018. The \$106 million net decrease in 2019 includes \$150 million of cash paid, offset by \$44 million of additional accruals; and
- \$57 million increase in net undercollected regulatory balancing accounts (including long-term amounts included in regulatory assets) in 2019 compared to a \$53 million decrease in 2018; **offset by**
- \$107 million net decrease in Insurance Receivable for Aliso Canyon Costs in 2019 compared to a \$56 million net increase in 2018. The \$107 million net decrease in 2019 includes \$149 million in insurance proceeds received, offset by \$44 million of additional accruals;
- \$115 million higher net income, adjusted for noncash items included in earnings, in 2019 compared to 2018; and
- \$301 million decrease in accounts receivable in 2019 compared to a \$196 million decrease in 2018.

CASH FLOWS FROM INVESTING ACTIVITIES

CASH USED IN INVESTING ACTIVITIES

(Dollars in millions)

	Nine months ended September 30, 2019	2019 change		Nine months ended September 30, 2018
Sempra Energy Consolidated	(3,439)	\$ (9,353)	(73)%	\$ (12,792)
SDG&E	(1,097)	(97)	(8)	(1,194)
SoCalGas	(1,018)	(191)	(16)	(1,209)

Sempra Energy Consolidated

Cash used in investing activities at Sempra Energy decreased in 2019 primarily due to:

- \$9.57 billion paid, including \$9.45 billion of Merger Consideration, for the acquisition of our investment in Oncor Holdings in March 2018, as we discuss in Note 5 of the Notes to Condensed Consolidated Financial Statements;
- \$583 million dividends received from the Peruvian businesses in discontinued operations;
- \$569 million net proceeds from the April 2019 sale of Sempra Renewables' remaining wind assets and investments;
- \$327 million net proceeds from the February 2019 sale of Sempra LNG's non-utility natural gas storage assets;
- \$129 million dividends received from the Chilean businesses in discontinued operations;
- \$65 million lower advances to unconsolidated affiliates; and
- \$64 million decrease in capital expenditures; **offset by**
- \$1.1 billion higher contributions to Oncor Holdings, primarily to fund Oncor's purchase of InfraREIT in May 2019;
- \$583 million contributions to the Peruvian businesses in discontinued operations;
- \$394 million contributions to the Chilean businesses in discontinued operations; and
- \$102 million paid for the acquisition of our investment in Sharyland Holdings in May 2019.

We discuss the May 2019 transactions in Notes 5 and 6 of the Notes to Condensed Consolidated Financial Statements.

Our discontinued operations used cash in investing activities of \$63 million in 2019 compared to \$161 million in 2018. The change was primarily from proceeds received in 2019 from repayment of a loan to an unconsolidated affiliate.

SDG&E

Cash used in investing activities at SDG&E decreased in 2019 primarily due to:

- \$123 million decrease in capital expenditures; **offset by**
- \$25 million increase in net advances to Sempra Energy in 2019.

SoCalGas

Cash used in investing activities at SoCalGas decreased in 2019 primarily due to:

- \$108 million decrease in capital expenditures; and
- \$88 million increase in net advances to Sempra Energy in 2018.

Capital Expenditures

EXPENDITURES FOR PROPERTY, PLANT AND EQUIPMENT

(Dollars in millions)

	Nine months ended September 30,	
	2019	2018
SDG&E:		
Improvements to electric and natural gas distribution systems, including certain pipeline safety and generation systems, plant and equipment	\$ 741	\$ 811
PSEP	22	13
Improvements to electric transmission systems	308	370
SoCalGas:		
Improvements to natural gas distribution, transmission and storage systems, and for certain pipeline safety	886	1,007
PSEP	133	120
Sempra Mexico:		
Construction of liquid fuels terminal	139	53
Construction of natural gas pipeline projects and other capital expenditures	100	78
Construction of renewables projects	181	124
Sempra Renewables:		
Construction costs for wind and solar projects	2	46
Sempra LNG:		
LNG liquefaction development costs	74	17
Other	—	2
Parent and other	4	13
Total	\$ 2,590	\$ 2,654

The amounts and timing of capital expenditures and certain investments are generally subject to approvals by various regulatory and other governmental and environmental bodies, including the CPUC and the FERC. Excluding discontinued operations, in 2019, we expect to make capital expenditures and investments of approximately \$6.2 billion, an increase from the \$5.8 billion summarized in “Item 7. MD&A – Capital Resources and Liquidity” in the Annual Report. The increase is primarily attributable to LNG development projects at Sempra LNG, as well as renewables and natural gas pipeline projects at Sempra Mexico.

CASH FLOWS FROM FINANCING ACTIVITIES

CASH FLOWS FROM FINANCING ACTIVITIES

(Dollars in millions)

	Nine months ended September 30, 2019	2019 change	Nine months ended September 30, 2018
Sempra Energy Consolidated	\$ 1,575	\$ (8,490)	\$ 10,065
SDG&E	330	352	(22)
SoCalGas	192	(131)	323

Sempra Energy Consolidated

Cash provided by financing activities at Sempra Energy decreased in 2019 primarily due to:

- \$5.2 billion lower issuances of debt with maturities greater than 90 days, including:
 - \$4.8 billion for long-term debt (\$1.5 billion in 2019 compared to \$6.3 billion in 2018 primarily to fund the acquisition of our investment in Oncor Holdings), and
 - \$387 million for commercial paper and other short-term debt (\$1.8 billion in 2019 compared to \$2.1 billion in 2018);
- \$2.3 billion proceeds, net of \$41 million in offering costs, from issuances of mandatory convertible preferred stock in 2018;
- \$757 million proceeds, net of \$13 million in offering costs, from the issuances of common stock in 2019, compared to \$2.3 billion proceeds, net of \$41 million in offering costs, in 2018; and
- \$128 million decrease in loans from discontinued operations in 2019 compared to a \$70 million increase in 2018; **offset by**
- \$336 million lower payments of debt with maturities greater than 90 days and finance leases, including:
 - \$333 million for commercial paper and other short-term debt (\$1.2 billion in 2019 compared to \$1.5 billion in 2018), and
 - \$3 million for long-term debt and finance leases (\$1.3 billion in both 2019 and 2018);
- \$888 million increase in short-term debt in 2019 compared to a \$715 million increase in 2018;
- \$175 million contribution from OMEC LLC; and
- \$85 million lower distributions to NCI in 2019.

Financing activities at our discontinued operations were a source of cash of \$49 million in 2019 compared to a use of cash of \$34 million in 2018. The change was primarily due to a \$977 million equity contribution from Sempra Energy, partially offset by \$851 million higher common dividends paid.

SDG&E

At SDG&E, financing activities were a source of cash in 2019 compared to a use of cash in 2018, primarily due to:

- \$322 million equity contribution from Sempra Energy in 2019; and
- \$175 million contribution from OMEC LLC in 2019; **offset by**
- \$291 million decrease in short-term debt in 2019 compared to a \$205 million decrease in 2018; and
- \$65 million higher payments of long-term debt and finance leases in 2019.

SoCalGas

Cash provided by financing activities at SoCalGas decreased in 2019 primarily due to:

- \$600 million lower issuances of long-term debt in 2019; and
- \$148 million decrease in short-term debt in 2019 compared to a \$116 million decrease in 2018; **offset by**
- \$496 million lower payments of long-term debt and finance leases in 2019.

FACTORS INFLUENCING FUTURE PERFORMANCE

We discuss various factors that could influence our future performance below and in “Item 7. MD&A – Factors Influencing Future Performance” in the Annual Report. We describe below significant developments to capital projects and any significant new capital projects in 2019. You should read the information below together with “Item 7. MD&A – Factors Influencing Future Performance” and “Item 1A. Risk Factors” contained in the Annual Report.

SEMPRA ENERGY

Capital Rotation

We regularly review our portfolio of assets with a view toward allocating capital to those businesses that we believe can further improve shareholder value. Following a comprehensive strategic review of our businesses and asset portfolio by our board of directors and management, in June 2018, we announced our intention to sell several energy infrastructure assets. We completed the sales of our U.S. solar assets in December 2018, our non-utility natural gas storage assets in February 2019 and our remaining U.S. wind assets in April 2019. In January 2019, our board of directors approved a plan to sell our South American businesses based on our strategic shift to be geographically focused on North America. Our South American businesses and certain activities associated with those businesses have been presented as discontinued operations. We expect to complete these sales in the first quarter of 2020. We discuss these sales and discontinued operations further in Note 5 of the Notes to Condensed Consolidated Financial Statements herein and in Notes 5 and 6 of the Notes to Consolidated Financial Statements in the Annual Report.

SDG&E

Capital Project Updates

CAPITAL PROJECTS PENDING REGULATORY RESOLUTION – SDG&E

Project description	Estimated capital cost (in millions)	Status
Electric Vehicle Charging		
§ January 2018 application, pursuant to SB 350, to make investments to support medium-duty and heavy-duty electric vehicles with an estimated implementation cost of \$34 million of O&M.	\$121	§ In August 2019, the CPUC issued a final decision approving the settlement agreement filed in November 2018.
Energy Storage Projects		
§ February 2018 application, pursuant to AB 2868, to make investments to accelerate the widespread deployment of distributed energy storage systems. SDG&E's application requests approval of 100 MW of utility-owned energy storage.	\$161	§ In June 2019, the CPUC declined to approve SDG&E's application and provided guidance on future solicitations and filings for energy storage resources.

Wildfire Legislation

Senate Bill 901

On September 21, 2018, the Governor of California signed into law SB 901, which includes a number of measures primarily intended to address certain wildfire risks relevant to consumers and utilities and guidelines for the CPUC to determine whether utilities acted reasonably in order to recover costs related to wildfires. Among other things, SB 901 also contains provisions for utility issuance of recovery bonds with respect to certain wildfire costs, subject to CPUC approval, wildfire mitigation plans, and creation of a commission to explore establishment of a fund and options for cost socialization with respect to catastrophic wildfires associated with utility infrastructure. SB 901 does not apply to the wildfires in SDG&E's service territory in 2007.

SDG&E filed its proposed wildfire mitigation plan in February 2019, and the CPUC approved this plan in May 2019. The wildfire mitigation plan does not include cost recovery. Pursuant to SB 901, the CPUC authorized SDG&E to establish a memorandum account to track the costs incurred for fire risk mitigation. The costs recorded to the memorandum account shall be incremental to the utility's authorized recovery and will be reviewed as part of the utility's next GRC proceeding. The CPUC issued a decision in June 2019 providing guidance on the electric utility wildfire mitigation plans. The decision held that approval of a utility's wildfire mitigation plan meant that it had met all the statutory requirements in SB 901. While SB 901 provides for cost recovery related to the wildfire mitigation plan in a utility's GRC proceeding, plan approval does not determine whether SDG&E acted reasonably when seeking recovery of plan-related costs.

Assembly Bill 1054 and Assembly Bill 111

On July 12, 2019, the Governor of California signed into law AB 1054 and AB 111 (together, the Wildfire Legislation), which took effect immediately. The Wildfire Legislation addresses certain important issues related to catastrophic wildfires in the State

of California and their impact on electric IOUs. We describe the Wildfire Legislation and related accounting treatment in Note 1 of the Notes to Condensed Consolidated Financial Statements.

The Wildfire Legislation establishes a fund (the Wildfire Fund) to provide liquidity to SDG&E, PG&E and Edison (each a California electric IOU) to pay IOU wildfire-related claims in the event that the governmental agency responsible for determining causation determines the applicable IOU's equipment caused the ignition of a wildfire, the primary insurance coverage is exceeded and certain other conditions are satisfied. The primary purpose of the Wildfire Fund is to pool resources provided by shareholders and ratepayers of the IOUs and make those resources available to reimburse the IOUs for third-party wildfire claims incurred after July 12, 2019, the effective date of the Wildfire Legislation, subject to certain limitations.

SDG&E recorded a Wildfire Fund asset for committed shareholder contributions to the Wildfire Fund. SDG&E is exposed to the risk that any California IOU may incur third-party wildfire claims for which they will seek recovery from the Wildfire Fund. In such a situation, SDG&E may recognize a reduction of its Wildfire Fund asset and record a charge against earnings in the period when there is a reduction of the available coverage due to recoverable claims from the IOUs. As a result, if any California IOU's equipment is determined to be a cause of a fire, it could have a material adverse effect on SDG&E's and Sempra Energy's financial condition and results of operation up to the carrying value of our Wildfire Fund asset. In addition, the Wildfire Fund could be completely exhausted due to fires in the other California IOUs' service territories, by fires in SDG&E's service territory or by a combination thereof. In the event that the Wildfire Fund is materially diminished, exhausted or terminated, SDG&E will lose the protection afforded by the Wildfire Fund, and as a consequence, a fire in SDG&E's service territory could cause a material adverse effect on SDG&E's and Sempra Energy's cash flows, results of operations and financial condition.

Other SDG&E Matters

See "Item 7. MD&A – Factors Influencing Future Performance" in the Annual Report for a discussion about:

- Electric Rate Reform – California Assembly Bill 327
- Potential Impacts of Community Choice Aggregation and Direct Access
- Renewable Energy Procurement

SOCALGAS

Aliso Canyon Natural Gas Storage Facility Gas Leak

In October 2015, SoCalGas discovered a leak at one of its injection-and-withdrawal wells, SS25, at its Aliso Canyon natural gas storage facility located in Los Angeles County. SoCalGas worked closely with several of the world's leading experts to stop the Leak. In February 2016, DOGGR confirmed that the well was permanently sealed.

See Note 11 of the Notes to Condensed Consolidated Financial Statements for discussions of the following related to the Leak:

- Local Community Mitigation Efforts
- Civil and Criminal Litigation
- Regulatory Proceedings
- Governmental Investigations and Orders and Additional Regulation
- Insurance

The costs incurred to remediate and stop the Leak and to mitigate local community impacts have been significant and may increase, and we may be subject to potential significant damages, restitution, and civil, administrative and criminal fines, penalties and other costs. In addition, the costs of defending against civil and criminal lawsuits, cooperating with investigations, and any damages, restitution, and civil, administrative and criminal fines, penalties and other costs, if awarded or imposed, as well as the costs of mitigating the natural gas released, could be significant. To the extent any of these costs are not covered by insurance (including any costs in excess of applicable policy limits), if there were to be significant delays in receiving insurance recoveries, or if the insurance recoveries are subject to income taxes while the associated costs are not tax deductible, such amounts could have a material adverse effect on SoCalGas' and Sempra Energy's cash flows, financial condition and results of operations.

