SEMPRA ENERGY
Form 10-Q
November 03, 2015

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

FORM 10-Q

(Mark One)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2015

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 | States 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<br>488 8th Avenue<br>San Diego, California 92101<br>(619)696-2000 | California | 33-0732627 | No change |
| 1-03779 | SAN DIEGO GAS & ELECTRIC COMPANY<br>8326 Century Park Court<br>San Diego, California 92123<br>(619)696-2000 | California | 95-1184800 | No change |
| 1-01402 | SOUTHERN CALIFORNIA GAS COMPANY<br>555 West Fifth Street<br>Los Angeles, California 90013<br>(213)244-1200 | California | 95-1240705 | No change |

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 | X | No |

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

| | | | |
|---|---|---|---|
| Sempra Energy | Yes | X | No |
| San Diego Gas & Electric Company | Yes | X | No |
| Southern California Gas Company | Yes | X | No |

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

| | Large accelerated filer | Accelerated filer | Non-accelerated filer | Smaller reporting company |
|---|---|---|---|---|
| Sempra Energy | [ X ] | [ ] | [ ] | [ ] |
| San Diego Gas & Electric Company | [ ] | [ ] | [ X ] | [ ] |
| Southern California Gas Company | [ ] | [ ] | [ X ] | [ ] |

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

| | | | |
|---|---|---|---|
| Sempra Energy | Yes | No | X |
| San Diego Gas & Electric Company | Yes | No | X |
| Southern California Gas Company | Yes | No | X |

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, 2015:

| | |
|---|---|
| Sempra Energy | 248,210,449 shares |
| San Diego Gas & Electric Company | Wholly owned by Enova Corporation, which is wholly owned by Sempra Energy |
| | Wholly owned by Pacific Enterprises, which is wholly owned by Sempra Energy |

Southern California Gas
Company

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.

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INFORMATION REGARDING FORWARD-LOOKING STATEMENTS

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

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

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

§ local, regional, national and international economic, competitive, political, legislative and regulatory conditions and developments;

§ actions and the timing of actions, including issuances of permits to construct and licenses for operation, by the California Public Utilities Commission, California State Legislature, U.S. Department of Energy, Federal Energy Regulatory Commission, Nuclear Regulatory Commission, Atomic Safety and Licensing Board, California Energy Commission, U.S. Environmental Protection Agency, California Air Resources Board, and other regulatory, governmental and environmental bodies in the United States and other countries in which we operate;

§ the timing and success of business development efforts and construction, maintenance and capital projects, including risks in obtaining, maintaining or extending permits, licenses, certificates and other authorizations on a timely basis and risks in obtaining adequate and competitive financing for such projects;

§ energy markets, including the timing and extent of changes and volatility in commodity prices, and the impact of any protracted reduction in oil and natural gas prices from historical averages;

§ the impact on the value of our natural gas storage assets from low natural gas prices, low volatility of natural gas prices and the inability to procure favorable long-term contracts for natural gas storage services;

§ delays in the timing of costs incurred and the timing of the regulatory agency authorization to recover such costs in rates from customers;

§ deviations from regulatory precedent or practice that result in a reallocation of benefits or burdens among shareholders and ratepayers;

§ capital markets conditions, including the availability of credit and the liquidity of our investments;

§ inflation, interest and currency exchange rates;

§ the impact of benchmark interest rates, generally Moody’s A-rated utility bond yields, on our California Utilities’ cost of capital;

§ the availability of electric power, natural gas and liquefied natural gas, and natural gas pipeline and storage capacity, including disruptions caused by failures in the North American transmission grid, pipeline explosions and equipment failures and the decommissioning of San Onofre Nuclear Generating Station (SONGS);

- cybersecurity threats to the energy grid, natural gas storage and pipeline infrastructure, the information and systems used to operate our businesses and the confidentiality of our proprietary information and the personal information of our customers, terrorist attacks that threaten system operations and critical infrastructure, and wars;

- the ability to win competitively bid infrastructure projects against a number of strong competitors willing to aggressively bid for these projects;

- weather conditions, conservation efforts, natural disasters, catastrophic accidents, and other events that may disrupt our operations, damage our facilities and systems, and subject us to third-party liability for property damage or personal injuries;

- risks that our partners or counterparties will be unable or unwilling to fulfill their contractual commitments;

- risks posed by decisions and actions of third parties who control the operations of investments in which we do not have a controlling interest;

- risks inherent with nuclear power facilities and radioactive materials storage, including the catastrophic release of such materials, the disallowance of the recovery of the investment in, or operating costs of, the nuclear facility due to an extended outage and facility closure, and increased regulatory oversight, including motions to modify settlements;

- business, regulatory, environmental and legal decisions and requirements;

- expropriation of assets by foreign governments and title and other property disputes;

- the impact on reliability of San Diego Gas & Electric Company's (SDG&E) electric transmission and distribution system due to increased amount and variability of power supply from renewable energy sources and increased reliance on natural gas and natural gas transmission systems;

- the impact on competitive customer rates of the growth in distributed and local power generation and the corresponding decrease in demand for power delivered through SDG&E's electric transmission and distribution system;

- the inability or determination not to enter into long-term supply and sales agreements or long-term firm capacity agreements due to insufficient market interest, unattractive pricing or other factors;

- the resolution of litigation; and

- other uncertainties, all of which are difficult to predict and many of which are beyond our control.

We caution you not to rely unduly on any forward-looking statements. You should review and consider carefully the risks, uncertainties and other factors that affect our business as described herein and in our most recent Annual Report on Form 10-K filed with the Securities and Exchange Commission.

# PART I – FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

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

| | Three months ended September 30, 2015 | Three months ended September 30, 2014 | Nine months ended September 30, 2015 | Nine months ended September 30, 2014 |
|---|---|---|---|---|
| | | (unaudited) | | |
| REVENUES | | | | |
| Utilities | $ 2,213 | $ 2,463 | $ 6,768 | $ 7,318 |
| Energy-related businesses | 268 | 352 | 762 | 970 |
| Total revenues | 2,481 | 2,815 | 7,530 | 8,288 |
| EXPENSES AND OTHER INCOME | | | | |
| Utilities: | | | | |
| Cost of natural gas | (201) | (293) | (786) | (1,308) |
| Cost of electric fuel and purchased power | (666) | (680) | (1,645) | (1,761) |
| Energy-related businesses: | | | | |
| Cost of natural gas, electric fuel and purchased power | (91) | (163) | (262) | (427) |
| Other cost of sales | (34) | (42) | (111) | (122) |
| Operation and maintenance | (701) | (726) | (2,072) | (2,131) |
| Depreciation and amortization | (315) | (292) | (925) | (866) |
| Franchise fees and other taxes | (111) | (104) | (314) | (301) |
| Plant closure adjustment | | | 21 | 13 |
| Gain on sale of equity interests and assets | | 19 | 62 | 48 |
| Equity earnings, before income tax | 33 | 22 | 79 | 62 |
| Other income, net | 12 | 29 | 88 | 118 |
| Interest income | 6 | 6 | 23 | 15 |
| Interest expense | (143) | (144) | (416) | (418) |
| Income before income taxes and equity earnings of certain unconsolidated subsidiaries | 270 | 447 | 1,272 | 1,210 |
| Income tax expense | (15) | (71) | (276) | (291) |
| Equity earnings, net of income tax | 27 | 7 | 64 | 22 |
| Net income | 282 | 383 | 1,060 | 941 |
| Earnings attributable to noncontrolling interests | (34) | (35) | (79) | (76) |
| Preferred dividends of subsidiary | | | (1) | (1) |
| Earnings | $ 248 | $ 348 | $ 980 | $ 864 |
| Basic earnings per common share | $ 1.00 | $ 1.41 | $ 3.95 | $ 3.52 |
| Weighted-average number of shares outstanding, basic (thousands) | 248,432 | 246,137 | 248,090 | 245,703 |
| Diluted earnings per common share | $ 0.99 | $ 1.39 | $ 3.91 | $ 3.45 |

| | | | | |
|---|---|---|---|---|
| Weighted-average number of shares outstanding, diluted (thousands) | 251,024 | 250,771 | 250,665 | 250,278 |
| Dividends declared per share of common stock | $ 0.70 | $ 0.66 | $ 2.10 | $ 1.98 |

See Notes to Condensed Consolidated Financial Statements.

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

| | Sempra Energy shareholders' equity | | | | |
|---|---|---|---|---|---|
| | Pretax amount | Income tax (expense) benefit | Net-of-tax amount | Noncontrolling interests (after-tax) | Total |
| | Three months ended September 30, 2015 and 2014 (unaudited) | | | | |
| 2015: | | | | | |
| Net income | $ 263 | $ (15) | $ 248 | $ 34 | $ 282 |
| Other comprehensive income (loss): | | | | | |
| Foreign currency translation adjustments | (92) | | (92) | (8) | (100) |
| Pension and other postretirement benefits | 7 | (2) | 5 | | 5 |
| Financial instruments | (128) | 50 | (78) | (3) | (81) |
| Total other comprehensive loss | (213) | 48 | (165) | (11) | (176) |
| Comprehensive income | $ 50 | $ 33 | $ 83 | $ 23 | $ 106 |
| 2014: | | | | | |
| Net income | $ 419 | $ (71) | $ 348 | $ 35 | $ 383 |
| Other comprehensive income (loss): | | | | | |
| Foreign currency translation adjustments | (100) | | (100) | (11) | (111) |
| Pension and other postretirement benefits | 8 | (3) | 5 | | 5 |
| Financial instruments | (4) | 1 | (3) | 3 | |
| Total other comprehensive loss | (96) | (2) | (98) | (8) | (106) |
| Comprehensive income | $ 323 | $ (73) | $ 250 | $ 27 | $ 277 |
| | Nine months ended September 30, 2015 and 2014 (unaudited) | | | | |
| 2015: | | | | | |
| Net income | $ 1,257 | $ (276) | $ 981 | $ 79 | $ 1,060 |
| Other comprehensive income (loss): | | | | | |
| Foreign currency translation adjustments | (197) | | (197) | (21) | (218) |
| Pension and other postretirement benefits | 11 | (4) | 7 | | 7 |
| Financial instruments | (122) | 48 | (74) | (2) | (76) |

| | | | | | |
|---|---|---|---|---|---|
| Total other comprehensive loss | (308) | 44 | (264) | (23) | (287) |
| Comprehensive income | 949 | (232) | 717 | 56 | 773 |
| Preferred dividends of subsidiary | (1) | | (1) | | (1) |
| Comprehensive income, after preferred dividends of subsidiary | $ 948 | $ (232) | $ 716 | $ 56 | $ 772 |
| 2014: | | | | | |
| Net income | $ 1,156 | $ (291) | $ 865 | $ 76 | $ 941 |
| Other comprehensive income (loss): | | | | | |
| Foreign currency translation adjustments | (141) | | (141) | (12) | (153) |
| Pension and other postretirement benefits | 21 | (8) | 13 | | 13 |
| Financial instruments | (24) | 9 | (15) | 2 | (13) |
| Total other comprehensive loss | (144) | 1 | (143) | (10) | (153) |
| Comprehensive income | 1,012 | (290) | 722 | 66 | 788 |
| Preferred dividends of subsidiary | (1) | | (1) | | (1) |
| Comprehensive income, after preferred dividends of subsidiary | $ 1,011 | $ (290) | $ 721 | $ 66 | $ 787 |

See Notes to Condensed Consolidated Financial Statements.

SEMPRA ENERGY
CONDENSED CONSOLIDATED BALANCE SHEETS
(Dollars in millions)

| | September 30, 2015 (unaudited) | December 31, 2014(1) |
|---|---|---|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | $ 697 | $ 570 |
| Restricted cash | 13 | 11 |
| Trade accounts receivable, net | 1,024 | 1,242 |
| Other accounts and notes receivable, net | 176 | 152 |
| Due from unconsolidated affiliates | 3 | 38 |
| Income taxes receivable | 22 | 45 |
| Deferred income taxes | 198 | 305 |
| Inventories | 416 | 396 |
| Regulatory balancing accounts – undercollected | 585 | 746 |
| Fixed-price contracts and other derivatives | 66 | 93 |
| Asset held for sale, power plant | | 293 |
| Other | 406 | 293 |
| Total current assets | 3,606 | 4,184 |
| | | |
| Investments and other assets: | | |
| Restricted cash | 40 | 29 |
| Due from unconsolidated affiliates | 175 | 188 |
| Regulatory assets | 3,112 | 3,031 |
| Nuclear decommissioning trusts | 1,060 | 1,131 |

| | | | | |
|---|---|---|---|---|
| Investments | | 2,845 | | 2,848 |
| Goodwill | | 847 | | 931 |
| Other intangible assets | | 407 | | 415 |
| Dedicated assets in support of certain benefit plans | | 459 | | 512 |
| Sundry | | 701 | | 561 |
| Total investments and other assets | | 9,646 | | 9,646 |
| Property, plant and equipment: | | | | |
| Property, plant and equipment | | 37,280 | | 35,407 |
| Less accumulated depreciation and amortization | | (9,966) | | (9,505) |
| Property, plant and equipment, net ($390 and $410 at September 30, 2015 and December 31, 2014, respectively, related to VIE) | | 27,314 | | 25,902 |
| Total assets | $ | 40,566 | $ | 39,732 |

(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, 2015 (unaudited) | | December 31, 2014(1) | |
|---|---|---|---|---|
| LIABILITIES AND EQUITY | | | | |
| Current liabilities: | | | | |
| Short-term debt | $ | 1,097 | $ | 1,733 |
| Accounts payable – trade | | 1,091 | | 1,198 |
| Accounts payable – other | | 143 | | 155 |
| Due to unconsolidated affiliate | | | | 2 |
| Dividends and interest payable | | 343 | | 282 |
| Accrued compensation and benefits | | 356 | | 373 |
| Current portion of long-term debt | | 1,168 | | 469 |
| Fixed-price contracts and other derivatives | | 73 | | 55 |
| Customer deposits | | 152 | | 153 |
| Other | | 695 | | 649 |
| Total current liabilities | | 5,118 | | 5,069 |
| Long-term debt ($307 and $315 at September 30, 2015 and December 31, 2014, respectively, related to VIE) | | 12,527 | | 12,167 |
| Deferred credits and other liabilities: | | | | |
| Customer advances for construction | | 145 | | 144 |
| Pension and other postretirement benefit plan obligations, net of plan assets | | 1,114 | | 1,064 |
| Deferred income taxes | | 3,057 | | 3,003 |
| Deferred investment tax credits | | 34 | | 37 |
| Regulatory liabilities arising from removal obligations | | 2,715 | | 2,741 |

| | | | | |
|---|---|---|---|---|
| Asset retirement obligations | | 2,068 | | 2,048 |
| Fixed-price contracts and other derivatives | | 300 | | 255 |
| Deferred credits and other | | 1,092 | | 1,104 |
| Total deferred credits and other liabilities | | 10,525 | | 10,396 |
| | | | | |
| Commitments and contingencies (Note 11) | | | | |
| | | | | |
| Equity: | | | | |
| Preferred stock (50 million shares authorized; none issued) | | | | |
| Common stock (750 million shares authorized; 248 million and 246 million shares outstanding at September 30, 2015 and December 31, 2014, respectively; no par value) | | 2,587 | | 2,484 |
| Retained earnings | | 9,799 | | 9,339 |
| Accumulated other comprehensive income (loss) | | (761) | | (497) |
| Total Sempra Energy shareholders’ equity | | 11,625 | | 11,326 |
| Preferred stock of subsidiary | | 20 | | 20 |
| Other noncontrolling interests | | 751 | | 754 |
| Total equity | | 12,396 | | 12,100 |
| Total liabilities and equity | $ | 40,566 | $ | 39,732 |

(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, | | | |
|---|---|---|---|---|
| | 2015 | | 2014 | |
| | (unaudited) | | | |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | |
| Net income | $ | 1,060 | $ | 941 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | | |
| Depreciation and amortization | | 925 | | 866 |
| Deferred income taxes and investment tax credits | | 179 | | 131 |
| Gain on sale of equity interests and assets | | (62) | | (48) |
| Plant closure adjustment | | (21) | | (13) |
| Equity earnings | | (143) | | (84) |
| Fixed-price contracts and other derivatives | | (20) | | (19) |
| Other | | 28 | | 32 |
| Net change in other working capital components | | 260 | | (215) |
| Changes in other assets | | (112) | | 28 |
| Changes in other liabilities | | (5) | | 42 |
| Net cash provided by operating activities | | 2,089 | | 1,661 |
| | | | | |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | |
| Expenditures for property, plant and equipment | | (2,227) | | (2,320) |

| | | | | |
|---|---|---|---|---|
| Expenditures for investments and acquisition of business | | (183) | | (192) |
| Proceeds from sale of equity interests and assets, net of cash sold | | 347 | | 92 |
| Distributions from investments | | 14 | | 15 |
| Purchases of nuclear decommissioning and other trust assets | | (407) | | (505) |
| Proceeds from sales by nuclear decommissioning and other trusts | | 431 | | 498 |
| Decrease in restricted cash | | 68 | | 156 |
| Increase in restricted cash | | (81) | | (139) |
| Advances to unconsolidated affiliates | | (24) | | (100) |
| Repayments of advances to unconsolidated affiliates | | 74 | | 19 |
| Other | | 9 | | 10 |
| Net cash used in investing activities | | (1,979) | | (2,466) |
| | | | | |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | | |
| Common dividends paid | | (468) | | (450) |
| Preferred dividends paid by subsidiary | | (1) | | (1) |
| Issuances of common stock | | 41 | | 43 |
| Repurchases of common stock | | (74) | | (38) |
| Issuances of debt (maturities greater than 90 days) | | 2,058 | | 3,063 |
| Payments on debt (maturities greater than 90 days) | | (1,316) | | (1,845) |
| Decrease in short-term debt, net | | (201) | | (111) |
| Net distributions to noncontrolling interests | | (57) | | (84) |
| Other | | 47 | | (5) |
| Net cash provided by financing activities | | 29 | | 572 |
| | | | | |
| Effect of exchange rate changes on cash and cash equivalents | | (12) | | (4) |
| | | | | |
| Increase (decrease) in cash and cash equivalents | | 127 | | (237) |
| Cash and cash equivalents, January 1 | | 570 | | 904 |
| Cash and cash equivalents, September 30 | $ | 697 | $ | 667 |

See Notes to Condensed Consolidated Financial Statements.

