

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

FORM 10-Q

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

For the quarterly period ended September 30, 1994, 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 number 1-1402

Southern California Gas Company

(Exact name of registrant as specified in its charter)

California

95-1240705

(State or other jurisdiction of incorporation
or organization)

(I.R.S. Employer
Identification No.)

555 West Fifth Street, Los Angeles, California 90013-1011

(Address of principal executive offices)
(Zip Code)

(213) 244-1200

(Registrant's telephone number, including area code)

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

Yes No
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The number of shares of common stock outstanding on October 28, 1994 was
91,300,000.

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

SOUTHERN CALIFORNIA GAS COMPANY AND SUBSIDIARY
CONDENSED STATEMENT OF CONSOLIDATED INCOME
(Thousands of Dollars)

	Three Months Ended September 30		Nine Months Ended September 30	
	1994	1993	1994	1993

	(Unaudited)			
Operating Revenues	\$567,929	\$625,172	\$1,887,381	\$2,017,333
Operating Expenses:				
Cost of gas distributed	169,701	241,749	774,815	858,995
Operation and maintenance	218,060	198,770	556,392	590,057
Depreciation	58,637	57,556	174,354	169,858
Income taxes	32,562	27,702	98,347	100,443
Other taxes and franchise payments	21,394	24,125	80,206	83,261
Total	500,354	549,902	1,684,114	1,802,614
Net Operating Revenue	67,575	75,270	203,267	214,719
Other Income and (Deductions):				
Interest income	368	96	1,348	1,436
Regulatory interest	3,612	1,303	5,661	1,977
Allowance for equity funds used during construction	686	944	2,170	3,442
Income taxes on non-operating income	(1,136)	1,275	(2,100)	(171)
Other - net	(993)	(516)	(3,580)	(2,806)
Total	2,537	3,102	3,499	3,878
Interest Charges and (Credits):				
Interest on long-term debt	22,257	23,298	66,768	72,468
Other interest	3,050	5,598	6,298	4,578
Allowance for borrowed funds used during construction	(392)	(588)	(1,234)	(2,142)
Total	24,915	28,308	71,832	74,904
Net Income	45,197	50,064	134,934	143,693
Dividends on Preferred Stock	2,665	2,442	7,670	7,412
Net Income Applicable to Common Stock	\$ 42,532	\$ 47,622	\$ 127,264	\$ 136,281
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See Notes to Condensed Consolidated Financial Statements.

SOUTHERN CALIFORNIA GAS COMPANY AND SUBSIDIARY
 CONDENSED CONSOLIDATED BALANCE SHEET
 ASSETS
 (Thousands of Dollars)

	September 30 1994	December 31 1993
	----- (Unaudited)	-----
Utility Plant	\$5,542,871	\$5,422,549
Less accumulated depreciation	2,351,024	2,205,043
	-----	-----
Utility plant - net	3,191,847	3,217,506
	-----	-----
Current Assets:		
Cash and cash equivalents	16,185	14,533
Accounts and notes receivable - net	283,510	503,308
Regulatory accounts receivable	467,121	443,718
Gas in storage	92,023	53,114
Materials and supplies	20,859	20,618
Prepaid expenses	20,006	22,971
Deferred income taxes	54,993	
	-----	-----
Total current assets	954,697	1,058,262
	-----	-----
Regulatory Assets	561,307	674,452
	-----	-----
Total	\$4,707,851	\$4,950,220
	=====	=====

See Notes to Condensed Consolidated Financial Statements.

SOUTHERN CALIFORNIA GAS COMPANY AND SUBSIDIARY
 CONDENSED CONSOLIDATED BALANCE SHEET
 CAPITALIZATION AND LIABILITIES
 (Thousands of Dollars)