Cost Estimates and Accounting Impact

At September 30, 2019, SoCalGas estimates its costs related to the Leak are \$1,099 million (the cost estimate), which includes \$1,069 million of costs recovered or probable of recovery from insurance. Approximately 52 percent of the cost estimate is for the temporary relocation program (including cleaning costs and certain labor costs). The remaining portion of the cost estimate includes costs incurred to defend litigation, the costs of the government-ordered response to the Leak including the costs for an

independent third party to conduct a root cause analysis, efforts to control the well, to mitigate the natural gas released, the cost of replacing the lost gas, the costs of settlements with government entities and other costs. The cost estimate does not include potential additional litigation costs, regulatory-related costs or other costs described below, which could be material. SoCalGas adjusts the cost estimate as additional information becomes available. A substantial portion of the cost estimate has been paid, and \$45 million is accrued in Reserve for Aliso Canyon Costs and \$9 million is accrued in Deferred Credits and Other as of September 30, 2019 on SoCalGas' and Sempra Energy's Condensed Consolidated Balance Sheets.

As of September 30, 2019, we recorded the expected recovery of the cost estimate related to the Leak of \$354 million as Insurance Receivable for Aliso Canyon Costs on SoCalGas' and Sempra Energy's Condensed Consolidated Balance Sheets. This amount is net of insurance retentions and \$715 million of insurance proceeds we received through September 30, 2019. The Insurance Receivable for Aliso Canyon Costs and insurance proceeds received to date relate to portions of the cost estimate described above, including temporary relocation and associated processing costs, control-of-well expenses, costs of the government-ordered response including for an independent third party to conduct a root cause analysis, the costs to settle certain claims as described in "Civil and Criminal Litigation" in Note 11 of the Notes to Condensed Consolidated Financial Statements, the estimated costs to perform obligations pursuant to settlement of some of those claims, legal costs and lost gas. If we were to conclude that this receivable or a portion of it is no longer probable of recovery from insurers, some or all of this receivable would be charged against earnings, which could have a material adverse effect on SoCalGas' and Sempra Energy's cash flows, financial condition and results of operations.

As described in "Civil and Criminal Litigation" in Note 11 of the Notes to Condensed Consolidated Financial Statements, the actions seek compensatory, statutory and punitive damages, restitution, and civil, administrative and criminal fines, penalties and other costs, which, except for the amounts paid or estimated to settle certain actions, are not included in the cost estimate as it is not possible at this time to predict the outcome of these actions or reasonably estimate the amount of damages, restitution or civil, administrative or criminal fines, penalties or other costs that may be imposed. The recorded amounts above also do not include future legal costs necessary to defend litigation, and other potential costs that we currently do not anticipate incurring or that we cannot reasonably estimate. Furthermore, the cost estimate does not include any sanctions, fines, penalties or other costs that may be imposed by the CPUC in connection with the OII opened in June 2019 and certain other costs incurred by Sempra Energy associated with defending against shareholder derivative lawsuits.

Natural Gas Storage Operations and Reliability

Natural gas withdrawn from storage is important for service reliability during peak demand periods, including peak electric generation needs in the summer and heating needs in the winter. The Aliso Canyon natural gas storage facility, with a capacity of 86 Bcf (representing 63 percent of SoCalGas' natural gas storage capacity), is the largest SoCalGas storage facility and an important element of SoCalGas' delivery system. As a result of the Leak, SoCalGas suspended injection of natural gas into the Aliso Canyon natural gas storage facility beginning in October 2015, and following a comprehensive safety review and authorization by DOGGR and the CPUC's Executive Director, resumed limited injection operations in July 2017.

During the suspension period, SoCalGas advised the California ISO, CEC, CPUC and PHMSA of its concerns that the inability to inject natural gas into the Aliso Canyon natural gas storage facility posed a risk to energy reliability in Southern California. Following the resumption of injection operations, the CPUC has issued a series of directives to SoCalGas specifying the range of working gas to be maintained in the Aliso Canyon natural gas storage facility to help ensure safety and reliability for the region and just and reasonable rates in California, the most recent of which, issued in July 2018, directed SoCalGas to maintain up to 34 Bcf of working gas. Limited withdrawals of natural gas from the facility were made in 2018 and 2019 to augment natural gas supplies during critical demand periods. In July 2019, the CPUC issued a protocol authorizing withdrawals of natural gas from the facility if gas supply is low in the region, to maintain system reliability and price stability.

If the Aliso Canyon natural gas storage facility were to be permanently closed, or if future cash flows were otherwise insufficient to recover its carrying value, it could result in an impairment of the facility and significantly higher than expected operating costs and/or additional capital expenditures, and natural gas reliability and electric generation could be jeopardized. At September 30, 2019, the Aliso Canyon natural gas storage facility had a net book value of \$771 million. Any significant impairment of this asset could have a material adverse effect on SoCalGas' and Sempra Energy's results of operations for the period in which it is recorded. Higher operating costs and additional capital expenditures incurred by SoCalGas may not be recoverable in customer rates and could have a material adverse effect on SoCalGas' and Sempra Energy's cash flows, financial condition and results of operations.

CALIFORNIA UTILITIES – JOINT MATTERS

Capital Project Updates

JOINT CAPITAL PROJECTS PENDING REGULATORY RESOLUTION – CALIFORNIA UTILITIES

Project description	Estimated capital cost (in millions)	Status
Line 1600 Test or Replacement Project		
§ Pursuant to a CPUC order, in September 2018, SDG&E and SoCalGas submitted a plan to the CPUC to address Line 1600 PSEP requirements by replacing 37 miles of Line 1600 predominately in populated areas and testing 13 miles of Line 1600 in rural areas.	\$671	§ In January 2019, the CPUC approved the proposed plan to address Line 1600 PSEP requirements. Cost recovery will be addressed in future GRCs.
§ Estimated O&M implementation cost of \$45 million and cost to retire portions of Line 1600 of \$14 million at SDG&E.		§ In May 2019, certain intervenors filed a petition to re-open the proceeding and review the proposed plan.
Mobile Home Park Utility Upgrade Program		
§ In April 2018, the CPUC opened an OIR to evaluate the Mobile Home Park Program to convert eligible units to direct utility service and determine if it should be extended beyond the initial three-year pilot to a permanent program, and if extended, to adopt programmatic modifications.	\$471 to \$508	§ A final decision in the OIR is expected in the first half of 2020.
§ In March 2019, the CPUC issued a resolution approving the extension of the pilot program through the earlier of 2021 or the issuance of a CPUC decision on pending proceedings.		

Natural Gas Pipeline Operations Safety Assessments

As we discuss in “Item 7. MD&A – Factors Influencing Future Performance” in the Annual Report, since 2011, the California Utilities have incurred costs related to the implementation of the CPUC’s directives to test or replace natural gas transmission pipelines that do not have sufficient documentation of a pressure test and to address retrofitting pipelines to allow for in-line inspection tools and, where appropriate, automated or remote controlled shut-off valves (referred to as PSEP).

As shown in the table below, SoCalGas and SDG&E have made significant pipeline safety investments under the PSEP program, and SoCalGas expects to continue making significant investments as approved through various regulatory proceedings. SDG&E’s PSEP program was substantially completed in 2017, with the exception of Line 1600, which we discuss in the table above. Both utilities have filed joint applications and plan to file future applications with the CPUC for review of the PSEP project costs as follows:

PIPELINE SAFETY ENHANCEMENT PLAN – COST SUMMARY

(Dollars in millions)

	2011 through September 30, 2019			
	Total invested ⁽¹⁾	CPUC review completed ⁽²⁾	CPUC review pending ⁽³⁾	2019 and future applications ⁽⁴⁾⁽⁵⁾
Sempra Energy Consolidated:				
Capital	\$ 1,824	\$ 320	\$ 853	\$ 651
Operation and maintenance	221	96	85	40
Total	\$ 2,045	\$ 416	\$ 938	\$ 691
SoCalGas:				
Capital	\$ 1,455	\$ 306	\$ 731	\$ 418
Operation and maintenance	210	95	78	37
Total	\$ 1,665	\$ 401	\$ 809	\$ 455
SDG&E:				
Capital	\$ 369	\$ 14	\$ 122	\$ 233
Operation and maintenance	11	1	7	3
Total	\$ 380	\$ 15	\$ 129	\$ 236

⁽¹⁾ Excludes certain pressure testing and pipeline replacement costs incurred through September 30, 2019 that were not eligible for recovery based on prior CPUC decisions. Also excludes \$57 million incurred for SDG&E's Line 1600 Test or Replacement Project.

⁽²⁾ Includes costs approved in the 2017 Forecast Application and 2019 GRC FD.

⁽³⁾ Includes costs subject to the 2018 Reasonableness Review Application filed in November 2018, with a decision expected in 2020.

⁽⁴⁾ Remaining costs not the subject of prior applications are to be included in subsequent GRCs.

⁽⁵⁾ Authorized to recover 50 percent of the Phase 1 revenue requirement annually, subject to refund.

If either SoCalGas or SDG&E are unable to recover a significant amount of these safety investments from ratepayers, it could have a material adverse effect on the cash flows, results of operations and financial condition of SoCalGas, SDG&E and Sempra Energy.

SEMPRA TEXAS UTILITIES

Oncor Holdings

As we discuss in Note 5 of the Notes to Condensed Consolidated Financial Statements, on May 16, 2019, Oncor completed the acquisition of 100 percent of the issued and outstanding shares of InfraREIT and 100 percent of the limited partnership units of its subsidiary, InfraREIT Partners, pursuant to the InfraREIT Merger Agreement. Under the InfraREIT Merger Agreement, Oncor paid merger consideration of \$1,275 million or \$21 per share. On May 16, 2019, in connection with and immediately after the closing of the acquisition, Oncor extinguished all of InfraREIT's outstanding debt (totaling \$953 million) by repaying an aggregate principal amount of \$602 million on behalf of InfraREIT's subsidiaries (using proceeds from a term loan and issuances of commercial paper), and exchanging an aggregate principal amount of \$351 million of secured senior notes issued by InfraREIT subsidiaries for secured senior notes issued by Oncor.

Sharyland Holdings

As we discuss in Note 5 of the Notes to Condensed Consolidated Financial Statements, on May 16, 2019, Sempra Energy acquired an indirect, 50-percent interest in Sharyland Holdings for \$102 million (subject to customary closing adjustments), which we account for as an equity method investment.

SEMPRA MEXICO

Capital Project Updates

CAPITAL PROJECTS – SEMPRA MEXICO – GAS BUSINESS

Project description	Our share of estimated capital cost (in millions)	Status
Sur de Texas-Tuxpan Marine Pipeline		
<p>§ IMG was awarded the right to build, own and operate the natural gas marine pipeline in June 2016 by the CFE.</p> <p>§ Natural gas transportation services agreement, denominated in U.S. dollars, for a 25-year term, plus another 10 years in accordance with September 2019 revised agreement.</p> <p>§ Sempra Mexico has a 40-percent interest in IMG, a JV with TC Energy, which owns the remaining 60-percent interest.</p>	\$1,040	<p>§ Commercial operation commenced in September 2019.</p> <p>§ Estimated capital cost increased from \$992 million.</p>
Terminals at Port of Veracruz, Puebla and Mexico City		
<p>§ Awarded a 20-year concession in July 2017 to build and operate a marine terminal in the Port of Veracruz in Mexico for the receipt, storage and delivery of liquid fuels.</p> <p>§ Planned storage capacity of 2.1 million barrels.</p> <p>§ Working capacity of 1.4 million barrels of gasoline, diesel and jet fuel to supply the central region of Mexico.</p> <p>§ IEnova will also build and operate two storage terminals located near Puebla and Mexico City, each with storage capacities of 650,000 barrels.</p> <p>§ Entered into three, long-term, U.S. dollar-denominated terminal services agreements in July 2017 with Valero Energy for the full capacity of the marine terminal and the two inland storage terminals.</p> <p>§ Pursuant to these agreements, Valero Energy has the option to purchase a 50-percent interest in each of the three terminals after commencement of commercial operations, subject to approval by the Port of Veracruz, Comisión Federal de Electricidad (Federal Electricity Commission in Mexico), the Comisión Reguladora de Energía (Energy Regulatory Commission in Mexico) and other regulatory bodies.</p>	\$590 to \$640	<p>§ Change in expected commercial operation date to: first quarter of 2020.</p> <p>§ Expected commercial operation date of two inland storage terminals: first quarter of 2020.</p> <p>§ Estimated capital cost increased from \$440 million.</p>
Baja Refinados Terminal		
<p>§ Plan to develop, construct and operate a liquid fuels marine storage terminal within the La Jovita Energy Center, located 14 miles north of Ensenada, Baja California, Mexico.</p> <p>§ Capacity of 1 million barrels of hydrocarbons, primarily gasoline and diesel, to increase fuel supply capacity and reliability in Baja California.</p> <p>§ Fully contracted under two, long-term, U.S. dollar-denominated contracts for the receipt, storage and delivery of hydrocarbons with Chevron and BP. Chevron has the option to acquire 20 percent of the equity of the terminal after commercial operations begin.</p>	\$130	<p>§ Change in expected commercial operation date to: second quarter of 2021.</p>
Manzanillo Terminal		
<p>§ Plan to develop, construct and operate a marine terminal for the receipt, storage and delivery of refined products in Manzanillo, Colima.</p> <p>§ Increased storage capacity to 2.2 million barrels is fully contracted under long-term, U.S. dollar-denominated agreements with BP, Trafigura Mexico, S.A. de C.V. and Marathon Petroleum Corporation.</p> <p>§ Sempra Mexico has a 53.7-percent interest in TP Terminals, S. de R.L. de C.V., a JV with Trafigura Mexico, S.A. de C.V., which owns the remaining 46.3-percent interest. Sempra Mexico has the option to increase its ownership interest up to 82.5 percent.</p>	\$153 to \$235	<p>§ Expected commercial operation date: first quarter of 2021.</p> <p>§ Minimum estimated capital cost increased from \$149 million due to increase in Sempra Mexico's ownership interest in the terminal from 52.4 percent.</p>
Ecogas		
<p>§ Expansion plan to connect approximately 40 thousand new customers in the next two years.</p>	\$78	<p>§ Expected commercial operation dates: 2019 through 2021 as portions are completed.</p>