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

| | Nine months ended September 30, | | | |
|---|---|---|---|---|
| | 2015 | | 2014 | |
| | (unaudited) | | | |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION | | | | |
| Interest payments, net of amounts capitalized | $ | 355 | $ | 359 |
| Income tax payments, net of refunds | | 37 | | 154 |
| | | | | |
| SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES | | | | |
| Acquisition of business: | | | | |
| Assets acquired | $ | 10 | $ | |
| Liabilities assumed | | (2) | | |
| Accrued purchase price | | (5) | | |

| | | | | |
|---|---|---|---|---|
| Cash paid | $ | 3 | $ | |
| Accrued capital expenditures | $ | 459 | $ | 385 |
| Redemption of industrial development bonds | | 79 | | |
| Increase in capital lease obligations for investment in property, plant and equipment | | | | 60 |
| Dividends declared but not paid | | 179 | | 166 |
| Financing of build-to-suit property | | 61 | | 49 |
| Common dividends issued in stock | | 41 | | 28 |

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, | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| | | (unaudited) | | |
| Operating revenues | | | | |
| Electric | $ 1,140 | $ 1,133 | $ 2,819 | $ 2,892 |
| Natural gas | 90 | 100 | 349 | 391 |
| Total operating revenues | 1,230 | 1,233 | 3,168 | 3,283 |
| Operating expenses | | | | |
| Cost of electric fuel and purchased power | 427 | 441 | 906 | 1,036 |
| Cost of natural gas | 27 | 39 | 112 | 165 |
| Operation and maintenance | 251 | 276 | 723 | 784 |
| Depreciation | 152 | 134 | 446 | 395 |
| Franchise fees and other taxes | 73 | 67 | 193 | 177 |
| Plant closure adjustment | | | (21) | (13) |
| Total operating expenses | 930 | 957 | 2,359 | 2,544 |
| Operating income | 300 | 276 | 809 | 739 |
| Other income, net | 8 | 9 | 26 | 29 |
| Interest expense | (51) | (51) | (155) | (152) |
| Income before income taxes | 257 | 234 | 680 | 616 |
| Income tax expense | (75) | (65) | (217) | (217) |
| Net income | 182 | 169 | 463 | 399 |
| Earnings attributable to noncontrolling interest | (12) | (12) | (20) | (20) |
| Earnings attributable to common shares | $ 170 | $ 157 | $ 443 | $ 379 |

See Notes to Condensed Consolidated Financial Statements.

SAN DIEGO GAS & ELECTRIC COMPANY

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Dollars in millions)

| | SDG&E shareholder's equity Pretax amount | Income tax expense | Net-of-tax amount | Noncontrolling interest (after-tax) | Total |
|---|---|---|---|---|---|
| | Three months ended September 30, 2015 and 2014 (unaudited) | | | | |
| 2015: | | | | | |
| Net income | $ 245 | $ (75) | $ 170 | $ 12 | $ 182 |
| Other comprehensive loss: | | | | | |
| Financial instruments | | | | (1) | (1) |
| Total other comprehensive loss | | | | (1) | (1) |
| Comprehensive income | $ 245 | $ (75) | $ 170 | $ 11 | $ 181 |
| 2014: | | | | | |
| Net income | $ 222 | $ (65) | $ 157 | $ 12 | $ 169 |
| Other comprehensive income: | | | | | |
| Pension and other postretirement benefits | 1 | | 1 | | 1 |
| Financial instruments | | | | 4 | 4 |
| Total other comprehensive income | 1 | | 1 | 4 | 5 |
| Comprehensive income | $ 223 | $ (65) | $ 158 | $ 16 | $ 174 |
| | Nine months ended September 30, 2015 and 2014 (unaudited) | | | | |
| 2015: | | | | | |
| Net income/Comprehensive income | $ 660 | $ (217) | $ 443 | $ 20 | $ 463 |
| 2014: | | | | | |
| Net income | $ 596 | $ (217) | $ 379 | $ 20 | $ 399 |
| Other comprehensive income: | | | | | |
| Pension and other postretirement benefits | 3 | (1) | 2 | | 2 |
| Financial instruments | | | | 3 | 3 |
| Total other comprehensive income | 3 | (1) | 2 | 3 | 5 |
| Comprehensive income | $ 599 | $ (218) | $ 381 | $ 23 | $ 404 |

See Notes to Condensed Consolidated Financial Statements.

SAN DIEGO GAS & ELECTRIC COMPANY
CONDENSED CONSOLIDATED BALANCE SHEETS
(Dollars in millions)

| | September 30, 2015 (unaudited) | December 31, 2014(1) |
|---|---|---|
| ASSETS | | |
| Current assets: | | |

| | | | | |
|---|---|---|---|---|
| Cash and cash equivalents | $ | 20 | $ | 8 |
| Restricted cash | | 9 | | 8 |
| Accounts receivable – trade, net | | 411 | | 285 |
| Accounts receivable – other, net | | 27 | | 35 |
| Due from unconsolidated affiliates | | 1 | | 1 |
| Income taxes receivable | | 13 | | |
| Inventories | | 71 | | 73 |
| Regulatory balancing accounts – net undercollected | | 495 | | 711 |
| Regulatory assets | | 146 | | 54 |
| Fixed-price contracts and other derivatives | | 20 | | 44 |
| Other | | 135 | | 125 |
| Total current assets | | 1,348 | | 1,344 |
| | | | | |
| Other assets: | | | | |
| Restricted cash | | 12 | | 11 |
| Deferred taxes recoverable in rates | | 870 | | 824 |
| Other regulatory assets | | 1,000 | | 1,086 |
| Nuclear decommissioning trusts | | 1,060 | | 1,131 |
| Sundry | | 376 | | 282 |
| Total other assets | | 3,318 | | 3,334 |
| | | | | |
| Property, plant and equipment: | | | | |
| Property, plant and equipment | | 16,131 | | 15,478 |
| Less accumulated depreciation | | (4,105) | | (3,860) |
| Property, plant and equipment, net ($390 and $410 at September 30, 2015 and December 31, 2014, respectively, related to VIE) | | 12,026 | | 11,618 |
| Total assets | $ | 16,692 | $ | 16,296 |

(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, 2015 (unaudited) | | December 31, 2014(1) |
|---|---|---|---|---|
| LIABILITIES AND EQUITY | | | | |
| Current liabilities: | | | | |
| Short-term debt | $ | 44 | $ | 246 |
| Accounts payable | | 408 | | 441 |
| Due to unconsolidated affiliates | | 22 | | 21 |
| Income taxes payable | | | | 30 |
| Deferred income taxes | | 243 | | 53 |
| Interest payable | | 49 | | 40 |
| Accrued compensation and benefits | | 110 | | 124 |
| Current portion of long-term debt | | 301 | | 365 |

| | | | | |
|---|---|---|---|---|
| Asset retirement obligations | | 108 | | 120 |
| Fixed-price contracts and other derivatives | | 62 | | 40 |
| Customer deposits | | 71 | | 71 |
| Other | | 264 | | 237 |
| Total current liabilities | | 1,682 | | 1,788 |
| Long-term debt ($307 and $315 at September 30, 2015 and December 31, 2014, respectively, related to VIE) | | 4,477 | | 4,319 |
| | | | | |
| Deferred credits and other liabilities: | | | | |
| Customer advances for construction | | 43 | | 41 |
| Pension and other postretirement benefit plan obligations, net of plan assets | | 227 | | 216 |
| Deferred income taxes | | 2,155 | | 2,121 |
| Deferred investment tax credits | | 19 | | 22 |
| Regulatory liabilities arising from removal obligations | | 1,538 | | 1,557 |
| Asset retirement obligations | | 740 | | 754 |
| Fixed-price contracts and other derivatives | | 170 | | 153 |
| Deferred credits and other | | 352 | | 333 |
| Total deferred credits and other liabilities | | 5,244 | | 5,197 |
| | | | | |
| Commitments and contingencies (Note 11) | | | | |
| | | | | |
| Equity: | | | | |
| Common stock (255 million shares authorized; 117 million shares outstanding; no par value) | | 1,338 | | 1,338 |
| Retained earnings | | 3,899 | | 3,606 |
| Accumulated other comprehensive income (loss) | | (12) | | (12) |
| Total SDG&E shareholder's equity | | 5,225 | | 4,932 |
| Noncontrolling interest | | 64 | | 60 |
| Total equity | | 5,289 | | 4,992 |
| Total liabilities and equity | $ | 16,692 | $ | 16,296 |

(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, | | | |
|---|---|---|---|---|
| | 2015 | | 2014 | |
| | (unaudited) | | | |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | |
| Net income | $ | 463 | $ | 399 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | | |
| Depreciation | | 446 | | 395 |

| | | | | |
|---|---|---|---|---|
| Deferred income taxes and investment tax credits | | 170 | | 193 |
| Plant closure adjustment | | (21) | | (13) |
| Fixed-price contracts and other derivatives | | (3) | | (5) |
| Other | | (14) | | (30) |
| Net change in other working capital components | | 136 | | (252) |
| Changes in other assets | | (93) | | 106 |
| Changes in other liabilities | | 10 | | 28 |
| Net cash provided by operating activities | | 1,094 | | 821 |
| | | | | |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | |
| Expenditures for property, plant and equipment | | (835) | | (790) |
| Purchases of nuclear decommissioning trust assets | | (404) | | (501) |
| Proceeds from sales by nuclear decommissioning trusts | | 431 | | 498 |
| Decrease in restricted cash | | 27 | | 109 |
| Increase in restricted cash | | (29) | | (96) |
| Other | | | | (16) |
| Net cash used in investing activities | | (810) | | (796) |
| | | | | |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | | |
| Common dividends paid | | (150) | | |
| Issuances of long-term debt | | 388 | | 100 |
| Payments on long-term debt | | (294) | | (22) |
| Decrease in short-term debt, net | | (202) | | (59) |
| Capital distributions made by Otay Mesa VIE | | (14) | | (38) |
| Net cash used in financing activities | | (272) | | (19) |
| | | | | |
| Increase in cash and cash equivalents | | 12 | | 6 |
| Cash and cash equivalents, January 1 | | 8 | | 27 |
| Cash and cash equivalents, September 30 | $ | 20 | $ | 33 |
| | | | | |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION | | | | |
| Interest payments, net of amounts capitalized | $ | 141 | $ | 136 |
| Income tax payments (refunds), net | | 62 | | (4) |
| | | | | |
| SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES | | | | |
| Accrued capital expenditures | $ | 142 | $ | 118 |
| Increase in capital lease obligations for investment in property, plant and equipment | | | | 60 |

See Notes to Condensed Consolidated Financial Statements.

SOUTHERN CALIFORNIA GAS COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Dollars in millions)

| | Three months ended September 30, | Nine months ended September 30, |
|---|---|---|

| | 2015 | 2014 (unaudited) | 2015 | 2014 |
|---|---|---|---|---|
| Operating revenues | $ 620 | $ 855 | $ 2,448 | $ 2,857 |
| Operating expenses | | | | |
| Cost of natural gas | 163 | 237 | 626 | 1,066 |
| Operation and maintenance | 325 | 326 | 985 | 968 |
| Depreciation | 116 | 109 | 342 | 321 |
| Franchise fees and other taxes | 29 | 30 | 94 | 98 |
| Total operating expenses | 633 | 702 | 2,047 | 2,453 |
| Operating (loss) income | (13) | 153 | 401 | 404 |
| Other income, net | 8 | 6 | 25 | 13 |
| Interest income | | | 3 | |
| Interest expense | (23) | (17) | (61) | (50) |
| (Loss) income before income taxes | (28) | 142 | 368 | 367 |
| Income tax benefit (expense) | 20 | (44) | (91) | (110) |
| Net (loss) income | (8) | 98 | 277 | 257 |
| Preferred dividend requirements | | | (1) | (1) |
| (Losses) earnings attributable to common shares | $ (8) | $ 98 | $ 276 | $ 256 |

See Notes to Condensed Consolidated Financial Statements.

SOUTHERN CALIFORNIA GAS COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(Dollars in millions)

| | Pretax amount | Income tax benefit (expense) | Net-of-tax amount |
|---|---|---|---|
| | Three months ended September 30, 2015 and 2014 (unaudited) | | |
| 2015: | | | |
| Net loss/Comprehensive loss | $ (28) | $ 20 | $ (8) |
| 2014: | | | |
| Net income | $ 142 | $ (44) | $ 98 |
| Other comprehensive income: | | | |
| Pension and other postretirement benefits | 4 | (2) | 2 |
| Total other comprehensive income | 4 | (2) | 2 |
| Comprehensive income | $ 146 | $ (46) | $ 100 |

| | | | |
|---|---|---|---|
| | Nine months ended September 30, 2015 and 2014 (unaudited) | | |
| 2015: | | | |
| Net income/Comprehensive income | $ 368 | $ (91) | $ 277 |
| 2014: | | | |
| Net income | $ 367 | $ (110) | $ 257 |
| Other comprehensive income: | | | |
| Pension and other postretirement benefits | 4 | (2) | 2 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Total other comprehensive income | | 4 | | (2) | | 2 |
| Comprehensive income | $ | 371 | $ | (112) | $ | 259 |

See Notes to Condensed Consolidated Financial Statements.

SOUTHERN CALIFORNIA GAS COMPANY
CONDENSED CONSOLIDATED BALANCE SHEETS
(Dollars in millions)

| | | September 30, 2015 (unaudited) | | December 31, 2014(1) |
|---|---|---|---|---|
| ASSETS | | | | |
| Current assets: | | | | |
| Cash and cash equivalents | $ | 123 | $ | 85 |
| Accounts receivable – trade, net | | 301 | | 586 |
| Accounts receivable – other, net | | 69 | | 51 |
| Due from unconsolidated affiliates | | 220 | | 4 |
| Income taxes receivable | | 25 | | 5 |
| Inventories | | 192 | | 181 |
| Regulatory balancing accounts – net undercollected | | 90 | | 35 |
| Regulatory assets | | 7 | | 5 |
| Other | | 39 | | 36 |
| Total current assets | | 1,066 | | 988 |
| Other assets: | | | | |
| Regulatory assets arising from pension obligations | | 665 | | 617 |
| Other regulatory assets | | 543 | | 472 |
| Sundry | | 176 | | 140 |
| Total other assets | | 1,384 | | 1,229 |
| Property, plant and equipment: | | | | |
| Property, plant and equipment | | 13,739 | | 12,886 |
| Less accumulated depreciation | | (4,834) | | (4,642) |
| Property, plant and equipment, net | | 8,905 | | 8,244 |
| Total assets | $ | 11,355 | $ | 10,461 |

(1) Derived from audited financial statements.

See Notes to Condensed Consolidated Financial Statements.

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

| September 30, | December 31, |
|---|---|

| | 2015 (unaudited) | 2014(1) |
|---|---|---|
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Short-term debt | $ | $ 50 |
| Accounts payable – trade | 355 | 532 |
| Accounts payable – other | 77 | 88 |
| Due to unconsolidated affiliates | 51 | 13 |
| Deferred income taxes | 171 | 53 |
| Accrued compensation and benefits | 144 | 129 |
| Current portion of long-term debt | 9 | |
| Customer deposits | 74 | 75 |
| Other | 164 | 149 |
| Total current liabilities | 1,045 | 1,089 |
| Long-term debt | 2,498 | 1,906 |
| Deferred credits and other liabilities: | | |
| Customer advances for construction | 102 | 102 |
| Pension obligation, net of plan assets | 682 | 633 |
| Deferred income taxes | 1,270 | 1,212 |
| Deferred investment tax credits | 14 | 16 |
| Regulatory liabilities arising from removal obligations | 1,158 | 1,167 |
| Asset retirement obligations | 1,286 | 1,255 |
| Deferred credits and other | 293 | 300 |
| Total deferred credits and other liabilities | 4,805 | 4,685 |
| Commitments and contingencies (Note 11) | | |
| Shareholders' equity: | | |
| Preferred stock | 22 | 22 |
| Common stock (100 million shares authorized; 91 million shares outstanding; no par value) | 866 | 866 |
| Retained earnings | 2,137 | 1,911 |
| Accumulated other comprehensive income (loss) | (18) | (18) |
| Total shareholders' equity | 3,007 | 2,781 |
| Total liabilities and shareholders' equity | $ 11,355 | $ 10,461 |

(1) Derived from audited financial statements.