	September 30 1994	December 31 1993
	----- (Unaudited)	-----
Capitalization:		
Common equity:		
Common stock	\$ 834,889	\$ 834,889
Retained earnings	640,475	607,250
	-----	-----
Total common equity	1,475,364	1,442,139
Preferred stock	196,551	196,551
Long-term debt	1,482,789	1,235,622
	-----	-----
Total capitalization	3,154,704	2,874,312
	-----	-----
Current Liabilities:		
Short-term debt	94,874	267,000
Accounts payable	334,511	417,001
Accounts payable-affiliates	206,131	513,306
Accrued taxes and franchise payments	76,150	21,907
Deferred income taxes		39,542
Long-term debt due within one year	79,005	5
Accrued interest	14,529	35,007
Other accrued liabilities	83,774	129,367
	-----	-----
Total current liabilities	888,974	1,423,135
	-----	-----
Customer Advances for Construction	45,642	45,493
Deferred Income Taxes	397,599	399,535
Deferred Investment Tax Credits	70,725	72,993
Other Deferred Credits	150,207	134,752
	-----	-----
Total	\$4,707,851	\$4,950,220
	=====	=====

See Notes to Condensed Consolidated Financial Statements.

SOUTHERN CALIFORNIA GAS COMPANY AND SUBSIDIARY
 CONDENSED STATEMENT OF CONSOLIDATED CASH FLOWS
 (Thousands of Dollars)

	Nine Months Ended September 30	
	1994	1993
	(Unaudited)	
Cash Flows From Operating Activities:		
Net income	\$ 134,934	\$ 143,693
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	174,354	169,858
Deferred income taxes	15,671	12,610
Other	(4,452)	(3,311)
Net change in other working capital components	(223,113)	74,331
Net cash provided by operating activities	97,394	397,181
Cash Flows from Investing Activities:		
Expenditures for utility plant	(146,646)	(192,944)
Increase in other assets	(261)	(25,954)
Net cash used in investing activities	(146,907)	(218,898)
Cash Flows from Financing Activities:		
Dividends	(101,709)	(103,932)
Issuance of long-term debt	325,000	356,000
Payments of long-term debt		(336,669)
Redemption of preferred stock		(75,000)
Sale of preferred stock		75,000
Increase (decrease) in short term debt	(172,126)	(93,000)
Net cash provided by (used in) financing activities	51,165	(177,601)
Increase in Cash and Cash Equivalents	1,652	682
Cash and Cash Equivalents - January 1	14,533	1,318
Cash and Cash Equivalents - September 30	\$ 16,185	\$ 2,000
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the period:		
Interest (net of amount capitalized)	\$79,675	\$68,775
Income Taxes	\$92,130	\$143,346

See Notes to Condensed Consolidated Financial Statements.

SOUTHERN CALIFORNIA GAS COMPANY AND SUBSIDIARY
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. SUMMARY OF ACCOUNTING POLICIES

The accompanying condensed consolidated financial statements have been prepared in accordance with the interim period reporting requirements of Form 10-Q. Reference is made to the Form 10-K for the year ended December 31, 1993 for additional information.

Results of operations for interim periods are not necessarily indicative of results for the entire year. In order to match revenues and costs for interim reporting purposes, the Company (SoCalGas or The Gas Company) defers revenues related to costs which they expect to incur later in the year. In the opinion of management, the accompanying statements reflect all adjustments which are necessary for a fair presentation. These adjustments are of a normal recurring nature. Certain changes in account classification have been made in the prior years' consolidated financial statements to conform to the 1994 financial statement presentation.

2. RESTRUCTURING OF GAS SUPPLY CONTRACTS AND COMPREHENSIVE SETTLEMENT OF REGULATORY ISSUES

RESTRUCTURING OF GAS SUPPLY CONTRACTS. The Company and its gas supply affiliates have reached agreements with suppliers of California offshore and Canadian natural gas for a restructuring of long-term gas supply contracts. The cost of these supplies to the Company had been substantially in excess of the Company's average delivered cost of gas. During 1993, these excess costs totaled approximately \$125 million.

The agreements substantially reduce the ongoing delivered costs of these gas supplies and provide lump sum settlement payments of \$375 million to the suppliers. The expiration date for the Canadian gas supply contract has been shortened from 2012 to 2003, and the supplier of California offshore gas continues to have an option to purchase related gas treatment and pipeline facilities owned by the Company's gas supply affiliate. The agreement with the suppliers of Canadian gas is subject to certain regulatory and other approvals.