CAPITAL PROJECTS – SEMPRA MEXICO – POWER BUSINESS

Project description	Our share of estimated capital cost (in millions)	Status
La Rumorosa Solar Complex		
§ Awarded 41-MW photovoltaic solar energy project located in Baja California, Mexico, in an auction conducted by Mexico's National Center of Electricity Control (Centro Nacional de Control de Energía) in September 2016.	\$50	§ Commercial operation commenced in June 2019.
§ Contracted by the CFE under a 15-year renewable energy agreement and a 20-year clean energy certificate agreement, denominated in U.S. dollars.		
Tepezalá Solar Complex		
§ Awarded 100-MW photovoltaic solar energy project located in Aguascalientes, Mexico, in an auction conducted by Mexico's National Center of Electricity Control in September 2016.	\$100	§ Change in expected commercial operation date to: fourth quarter of 2019.
§ Contracted by the CFE under 15-year renewable energy and capacity agreements and a 20-year clean energy certificate agreement, denominated in U.S. dollars.		§ Estimated capital cost increased from \$90 million.
§ Trina Solar owns a 10-percent interest in the project. Sempra Mexico has the option to purchase, and Trina Solar has the option to sell, Trina Solar's ownership interest within 30 days after the commercial operation date.		
Energía Sierra Juárez 2		
§ 108-MW wind power generation facility, located in La Rumorosa, Baja California.	\$150	§ Change in expected commercial operation date to: second quarter of 2021.
§ Entered into a 20-year, U.S. dollar denominated PPA with SDG&E in November 2017.		§ Pending FERC approval.
§ Received CPUC approval in December 2017.		
Border Solar		
§ 150-MW photovoltaic solar energy project located in Juárez, Chihuahua, Mexico.	\$160	§ Expected commercial operation date: fourth quarter of 2020.
§ Contracted under long-term, U.S. dollar-denominated, clean energy supply contracts with Comercializadora Círculo CCK, S.A. de C.V., El Puerto de Liverpool, S.A.B. de C.V. and Envases Universales de México, S.A.P.I. de C.V.		

Certain past assertions made by the CFE and Mexican government, coupled with past arbitration requests and other statements and actions by the CFE, raise serious concerns over whether the terms of Sempra Mexico's gas pipeline contracts will be honored or disputed in arbitration. The failure by the CFE or other customers to honor the terms of Sempra Mexico's gas pipeline contracts and the inability to enter into gas pipeline contracts in the future could have a material adverse effect on Sempra Energy's cash flows, financial condition, results of operation and prospects.

The ability to successfully complete major construction projects is subject to a number of risks and uncertainties. For a discussion of these risks and uncertainties, see "Item 1A. Risk Factors" in the Annual Report.

Guaymas-El Oro Segment of the Sonora Pipeline

As we discuss in Note 11 of the Notes to Condensed Consolidated Financial Statements, IEnova has received force majeure payments for the Guaymas-El Oro segment of the Sonora pipeline since August 2017, which payments ended in August 2019, after damage to that segment of the pipeline made it inoperable and a court order has prevented repairs to put the pipeline back in service. In July 2019, the CFE filed a request for arbitration generally to nullify certain contract terms that provide for fixed capacity payments in instances of force majeure and made a demand for substantial damages in connection with the force majeure event. In September 2019, the arbitration process ended when IEnova and the CFE reached an agreement to modify the tariff structure and extend the term of the contract for 10 years. Under the revised agreement, the CFE will resume making payments only when the damaged section of the pipeline is repaired. If the pipeline is not repaired by January 15, 2020 and the parties do not agree on a new service start date, IEnova retains the right to terminate the contract and seek to recover its reasonable and documented costs and lost profits. If IEnova is unable to make such repairs and resume operations in the Guaymas-El Oro segment of the Sonora pipeline or if IEnova terminates the contract and is unable to obtain recovery, there may be a material adverse impact on Sempra Energy's results of operations and cash flows and our ability to recover the carrying value of our investment.

Energía Costa Azul LNG Terminal

We discuss IEnova's participation in potential LNG liquefaction development at IEnova's ECA facility below in "Sempra LNG – Energía Costa Azul LNG Terminal."

SEMPRA RENEWABLES

As we discuss in Note 5 of the Notes to Condensed Consolidated Financial Statements, in April 2019, Sempra Renewables sold its remaining wind assets and investments and received cash proceeds of \$569 million, net of transaction costs. Upon completion of the sale, remaining nominal business activities at Sempra Renewables were subsumed into Parent and other, and the Sempra Renewables segment ceased to exist.

SEMPRA LNG

Cameron LNG JV Three-Train Liquefaction Project

Construction on the current three-train liquefaction project began in the second half of 2014 under an EPC contract with a JV between CB&I, LLC (as assignee of CB&I Shaw Constructors, Inc.), a wholly owned subsidiary of McDermott International, Inc., and Chiyoda International Corporation, a wholly owned subsidiary of Chiyoda Corporation.

Large-scale construction projects like the design, development and construction of the Cameron LNG JV liquefaction facility involve numerous risks and uncertainties, including among others, the potential for unforeseen engineering challenges, substantial construction delays and increased costs. Cameron LNG JV has a turnkey EPC contract, and if the contractor becomes unwilling or unable to perform according to the terms and timetable of the EPC contract, the project could face substantial construction delays and potentially significantly increased costs. If the contractor's delays or failures are serious enough to cause the contractor to default under the EPC contract, such default could result in Cameron LNG JV's engagement of a substitute contractor, which would cause further delays.

In May 2019, construction of the first of three trains was completed and the first commissioning cargo carrying LNG was shipped. On July 26, 2019, Cameron LNG JV received authorization from the FERC to place Train 1 in service and on August 19, 2019, commercial operation of Train 1 commenced under Cameron LNG JV's tolling agreements. Due to an issue with the residue gas compressor driver's interface transformer reactor, Train 1 is operating at a reduced capacity depending on the ambient temperature and other factors. The reduction in Train 1's operating capacity has not reduced Cameron LNG JV's revenues under its tolling agreements. The manufacturer believes that it has identified the cause of the issue and has sent a replacement for Train 1, which has been installed and is being tested. The replacements for Train 2 and Train 3 are scheduled to arrive in advance of the time they are required for commissioning. A delay in the arrival of these replacements in advance of the time they are required for commissioning or a failure of these replacements to work in accordance with specifications could delay the commencement of commercial operation of Train 2 and Train 3 under Cameron LNG JV's tolling agreements.

In June 2019, Cameron LNG JV entered into an amendment to the EPC contract to provide for certain performance-based commercial considerations, including potential bonus payments to be paid by Cameron LNG JV if the contractor meets certain scheduled milestones and a resetting of the applicable start date for liquidated damages that would arise due to the delay of a train achieving substantial completion as contemplated by the EPC contract. The amendment also waives all of the contractor's known and unknown claims prior to June 28, 2019. The amendment became effective on July 1, 2019.

This recent EPC contract amendment, a prior settlement agreement between Cameron LNG JV and the EPC contractor, and project delays increased the total estimated cost, including capitalized interest, of the integrated Cameron LNG JV facility above the project budget and associated contingency adopted at the time of our final investment decision. We expect this increase will not be material to Sempra Energy, though the project may incur additional costs above what is currently anticipated that may be material to the overall cost of the project.

Based on a number of factors, we believe it is reasonable to expect Train 2 and Train 3 to begin producing LNG in the first and second quarters, respectively, of 2020. These factors include, among others, the EPC contractor's progress to date, the current commissioning activities, the remaining work to be performed, the project schedules received from the EPC contractor, Cameron LNG JV's own review of the project schedules, the assumptions underlying such schedules, and the inherent risks in constructing and testing facilities such as the Cameron LNG JV liquefaction facility. For a discussion of the Cameron LNG JV and of these risks and other risks relating to the development of the Cameron LNG JV liquefaction project that could adversely affect our future performance, see Note 6 of the Notes to Consolidated Financial Statements and "Item 1A. Risk Factors" in the Annual Report.

Proposed Cameron Liquefaction Expansion

Cameron LNG JV has received the major permits and FTA and non-FTA approvals necessary to expand the current configuration of the Cameron LNG JV liquefaction project from the current three liquefaction trains under construction. The proposed expansion project includes up to two additional liquefaction trains, capable of increasing LNG production capacity by approximately 9 Mtpa to 10 Mtpa, and up to two additional full containment LNG storage tanks (one of which was permitted with the original three-train project).

Under the Cameron LNG JV financing agreements, expansion of the Cameron LNG JV facilities beyond the first three trains is subject to certain restrictions and conditions, including among others, timing restrictions on expansion of the project unless appropriate prior consent is obtained from lenders. Under the Cameron LNG JV equity agreements, the expansion of the project requires the unanimous consent of all the partners, including with respect to the equity investment obligation of each partner. Discussions among the partners have been taking place regarding how an expansion may be structured.

In July 2018, TOTAL S.A. acquired Engie S.A.'s interest in the Cameron LNG JV. In November 2018, Sempra Energy and TOTAL S.A. entered into an MOU that provides a framework for cooperation for the development of the potential Cameron LNG expansion project and the potential ECA liquefaction-export project that we describe below in "Energía Costa Azul LNG Terminal." The MOU contemplates TOTAL S.A. potentially contracting for up to approximately 9 Mtpa of LNG offtake across these two development projects. In addition, on October 23, 2019, Sempra Energy and Mitsui & Co., Ltd. entered into an MOU that provides a framework for potential offtake by Mitsui & Co., Ltd. from the potential Cameron LNG expansion project and the second phase of the potential ECA liquefaction-export project, as well as Mitsui & Co., Ltd.'s potential acquisition of equity interest in the second phase of the potential ECA liquefaction-export project. The ultimate participation of TOTAL S.A. and Mitsui & Co., Ltd. remains subject to finalization of definitive agreements, among other factors, and TOTAL S.A. and Mitsui & Co., Ltd. have no commitment to participate in the projects.

We expect that discussions on the potential expansion will continue among all the Cameron LNG JV members. There can be no assurance that a mutually agreeable expansion structure will be agreed upon unanimously by the Cameron LNG JV members, which if not accomplished in a timely manner, could materially and adversely impact the development of the expansion project. In light of this, we are unable to predict when we and/or Cameron LNG JV might be able to move forward on this expansion project.

The expansion of the Cameron LNG JV facilities beyond the first three trains is subject to a number of risks and uncertainties, including amending the Cameron LNG JV agreement among the partners, obtaining binding customer commitments, completing the required commercial agreements, securing (or, in some cases, extending) and maintaining all necessary permits, approvals and consents, obtaining financing, reaching a final investment decision among the Cameron LNG JV partners, and other factors associated with the potential investment. See "Item 1A. Risk Factors" in the Annual Report.

Other LNG Liquefaction Development

Design, regulatory and commercial activities are ongoing for potential LNG liquefaction developments at our Port Arthur, Texas site and at Sempra Mexico's ECA facility. For these development projects, we have met with potential customers and determined there is an interest in long-term contracts for LNG supplies beginning in the 2023 through 2025 time frame.

Port Arthur

Sempra LNG is developing a proposed natural gas liquefaction project on a greenfield site that it owns in the vicinity of Port Arthur, Texas located along the Sabine-Neches waterway.

In April 2019, the FERC approved the siting, construction and operation of the Port Arthur liquefaction facility, along with certain natural gas pipelines, including the Louisiana Connector Pipeline, that could be used to supply feed gas to the liquefaction facility, assuming the project is completed.

Sempra LNG received authorizations from the DOE in August 2015 and May 2019 that collectively permit the LNG to be produced from the proposed Port Arthur project to be exported to all current and future FTA and non-FTA countries.

In June 2018, we selected Bechtel Corporation as the EPC contractor for the proposed Port Arthur liquefaction project. Bechtel Corporation is to perform the engineering, execution planning and related activities necessary to prepare, negotiate and finalize a definitive EPC contract for the project. The current arrangement with Bechtel Corporation does not commit any party to enter into a definitive EPC contract or otherwise participate in the project.

In December 2018, Polish Oil & Gas Company (PGNiG) and Port Arthur LNG entered into a definitive 20-year agreement for the sale and purchase of 2 Mtpa of LNG per year. Under the agreement, LNG purchases by PGNiG from Port Arthur LNG will be made on a free-on-board basis, with PGNiG responsible for shipping the LNG from the Port Arthur terminal to the final destination. Port Arthur LNG will manage the gas pipeline transportation, liquefaction processing and cargo loading. The agreement is subject to certain conditions precedent, including Port Arthur LNG making a positive final investment decision within certain agreed timelines.

In May 2019, Aramco Services Company and Sempra LNG signed a Heads of Agreement for the negotiation and finalization of a definitive 20-year LNG sale and purchase agreement for 5 Mtpa of LNG offtake. The Heads of Agreement also includes the negotiation and finalization of a 25-percent equity investment in the project.

In June 2019, Sempra LNG initiated with the FERC the pre-filing review of a proposed extension of Port Arthur Pipeline, LLC's Louisiana Connector Pipeline to Delhi, Louisiana. The proposed extension would also include increasing the size of the pipeline from 42 inches to 48 inches.

In June 2017, Port Arthur signed an MOU with Korea Gas Corporation for potential participation in the Port Arthur LNG project as an LNG buyer and equity participant. The MOU expired in accordance with its terms in June 2019.

Also, in June 2019, Sempra LNG initiated with the FERC the pre-filing review of a proposed FERC application for the siting, construction and operation of a second phase at the Port Arthur facility. The pre-filing documentation contemplates, among other things, the potential addition of two liquefaction trains at the Port Arthur facility.

