

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

FORM 10-Q

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

For the quarterly period ended March 31, 2000

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

Common stock outstanding: Wholly owned by Pacific Enterprises

ITEM 1. FINANCIAL STATEMENTS.

SOUTHERN CALIFORNIA GAS COMPANY AND SUBSIDIARIES  
STATEMENTS OF CONSOLIDATED INCOME  
Dollars in millions

	Three months ended March 31,	
	2000	1999
Operating Revenues	\$ 698	\$ 607
Expenses		
Cost of natural gas distributed	346	256
Operation and maintenance	150	152
Depreciation	64	64
Income taxes	44	41
Other taxes and franchise payments	28	25
Total	632	538
Operating Income	66	69
Other Income and (Deductions)		
Interest income	4	2
Regulatory interest	-	(4)
Allowance for equity funds used during construction	-	1
Taxes on nonoperating income	(2)	1

Other - net	-	(1)
	-----	-----
Total	2	(1)
	-----	-----
Income Before Interest Charges	68	68
	-----	-----
Interest Charges		
Long-term debt	17	19
Other interest	2	2
Allowance for borrowed funds used during construction	(1)	-
	-----	-----
Total	18	21
	-----	-----
Earnings Applicable to Common Shares	\$ 50	\$ 47
	=====	=====

See notes to Consolidated Financial Statements.

SOUTHERN CALIFORNIA GAS COMPANY AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS  
Dollars in millions

	Balance at	
	March 31, 2000	December 31, 1999
	-----	-----
ASSETS		
Utility plant - at original cost	\$6,209	\$6,177
Accumulated depreciation	(3,403)	(3,342)
	-----	-----
Utility plant - net	2,806	2,835
	-----	-----
Current assets		
Cash and cash equivalents	158	11
Accounts receivable - trade (less allowance for doubtful receivables of \$18 at March 31, 2000 and \$16 at December 31, 1999)	359	285
Accounts and notes receivable - other	13	14
Due from affiliates	197	73
Deferred income taxes	25	25
Inventories	16	79
Prepaid expenses	13	15
	-----	-----
Total current assets	781	502
	-----	-----
Regulatory assets	154	155
Investments and other assets	140	40
	-----	-----
Total	\$3,881	\$3,532
	=====	=====

See notes to Consolidated Financial Statements.

SOUTHERN CALIFORNIA GAS COMPANY AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS (CONTINUED)  
Dollars in millions

	Balance at	
	March 31, 2000	December 31, 1999
	-----	-----
CAPITALIZATION AND LIABILITIES		
Capitalization		
Common stock	\$ 835	\$ 835
Retained earnings	397	447
Accumulated other comprehensive income	42	6
	-----	-----
Total common equity	1,274	1,288

Preferred stock	22	22
Long-term debt	939	939
	-----	-----
Total capitalization	2,235	2,249
	-----	-----
Current liabilities		
Accounts payable - trade	150	159
Accounts payable - other	342	227
Regulatory balancing accounts overcollected - net	335	165
Other taxes payable	52	28
Accrued income taxes	39	4
Interest accrued	33	29
Current portion of long-term debt	30	30
Other	71	84
	-----	-----
Total current liabilities	1,052	726
	-----	-----
Customer advances for construction	24	27
Deferred income taxes - net	352	319
Deferred investment tax credits	55	56
Deferred credits and other liabilities	163	155
	-----	-----
Total deferred credits	594	557
	-----	-----
Contingencies and commitments (Note 2)		
Total	\$3,881	\$3,532
	=====	=====

See notes to Consolidated Financial Statements.

SOUTHERN CALIFORNIA GAS COMPANY AND SUBSIDIARIES  
CONDENSED STATEMENTS OF CONSOLIDATED CASH FLOWS  
Dollars in millions

	Three Months Ended March 31,	
	2000	1999
	-----	-----
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 50	\$ 47
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	64	64
Deferred income taxes	12	38
Deferred investment tax credits	(1)	(1)
Other	(14)	(16)
Net change in other working capital components	176	204
	-----	-----
Net cash provided by operating activities	287	336
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(40)	(32)
Other - net	--	(3)
	-----	-----
Net cash used in investing activities	(40)	(35)
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividends paid	(100)	--
	-----	-----
Net cash used in financing activities	(100)	--
	-----	-----
Increase (decrease) in Cash and Cash Equivalents	147	301
Cash and Cash Equivalents, January 1	11	11
	-----	-----
Cash and Cash Equivalents, March 31	\$ 158	\$ 312
	=====	=====
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Interest payments, net of amount capitalized	\$ 14	\$ 19
	=====	=====
Income tax payments, net of refunds	\$ --	\$ 53
	=====	=====

See notes to Consolidated Financial Statements.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 1. GENERAL

This Quarterly Report on Form 10-Q is that of the Southern California Gas Company (SoCalGas or the Company), the sole subsidiary of Pacific Enterprises (PE). PE's common stock is wholly owned by Sempra Energy, a California-based Fortune 500 energy services company. The financial statements herein are the Consolidated Financial Statements of SoCalGas and its subsidiaries, whose operations are not material to the consolidated financial statements.