COMPREHENSIVE SETTLEMENT OF REGULATORY ISSUES. The Company and a number of interested parties (including the Division of Ratepayer Advocates (DRA) of the California Public Utilities Commission (CPUC), large noncore customers and ratepayer groups) proposed for CPUC approval a comprehensive settlement (Comprehensive Settlement) of a number of pending regulatory issues including partial rate recovery of restructuring costs associated with the gas supply contracts discussed above. The Comprehensive Settlement was approved by the CPUC on July 20, 1994 and will permit the Company to recover in utility rates approximately 80 percent of the contract restructuring costs of \$375

SOUTHERN CALIFORNIA GAS COMPANY AND SUBSIDIARY
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

million and accelerated amortization of related pipeline assets of its gas supply affiliates of approximately \$130 million, together with interest, over a period of approximately five years. In addition to the gas supply issues, the Comprehensive Settlement addresses noncore customer rates, reasonableness reviews, a gas cost incentive mechanism and attrition. The Company reflected the impact of the Comprehensive Settlement in its financial statements in 1993.

The Company has obtained authorization from the CPUC for the borrowing of up to \$425 million primarily to provide for funds needed under the Comprehensive Settlement. As of September 30, 1994, the Company has outstanding \$420 million in commercial paper, of which \$267 million relates to the Comprehensive Settlement, at an average annual rate of 4.9%. The Company has classified \$325 million of the commercial paper as long-term debt since it is the Company's intent (supported by a \$325 million multi-year credit agreement) to renew that portion of the debt on a long-term basis.

3. GAS COST INCENTIVE MECHANISM

On March 16, 1994, the CPUC approved a new process for evaluating SoCalGas' gas purchases, replacing the previous process of reasonableness reviews. The new gas cost incentive mechanism (GCIM) is a three-year pilot program beginning April 1, 1994. The GCIM essentially compares SoCalGas' cost of gas with a benchmark level, which is the average price of 30-day firm spot supplies delivered to the SoCalGas market area.

If SoCalGas' cost of gas exceeds the benchmark level by a tolerance band, then the excess costs will be shared equally between ratepayers and shareholders. Savings from gas purchased below the benchmark level will also be shared equally between ratepayers and shareholders. For the first year of the program, the GCIM provides a 4.5 percent tolerance band. For the second and third years of the program, the tolerance band decreases to 4.0 percent. Since the inception of the GCIM through September 30, 1994, the Company's gas purchases were within the tolerance band.

4. COMMITMENTS AND CONTINGENT LIABILITIES

The Gas Company has identified and reported to California environmental authorities 42 former gas manufacturing sites for which it (together with other utilities as to 21 of the sites) may have remedial obligations under environmental laws. As of September 30, 1994, five of these sites have been remediated and two additional sites are in the process of remediation. It is anticipated that the investigation and, if necessary, remediation of the remaining 35 sites will be completed over a period of from 10 years to 20

SOUTHERN CALIFORNIA GAS COMPANY AND SUBSIDIARY
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

years. In addition, the Company is one of a large number of major corporations identified by the United States Environmental Protection Agency as potentially responsible for environmental remediation of a large landfill site and two industrial waste disposal facilities.

On May 4, 1994, the California Public Utilities Commission approved a collaborative settlement agreement between the Company and other California energy utilities and the Division of Ratepayer Advocates which provides for rate recovery of 90 percent of environmental investigation and remediation costs without reasonableness review. In addition, the utilities will have the opportunity to retain a percentage of any insurance recoveries to offset the 10 percent of costs not recovered in rates.

At September 30, 1994, the Company's estimated remaining investigation and remediation liability was approximately \$75 million, which will be recovered through the mechanism described above.

5. POSTEMPLOYMENT BENEFITS

Effective January 1, 1994, the Company adopted Statement of Financial Accounting Standards No. 112, Employers' Accounting for Postemployment Benefits (SFAS 112). SFAS 112 requires the accrual of the obligation to provide benefits to former or inactive employees after employment but before retirement. The adoption of SFAS 112 had no impact on earnings since these costs are currently recovered in rates as paid, and as such, have been reflected as a regulatory asset. At September 30, 1994, the total postemployment benefit liability was \$41 million.

6. DERIVATIVE FINANCIAL INSTRUMENTS

In October 1994, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 119, "Disclosure about Derivative Financial Instruments and Fair Value of Financial Instruments" (SFAS 119), effective for fiscal years ending after December 15, 1994. SFAS 119 requires certain disclosures about financial instruments not covered by SFAS 105, "Disclosure of Information about Financial Instruments with Off-Balance-Sheet Risk and Financial Instruments with Concentrations of Credit Risk." Adoption of SFAS 119 will have no impact on the Company's financial position or results of operations for the year ended December 31, 1994.