Development of the Port Arthur LNG liquefaction project is subject to a number of risks and uncertainties, including obtaining additional customer commitments; completing the required commercial agreements, such as equity acquisitions and governance agreements, LNG sales agreements and gas supply and transportation agreements; completing construction contracts; securing all necessary permits and approvals; obtaining financing and incentives; reaching a final investment decision; and other factors associated with the potential investment. See "Item 1A. Risk Factors" in the Annual Report.

Energía Costa Azul LNG Terminal

As we discuss in "Item 7. MD&A – Factors Influencing Future Performance" in the Annual Report, Sempra LNG and IEnova are developing a proposed natural gas liquefaction project at the site of IEnova's existing regasification terminal at ECA. The proposed liquefaction facility project, which we expect will be developed in two phases, is being developed to provide buyers with direct access to west coast LNG supplies. ECA currently has profitable long-term regasification contracts for 100 percent of the regasification facility's capacity through 2028, making the decisions on whether and how to pursue a new liquefaction facility dependent in part on whether the investment in a new liquefaction facility would, over the long term, be more beneficial financially than continuing to supply regasification services under our existing contracts.

In March 2019, ECA LNG received two authorizations from the DOE to export U.S.-produced natural gas to Mexico and to re-export LNG to non-FTA countries from its Phase 1 and Phase 2 projects in development.

In June 2018, we selected a TechnipFMC plc and Kiewit Corporation partnership as the EPC contractor for the first phase of the proposed ECA LNG liquefaction facility project (ECA LNG Phase 1). The TechnipFMC-Kiewit partnership is to perform the engineering, planning and related activities necessary to prepare, negotiate and finalize a definitive EPC contract for ECA LNG Phase 1. The current arrangement with the TechnipFMC-Kiewit partnership does not commit any party to enter into a definitive EPC contract or otherwise participate in the project.

The ultimate participation of TOTAL S.A., Mitsui & Co., Ltd. and Tokyo Gas Co., Ltd. in the potential ECA LNG project as contemplated by a Heads of Agreements signed in November 2018 remains subject to finalization of definitive agreements, among other factors, and none of these parties has committed to participate in this project. The development of the ECA LNG Phase 1 and Phase 2 projects is subject to numerous risks and uncertainties, including obtaining binding customer commitments;

the receipt of a number of permits and regulatory approvals; obtaining financing; negotiating and completing suitable commercial agreements, including a definitive EPC contract, equity acquisition and governance agreements, LNG sales agreements and gas supply and transportation agreements; reaching a final investment decision; and other factors associated with this potential investment. In addition, as we discuss in Note 11 of the Notes to Condensed Consolidated Financial Statements, an unfavorable decision on certain property disputes and permit challenges could materially and adversely affect the development of these projects. For a discussion of these risks, see “Item 1A. Risk Factors” in the Annual Report.

LITIGATION

We describe legal proceedings that could adversely affect our future performance in Note 11 of the Notes to Condensed Consolidated Financial Statements.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

We view certain accounting policies as critical because their application is the most relevant, judgmental, and/or material to our financial position and results of operations, and/or because they require the use of material judgments and estimates. We discuss these accounting policies in “Item 7. MD&A” in the Annual Report.

We describe our significant accounting policies in Note 1 of the Notes to Consolidated Financial Statements in the Annual Report. We follow the same accounting policies for interim reporting purposes.

NEW ACCOUNTING STANDARDS

We discuss the relevant pronouncements that have recently been issued or become effective and have had or may have an impact on our financial statements and/or disclosures in Note 2 of the Notes to Condensed Consolidated Financial Statements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We provide disclosure regarding derivative activity in Note 8 of the Notes to Condensed Consolidated Financial Statements. We discuss our market risk and risk policies in detail in “Item 7A. Quantitative and Qualitative Disclosures about Market Risk” in the Annual Report.

INTEREST RATE RISK

The table below shows the nominal amount of debt:

NOMINAL AMOUNT OF DEBT ⁽¹⁾						
<i>(Dollars in millions)</i>						
	September 30, 2019			December 31, 2018		
	Sempra Energy Consolidated	SDG&E	SoCalGas	Sempra Energy Consolidated	SDG&E	SoCalGas
Short-term:						
California Utilities	\$ 108	\$ —	\$ 108	\$ 547	\$ 291	\$ 256
Other	3,483	—	—	1,477	—	—
Long-term:						
California Utilities fixed-rate	\$ 8,950	\$ 5,141	\$ 3,809	\$ 8,377	\$ 4,918	\$ 3,459
California Utilities variable-rate	—	—	—	78	78	—
Other fixed-rate	11,867	—	—	10,804	—	—
Other variable-rate	747	—	—	2,091	—	—

⁽¹⁾ After the effects of interest rate swaps. Before the effects of acquisition-related fair value adjustments and reductions for unamortized discount and debt issuance costs, and excluding finance lease obligations and build-to-suit lease.

Interest rate risk sensitivity analysis measures interest rate risk by calculating the estimated changes in earnings that would result from a hypothetical change in market interest rates. Earnings are affected by changes in interest rates on short-term debt and variable long-term debt. If weighted-average interest rates on short-term debt outstanding at September 30, 2019 increased or decreased by 10 percent, the change in earnings over the next 12-month period ended September 30, 2020 would be approximately \$9 million. If interest rates increased or decreased by 10 percent on all variable-rate long-term debt at September 30, 2019, after considering the effects of interest rate swaps, the change in earnings over the next 12-month period ended September 30, 2020 would be approximately \$2 million.

CREDIT RATINGS

We provide additional information about the credit ratings of Sempra Energy, SDG&E and SoCalGas in “Item 1A. Risk Factors” and “Item 7A. Quantitative and Qualitative Disclosures about Market Risk – Credit Ratings” in the Annual Report.

The credit ratings of Sempra Energy, SDG&E and SoCalGas remained at investment grade levels in the first nine months of 2019. At September 30, 2019:

- Moody’s issuer rating was Baa1 with a negative outlook for Sempra Energy, Baa1 with a positive outlook for SDG&E and A1 with a negative outlook for SoCalGas;
- S&P’s issuer credit rating was BBB+ with a negative outlook for Sempra Energy, BBB+ with a stable outlook for SDG&E and A with a negative outlook for SoCalGas; and
- Fitch long-term issuer default rating was BBB+ with a stable outlook for Sempra Energy, BBB+ with a stable outlook for SDG&E and A with a stable outlook for SoCalGas.

Our credit ratings may affect the rates at which borrowings bear interest and the commitment fees on available unused credit. A downgrade of Sempra Energy’s or any of its subsidiaries’ credit ratings or rating outlooks may result in a requirement for collateral to be posted in the case of certain financing arrangements and may materially and adversely affect the market prices of their equity and debt securities, the rates at which borrowings are made and commercial paper is issued, and the various fees on their outstanding credit facilities. This could make it more costly for Sempra Energy, SDG&E, SoCalGas and Sempra Energy’s other subsidiaries to issue debt securities, to borrow under credit facilities and to raise certain other types of financing.

Sempra Energy has agreed that, if the credit rating of Oncor’s senior secured debt by any of the three major rating agencies falls below BBB (or the equivalent), Oncor will suspend dividends and other distributions (except for contractual tax payments), unless otherwise allowed by the PUCT. Oncor’s senior secured debt is rated A2, A+ and A at Moody’s, S&P and Fitch, respectively, at September 30, 2019.

FOREIGN CURRENCY AND INFLATION RATE RISK

We discuss our foreign currency and inflation exposure in “Item 2. MD&A – Impact of Foreign Currency and Inflation Rates on Results of Operations” herein and in “Item 7. MD&A – Impact of Foreign Currency and Inflation Rates on Results of Operations” in the Annual Report. At September 30, 2019, there were no significant changes to our exposure to foreign currency rate risk since December 31, 2018.

ITEM 4. CONTROLS AND PROCEDURES

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

Sempra Energy, SDG&E and SoCalGas have designed and maintain disclosure controls and procedures to ensure that information required to be disclosed in their respective reports is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC and is accumulated and communicated to the management of each company, including each respective principal executive officer and principal financial officer, to allow timely decisions regarding required disclosure. In designing and evaluating these controls and procedures, the management of each company recognizes that any system of controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives; therefore, the management of each company applies judgment in evaluating the cost-benefit relationship of other possible controls and procedures.

Under the supervision and with the participation of management, including the principal executive officers and principal financial officers of Sempra Energy, SDG&E and SoCalGas, each company evaluated the effectiveness of the design and operation of its disclosure controls and procedures as of September 30, 2019, the end of the period covered by this report. Based on these evaluations, the principal executive officers and principal financial officers of Sempra Energy, SDG&E and SoCalGas concluded that their respective company’s disclosure controls and procedures were effective at the reasonable assurance level.

INTERNAL CONTROL OVER FINANCIAL REPORTING

There have been no changes in Sempra Energy’s, SDG&E’s or SoCalGas’ internal control over financial reporting during the most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, the companies’ internal control over financial reporting.

PART II – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

We are not party to, and our property is not the subject of, any material pending legal proceedings (other than ordinary routine litigation incidental to our businesses) except for the matters 1) described in Notes 10 and 11 of the Notes to Condensed Consolidated Financial Statements herein and in Notes 15 and 16 of the Notes to Consolidated Financial Statements in the Annual Report, or 2) referred to in “Item 7. MD&A” in the Annual Report.

ITEM 1A. RISK FACTORS

When evaluating our company and its subsidiaries, we urge you to carefully consider the risks and other information in this Quarterly Report on Form 10-Q, including the factors discussed above in “Item 2. MD&A,” and the risk factors disclosed in “Item 1A. Risk Factors” in the Annual Report. There have been no material changes from the risk factors as previously disclosed

in the Annual Report. Any of the risks and other information discussed in this Quarterly Report on Form 10-Q or any of the risks disclosed in “Item 1A. Risk Factors” in the Annual Report, as well as additional risks and uncertainties not currently known to us or that we currently deem immaterial, could materially and adversely affect our businesses, cash flows, results of operations, financial condition, prospects and/or the trading prices of our securities or those of our subsidiaries.

ITEM 6. EXHIBITS

The following exhibits relate to each registrant as indicated.

Exhibit Number	Exhibit Description	Filed Herewith	Incorporated by Reference			
			Form	Period Ending	Exhibit or Appendix	Filing Date

EXHIBIT 2 -- PLAN OF ACQUISITION, REORGANIZATION, ARRANGEMENT, LIQUIDATION OR SUCCESSION

Sempra Energy

2.1	Purchase and Sale Agreement, dated as of September 27, 2019, by and between Sempra International Holdings N.V. and China Yangtze Power International (Hongkong) Co., Limited.		8-K		Exhibit 2.1	9/30/2019
2.2	Letter of Undertaking, dated as of September 27, 2019, by and between Sempra Energy International Holdings N.V., China Three Gorges Corporation and China Three Gorges Construction Management Co., Ltd.		8-K		Exhibit 2.2	9/30/2019
2.3	Purchase and Sale Agreement, dated as of October 12, 2019, by and between Sempra Energy International Holdings N.V. and State Grid International Development Limited.		8-K		Exhibit 2.1	10/15/2019

EXHIBIT 10 -- MATERIAL CONTRACTS

Sempra Energy

Compensation

10.1	Severance Pay Agreement between Sempra Energy and George W. Bilicic, dated as of June 17, 2019.	X
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Exhibit Number	Exhibit Description	Filed Herewith
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EXHIBIT 31 -- SECTION 302 CERTIFICATIONS

Sempra Energy

31.1	Certification of Sempra Energy’s Principal Executive Officer pursuant to Rules 13a-14 and 15d-14 of the Securities Exchange Act of 1934.	X
31.2	Certification of Sempra Energy’s Principal Financial Officer pursuant to Rules 13a-14 and 15d-14 of the Securities Exchange Act of 1934.	X

San Diego Gas & Electric Company

31.3	Certification of San Diego Gas & Electric Company’s Principal Executive Officer pursuant to Rules 13a-14 and 15d-14 of the Securities Exchange Act of 1934.	X
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31.4 [Certification of San Diego Gas & Electric Company's Principal Financial Officer pursuant to Rules 13a-14 and 15d-14 of the Securities Exchange Act of 1934.](#) X

Southern California Gas Company

31.5 [Certification of Southern California Gas Company's Principal Executive Officer pursuant to Rules 13a-14 and 15d-14 of the Securities Exchange Act of 1934.](#) X

31.6 [Certification of Southern California Gas Company's Principal Financial Officer pursuant to Rules 13a-14 and 15d-14 of the Securities Exchange Act of 1934.](#) X

EXHIBIT 32 -- SECTION 906 CERTIFICATIONS

Sempra Energy

32.1 [Certification of Sempra Energy's Principal Executive Officer pursuant to 18 U.S.C. Sec. 1350.](#) X

32.2 [Certification of Sempra Energy's Principal Financial Officer pursuant to 18 U.S.C. Sec. 1350.](#) X

San Diego Gas & Electric Company

32.3 [Certification of San Diego Gas & Electric Company's Principal Executive Officer pursuant to 18 U.S.C. Sec. 1350.](#) X

32.4 [Certification of San Diego Gas & Electric Company's Principal Financial Officer pursuant to 18 U.S.C. Sec. 1350.](#) X

Southern California Gas Company

32.5 [Certification of Southern California Gas Company's Principal Executive Officer pursuant to 18 U.S.C. Sec. 1350.](#) X

32.6 [Certification of Southern California Gas Company's Principal Financial Officer pursuant to 18 U.S.C. Sec. 1350.](#) X

EXHIBIT 101 -- INTERACTIVE DATA FILE

101.INS XBRL Instance Document - the instance document does not appear in the Interactive Data file because its XBRL tags are embedded within the Inline XBRL document. X

101.SCH Inline XBRL Taxonomy Extension Schema Document. X

101.CAL Inline XBRL Taxonomy Extension Calculation Linkbase Document. X

101.DEF Inline XBRL Taxonomy Extension Definition Linkbase Document. X

101.LAB Inline XBRL Taxonomy Extension Label Linkbase Document. X

101.PRE Inline XBRL Taxonomy Extension Presentation Linkbase Document. X

EXHIBIT 104 -- COVER PAGE

104 Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101).