The accompanying Consolidated Financial Statements have been prepared in accordance with the interim-period-reporting requirements of Form 10-Q. Results of operations for interim periods are not necessarily indicative of results for the entire year. In the opinion of management, the accompanying statements reflect all adjustments necessary for a fair presentation. These adjustments are only of a normal recurring nature. Certain changes in classification have been made to prior presentations to conform to the current financial statement presentation.

The Company's significant accounting policies are described in the notes to Consolidated Financial Statements in the Company's 1999 Annual Report. The same accounting policies are followed for interim reporting purposes.

Information in this Quarterly Report is unaudited and should be read in conjunction with the Company's 1999 Annual Report.

SoCalGas has been accounting for the economic effects of regulation on utility operations in accordance with Statement of Financial Accounting Standards No. 71, "Accounting for the Effects of Certain Types of Regulation" (SFAS No. 71), as described in the notes to Consolidated Financial Statements in the Company's 1999 Annual Report.

### 2. MATERIAL CONTINGENCIES

#### NATURAL GAS INDUSTRY RESTRUCTURING

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

The CPUC has held hearings throughout the state and intends to give the legislature a draft ruling before adopting a final market-structure policy. SoCalGas and its affiliate, San Diego Gas & Electric Company, have been actively participating in this effort and have argued in support of competition intended to maximize benefits to customers rather than to protect competitors. During this process various large customers on the California utilities' systems are in the process of negotiating a restructuring of intrastate transmission receipt points, balancing policies and storage rights. SoCalGas, SDG&E and other interested parties are expected to file a settlement with the CPUC on these matters in the second quarter of 2000 with evidentiary hearings before the CPUC in June 2000. A CPUC decision is not expected until late 2000.

In October 1999, the State of California enacted a law (AB 1421) which requires that natural gas utilities provide "bundled basic gas service" (including transmission, storage, distribution, purchasing, revenue-cycle services and after-meter services) to all core customers, unless the customer chooses to purchase natural gas from a non-utility provider. The law prohibits the CPUC from unbundling distribution-related natural gas services (including meter reading and billing) and after-meter services (including leak investigation, inspecting customer piping and appliances, pilot relighting and carbon monoxide investigation) for most customers. The objective is to preserve both customer safety and customer choice.

### 3. COMPREHENSIVE INCOME

Comprehensive income for the three-month periods ended March 31, 2000 and March 31, 1999 was \$87 million and \$ 47 million, respectively. The

difference between net income and comprehensive income for the three-month period ended March 31, 2000 was due to minimum pension liability adjustments and \$34 million of unrealized gains on marketable securities that are classified as available-for-sale (although they cannot be sold until November 2000). For the three-month period ended March 31, 1999 comprehensive income was equal to earnings applicable to common shares.

As was the case for the three-month period ended March 31, 2000, it is likely that comprehensive income in future periods will differ significantly from net income and will be more volatile than net income as long as the available-for-sale securities are held.

#### 4. SEGMENT INFORMATION

The Company has two separately managed reportable segments: natural gas distribution and natural gas transmission/storage. The accounting policies of the segments are the same as those described in the notes to Consolidated Financial Statements in the Company's 1999 Annual Report, and segment performance is evaluated by management based on reported operating income. Intersegment transactions are generally recorded the same as sales or transactions with third parties. Interest expense and income tax expense are not allocated to the reportable segments. Interest revenue is included in other income on the Statements of Consolidated Income herein. It is not allocated to the reportable segments. There were no significant changes in segment assets during the three-month period ended March 31, 2000.

(Dollars in millions)	Three months ended March 31,	
	2000	1999
Revenues:		
Distribution	\$ 607	\$ 517
Transmission and storage	128	102
Other	(37)	(12)
Total	\$ 698	\$ 607
Segment Income:		
Distribution	\$ 110	\$ 109
Transmission and storage	35	12
Other	(35)	(11)
Total segment income	110	110
Interest expense	(18)	(21)
Income tax expense	(46)	(40)
Nonoperating income (expense)	4	(2)
Net income	\$ 50	\$ 47

#### ITEM 2.

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

The following discussion should be read in conjunction with the financial statements contained in this Form 10-Q and Management's Discussion and Analysis of Financial Condition and Results of Operations contained in the Company's 1999 Annual Report.