See Notes to Condensed Consolidated Financial Statements.

SOUTHERN CALIFORNIA GAS COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in millions)

| | Nine months ended September 30, 2015 | 2014 |
|---|---|---|
| | (unaudited) | |

| | | | | |
|---|---|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | |
| Net income | $ | 277 | $ | 257 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | | |
| Depreciation | | 342 | | 321 |
| Deferred income taxes and investment tax credits | | 98 | | 94 |
| Other | | (18) | | (2) |
| Net change in other working capital components | | 48 | | (19) |
| Changes in other assets | | (57) | | (70) |
| Changes in other liabilities | | | | 15 |
| Net cash provided by operating activities | | 690 | | 596 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | |
| Expenditures for property, plant and equipment | | (946) | | (764) |
| Increase in loans to affiliates, net | | (250) | | (281) |
| Net cash used in investing activities | | (1,196) | | (1,045) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | | |
| Preferred dividends paid | | (1) | | (1) |
| Issuances of long-term debt | | 599 | | 747 |
| Repayment of long-term debt | | | | (250) |
| Decrease in short-term debt, net | | (50) | | (42) |
| Other | | (4) | | (7) |
| Net cash provided by financing activities | | 544 | | 447 |
| Increase (decrease) in cash and cash equivalents | | 38 | | (2) |
| Cash and cash equivalents, January 1 | | 85 | | 27 |
| Cash and cash equivalents, September 30 | $ | 123 | $ | 25 |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION | | | | |
| Interest payments, net of amounts capitalized | $ | 53 | $ | 43 |
| Income tax payments, net | | 11 | | 19 |
| SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES | | | | |
| Accrued capital expenditures | $ | 172 | $ | 137 |
| Dividends declared but not paid | | 50 | | |

See Notes to Condensed Consolidated Financial Statements.

SEMPRA ENERGY AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. GENERAL

IMPACT OF SEASONALIZATION AT SEMPRA ENERGY AND SOUTHERN CALIFORNIA GAS COMPANY

In the first quarter of 2015, Southern California Gas Company (SoCalGas) adopted a California Public Utilities Commission (CPUC) decision in the Triennial Cost Allocation Proceeding (TCAP) requiring SoCalGas to recognize annual authorized revenue for core natural gas customers using seasonal factors established in the TCAP, instead of recognizing such revenue ratably over the year as was previously required. This "seasonalization" resulted in $158 million lower operating revenues and $113 million lower earnings for both Sempra Energy and SoCalGas for the three months ended September 30, 2015 compared to the same period in 2014, and $67 million lower operating revenues and $48 million lower earnings for both Sempra Energy and SoCalGas for the first nine months of 2015 compared to the same period in 2014. While this seasonalization will cause variability in comparable revenue and earnings from quarter to quarter within the year, it will not impact full-year 2015 results nor have any impact on cash flows. Accordingly, substantially all of SoCalGas' annual earnings will be recognized in the first and fourth quarters of the year. We discuss the CPUC decision further in Note 10.

PRINCIPLES OF CONSOLIDATION

Sempra Energy

Sempra Energy's Condensed Consolidated Financial Statements include the accounts of Sempra Energy, a California-based Fortune 500 energy-services holding company, and its consolidated subsidiaries and variable interest entities (VIEs). Sempra Energy's principal operating units are

§ San Diego Gas & Electric Company (SDG&E) and SoCalGas, which are separate, reportable segments;

§ Sempra International, which includes our Sempra South American Utilities and Sempra Mexico reportable segments; and

§ Sempra U.S. Gas & Power, which includes our Sempra Renewables and Sempra Natural Gas reportable segments.

We provide descriptions of each of our segments in Note 12.

We refer to SDG&E and SoCalGas collectively as the California Utilities, which do not include the utilities in our Sempra International and Sempra U.S. Gas & Power operating units. Sempra Global is the holding company for most of our subsidiaries that are not subject to California utility regulation. All references in these Notes to "Sempra International," "Sempra U.S. Gas & Power" and their respective reportable segments are not intended to refer to any legal entity with the same or similar name.

Our Sempra Mexico segment includes the operating companies of our subsidiary, Infraestructura Energética Nova, S.A.B. de C.V. (IEnova), as well as certain holding companies and risk management activity. We discuss IEnova further in Note 1 of the Notes to Consolidated Financial Statements in our Annual Report on Form 10-K for the year ended December 31, 2014 (the Annual Report), which includes the combined reports for Sempra Energy, SDG&E and

SoCalGas.

Sempra Energy uses the equity method to account for investments in affiliated companies over which we have the ability to exercise significant influence, but not control. We discuss our investments in unconsolidated entities in Notes 3 and 4 herein and in the Notes to Consolidated Financial Statements in the Annual Report.

SDG&E

SDG&E's Condensed Consolidated Financial Statements include its accounts and the accounts of a VIE of which SDG&E is the primary beneficiary, as we discuss in Note 5 under "Variable Interest Entities." SDG&E's common stock is wholly owned by Enova Corporation, which is a wholly owned subsidiary of Sempra Energy.

SoCalGas

SoCalGas' Condensed Consolidated Financial Statements include its accounts and the de minimis accounts of inactive subsidiaries. SoCalGas' common stock is wholly owned by Pacific Enterprises, which is a wholly owned subsidiary of Sempra Energy.

BASIS OF PRESENTATION

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

We have prepared the Condensed Consolidated Financial Statements in conformity with accounting principles generally accepted in the United States of America (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, 2015 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, 2014 balance sheet information in the Condensed Consolidated Financial Statements has been derived from our audited 2014 Consolidated Financial Statements in the Annual Report. 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 Securities and Exchange Commission.

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.

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

Regulated Operations

Sempra South American Utilities has controlling interests in two electric distribution utilities in South America, Chilquinta Energía S.A. (Chilquinta Energía) in Chile and Luz del Sur S.A.A. (Luz del Sur) in Peru. Sempra Natural Gas owns Mobile Gas Service Corporation (Mobile Gas) in southwest Alabama and Willmut Gas Company (Willmut Gas) in Mississippi, and Sempra Mexico owns Ecogas México, S. de R.L. de C.V. (Ecogas) in northern Mexico, all natural gas distribution utilities. The California Utilities, Sempra Natural Gas' Mobile Gas and Willmut Gas, and Sempra Mexico's Ecogas prepare their financial statements in accordance with U.S. GAAP provisions governing regulated operations, as we discuss in Note 1 of the Notes to Consolidated Financial Statements in the Annual Report.

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NOTE 2. NEW ACCOUNTING STANDARDS

We describe below recent pronouncements that have had or may have a significant effect on our financial statements. We do not discuss recent pronouncements that are not anticipated to have an impact on or are unrelated to our financial condition, results of operations, cash flows or disclosures.

SEMPRA ENERGY, SDG&E AND SOCALGAS

Accounting Standards Update (ASU) 2014-09, "Revenue from Contracts with Customers" (ASU 2014-09) and ASU 2015-14, "Revenue from Contracts with Customers: Deferral of the Effective Date" (ASU 2015-14): ASU 2014-09 provides accounting guidance for revenue arising from contracts with customers and affects all entities that enter into contracts to provide goods or services to their customers. The guidance also provides a model for the measurement and recognition of gains and losses on the sale of certain nonfinancial assets, such as property and equipment, including real estate. This guidance must be adopted using either a full retrospective approach for all periods presented in the period of adoption or a modified retrospective approach.

ASU 2015-14 defers the effective date of ASU 2014-09 by one year for all entities and permits early adoption on a limited basis. For public entities, ASU 2014-09 is effective for fiscal years beginning after December 15, 2017, with early adoption permitted for fiscal years beginning after December 15, 2016, and is effective for interim periods in the year of adoption. We have not yet selected the year in which we will adopt the standard or our transition method, nor have we determined the effect of the standard on our ongoing financial reporting.

ASU 2015-03, "Interest – Imputation of Interest: Simplifying the Presentation of Debt Issuance Costs" (ASU 2015-03) and ASU 2015-15, "Interest - Imputation of Interest: Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements" (ASU 2015-15): ASU 2015-03 provides guidance on the financial statement presentation of debt issuance costs and requires an entity to present debt issuance costs in the balance sheet as a direct deduction from the carrying amount of the related long-term debt liability. This guidance must be applied using a full retrospective approach for all periods presented in the period of adoption.

We will adopt ASU 2015-03 for our annual reporting period ending December 31, 2015, and the adoption will not affect our results of operations or cash flows. Deferred debt issuance costs that are the subject of ASU 2015-03 are included in Sundry on the Sempra Energy, SDG&E and SoCalGas Condensed Consolidated Balance Sheets and total $78 million, $32 million, and $18 million at September 30, 2015, respectively, and $72 million, $33 million, and $15 million at December 31, 2014, respectively.

ASU 2015-15 clarifies ASU 2015-03 to provide additional guidance related to line-of-credit arrangements and states that the Securities and Exchange Commission staff would not object to an entity continuing to defer and present costs related to line-of-credit arrangements as an asset and subsequently amortizing the deferred costs ratably over the term of the line-of-credit arrangements, regardless of whether there are any outstanding borrowings on the line-of-credit arrangements. We will adopt ASU 2015-15 for our annual reporting period ending December 31, 2015 and will continue to include deferred costs related to our line-of-credit arrangements that are the subject of ASU 2015-15 in Sundry on the Sempra Energy, SDG&E and SoCalGas Condensed Consolidated Balance Sheets.

ASU 2015-16, "Business Combinations – Simplifying the Accounting for Measurement-Period Adjustments" (ASU 2015-16): ASU 2015-16 eliminates the requirement that acquirers in a business combination account for measurement-period adjustments retrospectively. Instead, the acquirers will recognize measurement-period adjustments during the period in which they determine the amounts, including the effect on earnings of any amounts that would have been recorded in previous periods if the accounting had been completed at the acquisition date. We will adopt ASU 2015-16 for our annual reporting period ending December 31, 2015. Any subsequent measurement-period adjustments to the purchase price allocation related to the acquisition of Gasoductos de Chihuahua that we discuss in Note 3 will occur after the adoption of ASU 2015-16 and will be recognized in the period in which the adjustments are determined.

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## NOTE 3. ACQUISITION AND DIVESTITURE ACTIVITY

### PENDING ACQUISITION

### Sempra Mexico

IEnova and Petróleos Mexicanos (or PEMEX, the Mexican state-owned oil company), are 50-50 partners in the joint venture Gasoductos de Chihuahua (GdC). On July 31, 2015, IEnova entered into an agreement to purchase PEMEX's 50-percent interest for $1.325 billion (excluding the assumption of approximately $170 million of net debt), increasing its interest from 50 percent to 100 percent. GdC develops and operates energy infrastructure in Mexico. The assets involved in the acquisition include three natural gas pipelines, an ethane pipeline, and a liquid petroleum gas pipeline and associated storage terminal. The transaction excludes the Los Ramones Norte pipeline that IEnova will continue to develop under a separate joint venture with PEMEX, through which IEnova's interest in the project will remain at the current 25 percent. IEnova shareholders approved the transaction in September 2015. The transaction is subject to satisfactory completion of the Mexican anti-trust review and other customary closing conditions and is expected to close by the end of 2015.

After financing at the IEnova level, we expect the acquisition to be accretive to Sempra Energy’s diluted earnings per share, based on the joint venture’s strong historical performance. We expect the transaction to have additional benefits, including an ongoing relationship with PEMEX for joint development of new projects in the future; opportunities for asset optimization and expansion into areas such as the transportation and storage of refined products; and a larger platform and presence in Mexico to participate in energy sector reform.

IEnova currently accounts for its 50-percent interest in GdC as an equity method investment. At closing, GdC will become a wholly owned, consolidated subsidiary of IEnova. We anticipate that we will recognize a noncash gain associated with the remeasurement of our equity interest in GdC upon consummation of the transaction, however, as the transaction has not yet closed, we are unable to reasonably estimate the gain at this time.

We expect the acquisition to be funded with a combination of debt and equity at IEnova. Sempra Global has committed to IEnova to provide approximately $1.325 billion of interim financing for the transaction. If IEnova elects to borrow this money, it expects to repay all or a substantial portion of the loan with proceeds from a planned equity offering. IEnova is also arranging to receive bank commitments of up to $1.0 billion to have an alternate source of capital to repay a portion of the interim financing from Sempra Global. Sempra Energy intends to participate in the planned equity offering with proceeds of dividends from IEnova that otherwise would be repatriated to the U.S.

## MESQUITE POWER SALE

### Sempra Natural Gas

In April 2015, Sempra Natural Gas sold the remaining 625-megawatt (MW) block of the Mesquite Power plant, together with a related power sales contract, for net cash proceeds of $347 million. We recognized a pretax gain on the sale of $61 million ($36 million after-tax), included in Gain on Sale of Equity Interests and Assets on our Condensed Consolidated Statement of Operations for the nine months ended September 30, 2015. The asset was classified as held for sale at December 31, 2014.

## SALE OF EQUITY INTERESTS AND JOINT VENTURE INVESTMENT

During the nine months ended September 30, 2014, Sempra Energy completed the sale of equity interests in various subsidiaries that were previously wholly owned. The following table summarizes the deconsolidation of those subsidiaries, and we discuss each transaction below:

| DECONSOLIDATION OF SUBSIDIARIES<br>(Dollars in millions) | | | |
|---|---|---|---|
| | Energía Sierra Juárez | Copper Mountain Solar 3 | Sempra Energy Consolidated |

| | At July 16, 2014 | At March 13, 2014 | |
|---|---|---|---|
| Proceeds from sale, net of negligible transaction costs | $ 26 | $ 68 | $ 94 |
| Cash | (2) | (2) | (4) |
| Other current assets | (11) | | (11) |
| Property, plant and equipment, net | (137) | (247) | (384) |
| Other assets | (16) | (11) | (27) |
| Accounts payable and accrued expenses | 10 | 82 | 92 |
| Due to affiliate | 39 | | 39 |
| Long-term debt, including current portion | 82 | 97 | 179 |
| Other liabilities | 7 | 3 | 10 |
| Accumulated other comprehensive income | (5) | (2) | (7) |
| Gain on sale of equity interests | (19) | (27) | (46) |
| (Increase) in equity method investments upon deconsolidation | $ (26) | $ (39) | $ (65) |

Sempra Mexico

In July 2014, Sempra Mexico completed the sale of a 50-percent interest in the 155-MW first phase of its Energía Sierra Juárez wind project to a wholly owned subsidiary of InterGen N.V. for cash proceeds of $24 million, net of $2 million cash sold. Sempra Mexico recognized a pretax gain on the sale of $19 million ($14 million after-tax) included in Gain on Sale of Equity Interests and Assets on our Condensed Consolidated Statements of Operations for the three months and nine months ended September 30, 2014. The gain on sale included a $7 million after-tax gain attributable to the remeasurement of the retained investment to fair value. Our remaining 50-percent interest in Energía Sierra Juárez is accounted for under the equity method.

Sempra Renewables

In March 2014, Sempra Renewables formed a joint venture with Consolidated Edison Development (Con Edison Development), a non-related party, by selling a 50-percent interest in its 250-MW Copper Mountain Solar 3 solar power facility for $66 million in cash, net of $2 million cash sold. Sempra Renewables recognized a pretax gain on the sale of $27 million ($16 million after-tax), included in Gain on Sale of Equity Interests and Assets on our Condensed Consolidated Statement of Operations for the nine months ended September 30, 2014. Our remaining 50-percent interest in Copper Mountain Solar 3 is accounted for under the equity method. Based on the nature of the underlying assets, this investment is considered in-substance real estate. Therefore, in accordance with applicable U.S. GAAP, the Copper Mountain Solar 3 equity method investment was measured at historical cost and no portion of the gain was attributable to a remeasurement of the retained investment to fair value.

In May 2014, Sempra Renewables invested $109 million (and an additional $12 million in November 2014, as adjusted for financial position at closing) to become a 50-percent partner with Con Edison Development in four fully operating solar facilities in California. We discuss our investment in the California solar partnership further in Note 4 of the Notes to Consolidated Financial Statements in the Annual Report.

In March 2015, Sempra Renewables acquired a 100-percent interest in the Black Oak Getty Wind project, a 78-MW wind farm under development in Stearns County, Minnesota. The wind farm has a 20-year power purchase agreement with Minnesota Municipal Power Agency. The total acquisition cost for the project is $8 million.

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## NOTE 4. INVESTMENTS IN UNCONSOLIDATED ENTITIES

We provide additional information concerning our equity method investments in Notes 3 and 4 of the Notes to Consolidated Financial Statements in the Annual Report.

