

PACIFIC ENTERPRISES INC  
Form 10-Q  
November 10, 2008

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-Q  
QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE  
SECURITIES EXCHANGE ACT OF 1934  
For the quarterly period ended September 30, 2008

Commission File Number	Name of Registrant as Specified in its Charter, Address and Telephone Number	State of Incorporation	I.R.S. Employer Identification No.
1-40	PACIFIC ENTERPRISES 101 Ash Street San Diego, California 92101 (619) 696-2020	California	94-0743670
1-1402	SOUTHERN CALIFORNIA GAS COMPANY  555 West Fifth Street Los Angeles, California 90013 (213) 244-1200	California	95-1240705

No Change

(Former name, former address and former fiscal year, if changed since last report)

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

Yes                      X                      No

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Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer

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

Yes  No

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

Common stock outstanding:

Pacific Enterprises	Wholly owned by Sempra Energy
Southern California Gas Company	Wholly owned by Pacific Enterprises

## INFORMATION REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report contains statements that are not historical fact and constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. The words "believes," "expects," "anticipates," "plans," "estimates," "projects," "contemplates," "intends," "depends," "should," "could," "would," "may," "potential," "target," "goals," or similar expressions, or discussions of strategy or of plans are intended to identify forward-looking statements. Forward-looking statements are necessarily based upon assumptions with respect to the future, involve risks and uncertainties and are not guarantees of performance. Factors, among others, that could cause the company's actual results and future actions to differ materially from those described in forward-looking statements include:

- .  
local, regional and national economic, competitive, political, legislative and regulatory conditions and developments;
- .  
actions by the California Public Utilities Commission, the California State Legislature, the Federal Energy Regulatory Commission and other regulatory bodies in the United States;
- .  
capital markets conditions, inflation rates, interest rates and exchange rates;
- .  
energy and trading markets, including the timing and extent of changes in commodity prices;
- .  
the availability of natural gas and liquefied natural gas;
- .  
weather conditions and conservation efforts;
- .  
war and terrorist attacks;

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business, regulatory, environmental and legal decisions and requirements;

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the status of deregulation of retail natural gas and electricity delivery;

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the timing and success of business development efforts;

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the resolution of litigation; and

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other uncertainties, all of which are difficult to predict and many of which are beyond the control of the companies.

Readers are cautioned not to rely unduly on any forward-looking statements and are urged to review and consider carefully the risks, uncertainties and other factors which affect the companies' business described in this report and other reports filed by the companies from time to time with the Securities and Exchange Commission. These forward-looking statements represent the company's estimates and assumptions only as of the date of this report.

## PART I. FINANCIAL INFORMATION

## ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## PACIFIC ENTERPRISES AND SUBSIDIARIES

## STATEMENTS OF CONSOLIDATED INCOME

(Dollars in millions)	Three months ended		Nine months ended	
	September 30,		September 30,	
	2008	2007	2008	2007
				(unaudited)
Operating revenues	\$ 1,077	\$ 819	\$ 3,776	\$ 3,168
Operating expenses				
Cost of natural gas	609	350	2,369	1,791
Other operating expenses	241	254	756	746
Depreciation	67	71	209	210
Franchise fees and other taxes	29	26	100	91
Total operating expenses	946	701	3,434	2,838
Operating income	131	118	342	330
Other income (expense), net	1	(1 )	1	(4 )
Interest income	5	15	18	40
Interest expense	(15 )	(20 )	(47 )	(58 )
Income before income taxes	122	112	314	308
Income tax expense	42	46	119	128
Net income	80	66	195	180
Preferred dividend requirements	1	1	3	3
Earnings applicable to common shares	\$ 79	\$ 65	\$ 192	\$ 177

See Notes to Condensed Consolidated Financial Statements.

PACIFIC ENTERPRISES AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS

(Dollars in millions)	September 30, 2008 (unaudited)	December 31, 2007
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 38	\$ 59
Accounts receivable - trade	365	671
Accounts receivable - other	53	22
Due from unconsolidated affiliates	7	5
Income taxes receivable	106	37
Deferred income taxes	27	33
Inventories	327	98
Regulatory assets	23	40
Other	61	23
Total current assets	1,007	988
Other assets:		
Due from unconsolidated affiliates	459	457
Regulatory assets	100	100
Pension plan assets in excess of benefit obligations	37	62
Sundry	40	39
Total other assets	636	658
Property, plant and equipment:		
Property, plant and equipment	8,716	8,448
Less accumulated depreciation and amortization	(3,435 )	(3,292 )
Property, plant and equipment, net	5,281	5,156
<b>Total assets</b>	<b>\$ 6,924</b>	<b>\$ 6,802</b>

See Notes to Condensed Consolidated Financial Statements.