SIGNATURES

Sempra Energy:

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 1, 2019 By: /s/ Peter R. Wall

Peter R. Wall
Vice President, Controller and
Chief Accounting Officer

San Diego Gas & Electric Company:

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.

SAN DIEGO GAS & ELECTRIC COMPANY,
(Registrant)

Date: November 1, 2019 By: /s/ Bruce A. Folkmann

Bruce A. Folkmann
Senior Vice President, Controller, Chief Financial Officer and Chief
Accounting Officer

Southern California Gas Company:

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.

SOUTHERN CALIFORNIA GAS COMPANY,
(Registrant)

Date: November 1, 2019 By: /s/ Mia L. DeMontigny

Mia L. DeMontigny
Vice President, Controller, Chief Financial Officer and Chief Accounting
Officer

**SEMPRA ENERGY
SEVERANCE PAY AGREEMENT**

THIS AGREEMENT (this “Agreement”), dated as of June 17, 2019 (the “Effective Date”), is made by and between SEMPRA ENERGY, a California corporation (“Sempra Energy”), and George W. Bilicic (the “Executive”).

WHEREAS, the Executive is currently employed by Sempra Energy or another corporation or trade or business which is a member of a controlled group of corporations (within the meaning of Section 414(b) or (c) of the Code) of which Sempra Energy is a component member, determined by applying an ownership threshold of 50% rather than 80% (Sempra Energy and such other controlled group members, collectively, the “Company”);

WHEREAS, Sempra Energy and the Executive desire to enter into this Agreement; and

WHEREAS, the Board of Directors of Sempra Energy (the “Board”) or an authorized committee thereof has authorized this Agreement.

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

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

“AAA” has the meaning assigned thereto in Section 13(c) hereof.

“Accounting Firm” has the meaning assigned thereto in Section 8(e) hereof.

“Accrued Obligations” means the sum of (a) the Executive’s Annual Base Salary through the Date of Termination to the extent not theretofore paid, (b) an amount equal to any annual Incentive Compensation Awards earned with respect to fiscal years ended prior to the year that includes the Date of Termination to the extent not theretofore paid, (c) any accrued and unpaid vacation, and (d) reimbursement for unreimbursed business expenses, if any, properly incurred by the Executive in the performance of his duties in accordance with Company policies applicable to the Executive from time to time, in each case to the extent not theretofore paid.

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

“Annual Base Salary” means the Executive’s annual base salary from the Company.

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

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

“Average Annual Bonus” means the average of the annual bonuses from the Company earned by the Executive with respect to the three (3) fiscal years of Sempra Energy ending immediately preceding the Date of Termination (the “Bonus Fiscal Years”); *provided, however*, that, if the Executive was employed by the Company for less than three (3) Bonus Fiscal Years, “Average Annual Bonus” means the average of the annual bonuses (if any) from the Company earned by the Executive with respect to the Bonus Fiscal Years during which the Executive was employed by the Company; and, *provided, further*, that, if the Executive was not employed by the Company during any of the Bonus Fiscal Years, “Average Annual Bonus” means zero (\$0).

“Cause” means:

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

(b) From and after a Change in Control (or in connection with a termination occurring pursuant to Section 5(g)), (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 other than any such actual or anticipated failure after the issuance of a Notice of Termination for Good Reason by the Executive pursuant to Section 2 hereof and after the Company’s cure period relating to the event on which Good Reason is based, if any and if applicable, has expired) and/or (ii) the Executive’s commission of one or more acts of moral turpitude that constitute a violation of applicable law (including but not limited to a felony involving one or more acts of moral turpitude) which have or result in an adverse effect on the Company, monetarily or otherwise, or one or more significant acts of dishonesty. For purposes of clause (i) of this subsection (b), no act, or failure to act, on the Executive’s part shall be deemed “willful” unless done, or omitted to be done, by the Executive not in good faith and without reasonable belief that the Executive’s act, or failure to act, was in the best interests of the Company. Notwithstanding the foregoing, the Executive shall not be deemed terminated for Cause pursuant to clause (i) of this subsection (b) unless and until the Executive shall have been provided with reasonable notice of and, if possible, a reasonable opportunity to cure the facts and circumstances claimed to provide a basis for termination of the Executive’s employment for Cause.

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

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

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

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

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

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

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

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

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

such surviving entity or any parent thereof outstanding immediately after such merger or consolidation, or

(iii) a merger or consolidation effected to implement a recapitalization of Sempra Energy (or similar transaction) in which no Person is or becomes the “beneficial owner” (within the meaning of Rule 13d-3 promulgated under the Exchange Act), directly or indirectly, of securities of Sempra Energy (not including the securities beneficially owned by such Person any securities acquired directly from Sempra Energy or its Affiliates other than in connection with the acquisition by Sempra Energy or its Affiliates of a business) representing twenty percent (20%) or more of the combined voting power of Sempra Energy’s then outstanding securities.

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

(d) This definition of “Change in Control” shall be limited to the definition of a “change in control event” with respect to the Executive and relating to Sempra Energy under Treasury Regulation Section 1.409A-3(i)(5).

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

“Code” means the Internal Revenue Code of 1986, as amended.

“Compensation Committee” means the compensation committee of the Board.

“Consulting Payment” has the meaning assigned thereto in Section 14(e) hereof.

“Consulting Period” has the meaning assigned thereto in Section 14(f) hereof.

“Date of Termination” has the meaning assigned thereto in Section 2(b) hereof.

“Disability” has the meaning set forth in the long-term disability plan or its successor maintained by the Company entity that is the employer of the Executive; *provided, however*, that the Executive’s employment hereunder may not be terminated by reason of Disability unless (a) 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 (b) such termination is permitted by all applicable disability laws.

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

“Excise Tax” has the meaning assigned thereto in Section 8(a) hereof.

“Good Reason” means:

(a) Prior to a Change in Control, the occurrence of any of the following without the prior written consent of the Executive, unless such act or failure to act is corrected by the Company prior to the Date of Termination specified in the Notice of Termination (as required under Section 2 hereof):

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

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

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

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

(v) any purported termination of the Executive’s employment that is not effected pursuant to a Notice of Termination satisfying the requirements of Section 2 hereof;

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

(vii) the failure by the Company to provide the indemnification and D&O insurance protection Section 10 of this Agreement requires it to provide; or

(viii) the failure by Sempra Energy (or any of the entities comprising the Company, as applicable) to comply with any material provision of this Agreement.

(b) From and after a Change in Control (or in connection with a termination occurring pursuant to Section 5(g)), the occurrence of any of the following without the prior written consent of the Executive, unless such act or failure to act is corrected by the Company prior to the Date of Termination specified in the Notice of Termination (as required under Section 2 hereof):

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

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

(iii) the relocation of the Executive's principal place of employment immediately prior to the Change in Control Date (the "Principal Location") to a location which is both further away from the Executive's residence and more than thirty (30) miles from such Principal Location, or the Company's requiring the Executive to be based anywhere other than such Principal Location (or permitted relocation thereof), or a substantial increase in the Executive's business travel obligations outside of the Southern California area as of immediately prior to the Change in Control (without regard to any changes therein in anticipation of the Change in Control) other than any such increase that (A) arises in connection with extraordinary business activities of the Company of limited duration and (B) is understood not to be part of the Executive's regular duties with the Company;

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

(v) any purported termination of the Executive's employment that is not effected pursuant to a Notice of Termination satisfying the requirements of Section 2 hereof;

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

(vii) the failure by the Company to provide the indemnification and D&O insurance protection Section 10 of this Agreement requires it to provide; or

(viii) the failure by Sempra Energy (or any of the entities comprising the Company, as applicable) to comply with any material provision of this Agreement.

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

continued employment shall not constitute consent to, or a waiver of rights with respect to, any act or failure to act constituting Good Reason hereunder.

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

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

“Involuntary Termination” means (a) the Executive’s Separation from Service by reason other than for Cause, death, Disability, or Mandatory Retirement, or (b) the Executive’s Separation from Service by reason of resignation of employment for Good Reason.

“JAMS” has the meaning assigned thereto in Section 13(c) hereof.

“Mandatory Retirement” means termination of employment pursuant to the Company’s mandatory retirement policy.

“Medical Continuation Benefits” has the meaning assigned thereto in Section 4(c) hereof.

“Notice of Termination” has the meaning assigned thereto in Section 2(a) hereof.

“Payment” has the meaning assigned thereto in Section 8(a) hereof.

“Payment in Lieu of Notice” has the meaning assigned thereto in Section 2(b) hereof.

“Person” means any person, entity or “group” within the meaning of Section 13(d)(3) or 14(d)(2) of the Exchange Act, except that such term shall not include (a) Sempra Energy or any of its Affiliates, (b) a trustee or other fiduciary holding securities under an employee benefit plan of Sempra Energy or any of its Affiliates, (c) an underwriter temporarily holding securities pursuant to an offering of such securities, (d) a corporation owned, directly or indirectly, by the shareholders of Sempra Energy in substantially the same proportions as their ownership of stock of Sempra Energy, or (e) a “person” or “group” as used in Rule 13d-1(b) under the Exchange Act.

“Post-Change in Control Severance Payment” has the meaning assigned thereto in Section 5 hereof.

“Pre-Change in Control Severance Payment” has the meaning assigned thereto in Section 4 hereof.

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

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

“Pro Rata Bonus” means a severance amount equal to the greater of (a) the Executive’s Target Bonus as in effect immediately prior to the Change in Control or on the Date of Termination, whichever is greater, or (b) the Executive’s Average Annual Bonus, multiplied by a fraction, (X) 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 (Y) the denominator of which shall be three hundred sixty-five (365).

“Release” has the meaning assigned thereto in Section 4 hereof. The Release is not a condition of employment or continued employment or a condition of receiving a raise or a bonus.

“Section 409A Payments” means any payments under this Agreement which are subject to Section 409A of the Code.

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

“Separation from Service” has the meaning set forth in Treasury Regulation Section 1.409A-1(h).

“SERP” has the meaning assigned thereto in Section 5(b) hereof.

“Specified Employee” shall be determined in accordance with Section 409A(a)(2)(B)(i) of the Code and Treasury Regulation Section 1.409A-1(i).

“Target Bonus” means, for any year, the target annual bonus from the Company that may be earned by the Executive for such year (regardless of the actual annual bonus earned, if any); *provided, however*, that if, as of the Date of Termination, a target annual bonus has not been established for the Executive for the year in which the Date of Termination occurs, the “Target Bonus” as of the Date of Termination shall be equal to the target annual bonus, if any, for the immediately preceding fiscal year of Sempra Energy.

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

Section 2. Notice and Date of Termination.

(a) Any termination of the Executive’s employment by the Company or by the Executive shall be communicated by a written notice of termination to the other party (the “Notice of Termination”). Where applicable, the Notice of Termination shall indicate the

specific termination provision in this Agreement relied upon and shall set forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of the Executive's employment under the provision so indicated. Unless the Board or a committee thereof, in writing, provides a longer notice period, a Notice of Termination by the Executive alleging a termination for Good Reason must be made within one hundred eighty (180) days of the act or failure to act that the Executive alleges to constitute Good Reason.

(b) The date of the Executive's termination of employment with the Company (the "Date of Termination") shall be determined as follows: (i) if the Executive's Separation from Service is at the volition of the Company, then the Date of Termination shall be the date specified in the Notice of Termination (which, in the case of a termination by the Company other than for Cause, shall not be less than two (2) weeks from the date such Notice of Termination is given unless the Company elects to pay the Executive, in addition to any other amounts payable hereunder, an amount (the "Payment in Lieu of Notice") equal to two (2) weeks of the Executive's Annual Base Salary in effect on the Date of Termination), and (ii) if the Executive's Separation from Service is by the Executive for Good Reason, the Date of Termination shall be determined by the Executive and specified in the Notice of Termination, but in no event be less than fifteen (15) days nor more than sixty (60) days after the date such Notice of Termination is given. The Payment in Lieu of Notice shall be paid on such date as is required by law, but no later than thirty (30) days after the date of the Executive's Separation from Service.

Section 3. Termination from the Board. Upon the termination of the Executive's employment for any reason, the Executive's membership on the Board, the board of directors of any Affiliates of Sempra Energy, any committees of the Board and any committees of the board of directors of any of the Affiliates of Sempra Energy, if applicable, shall be automatically terminated and the Executive agrees to take any and all actions (including resigning) required by Sempra Energy or any of its Affiliates to evidence and effect such termination of membership.

Section 4. Severance Benefits upon Involuntary Termination Prior to Change in Control. Except as provided in Sections 5(g) and 19(i) hereof, in the event of the Involuntary Termination of the Executive prior to a Change in Control, Sempra Energy shall, or shall cause one of its Affiliates that is the employer of the Executive to, pay the Executive, in one lump sum cash payment, 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 plus (Y) an amount equal to the greater of (I) his Average Annual Bonus or (II) the Target Bonus in effect on the Date of Termination. In addition to the Pre-Change in Control Severance Payment, the Executive shall be entitled to the following additional benefits specified in Section 4(a) through (e). The Company’s obligation to pay the Pre-Change in Control Severance Payment or provide the benefits set forth in Section 4(c), (d) and (e) is subject to and conditioned upon the Executive executing a release of all claims substantially in the form attached hereto as Exhibit A (the “Release”) within fifty (50) days after the date of Involuntary Termination and the Executive not revoking such Release in accordance with the terms thereof. The Pre-Change in Control Severance Payment shall be paid within sixty (60) days after the date of the Involuntary Termination on such date as is determined by Sempra Energy, but not before the Release becomes effective and irrevocable. If the fifty (50) day period in which the Release could become effective spans more than one taxable year, then the Pre-Change in Control Severance Payment shall not be made until the later taxable year.

(a) Accrued Obligations. The Company shall pay the Executive a lump sum amount in cash equal to Accrued Obligations within the time prescribed by law.