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

Southern California Gas Company (The Gas Company or the Company) is a subsidiary of Pacific Enterprises (Parent) which owns 96 percent of the Company's voting stock, including all of its issued and outstanding common stock. The Gas Company is a public utility owning and operating a natural gas transmission, storage and distribution system that serves almost 16 million persons through approximately 4.7 million meters in 535 cities and communities throughout most of southern California and parts of central California, a service area of 23,000 square miles. The Company is dedicated to providing high quality gas service to residential, commercial, industrial, utility electric generation (UEG) and wholesale customers. The Company is subject to regulation by the California Public Utilities Commission (CPUC) which, among other things, establishes rates the Company may charge for gas service, including an authorized rate of return on investment. Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with the Condensed Consolidated Financial Statements and the Company's Annual Report on Form 10-K.

RESULTS OF OPERATIONS

Net income for the three and nine months ended September 30, 1994 decreased by \$5 million and \$9 million, respectively, compared to the same periods in 1993. The decrease for both the three months and nine months ended September 30, 1994 was due primarily to a reduction in the Company's authorized rate of return on common equity from 11.9 percent in 1993 to 11.0 percent in 1994 partially offset by the growth in rate base and higher excess earnings from the noncore market.

Operating revenues for the three and nine months ended September 30, 1994 decreased \$57 million and \$130 million, respectively, when compared to the same periods in 1993. The decreases in operating revenues for the three and nine months ended September 30, 1994 reflect decreases in authorized gas margin and the average unit cost of gas partially offset by an increase in noncore volumes transported. Cost of gas distributed for the three and nine months ended September 30, 1994 decreased \$72 million and \$84 million, respectively, when compared to the same periods in 1993. The decreases reflect lower volumes of gas sold to core customers in 1994 and a decrease in the average unit cost of gas. Core volumes decreased as a result of continued sluggishness in the local economy and warmer weather in the first quarter of 1994 compared to 1993. The average unit cost of gas has declined as a result of lower market prices.

RECENT CPUC REGULATORY ACTIVITY The Company and a number of interested parties (including the Division of Ratepayer Advocates of the CPUC, large noncore customers and ratepayer groups) proposed for CPUC approval a comprehensive settlement (Comprehensive Settlement) of a number of pending

regulatory issues including partial rate recovery of restructuring costs associated with gas supply contracts (See Note 2 of Notes to Condensed Consolidated Financial Statements). The Comprehensive Settlement was approved by the CPUC on July 20, 1994 and will permit the Company to recover in utility rates approximately 80 percent of the contract restructuring costs of \$375 million and accelerated depreciation of related pipeline assets of approximately \$130 million, together with interest, over a period of approximately five years. The Company has obtained authorization from the CPUC for the borrowing of up to \$425 million primarily to provide for funds needed under the Comprehensive Settlement.

In August 1993, the Company filed a \$134 million rate increase with the CPUC. Included in this BCAP filing is a rate structure designed to further reduce subsidies by nonresidential core customers to residential customers by better aligning residential rates with the cost of providing residential service. The CPUC, in an interim decision, granted the Company a \$121 million rate increase effective January 1, 1994. A final CPUC decision is expected in late 1994.

FACTORS INFLUENCING FUTURE PERFORMANCE. Based on existing ratemaking policies, future Company earnings and cash flow will be determined primarily by the allowed rate of return on common equity, the growth in rate base, noncore pricing and throughput and the ability of management to control expenses and investment in line with the amounts authorized by the CPUC to be collected in rates. Also, the Company's ability to earn revenues in excess of its authorized return from noncore customers due to volume increases have been substantially eliminated for the five years beginning August 1, 1994 per the Comprehensive Settlement described above. This is because forecasted deliveries in excess of the 1991 throughput levels used to establish rates were contemplated in estimating the costs of the Comprehensive Settlement at December 31, 1993. The impact of any future regulatory restructuring and increased competitiveness in the industry, including the continuing threat of customers bypassing the Company's system and obtaining service directly from interstate pipelines, could also affect the Company's future performance.