PACIFIC ENTERPRISES AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS

(Dollars in millions)	September 30, 2008 (unaudited)	December 31, 2007
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current liabilities:</b>		
Short-term debt	\$ 96	\$ --
Accounts payable - trade	244	300
Accounts payable - other	118	130
Due to unconsolidated affiliates	97	125
Regulatory balancing accounts, net	122	183
Customer deposits	104	90
Accrued compensation and benefits	81	87
Other	243	223
Total current liabilities	1,105	1,138
Long-term debt	1,113	1,113
<b>Deferred credits and other liabilities:</b>		
Customer advances for construction	126	123
Pension and other postretirement benefit obligations, net of plan assets	61	58
Deferred income taxes	172	102
Deferred investment tax credits	31	33
Regulatory liabilities arising from removal obligations	1,178	1,187
Asset retirement obligations	587	562
Deferred taxes refundable in rates	227	231
Regulatory liabilities arising from pension and other postretirement benefit obligations	7	34
Preferred stock of subsidiary	20	20
Deferred credits and other	245	285
	2,654	2,635

Total deferred credits and other liabilities

Commitments and contingencies (Note 6)

Shareholders' equity:

Preferred stock	80	80
Common stock (600 million shares authorized; 84 million shares outstanding; no par value)	1,462	1,462
Retained earnings	520	378
Accumulated other comprehensive income (loss)	(10 )	(4 )
Total shareholders' equity	2,052	1,916
Total liabilities and shareholders' equity	\$ 6,924	\$ 6,802

See Notes to Condensed Consolidated Financial Statements.

PACIFIC ENTERPRISES AND SUBSIDIARIES  
CONDENSED STATEMENTS OF CONSOLIDATED CASH FLOWS

(Dollars in millions)	Nine months ended	
	2008	September 30, 2007 (unaudited)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ 195	\$ 180
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	209	210
Deferred income taxes and investment tax credits	74	22
Other	(2 )	(1 )
Net change in other working capital components	(134 )	30
Changes in other assets	25	12
Changes in other liabilities	(63 )	(6 )
Net cash provided by operating activities	304	447
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Expenditures for property, plant and equipment	(350 )	(300 )
Decrease (increase) in loans to affiliates, net	132	(116 )
Other	--	1
Net cash used in investing activities	(218 )	(415 )
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Common dividends paid	(200 )	(100 )
Preferred dividends paid	(3 )	(3 )
Increase in short-term debt, net	96	--
Net cash used in financing activities	(107 )	(103 )
Decrease in cash and cash equivalents	(21 )	(71 )
Cash and cash equivalents, January 1	59	211
Cash and cash equivalents, September 30	\$ 38	\$ 140

**SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION**

Interest payments, net of amounts capitalized	\$ 37	\$ 48
Income tax payments, net of refunds	\$ 113	\$ 118

**SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING  
ACTIVITY**

Decrease in accounts payable from investments in property, plant and equipment	\$ (30 )	\$ (11 )
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See Notes to Condensed Consolidated Financial Statements.

SOUTHERN CALIFORNIA GAS COMPANY AND SUBSIDIARIES  
STATEMENTS OF CONSOLIDATED INCOME

(Dollars in millions)	Three months ended		Nine months ended	
	September 30,		September 30,	
	2008	2007	2008	2007
				(unaudited)
Operating revenues	\$ 1,077	\$ 819	\$ 3,776	\$ 3,168
Operating expenses				
Cost of natural gas	609	350	2,369	1,791
Other operating expenses	241	255	756	746
Depreciation	67	71	209	210
Franchise fees and other taxes	29	26	100	91
Total operating expenses	946	702	3,434	2,838
Operating income	131	117	342	330
Other income (expense), net	(1)	--	1	(4)
Interest income	2	8	9	22
Interest expense	(14)	(18)	(44)	(53)
Income before income taxes	118	107	308	295
Income tax expense	41	44	117	122
Net income	77	63	191	173
Preferred dividend requirements	--	--	1	1
Earnings applicable to common shares	\$ 77	\$ 63	\$ 190	\$ 172

See Notes to Condensed Consolidated Financial Statements.