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

(c) Welfare Benefits. Subject to the terms and conditions of this Agreement, for a period of twelve (12) months following the date of the Involuntary Termination (and an additional twelve (12) months if the Executive provides consulting services under Section 14(f) hereof), the Executive and his dependents shall be provided with group medical benefits which are substantially similar to those provided from time to time to similarly situated active employees of the Company (and their eligible dependents) (“Medical Continuation Benefits”). Without limiting the generality of the foregoing, such Medical Continuation Benefits shall be provided on substantially the same terms and conditions and at the same cost to the Executive as apply to similarly situated active employees of the Company. Such benefits shall be provided in a manner that complies with Treasury Regulation Section 1.409A-1(a)(5). Notwithstanding the foregoing, if Sempra Energy determines in its sole discretion that the Medical Continuation Benefits cannot be provided without potentially violating applicable law (including, without limitation, Section 2716 of the Public Health Service Act) or that the provision of Medical Continuation Benefits under this Agreement would subject Sempra Energy or any of its Affiliates to a material tax or penalty, (i) the Executive shall be provided, in lieu thereof, with a taxable monthly payment in an amount equal to the monthly premium that the Executive would be required to pay to continue the Executive’s and his covered dependents’ group medical benefit coverages under COBRA as then in effect (which amount shall be based on the premiums for the

first month of COBRA coverage) or (ii) Sempra Energy shall have the authority to amend the Agreement to the limited extent reasonably necessary to avoid such violation of law or tax or penalty and shall use all reasonable efforts to provide the Executive with a comparable benefit that does not violate applicable law or subject Sempra Energy or any of its Affiliates to such tax or penalty.

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

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

Section 5. Severance Benefits upon Involuntary Termination in Connection with and after Change in Control.

Notwithstanding the provisions of Section 4 above, and except as provided in Section 19(i) hereof, in the event of the Involuntary Termination of the Executive on or within two (2) years following a Change in Control, in lieu of the payments described in Section 4 above, Sempra Energy shall, or shall cause one of its Affiliates that is the employer of the Executive to, pay the Executive, in one lump sum cash payment, an amount (the "Post-Change in Control Severance Payment") equal to (a) the Pro Rata Bonus plus (b) two times the sum of (X) the Executive's Annual Base Salary as in effect immediately prior to the Change in Control or on the Date of Termination, whichever is greater, plus (Y) an amount equal to the greater of (I) the Executive's Target Bonus determined immediately prior to the Change in Control or the Date of Termination, whichever is greater and (II) the Executive's Average Annual Bonus. In addition to the Post-Change in Control Severance Payment, the Executive shall be entitled to the following additional benefits specified in Section 5(a) through (f). The Company's obligation to pay the Post-Change in Control Severance Payment or provide the benefits set forth in Section 5(b),(c), (d), (e), and (f) is subject to and conditioned upon the Executive executing the Release within fifty (50) days after the date of Involuntary Termination and the Executive not revoking such Release in accordance with the terms thereof. Except as provided in Section 5(g), the Post-Change in Control Severance Payment and the payments under Section 5(b) shall be paid within sixty (60) days after the date of Involuntary Termination on such date as is determined by Sempra Energy (or its successor) but not before the Release becomes effective and irrevocable. If the fifty (50) day period in which the Release could become effective spans more than one (1) taxable year, then the Post-Change in Control Severance Payment and the payments under Section 5(b) shall not be made until the later taxable year.

(a) Accrued Obligations. The Company shall pay the Executive a lump sum amount in cash equal to the Accrued Obligations within the time required by law and, to the extent applicable, in accordance with the applicable plan, policy or arrangement pursuant to which such payments are to be made.

(b) Pension Supplement. The Executive shall be entitled to receive a "Supplemental Retirement Benefit" under the Sempra Energy Supplemental Executive Retirement Plan, as in effect from time to time ("SERP"), determined in accordance with this Section 5(c), in the event that the Executive is a "Participant" (as defined in the SERP) as of the Date of Termination. Such Supplemental Retirement Benefit shall be determined by crediting the Executive with additional months of "Service" (as defined in the SERP) (if any) equal to the number of full calendar months from the Date of Termination to the date on which the Executive would have attained age sixty-two (62). The Executive shall be entitled to receive such Supplemental Retirement Benefit without regard to whether the Executive has attained age fifty-five (55) or completed five (5) years of Service as of the Date of Termination. The Executive shall be treated as qualified for "Retirement" (as defined in the SERP) as of the Date of Termination, and the Executive's "Vesting Factor" with respect to the Supplemental Retirement Benefit shall be one hundred percent (100%). The Executive's Supplemental Retirement Benefit shall be calculated based on the Executive's actual age as of the date of commencement of payment of such Supplemental Retirement Benefit (the "SERP Distribution Date"), and by applying the applicable early retirement factors under the SERP, if the Executive has not attained

age sixty-two (62) but has attained age fifty-five (55) as of the SERP Distribution Date. If the Executive has not attained age fifty-five (55) as of the SERP Distribution Date, the Executive's Supplemental Retirement Benefit shall be calculated by applying the applicable early retirement factor under the SERP for age fifty-five (55), and the Supplemental Retirement Benefit otherwise payable at age fifty-five (55) shall be actuarially adjusted to the Executive's actual age as of the SERP Distribution Date using the following actuarial assumptions: (i) the applicable mortality table promulgated by the Internal Revenue Service under Section 417(e)(3) of the Code, as in effect on the first (1st) day of the calendar year in which the SERP Distribution Date occurs, and (ii) the applicable interest rate promulgated by the Internal Revenue Service under Section 417(e)(3) of the Code for the November next preceding the first day of the calendar year in which the SERP Distribution Date occurs. The Executive's Supplemental Retirement Benefit shall be determined in accordance with this Section 5(b), notwithstanding any contrary provisions of the SERP and, to the extent subject to Section 409A of the Code, shall be paid in accordance with Treasury Regulation Section 1.409A-3(c) (1). The Supplemental Retirement Benefit paid to or on behalf of the Executive in accordance with this Section 5(b) shall be in full satisfaction of any and all of the benefits payable to or on behalf of the Executive under the SERP.

(c) Equity-Based Compensation. Notwithstanding the provisions of any applicable equity-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, in the case of any stock option or stock appreciation rights awards granted on or after June 26, 1998 that remain outstanding on the Date of Termination, such stock options or stock appreciation rights shall remain exercisable until the earlier of (i) the later of eighteen (18) months following the Date of Termination or the period specified in the applicable Incentive Compensation Award agreement or (ii) the expiration of the original term of such Incentive Compensation Award (or, if earlier, the tenth (10th) anniversary of the original date of grant) (it being understood that all Incentive Compensation Awards granted prior to, on 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 the terms and conditions of this Agreement, for a period of twenty four (24) months following the date of Involuntary Termination (and an additional twelve (12) months if the Executive provides consulting services under Section 14(f) hereof), the Executive and his dependents shall be provided with life, disability, accident and group medical benefits which are substantially similar to those provided to the Executive and his dependents immediately prior to the date of Involuntary Termination or the Change in Control Date, whichever is more favorable to the Executive. Without limiting the generality of the foregoing, the continuing benefits described in the preceding sentence shall be provided on

substantially the same terms and conditions and at the same cost to the Executive as in effect immediately prior to the date of Involuntary Termination or the Change in Control Date, whichever is more favorable to the Executive. Such benefits shall be provided in a manner that complies with Treasury Regulation Section 1.409A-1(a)(5). Notwithstanding the foregoing, if Sempra Energy determines in its sole discretion that the portion of the foregoing continuing benefits that constitute group medical benefits cannot be provided without potentially violating applicable law (including, without limitation, Section 2716 of the Public Health Service Act) or that the provision of such group medical benefits under this Agreement would subject Sempra Energy or any of its Affiliates to a material tax or penalty, (i) the Executive shall be provided, in lieu thereof, with a taxable monthly payment in an amount equal to the monthly premium that the Executive would be required to pay to continue the Executive's and his covered dependents' group medical benefit coverages under COBRA as then in effect (which amount shall be based on the premiums for the first month of COBRA coverage) or (ii) Sempra Energy shall have the authority to amend the Agreement to the limited extent reasonably necessary to avoid such violation of law or tax or penalty and shall use all reasonable efforts to provide the Executive with a comparable benefit that does not violate applicable law or subject Sempra Energy or any of its Affiliates to such tax or penalty.

(e) Outplacement Services. The Executive shall receive reasonable outplacement services, on an in-kind basis, suitable to his position and directly related to the Executive's Involuntary Termination, for a period of thirty-six (36) months following the date of Involuntary Termination (but in no event beyond the last day of the Executive's second (2nd) taxable year following the Executive's taxable year in which the Involuntary Termination occurs), in the aggregate amount of cost to the Company not to exceed \$50,000. Notwithstanding the foregoing, the Executive shall cease to receive outplacement services on the date the Executive accepts employment with a subsequent employer. Such outplacement services shall be provided in a manner that complies with Treasury Regulation Section 1.409A-1(b)(9)(v)(A).

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

(g) Involuntary Termination in Connection with a Change in Control. Notwithstanding anything contained herein, in the event of an Involuntary Termination prior to a Change in Control, if the Involuntary Termination (i) was at the request of a third party who has taken steps reasonably calculated to effect such Change in Control or (ii) otherwise arose in connection with or in anticipation of such Change in Control, then the Executive shall, in lieu of the payments described in Section 4 hereof, be entitled to the Post-Change in Control Severance Payment and the additional benefits described in this Section 5 as if such Involuntary Termination had occurred within two (2) years following the Change in Control. The amounts specified in Section 5 that are to be paid under this Section 5(g) shall be reduced by any amount previously paid under Section 4. The amounts to be paid under this Section 5(g) shall be paid within sixty (60) days after the Change in Control Date of such Change in Control.

Section 6. Severance Benefits upon Termination by the Company for Cause or by the Executive Other than for Good Reason. If the Executive's employment shall be terminated for Cause, or if the Executive terminates employment other than for Good Reason, the Company shall have no further obligations to the Executive under this Agreement other than the pre-Change in Control Accrued Obligations and any amounts or benefits described in Section 10 hereof.

Section 7. Severance Benefits upon Termination due to Death or Disability. If the Executive has a Separation from Service by reason of death or Disability, the Company shall pay the Executive or his estate, as the case may be, the Accrued Obligations and a severance amount equal to the Pro Rata Bonus (without regard to whether a Change in Control has occurred) and any amounts or benefits described in Section 10 hereof. Such payments shall be in addition to those rights and benefits to which the Executive or his estate may be entitled under the relevant Company plans or programs. The Company's obligation to pay the severance amount pursuant to this Section 7 is conditioned upon the Executive, the Executive's representative or the Executive's estate, as the case may be executing the Release within fifty (50) days after the date of the Executive's Separation from Service and not revoking such Release in accordance with the terms thereof. The Accrued Obligations shall be paid within the time required by law and the severance amount payable pursuant to this Section 7 shall be paid within sixty (60) days after the date of the Separation from Service on such date determined by Sempra Energy but not before the Release becomes effective and irrevocable. If the fifty (50) day period in which the Release could become effective spans more than one (1) taxable year, then the severance amount shall not be made until the later taxable year.

Section 8. Limitation on Payments by the Company.

(a) Anything in this Agreement to the contrary notwithstanding and except as set forth in this Section 8 below, in the event it shall be determined that any payment or distribution "in the nature of compensation" (within the meaning of Section 280G(b)(2) of the Code) to or for the benefit of the Executive, whether paid or payable pursuant to this Agreement or otherwise (the "Payment") would be subject (in whole or in part) to the excise tax imposed by Section 4999 of the Code, (the "Excise Tax"), then, subject to Section 8(b), the Pre-Change in Control Severance Payment or the Post-Change in Control Severance Payment (whichever is

applicable) payable under this Agreement shall be reduced under this Section 8(a) to the amount equal to the Reduced Payment. For such Payment payable under this Agreement, the “Reduced Payment” shall be the amount equal to the greatest portion of the Payment (which may be zero (\$0)) that, if paid, would result in no portion of any Payment being subject to the Excise Tax.

(b) The Pre-Change in Control Severance Payment or the Post-Change in Control Severance Payment (whichever is applicable) payable under this Agreement shall not be reduced under Section 8(a) if:

(i) such reduction in such Payment is not sufficient to cause no portion of any Payment to be subject to the Excise Tax, or

(ii) the Net After-Tax Unreduced Payments (as defined below) would equal or exceed one hundred five percent (105%) of the Net After-Tax Reduced Payments (as defined below).

For purposes of determining the amount of any Reduced Payment under Section 8(a), and the Net-After Tax Reduced Payments and the Net After-Tax Unreduced Payments, the Executive shall be considered to pay federal, state and local income and employment taxes at the Executive’s applicable marginal rates taking into consideration any reduction in federal income taxes which could be obtained from the deduction of state and local income taxes, and any reduction or disallowance of itemized deductions and personal exemptions under applicable tax law). The applicable federal, state and local income and employment taxes and the Excise Tax (to the extent applicable) are collectively referred to as the “Taxes.”

(c) For purposes of determining the amount of any Reduced Payment under this Section 8, the amount of any Payment shall be reduced in the following order:

(i) first, by reducing the amounts of parachute payments that would not constitute deferred compensation subject to Section 409A of the Code;

(ii) next, if after the reduction described in Section 8(c)(i), additional reductions are required, then by reducing the cash portion of the Payment that constitutes “deferred compensation” (within the meaning of Section 409A) subject to Section 409A, with the reductions to be applied first to the portion of the Payment scheduled for the latest distribution date, and then applied to distributions scheduled for progressively earlier distribution dates, to the extent necessary to decrease the Payment as required under this Section 8; and

(iii) next, if after the reduction described in Section 8(c)(ii), additional reductions are required, then, by reducing the non-cash portion of the Payment that constitutes deferred compensation (within the meaning of Section 409A) subject to Section 409A, with the reductions to be applied first to the portion of the Payment scheduled for the latest distribution date, and then applied to distributions scheduled for

progressively earlier distribution dates, to the extent necessary to decrease the Payment as required under this Section 8.

(d) The following definitions shall apply for purposes of this Section 8:

(i) “Net After-Tax Reduced Payments” shall mean the total amount of all Payments that the Executive would retain, on a Net After-Tax Basis, in the event that the Payments payable under this Agreement are reduced pursuant to Section 8(a).

(ii) “Net After-Tax Unreduced Payments” shall mean the total amount of all Payments that the Executive would retain, on a Net After-Tax Basis, in the event that the Payments payable under this Agreement are not reduced pursuant to Section 8(a).