### SEMPRA RENEWABLES

In addition to Sempra Renewables' investment in the California solar partnership discussed in Note 3 above, during the nine months ended September 30, 2015 and 2014, Sempra Renewables invested cash of $18 million and $76 million, respectively, in its other renewable energy joint ventures.

### SEMPRA NATURAL GAS

During the nine months ended September 30, 2015, Sempra Natural Gas invested $10 million of cash in its joint venture, Cameron LNG Holdings, LLC (Cameron LNG Holdings or Cameron LNG JV), and capitalized $36 million of interest related to this equity method investment that has not commenced planned principal operations.

In April 2015, Sempra Natural Gas invested $113 million of cash in its equity method investment, Rockies Express Pipeline LLC, a partnership that operates the Rockies Express pipeline, to repay project debt that matured in early 2015.

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## NOTE 5. OTHER FINANCIAL DATA

### INVENTORIES

The components of inventories by segment are as follows:

| INVENTORY BALANCES (Dollars in millions) | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Natural gas | | Liquefied natural gas | | Materials and supplies | | Total | |
| | September 30, 2015 | December 31, 2014 | September 30, 2015 | December 31, 2014 | September 30, 2015 | December 31, 2014 | September 30, 2015 | December 31, 2014 |
| SDG&E | $ 4 | $ 8 | $ | $ | $ 67 | $ 65 | $ 71 | $ 73 |
| SoCalGas | 162 | 155 | | | 30 | 26 | 192 | 181 |
| Sempra South American Utilities | | | | | 34 | 33 | 34 | 33 |
| Sempra Mexico | | | 7 | 9 | 10 | 9 | 17 | 18 |
| Sempra Renewables | | | | | 2 | 2 | 2 | 2 |
| Sempra Natural Gas | 95 | 83 | 4 | 5 | 1 | 1 | 100 | 89 |
| Sempra Energy Consolidated | $ 261 | $ 246 | $ 11 | $ 14 | $ 144 | $ 136 | $ 416 | $ 396 |

GOODWILL

We discuss goodwill in Note 1 of the Notes to Consolidated Financial Statements in the Annual Report. The decrease in goodwill from $931 million at December 31, 2014 to $847 million at September 30, 2015 is due to foreign currency translation at Sempra South American Utilities. We record the offset of this fluctuation in Other Comprehensive Income (Loss).

VARIABLE INTEREST ENTITIES (VIE)

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

§ the purpose and design of the VIE;

§ the nature of the VIE’s risks and the risks we absorb;

§ the power to direct activities that most significantly impact the economic performance of the VIE; and

§ the obligation to absorb losses or right to receive benefits that could be significant to the VIE.

SDG&E

Tolling Agreements

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

Otay Mesa VIE

SDG&E has an agreement to purchase power generated at the Otay Mesa Energy Center (OMEC), a 605-MW generating facility. In addition to tolling, the agreement provides SDG&E with the option to purchase the power plant at the end of the contract term in 2019, or upon earlier termination of the purchased-power agreement, at a predetermined price subject to adjustments based on performance of the facility. If SDG&E does not exercise its option, under certain circumstances, it may be required to purchase the power plant at a predetermined price, which we refer to as the put option.

The facility owner, Otay Mesa Energy Center LLC (OMEC LLC), is a VIE (Otay Mesa VIE), of which SDG&E is the primary beneficiary. SDG&E has no OMEC LLC voting rights, holds no equity in OMEC LLC and does not operate OMEC. In addition to the risks absorbed under the tolling agreement, SDG&E absorbs separately through the put option a significant portion of the risk that the value of Otay Mesa VIE could decline. Accordingly, SDG&E and Sempra Energy have consolidated Otay Mesa VIE. Otay Mesa VIE's equity of $64 million at September 30, 2015 and $60 million at December 31, 2014 is included on the Condensed Consolidated Balance Sheets in Other Noncontrolling Interests for Sempra Energy and in Noncontrolling Interest for SDG&E.

OMEC LLC has a loan outstanding of $317 million at September 30, 2015, the proceeds of which were used for the construction of OMEC. The loan is with third party lenders and is secured by OMEC's property, plant and equipment. SDG&E is not a party to the loan agreement and does not have any additional implicit or explicit financial responsibility to OMEC LLC. The loan fully matures in April 2019 and bears interest at rates varying with market rates. In addition, OMEC LLC has entered into interest rate swap agreements to moderate its exposure to interest rate changes. We provide additional information concerning the interest rate swaps in Note 7.

The Condensed Consolidated Statements of Operations of Sempra Energy and SDG&E include the following amounts associated with Otay Mesa VIE. The amounts are net of eliminations of transactions between SDG&E and Otay Mesa VIE. The captions in the table below generally 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, | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| Operating expenses | | | | |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Cost of electric fuel and purchased power | $ | (27) | $ | (27) | $ | (66) | $ | (67) |
| Operation and maintenance | | 3 | | 3 | | 13 | | 13 |
| Depreciation | | 7 | | 7 | | 19 | | 21 |
| Total operating expenses | | (17) | | (17) | | (34) | | (33) |
| Operating income | | 17 | | 17 | | 34 | | 33 |
| Interest expense | | (5) | | (5) | | (14) | | (13) |
| Income before income taxes/Net income | | 12 | | 12 | | 20 | | 20 |
| Earnings attributable to noncontrolling interest | | (12) | | (12) | | (20) | | (20) |
| Earnings attributable to common shares | $ | | $ | | $ | | $ | |

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

Sempra Natural Gas

Cameron LNG JV

Sempra Energy's equity method investment in Cameron LNG JV is considered to be a VIE generally due to contractual provisions that transfer certain risks to customers. Sempra Energy is not the primary beneficiary because we do not have the power to direct the most significant activities of Cameron LNG JV. We will continue to evaluate Cameron LNG JV for any changes that may impact our determination of the primary beneficiary. The carrying value of our investment in Cameron LNG JV was $956 million and $1,007 million at September 30, 2015 and December 31, 2014, respectively. Our maximum exposure to loss includes the carrying value of our investment and the guarantees discussed in Note 4 of the Notes to Consolidated Financial Statements in the Annual Report.

Other Variable Interest Entities

SDG&E's power procurement is subject to reliability requirements that may require SDG&E to enter into various power purchase arrangements which include variable interests. SDG&E evaluates the respective entities to determine if variable interests exist and, based on the qualitative and quantitative analyses described above, if SDG&E, and thereby Sempra Energy, is the primary beneficiary. SDG&E has determined that no contracts, other than the one relating to Otay Mesa VIE mentioned above, result in SDG&E being the primary beneficiary at September 30, 2015. In addition to the tolling agreements described above, other variable interests involve various elements of fuel and power costs, including certain construction costs, tax credits, and other components of cash flow expected to be paid to or received by our counterparties. In most of these cases, the expectation of variability is not substantial, and SDG&E generally does not have the power to direct activities that most significantly impact the economic performance of the other VIEs. If our ongoing evaluation of these VIEs were to conclude that SDG&E becomes the primary beneficiary and consolidation by SDG&E becomes necessary, the effects are not expected to significantly affect the financial position, results of operations, or liquidity of SDG&E. In addition, SDG&E is not exposed to losses or gains as a result of these other VIEs, because all such variability would be recovered in rates.

Sempra Energy's other operating units also enter into arrangements which could include variable interests. We evaluate these arrangements and applicable entities based upon the qualitative and quantitative analyses described above. Certain of these entities are service companies that are VIEs. As the primary beneficiary of these service companies, we consolidate them; however, their financial statements are not material to the financial statements of Sempra Energy. In all other cases, we have determined that these contracts are not variable interests in a VIE and therefore are not subject to the U.S. GAAP requirements concerning the consolidation of VIEs.

PENSION AND OTHER POSTRETIREMENT BENEFITS

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, | | | |
| | 2015 | 2014 | 2015 | 2014 |
| Service cost | $ 27 | $ 23 | $ 5 | $ 6 |
| Interest cost | 38 | 39 | 10 | 13 |
| Expected return on assets | (42) | (42) | (17) | (15) |
| Amortization of: | | | | |
| Prior service cost (credit) | 3 | 3 | (1) | (2) |
| Actuarial loss | 9 | 3 | | |
| Settlements and special termination benefits | 4 | 5 | | 5 |
| Regulatory adjustment | (27) | 6 | 4 | 5 |
| Total net periodic benefit cost | $ 12 | $ 37 | $ 1 | $ 12 |
| | Nine months ended September 30, | | | |
| | 2015 | 2014 | 2015 | 2014 |
| Service cost | $ 86 | $ 75 | $ 19 | $ 18 |
| Interest cost | 116 | 121 | 33 | 37 |
| Expected return on assets | (130) | (128) | (51) | (47) |
| Amortization of: | | | | |
| Prior service cost (credit) | 8 | 8 | (2) | (4) |
| Actuarial loss | 28 | 13 | | |
| Settlements and special termination benefits | 4 | 14 | | 5 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Regulatory adjustment | | (86) | | (18) | | 4 | | 5 |
| Total net periodic benefit cost | $ | 26 | $ | 85 | $ | 3 | $ | 14 |

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

| | Pension benefits | | | | Other postretirement benefits | | | |
|---|---|---|---|---|---|---|---|---|
| | Three months ended September 30, | | | | | | | |
| | 2015 | | 2014 | | 2015 | | 2014 | |
| Service cost | $ | 6 | $ | 8 | $ | 1 | $ | 2 |
| Interest cost | | 9 | | 10 | | 2 | | 3 |
| Expected return on assets | | (14) | | (13) | | (2) | | (2) |
| Amortization of: | | | | | | | | |
| Actuarial loss | | 3 | | 1 | | | | |
| Special termination benefits | | | | | | | | 5 |
| Regulatory adjustment | | (3) | | 6 | | (1) | | 4 |
| Total net periodic benefit cost | $ | 1 | $ | 12 | $ | | $ | 12 |
| | Nine months ended September 30, | | | | | | | |
| | 2015 | | 2014 | | 2015 | | 2014 | |
| Service cost | $ | 22 | $ | 23 | $ | 5 | $ | 5 |
| Interest cost | | 29 | | 32 | | 6 | | 7 |
| Expected return on assets | | (41) | | (41) | | (8) | | (8) |
| Amortization of: | | | | | | | | |
| Prior service cost | | 1 | | 1 | | 2 | | 2 |
| Actuarial loss | | 7 | | 3 | | | | |
| Settlements and special termination benefits | | | | 2 | | | | 5 |
| Regulatory adjustment | | (15) | | 7 | | (5) | | 1 |
| Total net periodic benefit cost | $ | 3 | $ | 27 | $ | | $ | 12 |

NET PERIODIC BENEFIT COST – SOCALGAS
(Dollars in millions)

| | Pension benefits | | | | Other postretirement benefits | | | |
|---|---|---|---|---|---|---|---|---|
| | Three months ended September 30, | | | | | | | |
| | 2015 | | 2014 | | 2015 | | 2014 | |
| Service cost | $ | 17 | $ | 13 | $ | 3 | $ | 4 |
| Interest cost | | 25 | | 24 | | 8 | | 9 |
| Expected return on assets | | (25) | | (26) | | (14) | | (12) |
| Amortization of: | | | | | | | | |
| Prior service cost (credit) | | 2 | | 2 | | (2) | | (2) |
| Actuarial loss | | 5 | | 1 | | | | |
| Settlement | | | | 4 | | | | |
| Regulatory adjustment | | (24) | | | | 5 | | 1 |
| Total net periodic benefit cost | $ | | $ | 18 | $ | | $ | |
| | Nine months ended September 30, | | | | | | | |
| | 2015 | | 2014 | | 2015 | | 2014 | |

| | | | | |
|---|---|---|---|---|
| Service cost | $ 55 | $ 45 | $ 13 | $ 12 |
| Interest cost | 74 | 75 | 26 | 28 |
| Expected return on assets | (79) | (78) | (42) | (38) |
| Amortization of: | | | | |
| Prior service cost (credit) | 6 | 6 | (6) | (6) |
| Actuarial loss | 16 | 5 | | |
| Settlement | | 4 | | |
| Regulatory adjustment | (71) | (25) | 9 | 4 |
| Total net periodic benefit cost | $ 1 | $ 32 | $ | $ |

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 2015:

BENEFIT PLAN CONTRIBUTIONS
(Dollars in millions)

| | Sempra Energy Consolidated | SDG&E | SoCalGas |
|---|---|---|---|
| Contributions through September 30, 2015: | | | |
| Pension plans | $ 27 | $ 2 | $ 1 |
| Other postretirement benefit plans | 3 | | |
| Total expected contributions in 2015: | | | |
| Pension plans | $ 36 | $ 3 | $ 7 |
| Other postretirement benefit plans | 11 | 7 | 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 $459 million and $512 million at September 30, 2015 and December 31, 2014, respectively.

EARNINGS PER SHARE

The following table provides the per share computations for our earnings for the three months and nine months ended September 30, 2015 and 2014. Basic earnings per common share (EPS) is calculated by dividing earnings attributable to common stock 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 PER SHARE COMPUTATIONS<br>(Dollars in millions, except per share amounts; shares in thousands) | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| Numerator: | | | | |
| Earnings/Income attributable to common shares | $ 248 | $ 348 | $ 980 | $ 864 |
| Denominator: | | | | |
| Weighted-average common shares outstanding for basic EPS(1) | 248,432 | 246,137 | 248,090 | 245,703 |
| Dilutive effect of stock options, restricted stock awards and restricted stock units | 2,592 | 4,634 | 2,575 | 4,575 |
| Weighted-average common shares outstanding for diluted EPS | 251,024 | 250,771 | 250,665 | 250,278 |
| Earnings per share: | | | | |
| Basic | $ 1.00 | $ 1.41 | $ 3.95 | $ 3.52 |
| Diluted | 0.99 | 1.39 | 3.91 | 3.45 |

(1) Includes fully vested restricted stock units of 504 and 222 held in our Deferred Compensation Plan for the three months ended September 30, 2015 and 2014, respectively, and 486 and 209 for the nine months ended September 30, 2015 and 2014, respectively. These fully vested restricted stock units 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.

The dilution from common stock options is based on the treasury stock method. Under this method, proceeds based on the exercise price plus unearned compensation and windfall tax benefits recognized, minus tax shortfalls recognized, are assumed to be used to repurchase shares on the open market at the average market price for the period. The windfall tax benefits are tax deductions we would receive upon the assumed exercise of stock options in excess of the deferred income taxes we recorded related to the compensation expense on the stock options. Tax shortfalls occur when the assumed tax deductions are less than recorded deferred income taxes. The calculation of dilutive common stock equivalents excludes options for which the exercise price on common stock was greater than the average market price during the period (out-of-the-money options). We had no such antidilutive stock options outstanding for the three months or nine months ended September 30, 2015 or 2014. For the three months and nine months ended September 30, 2015 and 2014, we had no stock options outstanding that were antidilutive because of the unearned compensation and windfall tax benefits included in the assumed proceeds under the treasury stock method.

The dilution from unvested restricted stock awards (RSAs) and restricted stock units (RSUs) is also based on the treasury stock method. Proceeds equal to the unearned compensation and windfall tax benefits recognized, minus tax shortfalls recognized, related to the awards and units are assumed to be used to repurchase shares on the open market at the average market price for the period. The windfall tax benefits or tax shortfalls recognized are the difference between tax deductions we would receive upon the assumed vesting of RSAs or RSUs and the deferred income taxes we recorded related to the compensation expense on such awards and units. There were no antidilutive RSAs or RSUs from the application of unearned compensation in the treasury stock method for the three months and nine months ended September 30, 2015. There were no such antidilutive RSAs or RSUs for the three months or nine months ended September 30, 2014.

Our performance-based RSUs include awards that vest at the end of three-year (for awards granted in 2015) or four-year performance periods based on Sempra Energy's total return to shareholders relative to that of specified market indices (Total Shareholder Return or TSR RSUs) or based on the compound annual growth rate of Sempra Energy's EPS (EPS RSUs). The comparative market indices for the TSR RSUs are the Standard & Poor's (S&P) 500 Utilities Index and the S&P 500 Index. We primarily use long-term analyst consensus growth estimates for S&P 500 Utilities Index peer companies to develop our EPS RSU targets. TSR RSUs represent the right to receive from zero to 1.5 shares (2.0 shares for awards granted during or after 2014) of Sempra Energy common stock if performance targets are met. EPS RSUs represent the right to receive from zero to 2.0 shares of Sempra Energy common stock if performance targets are met. If performance falls between the targets specified for each performance metric, we calculate the payout using linear interpolation. Participants also receive additional shares for dividend equivalents on shares subject to RSUs, which are deemed reinvested to purchase additional units that become subject to the same vesting conditions as the RSUs to which the dividends relate.