#### INFORMATION REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains statements that are not historical fact and constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. The words "estimates," "believes," "expects," "anticipates," "plans," "intends," "may" and "should" or similar expressions, or discussions of strategy or of plans are intended to identify forward-looking statements that involve risks, uncertainties and assumptions. Future results may differ materially from those expressed in the forward-looking statements.

These statements are necessarily based upon various assumptions involving judgments with respect to the future and other risks,

including, among others, local, regional, national and international economic, competitive, political and regulatory conditions and developments; technological developments; capital market conditions; inflation rates; interest rates; energy markets, including the timing and extent of changes in commodity prices; weather conditions; business, regulatory or legal decisions; the pace of deregulation of retail natural gas and electricity delivery; the timing and success of business development efforts; and other uncertainties -- all of which are difficult to predict and many of which are beyond the control of the Company. Readers are cautioned not to rely unduly on any forward-looking statements and are urged to review and consider carefully the risks, uncertainties and other factors which affect the Company's business described in this quarterly report and other reports filed by the Company from time to time with the Securities and Exchange Commission.

#### CAPITAL RESOURCES AND LIQUIDITY

The Company's California utility operations continue to be a major source of liquidity. In addition, working capital requirements are met through the issuance of short-term and long-term debt. Major changes in cash flows not described elsewhere are described below. Cash and cash equivalents at March 31, 2000 are available for investment in utility plant, the retirement of debt and other corporate purposes.

#### CASH FLOWS FROM OPERATING ACTIVITIES

Cash flows from operations decreased primarily due to the increase in accounts receivable resulting from higher natural gas prices and the return to ratepayers of previously overcollected regulatory balancing accounts.

#### CASH FLOWS FROM INVESTING ACTIVITIES

Capital expenditures for property, plant and equipment are estimated to be \$220 million for the full year 2000 and will be financed primarily by internally generated funds. Construction, investment and financing programs are continuously reviewed and revised in response to changes in competition, customer growth, inflation, customer rates, the cost of capital, and environmental and regulatory requirements.

#### CASH FLOWS FROM FINANCING ACTIVITIES

Net cash used in financing activities increased in the three-month period ended March 31, 2000 due to dividends paid to parent.

#### RESULTS OF OPERATIONS

SoCalGas' net income increased for the three-month period ended March 31, 2000 compared to the same period in 1999, primarily due to reduced operating expenses.

The table below summarizes the components of natural gas volumes and revenues for SoCalGas by customer class for the three months ended March 31, 2000 and 1999.

Gas Sales, Transportation & Exchange  
(Dollars in millions, volumes in billion cubic feet)  
For the three months ended March 31

	Gas Sales		Transportation & Exchange		Total	
	Throughput	Revenue	Throughput	Revenue	Throughput	Revenue
2000:						
Residential	89	\$ 625	1	\$ 6	90	\$ 631
Commercial and industrial	25	160	83	73	108	233
Utility electric generation	--	--	30	11	30	11
Wholesale	--	--	41	14	41	14
	114	\$ 785	155	\$104	269	\$ 889
Balancing accounts and other						(191)
Total						\$ 698

1999:

Residential	100	\$ 619	1	\$ 1	101	\$ 620
Commercial and industrial	25	144	77	62	102	206
Utility electric generation	--	--	16	7	16	7
Wholesale	--	--	45	16	45	16
	-----					
	125	\$ 763	139	\$ 86	264	849
Balancing accounts and other						(242)
	-----					
Total						\$ 607
-----						

Natural gas revenues increased 15 percent for the three-month period ended March 31, 2000, compared to the corresponding period in 1999. The increase is primarily due to higher natural gas prices.

Cost of natural gas distributed increased 35 percent for the three-month period ended March 31, 2000 compared to the corresponding period in 1999. The increase is primarily due to higher natural gas prices. Under the current regulatory framework, changes in core-market natural gas prices do not affect net income.

Net income at SoCalGas increased slightly due to reduced operating expenses.

#### FACTORS INFLUENCING FUTURE PERFORMANCE

Performance of the Company in the near future will depend primarily on the ratemaking and regulatory process, electric and natural gas industry restructuring, and the changing energy marketplace. These factors are discussed in this section.

#### Industry Restructuring

See discussion of industry restructuring in Note 2 of the notes to Consolidated Financial Statements.