(iii) “Net After-Tax Basis” shall mean, with respect to the Payments, either with or without reduction under Section 8(a) (as applicable), the amount that would be retained by the Executive from such Payments after the payment of all Taxes.

(e) All determinations required to be made under this Section 8 and the assumptions to be utilized in arriving at such determinations, shall be made by a nationally recognized accounting firm as may be agreed by the Company and the Executive (the “Accounting Firm”); *provided*, that the Accounting Firm’s determination shall be made based upon “substantial authority” within the meaning of Section 6662 of the Code. The Accounting Firm shall provide detailed supporting calculations to both the Company and the Executive within fifteen (15) business days of the receipt of notice from the Executive that there has been a Payment or such earlier time as is requested by the Company. All fees and expenses of the Accounting Firm shall be borne solely by the Company. Any determination by the Accounting Firm shall be binding upon the Company and the Executive. For purposes of determining whether and the extent to which the Payments will be subject to the Excise Tax, (i) no portion of the Payments the receipt or enjoyment of which the Executive shall have waived at such time and in such manner as not to constitute a “payment” within the meaning of Section 280G(b) of the Code shall be taken into account, (ii) no portion of the Payments shall be taken into account which, in the written opinion of the Accounting Firm, does not constitute a “parachute payment” within the meaning of Section 280G(b)(2) of the Code (including by reason of Section 280G(b)(4)(A) of the Code) and, in calculating the Excise Tax, no portion of such Payments shall be taken into account which, in the opinion of the Accounting Firm, constitutes “reasonable compensation” for services actually rendered, within the meaning of Section 280G(b)(4)(B) of the Code, in excess of the “base amount” (as defined in Section 280G(b)(3) of the Code) allocable to such reasonable compensation, and (iii) the value of any non-cash benefit or any deferred payment or benefit included in the Payments shall be determined by the Accounting Firm in accordance with the principles of Section 280G(d)(3) and (4) of the Code.

Section 9. Delayed Distribution under Section 409A of the Code. Notwithstanding any other provision of this Agreement to the contrary, if the Executive is a Specified Employee on the date of the Executive's Involuntary Termination (or on the date of the Executive's Separation from Service by reason of Disability), the Section 409A Payments which are payable upon Separation from Service shall be delayed to the extent necessary in order to avoid a prohibited distribution under Section 409A(a)(2)(B)(i) of the Code, and such delayed payments or benefits shall be paid or distributed to the Executive during the thirty (30) day period commencing on the earlier of (a) the expiration of the six (6) month period measured from the date of the Executive's Separation from Service or (b) the date of the Executive's death. Upon the expiration of the applicable six (6) month period, all payments deferred pursuant to this Section 9 (excluding in-kind benefits) shall be paid in a lump sum payment to the Executive, plus interest thereon from the date of the Executive's Involuntary Termination through the payment date at an annual rate equal to Moody's Rate. The "Moody's Rate" shall mean the average of the daily Moody's Corporate Bond Yield Average – Monthly Average Corporates as published by Moody's Investors Service, Inc. (or any successor) for the month next preceding the Date of Termination. Any remaining payments due under the Agreement shall be paid as otherwise provided herein.

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

Section 11. Clawbacks. Notwithstanding anything herein to the contrary, if Sempra Energy determines, in its good faith judgment, that if the Executive is required to forfeit or to make any repayment of any compensation or benefit(s) to the Company under the Sarbanes-Oxley Act of 2002 or pursuant to the Dodd-Frank Wall Street Reform and Consumer Protection Act or any other law or pursuant to any formal policy of Sempra Energy, such forfeiture or repayment shall not constitute Good Reason.

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

Section 13. Dispute Resolution.

(a) If any dispute arises between the Executive and Sempra Energy or any of its Affiliates, including, but not limited to, disputes relating to or arising out of this Agreement, any action relating to or arising out of the Executive's employment or its termination, and/or any disputes regarding the interpretation, enforceability, or validity of this Agreement ("Arbitrable Dispute"), the Executive and Sempra Energy waive the right to resolve the dispute through litigation in a judicial forum and agree to resolve the Arbitrable Dispute through final and binding arbitration, except as prohibited by law. Arbitration shall be the exclusive remedy for any Arbitrable Dispute.

(b) As to any Arbitrable Dispute, Sempra Energy and the Executive waive any right to a jury trial or a court bench trial. The Company and the Executive also waive the right to bring, maintain, or participate in any class, collective, or representative proceeding, whether in arbitration or otherwise. Further, Arbitrable Disputes must be brought in the individual capacity of the party asserting the claim, and cannot be maintained on a class, collective, or representative basis.

(c) Arbitration shall take place at the office of the Judicial Arbitration and Mediation Service ("JAMS") (or, if the Executive is employed outside of California, the American Arbitration Association ("AAA")) nearest to the location where the Executive last worked for the Company. Except to the extent it conflicts with the rules and procedures set forth in this Agreement, arbitration shall be conducted in accordance with the JAMS Employment Arbitration Rules & Procedures (if the Executive is employed outside of California, the AAA Employment Arbitration Rules & Mediation Procedures), copies of which are attached for reference and available at www.jamsadr.com; tel: 800.352.5267 and www.adr.org; tel: 800.778.7879, before a single experienced, neutral employment arbitrator selected in accordance with those rules.

(d) Sempra Energy will be responsible for paying any filing fee and the fees and costs of the arbitrator. Each party shall pay its own attorneys' fees. However, if any party prevails on a statutory claim that authorizes an award of attorneys' fees to the prevailing party, or if there is a written agreement providing for attorneys' fees, the arbitrator may award reasonable attorneys' fees to the prevailing party, applying the same standards a court would apply under the law applicable to the claim.

(e) The arbitrator shall apply the Federal Rules of Evidence, shall have the authority to entertain a motion to dismiss or a motion for summary judgment by any party, and shall apply the standards governing such motions under the Federal Rules of Civil Procedure. The arbitrator does not have the authority to consider, certify, or hear an arbitration as a class action, collective action, or any other type of representative action. Sempra Energy and the Executive recognize that this Agreement arises out of or concerns interstate commerce and that the Federal Arbitration Act shall govern the arbitration and shall govern the interpretation or enforcement of this Agreement or any arbitration award.

(f) EXECUTIVE ACKNOWLEDGES THAT BY ENTERING INTO THIS AGREEMENT, EXECUTIVE IS WAIVING ANY RIGHT HE MAY HAVE TO A TRIAL BY JURY.

Section 14. Executive's Covenants.

(a) Confidentiality. The Executive acknowledges that in the course of his employment with the Company, he has acquired non-public privileged or confidential information and trade secrets concerning the operations, future plans and methods of doing business ("Proprietary Information") of Sempra Energy and its Affiliates; and the Executive agrees that it would be extremely damaging to Sempra Energy and its Affiliates if such Proprietary Information were disclosed to a competitor of Sempra Energy 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 Sempra Energy and its Affiliates would be irreparably harmed by any disclosure of Proprietary Information in violation of the terms of this Section 14(a) and that Sempra Energy 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 Section 14(a) 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) Governmental Reporting. Nothing in this Agreement is intended to interfere with or discourage the Executive's good faith disclosure related to a suspected violation of federal or state law or regulation to any governmental agency or entity or making other disclosures that are protected under the whistleblower provisions of federal or state law or

regulation. The Executive cannot and will not be held criminally or civilly liable under any federal or state trade secret law for disclosing otherwise protected trade secrets and/or confidential or proprietary information so long as the disclosure is made in (i) confidence to a federal, state, or local government official, directly or indirectly, or to an attorney and solely for the purpose of reporting or investigating a suspected violation of law; or (ii) a complaint or other document filed in a lawsuit or other proceeding, so long as such filing is made under seal. The Company will not retaliate against the Executive in any way for a disclosure made pursuant to this Section 14(b). Further, in the event the Executive makes such a disclosure, and files a lawsuit against the Company alleging that the Company retaliated against the Executive because of the disclosure, the Executive may disclose the relevant trade secret or confidential information to the Executive's attorney, and may use the same in the court proceeding only if (X) the Executive ensures that any court filing that includes the trade secret or confidential information at issue is made under seal; and (Y) the Executive does not otherwise disclose the trade secret or confidential information except as required by court order.

(c) Non-Solicitation of Employees. The Executive recognizes that he possesses and will possess confidential information about other employees of Sempra Energy and its Affiliates relating to their education, experience, skills, abilities, compensation and benefits, and inter-personal relationships with customers of Sempra Energy 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 Sempra Energy 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 Sempra Energy 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 Sempra Energy and its Affiliates to any other person; *provided, however*, that it shall not constitute a solicitation or recruitment of employment in violation of this Section 14(c) 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 most senior 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 Sempra Energy and its Affiliates would be irreparably harmed by any solicitation or recruitment in violation of the terms of this Section 14(c) and that Sempra Energy 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 Section 14(c) and to any other relief available to them.

(d) Survival of Provisions. The obligations contained in Section 14(a), (b) and (c) above shall survive the termination of the Executive's employment within the Company and shall be fully enforceable thereafter. If it is determined by a court of competent jurisdiction

in any state that any restriction in Section 14(a) or (c) 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.

(e) Release; Consulting Payment. In the event of the Executive's Involuntary Termination, if the Executive (i) reconfirms and agrees to abide by the covenants described in Section 14(a) and (c) above, (ii) executes the Release within fifty (50) days after the date of Involuntary Termination and does not revoke such Release in accordance with the terms thereof, and (iii) agrees to provide the consulting services described in Section 14(f) below, then in consideration for such covenants and consulting services, the Company shall pay the Executive, in one (1) cash lump sum, an amount (the "Consulting Payment") in cash equal to the sum of (X) the Executive's Annual Base Salary as in effect on the Date of Termination, plus (Y) the greater of the Executive's Average Annual Bonus or the Executive's Target Bonus on the Date of Termination. Except as provided in this Section 14(e), the Consulting Payment shall be paid on such date as is determined by the Company within the ten (10) day period commencing on the sixtieth (60th) day after the date of the Executive's Involuntary Termination; *provided, however*, that if the Executive is a Specified Employee on the date of the Executive's Involuntary Termination, the Consulting Payment shall be paid as provided in Section 9 hereof to the extent required.

(f) Consulting. If the Executive agrees to the provisions of Section 14(e) 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 (2nd) anniversary of the Date of Termination (the "Consulting Period"). The Executive shall hold himself available at reasonable times and on reasonable notice to render such consulting services as may be so assigned to him by the Board or the Company's then Chief Executive Officer; *provided, however*, that unless the parties otherwise agree, the consulting services rendered by the Executive during the Consulting Period shall not exceed twenty (20) hours each month; and, *provided, further*, that the consulting services rendered by the Executive during the Consulting Period shall in no event exceed twenty percent (20%) of the average level of services performed by the Executive for the Company over the thirty-six (36) month period immediately preceding the Executive's Separation from Service (or the full period of services to the Company, if the Executive has been providing services to the Company for less than thirty-six (36) months). The Company agrees to use its best efforts during the Consulting Period to secure the benefit of the Executive's consulting services so as to minimize the interference with the Executive's other activities, including requiring the performance of consulting services at the Company's offices only when such services may not be reasonably performed off-site by the Executive.

Section 15. Legal Fees.

(a) Reimbursement of Legal Fees. Subject to Section 15(b), in the event of the Executive's Separation from Service either (i) prior to a Change in Control, or (ii) on or within two (2) years following a Change in Control, the Company shall reimburse the Executive

for all legal fees and expenses (including but not limited to fees and expenses in connection with any arbitration) incurred by the Executive in disputing any issue arising under this Agreement relating to the Executive's Separation from Service or in seeking to obtain or enforce any benefit or right provided by this Agreement.

(b) Requirements for Reimbursement. The Company shall reimburse the Executive's legal fees and expenses pursuant to Section 15(a) above only to the extent the arbitrator or court determines the following: (i) the Executive disputed such issue, or sought to obtain or enforce such benefit or right, in good faith, (ii) the Executive had a reasonable basis for such claim, and (iii) in the case of Section 15(a)(i) above, the Executive is the prevailing party. In addition, the Company shall reimburse such legal fees and expenses, only if such legal fees and expenses are incurred during the twenty (20) year period beginning on the date of the Executive's Separation from Service. The legal fees and expenses paid to the Executive for any taxable year of the Executive shall not affect the legal fees and expenses paid to the Executive for any other taxable year of the Executive. The legal fees and expenses shall be paid to the Executive on or before the last day of the Executive's taxable year following the taxable year in which the fees or expenses are determined to be payable pursuant to this Agreement. The Executive's right to reimbursement of legal fees and expenses shall not be subject to liquidation or exchange for any other benefit. Such right to reimbursement of legal fees and expenses shall be provided in a manner that complies with Treasury Regulation Section 1.409A-3(i)(1)(iv).

Section 16. Successors.

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

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

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

(d) Sale of Subsidiary. In the event that (i) the Executive is employed by a direct or indirect subsidiary of Sempra Energy that is a member of the Sempra Energy Control Group, (ii) Sempra Energy, directly or indirectly through one or more intermediaries, sells or otherwise disposes of such subsidiary, and (iii) such subsidiary ceases to be a member of the Sempra Energy Control Group, then if, on the date such subsidiary ceases to be a member of the Sempra Energy Control Group, the Executive continues in employment with such subsidiary and the Executive does not have a Separation from Service, Sempra Energy shall require such subsidiary or any successor (whether direct or indirect, by purchase merger, consolidation or otherwise) to such subsidiary, or the parent thereof, to assume expressly and agree to perform the obligations and satisfy and discharge the liabilities under this Agreement in the same manner and to the same extent that Sempra Energy would have been required to perform the obligations and satisfy and discharge the liabilities under this Agreement, if such subsidiary had not ceased to be part of the Sempra Energy Control Group, and, upon such assumption, Sempra Energy shall have no further obligations and liabilities under the Agreement. Upon such assumption, references to Sempra Energy in this Agreement shall be replaced with references to such subsidiary, or such successor or parent thereof, assuming this Agreement, and subsection (b) of the definition of “Cause” and subsection (b) of the definition of “Good Reason” shall apply thereafter, as if a Change in Control had occurred on the date of such cessation.