Our RSAs, which are solely service-based, and those RSUs that are service-based or issued in connection with certain other performance goals represent the right to receive up to 1.0 share if the service requirements or certain other vesting conditions are met. These RSAs and RSUs have the same dividend equivalent rights as the performance-based RSUs described above. We include RSAs and these RSUs in potential dilutive shares at 100 percent, subject to the application of the treasury stock method. We include our TSR RSUs and EPS RSUs in potential dilutive shares at zero to up to 200 percent to the extent that they currently meet the performance requirements for vesting, subject to the application of the treasury stock method. Due to market fluctuations of both Sempra Energy stock and the comparative indices, dilutive TSR RSU shares may vary widely from period-to-period. If it were assumed that performance goals for all performance-based RSUs were met at maximum levels and if the treasury stock method were not applied to any of our RSAs or RSUs, the incremental potential dilutive shares would be 2,001,020 and 2,047,656 for the three months and nine months ended September 30, 2015, respectively, and 844,251 and 971,943 for the three months and nine months ended September 30, 2014, respectively.

SHARE-BASED COMPENSATION

We discuss our share-based compensation plans in Note 8 of the Notes to Consolidated Financial Statements in the Annual Report. We recorded share-based compensation expense, net of income taxes, of $7 million and $8 million for the three-month periods ended September 30, 2015 and 2014, respectively, and $22 million for each of the nine-month periods ended September 30, 2015 and 2014. Pursuant to our Sempra Energy share-based compensation plans, Sempra Energy's compensation committee granted 301,319 TSR RSUs, 76,675 EPS RSUs and 133,159 RSUs issued either as service-based awards or in connection with certain other performance goals during the nine months ended September 30, 2015, primarily in January.

During the nine months ended September 30, 2015, IEnova issued 278,538 RSUs from the IEnova 2013 Long-Term Incentive Plan, under which awards are cash settled at vesting based on the price of IEnova common stock.

CAPITALIZED FINANCING COSTS

Capitalized financing costs include capitalized interest costs and, primarily at the California Utilities, an allowance for funds used during construction (AFUDC) related to both debt and equity financing of construction projects.

Pipeline projects currently under construction by Sempra Mexico and Sempra Natural Gas that are both subject to certain regulation and meet U.S. GAAP regulatory accounting requirements record the impact of AFUDC related to equity.

Sempra International's and Sempra U.S. Gas & Power's businesses capitalize interest costs incurred to finance capital projects and interest on equity method investments that have not commenced planned principal operations. The California Utilities also capitalize certain interest costs.

The following table shows capitalized financing costs for the three months and nine months ended September 30, 2015 and 2014.

CAPITALIZED FINANCING COSTS
(Dollars in millions)

| | Three months ended September 30, | | | | Nine months ended September 30, | | | |
|---|---|---|---|---|---|---|---|---|
| | 2015 | | 2014 | | 2015 | | 2014 | |
| Sempra Energy Consolidated: | | | | | | | | |
| AFUDC related to debt | $ | 6 | $ | 5 | $ | 19 | $ | 15 |
| AFUDC related to equity | | 26 | | 28 | | 84 | | 77 |
| Other capitalized financing costs | | 18 | | 6 | | 52 | | 22 |
| Total Sempra Energy Consolidated | $ | 50 | $ | 39 | $ | 155 | $ | 114 |
| SDG&E: | | | | | | | | |
| AFUDC related to debt | $ | 3 | $ | 3 | $ | 10 | $ | 10 |
| AFUDC related to equity | | 9 | | 8 | | 27 | | 26 |
| Total SDG&E | $ | 12 | $ | 11 | $ | 37 | $ | 36 |
| SoCalGas: | | | | | | | | |
| AFUDC related to debt | $ | 3 | $ | 2 | $ | 9 | $ | 5 |
| AFUDC related to equity | | 10 | | 7 | | 29 | | 18 |
| Other capitalized financing costs | | 1 | | | | 1 | | |
| Total SoCalGas | $ | 14 | $ | 9 | $ | 39 | $ | 23 |

COMPREHENSIVE INCOME

The following tables present the changes in Accumulated Other Comprehensive Income (Loss) (AOCI) by component and amounts reclassified out of AOCI to net income, excluding amounts attributable to noncontrolling interests:

CHANGES IN ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS) BY COMPONENT(1)
SEMPRA ENERGY CONSOLIDATED
(Dollars in millions)

| | Foreign | Pension and other postretirement benefits | Total |
|---|---|---|---|

| | currency translation adjustments | Unamortized net actuarial gain (loss) | Unamortized prior service cost | Financial instruments | accumulated other comprehensive income (loss) |
|---|---|---|---|---|---|
| | Three months ended September 30, 2015 and 2014 | | | | |
| 2015: | | | | | |
| Balance as of June 30, 2015 | $ (427) | $ (81) | $ (2) | $ (86) | $ (596) |
| Other comprehensive loss before reclassifications | (92) | | | (79) | (171) |
| Amounts reclassified from accumulated other comprehensive income | | 5 | | 1 | 6 |
| Net other comprehensive (loss) income | (92) | 5 | | (78) | (165) |
| Balance as of September 30, 2015 | $ (519) | $ (76) | $ (2) | $ (164) | $ (761) |
| 2014: | | | | | |
| Balance as of June 30, 2014 | $ (170) | $ (65) | $ | $ (38) | $ (273) |
| Other comprehensive loss before reclassifications | (100) | | | (2) | (102) |
| Amounts reclassified from accumulated other comprehensive income (loss) | | 5 | | (1) | 4 |
| Net other comprehensive (loss) income | (100) | 5 | | (3) | (98) |
| Balance as of September 30, 2014 | $ (270) | $ (60) | $ | $ (41) | $ (371) |
| | Nine months ended September 30, 2015 and 2014 | | | | |
| 2015: | | | | | |
| Balance as of December 31, 2014 | $ (322) | $ (83) | $ (2) | $ (90) | $ (497) |
| Other comprehensive loss before reclassifications | (197) | | | (76) | (273) |
| Amounts reclassified from accumulated other comprehensive income | | 7 | | 2 | 9 |
| Net other comprehensive (loss) income | (197) | 7 | | (74) | (264) |
| Balance as of September 30, 2015 | $ (519) | $ (76) | $ (2) | $ (164) | $ (761) |
| 2014: | | | | | |
| Balance as of December 31, 2013 | $ (129) | $ (73) | $ | $ (26) | $ (228) |
| Other comprehensive loss before reclassifications | (141) | | | (28) | (169) |
| Amounts reclassified from accumulated other comprehensive income | | 13 | | 13 | 26 |
| Net other comprehensive (loss) income | (141) | 13 | | (15) | (143) |
| Balance as of September 30, 2014 | $ (270) | $ (60) | $ | $ (41) | $ (371) |

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

CHANGES IN ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS) BY COMPONENT(1)
SAN DIEGO GAS & ELECTRIC COMPANY
(Dollars in millions)

| | Pension and other postretirement benefits: Unamortized net actuarial gain (loss) | Pension and other postretirement benefits: Unamortized prior service credit | Total accumulated other comprehensive income (loss) |
|---|---|---|---|
| | Three months ended September 30, 2015 and 2014 | | |
| 2015: | | | |
| Balance as of June 30 and September 30, 2015 | $ (13) | $ 1 | $ (12) |
| 2014: | | | |
| Balance as of June 30, 2014 | $ (9) | $ 1 | $ (8) |
| Amounts reclassified from accumulated other comprehensive income | 1 | | 1 |
| Net other comprehensive income | 1 | | 1 |
| Balance as of September 30, 2014 | $ (8) | $ 1 | $ (7) |
| | Nine months ended September 30, 2015 and 2014 | | |
| 2015: | | | |
| Balance as of December 31, 2014 and September 30, 2015 | $ (13) | $ 1 | $ (12) |
| 2014: | | | |
| Balance as of December 31, 2013 | $ (10) | $ 1 | $ (9) |
| Amounts reclassified from accumulated other comprehensive income | 2 | | 2 |
| Net other comprehensive income | 2 | | 2 |
| Balance as of September 30, 2014 | $ (8) | $ 1 | $ (7) |

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

CHANGES IN ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS) BY COMPONENT(1)
SOUTHERN CALIFORNIA GAS COMPANY
(Dollars in millions)

| | Pension and other postretirement benefits: Unamortized net actuarial gain (loss) | Pension and other postretirement benefits: Unamortized prior service credit | Financial instruments | Total accumulated other comprehensive income (loss) |
|---|---|---|---|---|
| | Three months ended September 30, 2015 and 2014 | | | |
| 2015: | | | | |
| Balance as of June 30 and September 30, 2015 | $ (5) | $ 1 | $ (14) | $ (18) |
| 2014: | | | | |
| Balance as of June 30, 2014 | $ (5) | $ 1 | $ (14) | $ (18) |
| Amounts reclassified from accumulated other comprehensive income | 2 | | | 2 |
| Net other comprehensive income | 2 | | | 2 |
| Balance as of September 30, 2014 | $ (3) | $ 1 | $ (14) | $ (16) |

| | Nine months ended September 30, 2015 and 2014 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| 2015: | | | | | | | | |
| Balance as of December 31, 2014 and September 30, 2015 | $ | (5) | $ | 1 | $ | (14) | $ | (18) |
| 2014: | | | | | | | | |
| Balance as of December 31, 2013 | $ | (5) | $ | 1 | $ | (14) | $ | (18) |
| Amounts reclassified from accumulated other comprehensive income | | 2 | | | | | | 2 |
| Net other comprehensive income | | 2 | | | | | | 2 |
| Balance as of September 30, 2014 | $ | (3) | $ | 1 | $ | (14) | $ | (16) |

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

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

| Details about accumulated other comprehensive income (loss) components | Amounts reclassified from accumulated other comprehensive income (loss) | | | | Affected line item on Condensed Consolidated Statements of Operations |
|---|---|---|---|---|---|
| | Three months ended September 30, | | | | |
| | 2015 | | 2014 | | |
| Sempra Energy Consolidated: | | | | | |
| Financial instruments: | | | | | |
| Interest rate and foreign exchange instruments | $ | 5 | $ | 8 | Interest Expense |
| Interest rate instruments | | | | (5) | Gain on Sale of Equity Interests and Assets |
| Interest rate instruments | | 3 | | 2 | Equity Earnings, Before Income Tax |
| Commodity contracts not subject to rate recovery | | (3) | | (2) | Revenues: Energy-Related Businesses |
| Total before income tax | | 5 | | 3 | |
| | | (1) | | (1) | Income Tax Expense |
| Net of income tax | | 4 | | 2 | |
| | | (3) | | (3) | Earnings Attributable to Noncontrolling Interests |
| | $ | 1 | $ | (1) | |
| Pension and other postretirement benefits: | | | | | |
| Amortization of actuarial loss | $ | 7 | $ | 8 | See note (1) below |
| | | (2) | | (3) | Income Tax Expense |
| Net of income tax | $ | 5 | $ | 5 | |
| Total reclassifications for the period, net of tax | $ | 6 | $ | 4 | |
| SDG&E: | | | | | |
| Financial instruments: | | | | | |
| Interest rate instruments | $ | 3 | $ | 3 | Interest Expense |

| | | | | | |
|---|---|---|---|---|---|
| | | (3) | | (3) | Earnings Attributable to Noncontrolling Interest |
| | $ | | $ | | |
| Pension and other postretirement benefits: | | | | | |
| Amortization of actuarial loss | $ | | $ | 1 | See note (1) below |
| | | | | | Income Tax Expense |
| Net of income tax | $ | | $ | 1 | |
| Total reclassifications for the period, net of tax | $ | | $ | 1 | |
| SoCalGas: | | | | | |
| Pension and other postretirement benefits: | | | | | |
| Amortization of actuarial loss | $ | | $ | 4 | See note (1) below |
| | | | | (2) | Income Tax Expense |
| Net of income tax | $ | | $ | 2 | |
| Total reclassifications for the period, net of tax | $ | | $ | 2 | |

(1) 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)
(Dollars in millions)

| Details about accumulated other comprehensive income (loss) components | Amount reclassified from accumulated other comprehensive income (loss) Nine months ended September 30, | | | | Affected line item on Condensed Consolidated Statements of Operations |
|---|---|---|---|---|---|
| | 2015 | | 2014 | | |
| Sempra Energy Consolidated: | | | | | |
| Financial instruments: | | | | | |
| Interest rate and foreign exchange instruments | $ | 14 | $ | 17 | Interest Expense |
| Interest rate instruments | | | | (3) | Gain on Sale of Equity Interests and Assets |
| Interest rate instruments | | 9 | | 7 | Equity Earnings, Before Income Tax |
| Commodity contracts not subject to rate recovery | | (10) | | 8 | Revenues: Energy-Related Businesses |
| Total before income tax | | 13 | | 29 | |
| | | (1) | | (8) | Income Tax Expense |
| Net of income tax | | 12 | | 21 | |
| | | (10) | | (8) | Earnings Attributable to Noncontrolling Interests |
| | $ | 2 | $ | 13 | |

| | | | | | |
|---|---|---|---|---|---|
| Pension and other postretirement benefits: | | | | | |
| Amortization of actuarial loss | $ | 11 | $ | 21 | See note (1) below |
| | | (4) | | (8) | Income Tax Expense |
| Net of income tax | $ | 7 | $ | 13 | |
| | | | | | |
| Total reclassifications for the period, net of tax | $ | 9 | $ | 26 | |
| SDG&E: | | | | | |
| Financial instruments: | | | | | |
| Interest rate instruments | $ | 9 | $ | 8 | Interest Expense |
| | | (9) | | (8) | Earnings Attributable to Noncontrolling Interest |
| | $ | | $ | | |
| | | | | | |
| Pension and other postretirement benefits: | | | | | |
| Amortization of actuarial loss | $ | | $ | 3 | See note (1) below |
| | | | | (1) | Income Tax Expense |
| Net of income tax | $ | | $ | 2 | |
| | | | | | |
| Total reclassifications for the period, net of tax | $ | | $ | 2 | |
| SoCalGas: | | | | | |
| Pension and other postretirement benefits: | | | | | |
| Amortization of actuarial loss | $ | | $ | 4 | See note (1) below |
| | | | | (2) | Income Tax Expense |
| Net of income tax | $ | | $ | 2 | |
| | | | | | |
| Total reclassifications for the period, net of tax | $ | | $ | 2 | |

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

SHAREHOLDERS' EQUITY AND NONCONTROLLING INTERESTS

The following tables provide reconciliations of changes in Sempra Energy's, SDG&E's and SoCalGas' shareholders' equity and noncontrolling interests for the nine months ended September 30, 2015 and 2014.

| SHAREHOLDERS' EQUITY AND NONCONTROLLING INTERESTS (Dollars in millions) | SEMPRA ENERGY CONSOLIDATED | | |
|---|---|---|---|
| | Sempra Energy shareholders' equity | Non-controlling interests(1) | Total equity |
| Balance at December 31, 2014 | $ 11,326 | $ 774 | $ 12,100 |
| Comprehensive income | 717 | 56 | 773 |
| Preferred dividends of subsidiary | (1) | | (1) |
| Share-based compensation expense | 39 | | 39 |
| Common stock dividends declared | (520) | | (520) |

| | | | |
|---|---|---|---|
| Issuance of common stock | 82 | | 82 |
| Repurchases of common stock | (74) | | (74) |
| Tax benefit related to share-based compensation | 56 | | 56 |
| Equity contributed by noncontrolling interest | | 1 | 1 |
| Distributions to noncontrolling interests | | (60) | (60) |
| Balance at September 30, 2015 | $ 11,625 | $ 771 | $ 12,396 |
| Balance at December 31, 2013 | $ 11,008 | $ 842 | $ 11,850 |
| Comprehensive income | 722 | 66 | 788 |
| Preferred dividends of subsidiary | (1) | | (1) |
| Share-based compensation expense | 35 | | 35 |
| Common stock dividends declared | (486) | | (486) |
| Issuance of common stock | 71 | | 71 |
| Repurchases of common stock | (38) | | (38) |
| Tax benefit related to share-based compensation | 22 | | 22 |
| Equity contributed by noncontrolling interest | | 1 | 1 |
| Distributions to noncontrolling interests | | (85) | (85) |
| Balance at September 30, 2014 | $ 11,333 | $ 824 | $ 12,157 |

(1) Noncontrolling interests include the preferred stock of SoCalGas and other noncontrolling interests as listed in the table below under "Other Noncontrolling Interests."