#### Performance-Based Regulation (PBR)

To promote efficient operations and improved productivity and to move away from reasonableness reviews and disallowances, the CPUC has been directing utilities to use PBR. PBR has replaced the general rate case and certain other regulatory proceedings for the California utilities. Under PBR, regulators require future income potential to be tied to achieving or exceeding specific performance and productivity goals, as well as cost reductions, rather than relying solely on expanding utility plant in a market where a utility already has a highly developed infrastructure. The utility's PBR mechanism is scheduled to be updated at December 31, 2002, to reflect, among other things, changes in costs and volumes.

Changes to the SoCalGas PBR mechanism could be adopted in a decision to be issued in SoCalGas' 1999 Biennial Cost Allocation Proceeding application, which is expected to become effective during the second quarter of 2000. See additional discussion in "Biennial Cost Allocation Proceeding" below.

Key elements of the mechanisms include an initial reduction in base rates, an indexing mechanism that limits future rate increases to the inflation rate less a productivity factor, a sharing mechanism with customers if earnings exceed the authorized rate of return on rate base, and rate refunds to customers if service quality deteriorates. Specifically, the key elements of the mechanisms include the following:

- -- Earnings up to 25 basis points in excess of the authorized rate of return on rate base are retained 100 percent by shareholders. Earnings that exceed the authorized rate of return on rate base by greater than 25 basis points are shared between customers and shareholders on a sliding scale that begins with 75 percent of the additional earnings being given back to customers and declining to 0 percent as earned returns approach 300 basis points above authorized amounts. There is no sharing if actual earnings fall below the authorized rate of return. In 1999, SoCalGas was authorized to earn 9.49 percent on rate base. For 2000, the authorized return is again 9.49 percent.

- -- Base rates are indexed based on inflation less an estimated productivity factor.

- -- The mechanism authorizes penalties of up to \$4 million annually, or more in certain, limited situations, related to performance involving employee safety, customer satisfaction, and call-center responsiveness.

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

- -- Annual cost of capital proceedings are replaced by an automatic adjustment mechanism. If changes in certain indices exceed established tolerances, there would be an automatic adjustment of rates for the change in the cost of capital according to a formula which applies a percentage of the change to various capital components.

#### Cost of Capital

For 2000, SoCalGas is authorized to earn a rate of return on common equity (ROE) of 11.6 percent and a 9.49 percent return on rate base (ROR), the same as in 1999, unless interest-rate changes are large enough to trigger an automatic adjustment as discussed in the Company's 1999 Annual Report.

#### Biennial Cost Allocation Proceeding (BCAP)

The BCAP determines how a utility's natural gas transportation costs are allocated among various customer classes (residential, commercial, industrial, etc.). In October 1998, the California utilities filed 1999 BCAP applications requesting that new rates become effective August 1, 1999, and remain in effect through December 31, 2002. On April 20, 2000, the CPUC issued a decision adopting overall decreases in natural gas revenues of \$210 million for SoCalGas. The decrease has no effect on net income.

#### Gas Cost Incentive Mechanism (GCIM)

This mechanism for evaluating SoCalGas' natural gas purchases substantially replaced the previous process of reasonableness reviews. In December 1998 the CPUC extended the GCIM program indefinitely.

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

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

In June 1999, SoCalGas filed its annual GCIM application with the CPUC, requesting an award of \$8 million for the annual period ended March 31, 1999. A CPUC decision is expected during the second quarter of 2000.

#### NEW ACCOUNTING STANDARDS

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) No. 133 "Accounting for Derivative Instruments and Hedging Activities." As amended, SFAS 133, which is effective for the company on January 1, 2001, requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position, measure those instruments at fair value and recognize changes in the fair value of derivatives in earnings in the period of change unless the derivative qualifies as an effective hedge that offsets certain exposures. The effect of this standard on the company's Consolidated Financial Statements has not yet been determined.

#### ITEM 3. MARKET RISK

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



PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Neither the Company nor its subsidiaries are party to, nor is their property the subject of, any material pending legal proceedings other than routine litigation incidental to their businesses.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

Exhibit 27 - Financial Data Schedules

27.1 Financial Data Schedule for the three-month period ended March 31, 2000.

(b) Reports on Form 8-K

There were no reports on Form 8-K filed after December 31, 1999.

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)

By: /s/ Warren Mitchell

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Warren Mitchell  
Chairman and President

Date: May 3, 2000

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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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YEAR	DEC-31-2000	MAR-31-2000	PER-BOOK
	2,806	0	781
	0	169	125
			3,881
		0	835
	1,274	397	
		0	22
		939	
		0	
	0	0	
	30	0	
	0		0
	1,616		
	3,881		
	698		
		44	
	588		
	632		
		66	
	68		2
		18	
			50
	50		
		100	
		14	
		287	
			0
			0