SOUTHERN CALIFORNIA GAS COMPANY AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS

(Dollars in millions)	September 30, 2008 (unaudited)	December 31, 2007
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 38	\$ 59
Accounts receivable - trade	365	671
Accounts receivable - other	50	22
Due from unconsolidated affiliates	2	129
Income taxes receivable	41	--
Deferred income taxes	26	33
Inventories	327	98
Regulatory assets	23	40
Other	63	22
Total current assets	935	1,074
Other assets:		
Regulatory assets	100	100
Pension plan assets in excess of benefit obligations	37	62
Sundry	15	16
Total other assets	152	178
Property, plant and equipment:		
Property, plant and equipment	8,714	8,446
Less accumulated depreciation and amortization	(3,435 )	(3,292 )
Property, plant and equipment, net	5,279	5,154
Total assets	\$ 6,366	\$ 6,406

See Notes to Condensed Consolidated Financial Statements.





SOUTHERN CALIFORNIA GAS COMPANY AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS

(Dollars in millions)	September 30, 2008 (unaudited)	December 31, 2007
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current liabilities:</b>		
Short-term debt	\$ 96	\$ --
Accounts payable - trade	244	300
Accounts payable - other	118	130
Due to unconsolidated affiliates	10	171
Income taxes payable	--	26
Regulatory balancing accounts, net	122	183
Customer deposits	104	90
Accrued compensation and benefits	81	87
Other	243	223
Total current liabilities	1,018	1,210
Long-term debt	1,113	1,113
<b>Deferred credits and other liabilities:</b>		
Customer advances for construction	126	123
Pension and other postretirement benefit obligations, net of plan assets	61	58
Deferred income taxes	183	117
Deferred investment tax credits	31	33
Regulatory liabilities arising from removal obligations	1,178	1,187
Asset retirement obligations	587	562
Deferred taxes refundable in rates	227	231
Regulatory liabilities arising from pension and other postretirement benefit obligations	7	34
Deferred credits and other	231	268
	2,631	2,613

Total deferred credits and other liabilities

Commitments and contingencies (Note 6)

Shareholders' equity:

Preferred stock	22	22
Common stock (100 million shares authorized; 91 million shares outstanding; no par value)	866	866
Retained earnings	726	586
Accumulated other comprehensive income (loss)	(10 )	(4 )
Total shareholders' equity	1,604	1,470
Total liabilities and shareholders' equity	\$ 6,366	\$ 6,406

See Notes to Condensed Consolidated Financial Statements.

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

(Dollars in millions)	Nine months ended	
	2008	September 30, 2007 (unaudited)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ 191	\$ 173
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	209	210
Deferred income taxes and investment tax credits	71	23
Other	1	2
Net change in other working capital components	(135 )	20
Changes in other assets	21	8
Changes in other liabilities	(60 )	(1 )
Net cash provided by operating activities	298	435
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Expenditures for property, plant and equipment	(350 )	(300 )
Decrease (increase) in loans to affiliates, net	136	(107 )
Other	--	2
Net cash used in investing activities	(214 )	(405 )
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Common dividends paid	(200 )	(100 )
Preferred dividends paid	(1 )	(1 )
Increase in short-term debt, net	96	--
Net cash used in financing activities	(105 )	(101 )
Decrease in cash and cash equivalents	(21 )	(71 )

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Cash and cash equivalents, January 1	59	211
Cash and cash equivalents, September 30	\$ 38	\$ 140

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Interest payments, net of amounts capitalized	\$ 35	\$ 43
Income tax payments, net of refunds	\$ 113	\$ 118

SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING  
ACTIVITY

Decrease in accounts payable from investments in property, plant and equipment	\$ (30 )	\$ (11)
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See Notes to Condensed Consolidated Financial Statements.

## **NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

### **NOTE 1. GENERAL**

#### **Principles of Consolidation**

This Quarterly Report on Form 10-Q is that of Pacific Enterprises (PE) and Southern California Gas Company (SoCalGas) (collectively referred to as the company or the companies). PE's common stock is wholly owned by Sempra Energy, a California-based Fortune 500 holding company, and PE owns all of the common stock of SoCalGas. The accompanying financial statements are, in one case, the Condensed Consolidated Financial Statements of PE and its subsidiary, SoCalGas, and, in the other case, the Condensed Consolidated Financial Statements of SoCalGas and its subsidiaries, which comprise less than one percent of SoCalGas' consolidated financial position and results of operations.