SHAREHOLDER'S EQUITY AND NONCONTROLLING INTEREST SDG&E
(Dollars in millions)

| | SDG&E shareholder's equity | Non-controlling interest | Total equity |
|---|---|---|---|
| Balance at December 31, 2014 | $ 4,932 | $ 60 | $ 4,992 |
| Comprehensive income | 443 | 20 | 463 |
| Common stock dividends declared | (150) | | (150) |
| Distributions to noncontrolling interest | | (16) | (16) |
| Balance at September 30, 2015 | $ 5,225 | $ 64 | $ 5,289 |
| Balance at December 31, 2013 | $ 4,628 | $ 91 | $ 4,719 |
| Comprehensive income | 381 | 23 | 404 |
| Distributions to noncontrolling interest | | (37) | (37) |
| Balance at September 30, 2014 | $ 5,009 | $ 77 | $ 5,086 |

SHAREHOLDERS' EQUITY SOCALGAS
(Dollars in millions)

| | SoCalGas shareholders' equity |
|---|---|
| Balance at December 31, 2014 | $ 2,781 |
| Comprehensive income | 277 |
| Preferred stock dividends declared | (1) |
| Common stock dividends declared | (50) |
| Balance at September 30, 2015 | $ 3,007 |
| Balance at December 31, 2013 | $ 2,549 |
| Comprehensive income | 259 |

| | | |
|---|---|---|
| Preferred stock dividends declared | | (1) |
| Balance at September 30, 2014 | $ | 2,807 |

Ownership interests that are held by owners other than Sempra Energy and SDG&E in subsidiaries or entities consolidated by them are accounted for and reported as noncontrolling interests. As a result, noncontrolling interests are reported as a separate component of equity on the Condensed Consolidated Balance Sheets. Earnings or losses attributable to noncontrolling interests are separately identified on the Condensed Consolidated Statements of Operations, and comprehensive income or loss attributable to noncontrolling interests is separately identified on the Condensed Consolidated Statements of Comprehensive Income (Loss).

Preferred Stock

At Sempra Energy, the preferred stock of SoCalGas is presented as a noncontrolling interest and preferred stock dividends are charges against income related to noncontrolling interests. We provide additional information concerning preferred stock in Note 11 of the Notes to Consolidated Financial Statements in the Annual Report.

Other Noncontrolling Interests

At September 30, 2015 and December 31, 2014, we reported the following noncontrolling ownership interests held by others (not including preferred shareholders) recorded in Other Noncontrolling Interests in Total Equity on Sempra Energy's Condensed Consolidated Balance Sheets:

OTHER NONCONTROLLING INTERESTS
(Dollars in millions)

| | Percent ownership held by others | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | September 30, 2015 | | December 31, 2014 | | | September 30, 2015 | | December 31, 2014 |
| SDG&E: | | | | | | | | |
| Otay Mesa VIE | 100 | % | 100 | % | $ | 64 | $ | 60 |
| Sempra South American Utilities: | | | | | | | | |
| Chilquinta Energía subsidiaries(1) | 23.5 – 43.4 | | 23.6 – 43.4 | | | 20 | | 23 |
| Luz del Sur | 16.4 | | 16.4 | | | 171 | | 177 |
| Tecsur | 9.8 | | 9.8 | | | 3 | | 4 |
| Sempra Mexico: | | | | | | | | |
| IEnova, S.A.B. de C.V. | 18.9 | | 18.9 | | | 455 | | 452 |
| Sempra Natural Gas: | | | | | | | | |
| Bay Gas Storage Company, Ltd. | 9.1 | | 9.1 | | | 25 | | 23 |
| Liberty Gas Storage, LLC | 23.7 | | 25.0 | | | 12 | | 14 |
| Southern Gas Transmission Company | 49.0 | | 49.0 | | | 1 | | 1 |

| | | | | |
|---|---|---|---|---|
| Total Sempra Energy | $ | 751 | $ | 754 |

(1) Chilquinta Energía has four subsidiaries with noncontrolling interests held by others. Percentage range reflects the highest and lowest ownership percentages amongst these subsidiaries.

TRANSACTIONS WITH AFFILIATES

Current and noncurrent amounts due from unconsolidated affiliates on the Sempra Energy Condensed Consolidated Balance Sheets are as follows:

| DUE FROM UNCONSOLIDATED AFFILIATES(1)<br>(Dollars in millions) | | | | |
|---|---|---|---|---|
| | | September 30, 2015 | | December 31, 2014 |
| Sempra South American Utilities: | | | | |
| Eletrans S.A.: | | | | |
| 4% Note(2) | $ | 65 | $ | 41 |
| Sempra Mexico: | | | | |
| Affiliate of joint venture with Petróleos Mexicanos(3): | | | | |
| Note due November 13, 2017(4)(5) | | 3 | | 44 |
| Note due November 14, 2018(4) | | 41 | | 40 |
| Note due November 14, 2018(4) | | 34 | | 33 |
| Note due November 14, 2018(4) | | 8 | | 8 |
| Energía Sierra Juárez: | | | | |
| Note due June 15, 2018(6) | | 24 | | 22 |
| Other(7) | | 3 | | 38 |
| Total | $ | 178 | $ | 226 |

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

(2) U.S. dollar-denominated loan, at a fixed interest rate with no stated maturity date, to provide project financing for the construction of transmission lines at Eletrans S.A., an affiliate of Chilquinta Energía.

(3) Petróleos Mexicanos (or PEMEX, the Mexican state-owned oil company).

(4) U.S. dollar-denominated loan, at a variable interest rate based on a 30-day LIBOR plus 450 basis points (4.69 percent at September 30, 2015), to finance the Los Ramones Norte pipeline project.

(5) In May 2015, $41 million was paid with proceeds from project financing at the affiliate.

(6) U.S. dollar-denominated loan, at a variable interest rate based on a 30-day LIBOR plus 637.5 basis points (6.57 percent at September 30, 2015), to finance the first phase of the Energía Sierra Juárez wind project.

(7) Amounts represent accounts receivable from various Sempra Renewables and Sempra Mexico joint venture investments.

Service Agreements

Sempra Energy, SDG&E and SoCalGas provide certain services to each other and are charged an allocable share of the cost of such services. Also, from time-to-time, SDG&E and SoCalGas may loan surplus cash to Sempra Energy at interest rates based on one-month commercial paper rates. Amounts due to/from affiliates are as follows:

| AMOUNTS DUE TO AND FROM AFFILIATES AT SDG&E AND SOCALGAS (Dollars in millions) | September 30, 2015 | | December 31, 2014 | |
|---|---|---|---|---|
| SDG&E: | | | | |
| Current: | | | | |
| Due from SoCalGas | $ | 1 | $ | |
| Due from various affiliates | | | | 1 |
| | $ | 1 | $ | 1 |
| Due to Sempra Energy | $ | 22 | $ | 17 |
| Due to SoCalGas | | | | 4 |
| | $ | 22 | $ | 21 |
| Income taxes due from Sempra Energy(1) | $ | 41 | $ | 16 |
| SoCalGas: | | | | |
| Current: | | | | |
| Due from Sempra Energy(2) | $ | 220 | $ | |
| Due from SDG&E | | | | 4 |
| | $ | 220 | $ | 4 |
| Due to affiliate | $ | 50 | $ | |
| Due to SDG&E | | 1 | | |
| Due to Sempra Energy | | | | 13 |
| | $ | 51 | $ | 13 |
| Income taxes due from Sempra Energy(1) | $ | 29 | $ | 9 |

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

(2) Net receivable includes a loan to Sempra Energy of $250 million at September 30, 2015 at an interest rate of 0.10 percent.

Revenues from unconsolidated affiliates at SDG&E and SoCalGas are as follows:

| REVENUES FROM UNCONSOLIDATED AFFILIATES AT SDG&E AND SOCALGAS (Dollars in millions) | Three months ended September 30, | | | | Nine months ended September 30, | | | |
|---|---|---|---|---|---|---|---|---|
| | 2015 | | 2014 | | 2015 | | 2014 | |
| SDG&E | $ | 3 | $ | 2 | $ | 8 | $ | 8 |
| SoCalGas | | 19 | | 17 | | 55 | | 51 |

OTHER INCOME, NET

Other Income, Net on the Condensed Consolidated Statements of Operations consists of the following:

| OTHER INCOME, NET (Dollars in millions) | | | | |
|---|---|---|---|---|
| | Three months ended September 30, | | Nine months ended September 30, | |
| | 2015 | 2014 | 2015 | 2014 |
| Sempra Energy Consolidated: | | | | |
| Allowance for equity funds used during construction | $ 26 | $ 28 | $ 84 | $ 77 |
| Investment (losses) gains(1) | (12) | (3) | (5) | 20 |
| (Losses) gains on interest rate and foreign exchange instruments, net | (4) | (6) | (7) | 3 |
| Foreign currency losses | (3) | (2) | (6) | (1) |
| Sale of other investments | 2 | 1 | 8 | 1 |
| Electrical infrastructure relocation income(2) | | 4 | 4 | 7 |
| Regulatory interest, net(3) | 1 | 2 | 3 | 5 |
| Sundry, net | 2 | 5 | 7 | 6 |
| Total | $ 12 | $ 29 | $ 88 | $ 118 |
| SDG&E: | | | | |
| Allowance for equity funds used during construction | $ 9 | $ 8 | $ 27 | $ 26 |
| Regulatory interest, net(3) | 1 | 2 | 3 | 5 |
| Sundry, net | (2) | (1) | (4) | (2) |
| Total | $ 8 | $ 9 | $ 26 | $ 29 |
| SoCalGas: | | | | |
| Allowance for equity funds used during construction | $ 10 | $ 7 | $ 29 | $ 18 |
| Sundry, net | (2) | (1) | (4) | (5) |
| Total | $ 8 | $ 6 | $ 25 | $ 13 |

(1) Represents investment (losses) gains on dedicated assets in support of our executive retirement and deferred compensation plans. These amounts are partially offset by corresponding changes in compensation expense related to the plans.

(2) Income at Luz del Sur associated with the relocation of electrical infrastructure.

(3) Interest on regulatory balancing accounts.

INCOME TAXES

INCOME TAX EXPENSE (BENEFIT) AND EFFECTIVE INCOME TAX RATES
(Dollars in millions)

| | Income tax expense (benefit) | Effective income tax rate | Income tax expense | Effective income tax rate |
|---|---|---|---|---|
| | Three months ended September 30, | | | |
| | 2015 | | 2014 | |
| Sempra Energy Consolidated | $ 15 | 6% | $ 71 | 16% |
| SDG&E | 75 | 29 | 65 | 28 |
| SoCalGas | (20) | 71 | 44 | 31 |
| | Nine months ended September 30, | | | |
| | 2015 | | 2014 | |
| Sempra Energy Consolidated | $ 276 | 22% | $ 291 | 24% |
| SDG&E | 217 | 32 | 217 | 35 |
| SoCalGas | 91 | 25 | 110 | 30 |

Changes in Income Tax Expense and Effective Income Tax Rates

Sempra Energy, SDG&E and SoCalGas record income taxes for interim periods utilizing a forecasted effective tax rate anticipated for the full year, as required by U.S. GAAP. The income tax effect of items that can be reliably forecasted are factored into the forecasted effective tax rate, and their impact is recognized proportionately over the year. The forecasted items, anticipated on a full year basis, may include, among others:

§ utility self-developed software expenditures

§ repairs to certain utility plant assets

§ renewable energy income tax credits

§ deferred income tax benefits related to renewable energy projects

§ exclusions from taxable income of the equity portion of AFUDC

§ depreciation on a certain portion of utility plant assets

§ U.S. tax on repatriation of current year earnings from non-U.S. subsidiaries

Items that cannot be reliably forecasted (e.g., adjustments related to prior years' income tax items, remeasurement of deferred tax asset valuation allowances, Mexican currency translation and inflation adjustments, and deferred income tax benefit associated with the impairment of a book investment) are recorded in the interim period in which they actually occur, which can result in variability to income tax expense.

Sempra Energy Consolidated

The decrease in income tax expense in the three months ended September 30, 2015 was due to lower pretax income and a lower effective tax rate, primarily from:

§ $12 million higher favorable resolution of prior years' income tax items in 2015;

§ $9 million higher income tax benefit in 2015 from foreign currency translation and inflation adjustments; and

§

$14 million lower U.S. income tax expense in 2015 as a result of lower planned repatriation of current year earnings from certain non-U.S. subsidiaries, as discussed below; offset by

§ $25 million income tax benefit in 2014 due to the release of Louisiana state valuation allowance against a deferred tax asset associated with Cameron LNG developments.

The decrease in income tax expense in the nine months ended September 30, 2015 was due to a lower effective tax rate, offset by higher pretax income. The lower effective tax rate was primarily from:

§ $17 million charge in 2014 to reduce certain tax regulatory assets attributed to SDG&E's investment in San Onofre Nuclear Generating Station (SONGS) that we discuss in Note 9;

§ $19 million higher favorable resolution of prior years' income tax items in 2015;

§ $22 million higher income tax benefit in 2015 from foreign currency translation and inflation adjustments; and

§ $14 million lower U.S. income tax expense in 2015 as a result of lower planned repatriation of current year earnings from certain non-U.S. subsidiaries, as discussed below; offset by

§ $25 million income tax benefit in 2014 due to the release of Louisiana state valuation allowance against a deferred tax asset associated with Cameron LNG developments.

Repatriated earnings are subject to U.S. income tax, and repatriation from Peru is subject to local country withholding tax. We no longer plan to repatriate current year 2015 earnings from our non-U.S. subsidiaries in Mexico due to IEnova's pending acquisition of its joint venture partner's 50-percent interest in GdC, which we discuss in Note 3. We plan to repatriate, in the future, current year earnings from certain of our non-U.S. subsidiaries in Peru, and accordingly, we are accruing tax expense on the current year earnings. Because this potential repatriation from Peru would only be from earnings since January 1, 2015, it does not change our current assertion that we intend to continue to indefinitely reinvest our cumulative undistributed non-U.S. earnings from prior years. Therefore, we do not intend to use these cumulative undistributed earnings as a source of funding for U.S. operations.

SDG&E

The increase in SDG&E's income tax expense in the three months ended September 30, 2015 was due to higher pretax income and a higher effective tax rate, primarily from:

§ higher unfavorable impact on our effective tax rate in 2015 from the reversal through book depreciation of previously recognized tax benefits for a certain portion of utility fixed assets; offset by

§ higher exclusions from taxable income of the equity portion of AFUDC.

While SDG&E's income tax expense remained the same in the nine months ended September 30, 2015, the effect of higher pretax income was offset by a lower effective tax rate, primarily from:

§ $17 million charge in 2014 to reduce certain tax regulatory assets attributed to SDG&E's investment in SONGS that we discuss in Note 9; and

§ $9 million higher favorable resolution of prior years' income tax items in 2015.

The results for Sempra Energy Consolidated and SDG&E include Otay Mesa VIE, which is not included in Sempra Energy's federal or state income tax returns but is consolidated for financial statement purposes, and therefore, Sempra

Energy Consolidated's and SDG&E's effective income tax rates are impacted by the VIE's stand-alone effective income tax rate. We discuss Otay Mesa VIE above in "Variable Interest Entities."

SoCalGas

SoCalGas' income tax benefit in the three months ended September 30, 2015 compared to income tax expense in the same period in 2014 was due to a pretax loss in 2015 and a higher effective tax rate. The pretax loss was primarily due to recognizing core gas authorized revenue during interim periods based on seasonal factors beginning January 1, 2015 in accordance with the TCAP, compared to recognizing such revenue ratably over the year in 2014. We discuss the impact of the TCAP decision further in Note 10. The higher effective tax rate applied to the pretax loss was primarily due to:

§ $11 million higher favorable resolution of prior years' income tax items in 2015; and

§ lower flow-through component of state income taxes.

The decrease in SoCalGas' income tax expense in the nine months ended September 30, 2015 was mainly due to a lower effective tax rate, primarily from:

§ $14 million higher favorable resolution of prior years' income tax items in 2015; and

§ higher exclusions from taxable income of the equity portion of AFUDC.

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 current effective income tax rate. As a result, changes in the relative size of these items compared to pretax income, from period to period, can cause variations in the effective income tax rate. The following items are subject to flow-through treatment:

§ repairs expenditures related to a certain portion of utility plant assets

§ the equity portion of AFUDC

§ 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

§ state income taxes

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

We provide additional information about our accounting for income taxes in Notes 1 and 6 of the Notes to Consolidated Financial Statements in the Annual Report.

## NOTE 6. DEBT AND CREDIT FACILITIES

### LINES OF CREDIT

At September 30, 2015, Sempra Energy Consolidated had an aggregate of $4.1 billion in three primary committed lines of credit for Sempra Energy, Sempra Global and the California Utilities to provide liquidity and to support commercial paper, the major components of which we detail below. Available unused credit on these lines at September 30, 2015 was approximately $3.3 billion. Some of Sempra Energy's subsidiaries, primarily our foreign operations, have additional general purpose credit facilities, aggregating $945 million at September 30, 2015. Available unused credit on these lines totaled $485 million at September 30, 2015.

### Sempra Energy

#### Line of Credit at September 30, 2015

Sempra Energy had a $1.067 billion, five-year syndicated revolving credit agreement expiring in March 2017. Citibank, N.A. served as administrative agent for the syndicate of 24 lenders. Borrowings bore interest at benchmark rates plus a margin that varied with market index rates and Sempra Energy's credit ratings. The facility required Sempra Energy to maintain a ratio of total indebtedness to total capitalization (as defined in the agreement) of no more than 65 percent at the end of each quarter. At September 30, 2015 and December 31, 2014, Sempra Energy was in compliance with this and all other financial covenants under the credit facility. The facility also provided for issuance of up to $635 million of letters of credit on behalf of Sempra Energy with the amount of borrowings otherwise available under the facility reduced by the amount of outstanding letters of credit.

At September 30, 2015, Sempra Energy had no outstanding borrowings or letters of credit supported by the facility.