During October, the Company began exploring a new approach for setting rates to its customers. Known as "Performance Based Ratemaking" (PBR), the new method would link financial performance with increases and decreases in productivity and generally would allow for rates to increase by the rate of inflation, less an agreed-upon amount to encourage productivity gains. By rewarding continued cost savings, efficient operations, increased throughput and new business opportunities, PBR is expected to more closely align ratepayer and shareholders' interests. If the Company proposes PBR to the CPUC and it is approved, the change would not occur until 1997 at the earliest.

The Gas Company's earnings for 1994 will be affected by the reduction in the authorized rate of return on common equity, reflecting the overall decline in cost of capital, offset by higher rate base than in 1993. For 1994, the

Company is authorized to earn a rate of return on rate base of 9.22 percent and an 11.00 percent rate of return on common equity compared to 9.99 percent and 11.90 percent, respectively, in 1993. Rate base is expected to increase by approximately 4 percent to 5 percent in 1994.

In April 1994, the CPUC announced it will review the structure of California's electric utility service, a review that could lead to significant changes in the way California's investor-owned electric utilities do business. The CPUC's proposal has no immediate effect on the Company's operations, although future volumes of natural gas the Company transports for electric utilities could be affected. The Company is closely monitoring the process and has taken an active role in the proceedings because of its considerable experience with natural gas deregulation and because the treatment of some electric utility regulatory issues could have indirect implications for the Company.

Existing interstate pipeline capacity into California currently exceeds demand by at least 1 billion cubic feet per day. Up to 2 billion cubic feet per day of capacity on the El Paso and Transwestern interstate pipeline systems, representing over \$230 million of reservation charges annually, may be relinquished within the next few years based on existing contract reduction options and contract expirations. Some of this capacity may not be resubscribed. Current Federal Energy Regulatory Commission (FERC) regulation could permit the cost of unsubscribed capacity to be reallocated to remaining firm customers, including The Gas Company. The Company, as a part of a coalition representing 90% of the firm transportation capacity on the El Paso and Transwestern systems, has recommended that the FERC resolve the financial obligation of unsubscribed capacity by providing the pipelines with balanced incentives in a regulatory structure that incorporates market forces. Under existing regulation in California, The Gas Company would have the opportunity to include its portion of any such reallocated costs in its rates. Competitive conditions may or may not support higher rates resulting from reallocated costs.

The Gas Company's operations are affected by a growing number of environmental laws and regulations. These laws and regulations affect current operations as well as future expansion and also require clean-up of facilities no longer in use. Based upon current and expected regulatory treatment, the Company believes that compliance with these laws will not have a significant impact on its financial statements. For further discussion of regulatory and environmental matters, see Notes 2, 3, and 4 of Notes to Condensed Consolidated Financial Statements.

On January 17, 1994, the Company's service area was struck by a major earthquake. The result was a temporary disruption to approximately 150,000 customers and damage to some facilities. The financial impact of the damages related to the earthquake not recovered by insurance is expected to be recovered in rates under an existing balancing account mechanism, and should have no impact on the Company's financial statements.

CAPITAL EXPENDITURES. For the nine months ended September 30, 1994, capital expenditures were \$147 million. Capital expenditures for utility plant are expected to be approximately \$275 million in 1994 and will be financed by internally-generated funds and by issuance of long-term debt.

LIQUIDITY

Regulatory accounts receivable increased \$23 million reflecting higher undercollections under the BCAP regulatory account procedures. This increase is primarily due to the undercollection in the noncore market of interstate pipeline demand and storage charges. The increase in gas in storage inventories of \$39 million was primarily due to the seasonal injections required to meet the Company's anticipated winter demand.

PART II. OTHER INFORMATION

Item 6. EXHIBITS AND REPORTS ON FORM 8-K

(b) There were no reports on Form 8-K filed during the quarter ended September 30, 1994.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

SOUTHERN CALIFORNIA GAS COMPANY

(Registrant)

/s/ Ralph Todaro

Ralph Todaro
Vice President-Finance and Controller
(Principal Accounting Officer and duly
authorized signatory)

Date: November 14, 1994

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

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SOUTHERN CALIFORNIA GAS COMPANY

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	954,697		
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1,379,268			
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		98,347	
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	1,684,114		
	203,267		
		3,499	
206,766			
	71,832		
		134,934	
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