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

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

Section 18. Compliance with Section 409A of the Code. All payments and benefits payable under this Agreement (including, without limitation, the Section 409A Payments) are intended to comply with the requirements of Section 409A of the Code. Certain payments and benefits payable under this Agreement are intended to be exempt from the requirements of Section 409A of the Code. This Agreement shall be interpreted in accordance with the applicable requirements of, and exemptions from, Section 409A of the Code and the Treasury Regulations thereunder. To the extent the payments and benefits under this Agreement are subject to Section 409A of the Code, this Agreement shall be interpreted, construed and administered in a manner that satisfies the requirements of Section 409A(a)(2), (3) and (4) of the Code and the Treasury Regulations thereunder. If the Company and the Executive determine that any compensation, benefits or other payments that are payable under this Agreement and intended to comply with Section 409A(a)(2), (3) and (4) of the Code do not comply with Section 409A of the Code, the Treasury Regulations thereunder and other applicable authority issued by the Internal Revenue Service, to the extent permitted under Section 409A of the Code, the Treasury Regulations thereunder and any applicable authority issued by the Internal Revenue Service, the Company and the Executive agree to amend this Agreement, or take such other actions as the Company and the Executive deem reasonably necessary or appropriate, to cause such compensation, benefits and other payments to comply with the requirements of Section 409A of the Code, the Treasury Regulations thereunder and other applicable authority issued by the Internal Revenue Service, while providing compensation, benefits and other payments that are, in the aggregate, no less favorable than the compensation, benefits and other payments provided under this Agreement. In the case of any compensation, benefits or other payments that are payable under this Agreement and intended to comply with Section 409A(a)(2), (3) and (4) of the Code, if any provision of the Agreement would cause such compensation, benefits or other payments to fail to so comply, such provision shall not be effective and shall be null and void with respect to such compensation, benefits or other payments to the extent such provision would cause a failure to comply, and such provision shall otherwise remain in full force and effect.

Section 19. Miscellaneous.

(a) Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of California, without reference to its principles of conflict of laws. The captions of this Agreement are not part of the provisions hereof and shall have no force or effect. Except as provided herein, the Agreement may not be amended, modified, repealed, waived, extended or discharged except by an agreement in writing signed by the parties hereto. No person, other than pursuant to a resolution of the Board or a committee thereof, shall have authority on behalf of Sempra Energy 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, by a reputable overnight carrier or by registered or certified mail, return receipt requested, postage prepaid, addressed, in either case, to the Company's headquarters or to such other address as either party shall have furnished to the other in writing in accordance herewith. Notices and communications shall be effective when actually received by the addressee.

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

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

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

(f) Entire Agreement; Exclusive Benefit; Supersession of Prior Agreement. This Agreement contains the entire agreement of the Executive, the Company or any predecessor or subsidiary thereof with respect to any severance or termination pay. The Pre-Change in Control Severance Payment, the Post-Change in Control Severance Payment and all other benefits provided hereunder shall be in lieu of any other severance payments to which the Executive is entitled under any other severance plan or program or arrangement sponsored by the Company, as well as pursuant to any individual employment or severance agreement that was entered into by the Executive and the Company, and, upon the Effective Date of this Agreement, all such plans, programs, arrangements and agreements are hereby automatically superseded and terminated.

(g) No Right of Employment. Nothing in this Agreement shall be construed as giving the Executive any right to be retained in the employ of the Company or shall interfere

in any way with the right of the Company to terminate the Executive's employment at any time, with or without Cause.

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

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

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

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

SEMPRA ENERGY

/s/ Randall L. Clark

Randall L. Clark
Deputy General Counsel and Chief
Human Resources Officer

August 3, 2019

Date

EXECUTIVE

/s/ George W. Bilicic

George W. Bilicic
Group President

August 1, 2019

Date

GENERAL RELEASE

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

WHEREAS, you and the Company have previously entered into that certain Severance Pay Agreement dated _____, 20____ (the "Severance Pay Agreement"); and

WHEREAS, your right to receive certain severance pay and benefits pursuant to the terms of Section 4 or 5 of the Severance Pay Agreement, as applicable, is subject to and conditioned upon your execution and non-revocation of a general release of claims by you against the Company and its subsidiaries and affiliates.

WHEREAS, your right to receive the Consulting Payment provided pursuant to Section 14(e) of the Severance Pay Agreement is subject to and conditioned upon your execution and non-revocation of a general release of claims by you against the Company and its subsidiaries and affiliates; and your adherence to the covenants described under Section 14 of the Severance Pay Agreement.

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

ONE: Your signing of this Agreement confirms that your employment with the Company shall terminate at the close of business on _____, or earlier upon our mutual agreement. This Agreement is not a condition of employment or continued employment or a condition of receiving a raise or a bonus.

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

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

(b) The words "Claim" or "Claims" shall refer to any charges, complaints, claims, liabilities, obligations, promises, agreements, controversies, damages, actions, causes of

action, suits, rights, demands, costs, losses, debts and expenses (including attorneys' fees and costs actually incurred) of any nature whatsoever, known or unknown, suspected or unsuspected, which you or the Company now, in the past or, in the future may have, own or hold against any of the Releasees; *provided, however*, that the word "Claim" or "Claims" shall not refer to any charges, complaints, claims, liabilities, obligations, promises, agreements, controversies, damages, actions, causes of action, suits, rights, demands, costs, losses, debts and expenses (including attorneys' fees and costs actually incurred) arising under [*identify severance, employee benefits, stock option, indemnification and D&O and other agreements containing duties, rights obligations etc. of either party that are to remain operative*]. Claims released pursuant to this Agreement by you and the Company include, but are not limited to, rights arising out of alleged violations of any contracts, express or implied, any tort, claim, any claim that you failed to perform or negligently performed or breached your duties during employment at the Company, any legal restrictions on the Company's right to terminate employment relationships; and any federal, state or other governmental statute, regulation, or ordinance, governing the employment relationship including, without limitation, all state and federal laws and regulations prohibiting discrimination based on protected categories, and all state and federal laws and regulations prohibiting retaliation against employees for engaging in protected activity or legal off-duty conduct. This release does not extend to claims for workers' compensation or other claims which by law may not be waived or released by this Agreement.

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

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

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

FOUR: The parties acknowledge that they might hereafter discover facts different from, or in addition to, those they now know or believe to be true with respect to a Claim or Claims released herein, and they expressly agree to assume the risk of possible discovery of

additional or different facts, and agree that this Agreement shall be and remain effective, in all respects, regardless of such additional or different discovered facts.

FIVE: 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.

SIX: 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.

SEVEN:

(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, further*, 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 Section 317 of the Corporations Code of the State of California 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.

EIGHT: This Agreement is entered into in California and shall be governed by substantive California law, except as provided in this section. If any dispute arises between you and the Company, including but not limited to, disputes relating to this Agreement, or if you prosecute a claim you purported to release by means of this Agreement (“Arbitrable Dispute”), you and the Company agree to resolve that Arbitrable Dispute through final and binding arbitration under this section. You also agree to arbitrate any Arbitrable Dispute which also involves any other released party who offers or agrees to arbitrate the dispute under this section. Your agreement to arbitrate applies, for example, to disputes about the validity, interpretation, or effect of this Agreement or alleged violations of it, claims of discrimination under federal or state law, or other statutory violation claims.

As to any Arbitrable Dispute, you and the Company waive any right to a jury trial or a court bench trial. You and the Company also waive the right to bring, maintain, or participate in any class, collective, or representative proceeding, whether in arbitration or otherwise. Further, Arbitrable Disputes must be brought in the individual capacity of the party asserting the claim, and cannot be maintained on a class, collective, or representative basis.

Arbitration shall take place in San Diego, California under the employment dispute resolution rules of the Judicial Arbitration and Mediation Service, (or, if you are employed outside of California at the time of the termination of your employment, at the nearest location of the American Arbitration Association (“AAA”) and in accordance with the AAA rules), before an experienced employment arbitrator selected in accordance with those rules. The arbitrator may not modify or change this Agreement in any way. The Company will be responsible for paying any filing fee and the fees and costs of the Arbitrator; provided, however, that if you are the party initiating the claim, you will contribute an amount equal to the filing fee to initiate a claim in the court of general jurisdiction in the state in which you are employed by the Company. Each party shall pay for its own costs and attorneys’ fees, if any. However if any party prevails on a statutory claim which affords the prevailing party attorneys’ fees and costs, or if there is a written agreement providing for attorneys’ fees and/or costs, the Arbitrator may award reasonable attorney’s fees and/or costs to the prevailing party, applying the same standards a court would apply under the law applicable to the claim. The Arbitrator shall apply the Federal Rules of Evidence and shall have the authority to entertain a motion to dismiss or a motion for summary judgment by any party and shall apply the standards governing such motions under the Federal Rules of Civil Procedure. The Federal Arbitration Act shall govern the arbitration and shall govern the interpretation or enforcement of this section or any arbitration award. The arbitrator will not have the authority to consider, certify, or hear an arbitration as a class action, collective action, or any other type of representative action.

To the extent that the Federal Arbitration Act is inapplicable, California law pertaining to arbitration agreements shall apply. Arbitration in this manner shall be the exclusive remedy for any Arbitrable Dispute. Except as prohibited by the Age Discrimination in Employment Act of 1967, as amended, should you or the Company attempt to resolve an

Arbitrable Dispute by any method other than arbitration pursuant to this section, the responding party will be entitled to recover from the initiating party all damages, expenses, and attorneys' fees incurred as a result of this breach. This Section EIGHT supersedes any existing arbitration agreement between the Company and me as to any Arbitrable Dispute. Notwithstanding anything in this Section EIGHT to the contrary, a claim for benefits under an Employee Retirement Income Security Act of 1974, as amended, covered plan shall not be an Arbitrable Dispute.

NINE: 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 Section EIGHT or, in violation of that section, 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 4 or 5 of the Severance Pay Agreement, as applicable, plus interest, and invite the Company to retain such monies and agree with you to cancel this Agreement and void the Company's obligations under the Severance Pay Agreement. In the event the Company accepts this offer, the Company shall retain such monies and this Agreement shall be canceled and the Company shall have no obligation under Section 14(e) 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 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.

TEN: 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: _____

ELEVEN: 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 certain data on other persons eligible for similar benefits, if any) 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 4 or 5 of the Severance Pay Agreement, as applicable.

TWELVE: 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.

THIRTEEN: 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.

FOURTEEN: 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.

FIFTEEN: 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].

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO RULES 13a-14 AND 15d-14

I, J. Walker Martin, certify that:

1. I have reviewed this report on Form 10-Q of Sempra Energy;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report, based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

November 1, 2019

/s/ J. Walker Martin

J. Walker Martin

Chief Executive Officer

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER
PURSUANT TO RULES 13a-14 AND 15d-14

I, Trevor I. Mihalik, certify that:

1. I have reviewed this report on Form 10-Q of Sempra Energy;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report, based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

November 1, 2019

/s/ Trevor I. Mihalik

Trevor I. Mihalik

Chief Financial Officer

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO RULES 13a-14 AND 15d-14

I, Kevin C. Sagara, certify that:

1. I have reviewed this report on Form 10-Q of San Diego Gas & Electric Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report, based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

November 1, 2019 /s/ Kevin C. Sagara

Kevin C. Sagara
Chief Executive Officer

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER
PURSUANT TO RULES 13a-14 AND 15d-14

I, Bruce A. Folkmann, certify that:

1. I have reviewed this report on Form 10-Q of San Diego Gas & Electric Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report, based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

November 1, 2019 /s/ Bruce A. Folkmann

Bruce A. Folkmann
Chief Financial Officer

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO RULES 13a-14 AND 15d-14

I, J. Bret Lane, certify that:

1. I have reviewed this report on Form 10-Q of Southern California Gas Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report, based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

November 1, 2019

/s/ J. Bret Lane

J. Bret Lane

Chief Executive Officer

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER
PURSUANT TO RULES 13a-14 AND 15d-14

I, Mia L. DeMontigny, certify that:

1. I have reviewed this report on Form 10-Q of Southern California Gas Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report, based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

November 1, 2019 /s/ Mia L. DeMontigny

Mia L. DeMontigny
Chief Financial Officer

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350

Pursuant to 18 U.S.C. Sec 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned principal 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 quarter ended September 30, 2019 (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 1, 2019

/s/ J. Walker Martin

J. Walker Martin

Chief Executive Officer

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350

Pursuant to 18 U.S.C. Sec 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned principal 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 quarter ended September 30, 2019 (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 1, 2019

/s/ Trevor I. Mihalik

Trevor I. Mihalik

Chief Financial Officer

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350

Pursuant to 18 U.S.C. Sec 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned principal executive officer of San Diego Gas & Electric Company (the "Company") certifies that:

- (i) the Quarterly Report on Form 10-Q of the Company filed with the Securities and Exchange Commission for the quarter ended September 30, 2019 (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 1, 2019

/s/ Kevin C. Sagara

Kevin C. Sagara

Chief Executive Officer

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350

Pursuant to 18 U.S.C. Sec 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned principal financial officer of San Diego Gas & Electric Company (the "Company") certifies that:

- (i) the Quarterly Report on Form 10-Q of the Company filed with the Securities and Exchange Commission for the quarter ended September 30, 2019 (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 1, 2019

/s/ Bruce A. Folkmann

Bruce A. Folkmann

Chief Financial Officer

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350

Pursuant to 18 U.S.C. Sec 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned principal executive officer of Southern California Gas Company (the "Company") certifies that:

- (i) the Quarterly Report on Form 10-Q of the Company filed with the Securities and Exchange Commission for the quarter ended September 30, 2019 (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 1, 2019

/s/ J. Bret Lane

J. Bret Lane

Chief Executive Officer

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350

Pursuant to 18 U.S.C. Sec 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned principal financial officer of Southern California Gas Company (the "Company") certifies that:

- (i) the Quarterly Report on Form 10-Q of the Company filed with the Securities and Exchange Commission for the quarter ended September 30, 2019 (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 1, 2019

/s/ Mia L. DeMontigny

Mia L. DeMontigny

Chief Financial Officer