#### Amended and Restated Line of Credit Effective October 13, 2015

On October 13, 2015, Sempra Energy entered into an amended and restated, five-year syndicated revolving credit agreement expiring in October 2020. The credit facility permits borrowings of up to $1 billion. Citibank, N.A. serves as administrative agent for the syndicate of 20 lenders and no single lender has greater than a 7-percent share. The credit facility amends, restates and supersedes Sempra Energy's $1.067 billion credit agreement that was to expire in 2017.

Borrowings bear interest at benchmark rates plus a margin that varies with Sempra Energy's credit ratings. The facility requires Sempra Energy to maintain a ratio of total indebtedness to total capitalization (as defined in the agreement) of no more than 65 percent at the end of each quarter. The facility also provides for issuance of up to $400 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.

Sempra Global

Line of Credit at September 30, 2015

Sempra Global had a $2.189 billion, five-year syndicated revolving credit agreement expiring in March 2017. Citibank, N.A. served as administrative agent for the syndicate of 25 lenders. Sempra Energy guaranteed Sempra Global's obligations under the credit facility. Borrowings bore interest at benchmark rates plus a margin that varied with market index rates and Sempra Energy's credit ratings. The facility required Sempra Energy to maintain a ratio of total indebtedness to total capitalization (as defined in the agreement) of no more than 65 percent at the end of each quarter. At September 30, 2015 and December 31, 2014, Sempra Energy was in compliance with this and all other financial covenants under the credit facility.

At September 30, 2015, Sempra Global had $734 million of commercial paper outstanding supported by the facility.

Amended and Restated Line of Credit Effective October 13, 2015

On October 13, 2015, Sempra Global entered into an amended and restated, five-year syndicated revolving credit agreement expiring in October 2020. The credit facility permits borrowings of up to $2.21 billion. Citibank, N.A. serves as administrative agent for the syndicate of 20 lenders and no single lender has greater than a 7-percent share. The credit facility amends, restates and supersedes Sempra Global's $2.189 billion credit agreement that was to expire in 2017.

Sempra Energy guarantees Sempra Global's obligations under the credit facility. Borrowings bear interest at benchmark rates plus a margin that varies with Sempra Energy's credit ratings. The facility requires Sempra Energy to maintain a ratio of total indebtedness to total capitalization (as defined in the agreement) of no more than 65 percent at the end of each quarter.

California Utilities

Line of Credit at September 30, 2015

SDG&E and SoCalGas had a combined $877 million, five-year syndicated revolving credit agreement expiring in March 2017. JPMorgan Chase Bank, N.A. served as administrative agent for the syndicate of 24 lenders. The agreement permitted each utility to individually borrow up to $658 million, subject to a combined limit of $877 million for both utilities. It also provided for the issuance of letters of credit on behalf of each utility subject to a combined letter of credit commitment of $300 million for both utilities. The amount of borrowings otherwise available under the facility was reduced by the amount of outstanding letters of credit.

Borrowings under the facility bore interest at benchmark rates plus a margin that varied with market index rates and the borrowing utility's credit ratings. The agreement required each utility to maintain a ratio of total indebtedness to total capitalization (as defined in the agreement) of no more than 65 percent at the end of each quarter. At September 30, 2015 and December 31, 2014, the California Utilities were in compliance with this and all other financial covenants under the credit facility.

Each utility's obligations under the agreement were individual obligations, and a default by one utility would not constitute a default by the other utility or preclude borrowings by, or the issuance of letters of credit on behalf of, the other utility.

At September 30, 2015, SDG&E had $44 million of commercial paper outstanding, supported by the facility. SoCalGas had no outstanding borrowings supported by the facility. Available unused credit on the line at September 30, 2015 was $614 million and $658 million at SDG&E and SoCalGas, respectively, subject to the $877 million maximum combined credit limit.

Amended and Restated Line of Credit Effective October 13, 2015

On October 13, 2015, SDG&E and SoCalGas entered into a combined $1 billion, amended and restated, five-year syndicated revolving credit agreement expiring in October 2020. JPMorgan Chase Bank, N.A. serves as administrative agent for the syndicate of 20 lenders, and no single lender has greater than a 7-percent share. The agreement permits each utility to individually borrow up to $750 million, subject to a combined limit of $1 billion for both utilities. It also provides for the issuance of letters of credit on behalf of each utility subject to a combined letter of credit commitment of $250 million for both utilities. The amount of borrowings otherwise available under the facility is reduced by the amount of outstanding letters of credit. The credit facility amends, restates and supersedes the California Utilities' $877 million credit agreement that was to expire in 2017.

Borrowings bear interest at benchmark rates plus a margin that varies with the borrowing utility's credit rating. The agreement requires each utility to maintain a ratio of total indebtedness to total capitalization (as defined in the agreement) of no more than 65 percent at the end of each quarter.

Each utility's obligations under the agreement are individual obligations, and a default by one utility would not constitute a default by the other utility or preclude borrowings by, or the issuance of letters of credit on behalf of, the other utility.

Sempra Mexico

In 2014, IEnova entered into an agreement for a $200 million, U.S. dollar-denominated, three-year corporate revolving credit facility with Banco Santander (México), S.A., Institución de Banca Múltiple, Grupo Financiero Santander México. Also in 2014, IEnova entered into an agreement for a $100 million, U.S. dollar-denominated, three-year corporate revolving credit facility with Sumitomo Mitsui Banking Corporation. Both revolving credit facilities were entered into to finance working capital and for general corporate purposes.

In August 2015, IEnova entered into a $400 million, five-year revolving credit agreement to replace, and repay the $210 million in outstanding borrowings under, the two existing revolving credit facilities described above. The lenders are Banco Santander (México), S.A., Institución de Banca Múltiple, Grupo Financiero Santander México, The Bank of Tokyo - Mitsubishi UFJ, LTD., The Bank of Nova Scotia and Sumitomo Mitsui Banking Corporation. At September 30, 2015, IEnova had $290 million of outstanding borrowings supported by the facility, and available unused credit on the line was $110 million.

WEIGHTED AVERAGE INTEREST RATES

The weighted average interest rates on the total short-term debt at Sempra Energy Consolidated were 0.66 percent and 0.70 percent at September 30, 2015 and December 31, 2014, respectively. The weighted average interest rate on total short-term debt at SDG&E was 0.15 percent at September 30, 2015. At December 31, 2014, the weighted average interest rates on total short-term debt at SDG&E and SoCalGas were 0.27 percent and 0.25 percent, respectively.

LONG-TERM DEBT

Sempra Energy

In March 2015, Sempra Energy publicly offered and sold $500 million of 2.40-percent, fixed-rate notes maturing in 2020. Sempra Energy used the proceeds from this offering to repay outstanding commercial paper.

SDG&E

In March 2015, SDG&E publicly offered and sold $140 million of first mortgage bonds maturing in 2017 at a variable rate of three-month LIBOR plus 0.20 percent (0.53 percent at September 30, 2015) and $250 million of 1.914-percent amortizing first mortgage bonds maturing in 2022. SDG&E used the proceeds from the offering to repay outstanding commercial paper and for other general corporate purposes.

On August 28, 2015, SDG&E redeemed, prior to maturity, certain outstanding long-term debt instruments with a total principal amount of $169 million. The coupon rates of these instruments ranged from 4.9 percent to 5.5 percent, with maturities ranging from 2021 to 2027.

SoCalGas

In June 2015, SoCalGas publicly offered and sold $250 million of 1.55-percent and $350 million of 3.20-percent first mortgage bonds maturing in 2018 and 2025, respectively. SoCalGas used the proceeds from the offering to repay outstanding commercial paper and for other general corporate purposes.

Sempra South American Utilities

In May and June 2015, Luz del Sur borrowed $13 million and $22 million, respectively, under a bank loan facility. The loans accrue interest at 5.18 percent and mature in May 2018 and June 2018, respectively. In August 2015, Luz del Sur borrowed $9 million under a bank loan facility. The loan accrues interest at 6.70 percent and matures in February 2018. In September 2015, Luz del Sur publicly offered and sold $25 million of corporate bonds at 8.75 percent maturing in September 2026.

Sempra Natural Gas

In June 2015, Sempra Natural Gas reduced its other long-term debt by $79 million through redemption of its investment in industrial development bonds at Mississippi Hub, LLC. Sempra Natural Gas plans to redeem, prior to maturity, $55 million of industrial development bonds payable at Bay Gas Storage Company, Ltd. Accordingly, the debt is classified as current portion of long-term debt at September 30, 2015 on Sempra Energy's Condensed Consolidated Balance Sheet. The redemption is anticipated to occur during the fourth quarter of 2015.

## INTEREST RATE SWAPS

We discuss our fair value interest rate swaps and interest rate swaps to hedge cash flows in Note 7.

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## NOTE 7. DERIVATIVE FINANCIAL INSTRUMENTS

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

We record all derivatives at fair value on the Condensed Consolidated Balance Sheets. We designate each derivative as (1) a cash flow hedge, (2) a fair value hedge, or (3) undesignated. Depending on the applicability of hedge accounting and, for the California Utilities and other operations subject to regulatory accounting, the requirement to pass impacts through to customers, the impact of derivative instruments may be offset in other comprehensive income (loss) (cash flow hedge), on the balance sheet (fair value hedges and regulatory offsets), or recognized in earnings. We classify cash flows from the settlements of derivative instruments as operating activities on the Condensed Consolidated Statements of Cash Flows.

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

HEDGE ACCOUNTING

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

We may designate an interest rate derivative as a fair value hedging instrument if it effectively converts our own debt from a fixed interest rate to a variable rate. The combination of the derivative and debt instrument results in fixing that portion of the fair value of the debt that is related to benchmark interest rates. Designating fair value hedges is dependent on the instrument being used, the effectiveness of the instrument in offsetting changes in the fair value of our debt instruments, and other criteria.

ENERGY DERIVATIVES

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

§ The California Utilities use energy derivatives, both natural gas and electricity, for the benefit of customers, with the objective of managing price risk and basis risks, 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 congestion revenue rights (CRRs), which serve to reduce the regional electricity price volatility risk that may result from local transmission capacity constraints. Unrealized gains and losses do not impact earnings, as they are offset by regulatory account balances. Realized gains and losses associated with CRRs are recorded in Cost of Electric Fuel and Purchased Power, which is recoverable in rates, on the Condensed Consolidated Statements of Operations.

§ Sempra Mexico and Sempra Natural Gas may use natural gas and electricity derivatives, as appropriate, to optimize the earnings of their assets which support the following businesses: liquefied natural gas (LNG), natural gas transportation, power generation, and Sempra Natural Gas' storage. Gains and losses associated with undesignated derivatives are recognized in Energy-Related Businesses Revenues or in Cost of Natural Gas, Electric Fuel and

Purchased Power on the Condensed Consolidated Statements of Operations. Certain of these derivatives may also be designated as cash flow hedges. Sempra Mexico also uses natural gas energy derivatives with the objective of managing price risk and lowering natural gas prices at its Mexican distribution operations. These derivatives, which are recorded as commodity costs that are offset by regulatory account balances and recovered in rates, are recognized in Cost of Natural Gas on the 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.

We summarize net energy derivative volumes at September 30, 2015 and December 31, 2014 as follows:

NET ENERGY DERIVATIVE VOLUMES

| Segment and Commodity | September 30, 2015 | December 31, 2014 |
|---|---|---|
| California Utilities: | | |
| SDG&E: | | |
| Natural gas | 59 million MMBtu | 55 million MMBtu(1) |
| Electricity | 1 million MWh | (2) |
| Congestion revenue rights | 24 million MWh | 27 million MWh |
| SoCalGas – natural gas | 1 million MMBtu | 1 million MMBtu |
| Energy-Related Businesses: | | |
| Sempra Natural Gas – natural gas | 39 million MMBtu | 29 million MMBtu |

(1) Million British thermal units
(2) Megawatt hours

In addition to the amounts noted above, we frequently use commodity derivatives to manage risks associated with the physical locations of 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. We periodically enter into interest rate derivative agreements intended to moderate our exposure to interest rates and to lower our overall costs of borrowing. We utilize interest rate swaps typically designated as fair value hedges, as a means to achieve our targeted level of variable rate debt as a percent of total debt. In addition, we may utilize interest rate swaps, typically designated as cash flow hedges, to lock in interest rates on outstanding debt or in anticipation of future financings.

Interest rate derivatives are utilized by the California Utilities as well as by other Sempra Energy subsidiaries. Interest rate derivatives are generally accounted for as hedges, and although the California Utilities generally recover borrowing costs in rates over time, the use of interest rate derivatives is subject to certain regulatory constraints, and the impact of interest rate derivatives may not be recovered from customers as timely as described above with regard to energy derivatives. Separately, Otay Mesa VIE has entered into interest rate swap agreements to moderate its exposure to interest rate changes. This activity was designated as a cash flow hedge as of April 1, 2011.

At September 30, 2015 and December 31, 2014, the net notional amounts of our interest rate derivatives, excluding the cross-currency swaps discussed below, were:

| INTEREST RATE DERIVATIVES (Dollars in millions) | | | | | | |
|---|---|---|---|---|---|---|
| | September 30, 2015 | | | December 31, 2014 | | |
| | Notional debt | | Maturities | Notional debt | | Maturities |
| Sempra Energy Consolidated: | | | | | | |
| Cash flow hedges(1) | $ | 389 | 2015-2028 | $ | 399 | 2015-2028 |
| Fair value hedges | | 300 | 2016 | | 300 | 2016 |
| SDG&E: | | | | | | |
| Cash flow hedge(1) | | 317 | 2015-2019 | | 325 | 2015-2019 |

(1) Includes Otay Mesa VIE. All of SDG&E’s interest rate derivatives relate to Otay Mesa VIE.

## FOREIGN CURRENCY DERIVATIVES

We are exposed to exchange rate movements at our Mexican subsidiaries, which have U.S. dollar denominated cash balances, receivables and payables (monetary assets and liabilities) that give rise to Mexican currency exchange rate movements for Mexican income tax purposes. These subsidiaries also have deferred income tax assets and liabilities that are denominated in the Mexican peso, which must be translated into U.S. dollars for financial reporting purposes. From time to time, we may utilize foreign currency derivatives at our subsidiaries and at the consolidated level as a means to manage the risk of exposure to significant fluctuations in our income tax expense from these impacts. We may also utilize cross-currency swaps to hedge exposure related to Mexican peso-denominated debt at our Mexican subsidiaries and joint ventures.

In addition, Sempra South American Utilities may utilize foreign currency derivatives at its subsidiaries and joint ventures as a means to manage foreign currency rate risk. We discuss such swaps at Chilquinta Energía’s Eletrans joint venture investment in Note 4 of the Notes to Consolidated Financial Statements in the Annual Report.

## FINANCIAL STATEMENT PRESENTATION

Each Condensed Consolidated Balance Sheet reflects 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 at September 30, 2015 and December 31, 2014, including the amount of cash collateral receivables that were not offset, as the cash collateral is in excess of liability positions.

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

| | September 30, 2015 | | | |
|---|---|---|---|---|
| | Current assets: Fixed-price contracts and other derivatives(1) | Investments and other assets: Sundry | Current liabilities: Fixed-price contracts and other derivatives(2) | Deferred credits and other liabilities: Fixed-price contracts and other derivatives |
| Sempra Energy Consolidated: | | | | |
| Derivatives designated as hedging instruments: | | | | |
| Interest rate and foreign exchange instruments(3) | $ 7 | $ | $ (16) | $ (159) |
| Commodity contracts not subject to rate recovery | 6 | | | |
| Derivatives not designated as hedging instruments: | | | | |
| Interest rate and foreign exchange instruments | | | (3) | |
| Commodity contracts not subject to rate recovery | 166 | 31 | (147) | (18) |
| Associated offsetting commodity contracts | (137) | (18) | 137 | 18 |
| Associated offsetting cash collateral | | | 3 | |
| Commodity contracts subject to rate recovery | 7 | 87 | (59) | (65) |
| Associated offsetting commodity contracts | (1) | (1) | 1 | 1 |
| Associated offsetting cash collateral | | | 25 | 28 |
| Net amounts presented on the balance sheet | 48 | 99 | (59) | (195) |
| Additional cash collateral for commodity contracts not subject to rate recovery | 3 | | | |
| Additional cash collateral for commodity contracts subject to rate recovery | 15 | | | |
| Total(4) | $ 66 | $ 99 | $ (59) | $ (195) |
| SDG&E: | | | | |
| Derivatives designated as hedging instruments: | | | | |
| Interest rate instruments(3) | $ | $ | $ (15) | $ (29) |
| Derivatives not designated as hedging instruments: | | | | |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Commodity contracts not subject to rate recovery | | | | | | (1) | | |
| Associated offsetting cash collateral | | | | | | 1 | | |
| Commodity contracts subject to rate recovery | | 6 | | 87 | | (59) | | (65) |
| Associated offsetting commodity contracts | | (1) | | (1) | | 1 | | 1 |
| Associated offsetting cash collateral | | | | | | 25 | | 28 |
| Net amounts presented on the balance sheet | | 5 | | 86 | | (48) | | (65) |
| Additional cash collateral for commodity contracts not subject to rate recovery | | 1 | | | | | | |
| Additional cash collateral for commodity contracts subject to rate recovery | | 14 | | | | | | |
| Total(4) | $ | 20 | $ | 86 | $ | (48) | $ | (65) |
| SoCalGas: | | | | | | | | |
| Derivatives not designated as hedging instruments: | | | | | | | | |
| Commodity contracts not subject to rate recovery | $ | | $ | | $ | (2) | $ | |
| Associated offsetting cash collateral | | | | | | 2 | | |
| Commodity contracts subject to rate recovery | | 1 | | | | | | |
| Net amounts presented on the balance sheet | | 1 | | | | | | |
| Additional cash collateral for commodity contracts not subject to rate recovery | | 1 | | | | | | |
| Additional cash collateral for commodity contracts subject to rate recovery | | 1 | | | | | | |
| Total | $ | 3 | $ | | $ | | $ | |

(1) Included in Current Assets: Other for SoCalGas.

(2) Included in Current Liabilities: Other for SoCalGas.

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

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

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

| | December 31, 2014 | | | |
|---|---|---|---|---|
| | Current assets: Fixed-price contracts and other derivatives(1) | Investments and other assets: Sundry | Current liabilities: Fixed-price contracts and other derivatives(2) | Deferred credits and other liabilities: Fixed-price contracts and other derivatives |
| Sempra Energy Consolidated: | | | | |
| Derivatives designated as hedging instruments: | | | | |
| Interest rate and foreign exchange instruments(3) | $ 10 | $ 3 | $ (17) | $ (109) |
| Commodity contracts not subject to rate recovery | 25 | | | |
| Derivatives not designated as hedging instruments: | | | | |
| Interest rate instruments | 8 | 27 | (7) | (22) |
| Commodity contracts not subject to rate recovery | 143 | 32 | (135) | (29) |
| Associated offsetting commodity contracts | (129) | (27) | 129 | 27 |
| Associated offsetting cash collateral | (11) | | | |
| Commodity contracts subject to rate recovery | 36 | 76 | (36) | (20) |
| Associated offsetting commodity contracts | (3) | (1) | 3 | 1 |
| Associated offsetting cash collateral | | | 23 | 13 |
| Net amounts presented on the balance sheet | 79 | 110 | (40) | (139) |
| Additional cash collateral for commodity contracts subject to rate recovery | 14 | | | |
| Total(4) | $ 93 | $ 110 | $ (40) | $ (139) |
| SDG&E: | | | | |
| Derivatives designated as hedging instruments: | | | | |
| Interest rate instruments(3) | $ | $ | $ (16) | $ (31) |
| Derivatives not designated as hedging instruments: | | | | |
| Commodity contracts subject to rate recovery | 32 | 76 | (32) | (20) |
| Associated offsetting commodity contracts | | (1) | | 1 |
| Associated offsetting cash collateral | | | 23 | 13 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Net amounts presented on the balance sheet | | 32 | | 75 | | (25) | | (37) |
| Additional cash collateral for commodity contracts subject to rate recovery | | 12 | | | | | | |
| Total(4) | $ | 44 | $ | 75 | $ | (25) | $ | (37) |
| SoCalGas: | | | | | | | | |
| Derivatives not designated as hedging instruments: | | | | | | | | |
| Commodity contracts subject to rate recovery | $ | 4 | $ | | $ | (4) | $ | |
| Associated offsetting commodity contracts | | (3) | | | | 3 | | |
| Net amounts presented on the balance sheet | | 1 | | | | (1) | | |
| Additional cash collateral for commodity contracts subject to rate recovery | | 2 | | | | | | |
| Total | $ | 3 | $ | | $ | (1) | $ | |

(1) Included in Current Assets: Other for SoCalGas.

(2) Included in Current Liabilities: Other for SoCalGas.

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

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

The effects of derivative instruments designated as hedges on the Condensed Consolidated Statements of Operations and in Other Comprehensive Income (Loss) (OCI) and Accumulated Other Comprehensive Income (Loss) (AOCI) for the three months and nine months ended September 30 were:

FAIR VALUE HEDGE IMPACT ON THE CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Dollars in millions)

| | | Pretax gain (loss) on derivatives recognized in earnings | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | Three months ended September 30, | | | | Nine months ended September 30, | | | |
| | Location | 2015 | | 2014 | | 2015 | | 2014 | |
| Sempra Energy Consolidated: | | | | | | | | | |
| Interest rate instruments | Interest Expense | $ | 1 | $ | 1 | $ | 5 | $ | 6 |
| Interest rate instruments | Other Income, Net | | | | (1) | | (2) | | |
| Total(1) | | $ | 1 | $ | | $ | 3 | $ | 6 |

(1) There was no hedge ineffectiveness on these swaps in either the three months or nine months ended September 30, 2015 and negligible gains and $9 million of gains from hedge ineffectiveness in the three

months and nine months ended September 30, 2014, respectively. All other changes in the fair value of the interest rate swap agreements are exactly offset by changes in the fair value of the underlying long-term debt and are recorded in Other Income, Net.

CASH FLOW HEDGE IMPACT ON THE CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Dollars in millions)

| | Pretax gain (loss) recognized in OCI (effective portion) Three months ended September 30, | | | Pretax gain (loss) reclassified from AOCI into earnings (effective portion) Three months ended September 30, | |
|---|---|---|---|---|---|
| | 2015 | 2014 | Location | 2015 | 2014 |
| Sempra Energy Consolidated: | | | | | |
| Interest rate and foreign exchange instruments(1)(2) | $ (10) | $ (5) | Interest Expense | $ (5) | $ (8) |
| Interest rate instruments | | 5 | Gain on Sale of Equity Interests and Assets | | 5 |
| Interest rate instruments | (134) | (4) | Equity Earnings, Before Income Tax | (3) | (2) |
| Commodity contracts not subject to rate recovery | 6 | 1 | Revenues: Energy-Related Businesses | 3 | 2 |
| Total(2) | $ (138) | $ (3) | | $ (5) | $ (3) |
| SDG&E: | | | | | |
| Interest rate instruments(1)(2) | $ (4) | $ 1 | Interest Expense | $ (3) | $ (3) |

| | Nine months ended September 30, | | | Nine months ended September 30, | |
|---|---|---|---|---|---|
| | 2015 | 2014 | Location | 2015 | 2014 |
| Sempra Energy Consolidated: | | | | | |
| Interest rate and foreign exchange instruments(1)(2) | $ (22) | $ (15) | Interest Expense | $ (14) | $ (17) |
| Interest rate instruments | | 3 | Gain on Sale of Equity Interests and Assets | | 3 |
| Interest rate instruments | (123) | (34) | Equity Earnings, Before Income Tax | (9) | (7) |
| Commodity contracts not subject to rate recovery | 6 | (5) | Revenues: Energy-Related Businesses | 10 | (8) |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Total(2) | $ | (139) | $ | (51) | | $ | (13) | $ | (29) |
| SDG&E: | | | | | | | | | |
| Interest rate instruments(1)(2) | $ | (9) | $ | (5) | Interest Expense | $ | (9) | $ | (8) |

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

(2) There were negligible losses from ineffectiveness related to these hedges in 2015 and 2014.

For Sempra Energy Consolidated, we expect that losses of $20 million, which are net of income tax benefit, that are currently recorded in AOCI (including $13 million in noncontrolling interests, substantially all of which is related to Otay Mesa VIE at SDG&E) related to cash flow hedges will be reclassified into earnings during the next twelve months as the hedged items affect earnings. Actual amounts ultimately reclassified into earnings depend on the interest rates in effect when derivative contracts that are currently outstanding mature.

SoCalGas expects that negligible losses, which are net of income tax benefit, currently recorded in AOCI related to cash flow hedges will be reclassified into earnings during the next twelve months as the hedged items affect earnings.

For all forecasted transactions, the maximum term over which we are hedging exposure to the variability of cash flows at September 30, 2015 is approximately 13 years and 4 years for Sempra Energy Consolidated and SDG&E, respectively. The maximum term of hedged interest rate variability is 20 years, and is related to debt at Sempra Renewables' equity method investees.

The effects of derivative instruments not designated as hedging instruments on the Condensed Consolidated Statements of Operations for the three months and nine months ended September 30 were:

UNDESIGNATED DERIVATIVE IMPACT ON THE CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Dollars in millions)

| | | Pretax gain (loss) on derivatives recognized in earnings | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | Three months ended September 30, | | | | Nine months ended September 30, | | | |
| | Location | 2015 | | 2014 | | 2015 | | 2014 | |
| Sempra Energy Consolidated: | | | | | | | | | |
| Interest rate and foreign exchange instruments | Other Income, Net | $ | (4) | $ | (6) | $ | (7) | $ | (6) |
| Foreign exchange instruments | Equity Earnings, Net of Income Tax | | (3) | | (2) | | (4) | | (4) |
| Commodity contracts not subject to rate recovery | Revenues: Energy-Related Businesses | | 21 | | 3 | | 33 | | 2 |
| Commodity contracts not subject to rate recovery | Cost of Natural Gas, Electric Fuel and Purchased Power | | | | 1 | | | | 3 |
| Commodity contracts not subject | | | | | | | | | |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| to rate recovery | Operation and Maintenance | | (2) | | | | (1) | | |
| Commodity contracts subject to rate recovery | Cost of Electric Fuel and Purchased Power | | (27) | | (1) | | (100) | | 19 |
| Commodity contracts subject to rate recovery | Cost of Natural Gas | | | | 1 | | 1 | | 2 |
| Total | | $ | (15) | $ | (4) | $ | (78) | $ | 16 |
| SDG&E: | | | | | | | | | |
| Commodity contracts not subject to rate recovery | Operation and Maintenance | $ | (1) | $ | | $ | (1) | $ | |
| Commodity contracts subject to rate recovery | Cost of Electric Fuel and Purchased Power | | (27) | | (1) | | (100) | | 19 |
| Total | | $ | (28) | $ | (1) | $ | (101) | $ | 19 |
| SoCalGas: | | | | | | | | | |
| Commodity contracts not subject to rate recovery | Operation and Maintenance | $ | (1) | $ | | $ | | $ | |
| Commodity contracts subject to rate recovery | Cost of Natural Gas | | | | 1 | | 1 | | 2 |
| Total | | $ | (1) | $ | 1 | $ | 1 | $ | 2 |

CONTINGENT FEATURES

For Sempra Energy Consolidated and SDG&E, 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, 2015 and December 31, 2014 is $8 million and $9 million, respectively. At September 30, 2015, if the credit ratings of Sempra Energy were reduced below investment grade, $8 million of additional assets could be required to be posted as collateral for these derivative contracts.

For SDG&E, the total fair value of this group of derivative instruments in a net liability position was $5 million and $2 million at September 30, 2015 and December 31, 2014, respectively. At September 30, 2015, if the credit ratings of SDG&E were reduced below investment grade, $5 million 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.

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NOTE 8. 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. We have not changed the valuation techniques or inputs we use to measure fair value during the nine months ended September 30, 2015.

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, 2015 and December 31, 2014. We classify financial assets and liabilities in their entirety based on the lowest level of input that is significant to the fair value measurement. Our assessment of the significance of a particular input to the fair value measurement requires judgment, and may affect the valuation of fair value assets and liabilities, and their placement within the fair value hierarchy levels.

The fair value of commodity derivative assets and liabilities is presented in accordance with our netting policy, as we discuss in Note 7 under “Financial Statement Presentation.”

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

Our financial assets and liabilities that were accounted for at fair value on a recurring basis at September 30, 2015 and December 31, 2014 in the tables below include the following:

§ Nuclear decommissioning trusts reflect the assets of SDG&E’s nuclear decommissioning trusts, excluding cash balances. A third party trustee values the trust assets using prices from a pricing service based on a market approach. We validate these prices by comparison to prices from other independent data sources. Equity and certain debt securities are valued using quoted prices listed on nationally recognized securities exchanges or based on closing prices reported in the active market in which the identical security is traded (Level 1). Other debt securities are valued based on yields that are currently available for comparable securities of issuers with similar credit ratings (Level 2).

§ We enter into commodity contracts and interest rate derivatives primarily as a means to manage price exposures. We may also manage foreign exchange rate exposures using derivatives. We primarily use a market approach with market participant assumptions to value these derivatives. Market participant assumptions include those about risk, and the risk inherent in the inputs to the valuation techniques. These inputs can be readily observable, market corroborated, or generally unobservable. We have exchange-traded derivatives that are valued based on quoted prices in active markets for the identical instruments (Level 1). We also may have other commodity derivatives that are valued using industry standard models that consider quoted forward prices for commodities, time value, current market and contractual prices for the underlying instruments, volatility factors, and other relevant economic measures (Level 2). Level 3 recurring items relate to CRRs and long-term, fixed-price electricity positions at SDG&E, as we discuss below under “Level 3 Information.” We record commodity derivative contracts that are subject to rate recovery as commodity costs that are offset by regulatory account balances and are recovered in rates.

§ Investments include marketable securities that we value using a market approach based on closing prices reported in the active market in which the identical security is traded (Level 1).

There were no transfers into or out of Level 1, Level 2 or Level 3 for Sempra Energy Consolidated, SDG&E or SoCalGas during the periods presented, nor any changes in valuation techniques used in recurring fair value measurements.

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

| | Fair value at September 30, 2015 | | | | |
|---|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Netting(1) | Total |
| Assets: | | | | | |
| Nuclear decommissioning trusts: | | | | | |
| Equity securities | $ 588 | $ | $ | $ | $ 588 |
| Debt securities: | | | | | |
| Debt securities issued by the U.S. Treasury and other U.S. government corporations and agencies | 51 | 44 | | | 95 |
| Municipal bonds | | 154 | | | 154 |
| Other securities | | 205 | | | 205 |
| Total debt securities | 51 | 403 | | | 454 |
| Total nuclear decommissioning trusts(2) | 639 | 403 | | | 1,042 |
| Interest rate and foreign exchange instruments | | 7 | | | 7 |
| Commodity contracts not subject to rate recovery | 31 | 17 | | 3 | 51 |
| Commodity contracts subject to rate recovery | | 1 | 91 | 15 | 107 |
| Total | $ 670 | $ 428 | $ 91 | $ 18 | $ 1,207 |
| Liabilities: | | | | | |
| Interest rate and foreign exchange instruments | $ | $ 178 | $ | $ | $ 178 |
| Commodity contracts not subject to rate recovery | 8 | 2 | | (3) | 7 |
| Commodity contracts subject to rate recovery | | 67 | 55 | (53) | 69 |
| Total | $ 8 | $ 247 | $ 55 | $ (56) | $ 254 |

| | Fair value at December 31, 2014 | | | | |
|---|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Netting(1) | Total |
| Assets: | | | | | |
| Nuclear decommissioning trusts: | | | | | |
| Equity securities | $ 655 | $ | $ | $ | $ 655 |
| Debt securities: | | | | | |

| | Level 1 | Level 2 | Level 3 | Netting(1) | Total |
|---|---|---|---|---|---|
| Debt securities issued by the U.S. Treasury and other U.S. government corporations and agencies | 62 | 47 | | | 109 |
| Municipal bonds | | 129 | | | 129 |
| Other securities | | 207 | | | 207 |
| Total debt securities | 62 | 383 | | | 445 |
| Total nuclear decommissioning trusts(2) | 717 | 383 | | | 1,100 |
| Interest rate and foreign exchange instruments | | 48 | | | 48 |
| Commodity contracts not subject to rate recovery | 28 | 16 | | (11) | 33 |
| Commodity contracts subject to rate recovery | | 1 | 107 | 14 | 122 |
| Total | $ 745 | $ 448 | $ 107 | $ 3 | $ 1,303 |
| Liabilities: | | | | | |
| Interest rate and foreign exchange instruments | $ | $ 155 | $ | $ | $ 155 |
| Commodity contracts not subject to rate recovery | 3 | 9 | | (4) | 8 |
| Commodity contracts subject to rate recovery | | 52 | | (36) | 16 |
| Total | $ 3 | $ 216 | $ | $ (40) | $ 179 |

(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.

(2) Excludes cash balances and cash equivalents.

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

| | Fair value at September 30, 2015 | | | | |
|---|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Netting(1) | Total |
| Assets: | | | | | |
| Nuclear decommissioning trusts: | | | | | |
| Equity securities | $ 588 | $ | $ | $ | $ 588 |
| Debt securities: | | | | | |
| Debt securities issued by the U.S. Treasury and other U.S. government corporations and agencies | 51 | 44 | | | 95 |
| Municipal bonds | | 154 | | | 154 |
| Other securities | | 205 | | | 205 |
| Total debt securities | 51 | 403 | | | 454 |
| Total nuclear decommissioning trusts(2) | 639 | 403 | | | 1,042 |
| Commodity contracts not subject to rate recovery | | | | 1 | 1 |
| Commodity contracts subject to rate recovery | | | 91 | 14 | 105 |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Total | $ | 639 | $ | 403 | $ | 91 | $ | 15 | $ | 1,148 |
| Liabilities: | | | | | | | | | | |
| Interest rate instruments | $ | | $ | 44 | $ | | $ | | | |