Sempra Energy also indirectly owns all of the common stock of San Diego Gas & Electric Company (SDG&E). SoCalGas and SDG&E are collectively referred to as the Sempra Utilities.

#### **Basis of Presentation**

The Condensed Consolidated Financial Statements have been prepared in conformity with accounting principles generally accepted in the United States of America (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. 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.

Information in this Quarterly Report should be read in conjunction with the company's Annual Report on Form 10-K for the year ended December 31, 2007 (the Annual Report) and its Quarterly Reports on Form 10-Q for the quarters ended March 31, 2008 and June 30, 2008.

The companies' significant accounting policies are described in Note 1 of the Notes to Consolidated Financial Statements in the Annual Report. The same accounting policies are followed for interim reporting purposes, except for the adoption of new accounting standards as discussed in Note 2.

SoCalGas accounts for the economic effects of regulation on utility operations in accordance with Statement of Financial Accounting Standards (SFAS) 71, *Accounting for the Effects of Certain Types of Regulation*.

As discussed in Note 5, beginning April 1, 2008, the SDG&E and SoCalGas core natural gas supply portfolios were combined and are managed by SoCalGas. SoCalGas will procure natural gas for SDG&E's core customers. This core gas procurement function is considered a shared service, therefore amounts related to SDG&E are not included in the income statement.

## **NOTE 2. NEW ACCOUNTING STANDARDS**

Recently issued pronouncements that have had or may have a significant effect on the company's financial statements are described below.

***SFAS 161, "Disclosures about Derivative Instruments and Hedging Activities – an amendment of FASB Statement No. 133" (SFAS 161):*** SFAS 161 expands the disclosure requirements in Financial Accounting Standards Board (FASB) Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities* (SFAS 133). SFAS 161 requires qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of and gains and losses on derivative instruments, and disclosures about credit-risk-related contingent features in derivative agreements. SFAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. The company is in the process of evaluating the effect of this statement on its financial statement disclosures.

***FASB Staff Position (FSP) FASB Interpretation (FIN) No. 39-1, "Amendment of FASB Interpretation No. 39" (FSP FIN 39-1):*** FSP FIN 39-1 amends FASB Interpretation No. 39, *Offsetting of Amounts Related to Certain Contracts*, to permit a reporting entity to offset fair value amounts recognized for the right to reclaim or the obligation to return cash collateral against fair value amounts recognized for derivative instruments executed with the same counterparty under the same master netting arrangement. The company adopted FSP FIN 39-1 effective January 1, 2008. The company applied FSP FIN 39-1 as a change in accounting principle through retrospective application. Each consolidated balance sheet herein reflects the offsetting of net derivative positions with fair value amounts for cash collateral with the same counterparty when management believes a legal right of setoff exists. The adoption of FSP FIN 39-1 did not have a material impact on the company's financial statements. Additional disclosure is provided in Note 4.

### **NOTE 3. OTHER FINANCIAL DATA**

#### **Debt and Credit Facilities**

##### *Committed Line of Credit*

On August 15, 2008, the company and its affiliate, SDG&E entered into an \$800 million, three-year syndicated revolving credit agreement expiring in 2011. JPMorgan Chase Bank serves as administrative agent for the syndicate of 17 lenders. The agreement permits each company to individually borrow up to \$600 million, subject to a combined limit of \$800 million for both companies. It also provides for the issuance of letters of credit on behalf of each company subject to a combined letter of credit commitment of \$200 million for both companies with the amount of borrowings otherwise available under the facility reduced by the amount of outstanding letters of credit.

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

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

Concurrently with the effectiveness of this credit agreement, SDG&E's and SoCalGas' combined \$600 million revolving credit facility scheduled to expire in August 2010 was terminated.



At September 30, 2008, SoCalGas had no outstanding borrowings and no outstanding letters of credit under this facility. The facility provides support for \$96 million of commercial paper outstanding at September 30, 2008.

### *Weighted Average Interest Rate*

The company's weighted average interest rate on the total short-term debt outstanding was 2.95 percent at September 30, 2008.

### **Pension and Other Postretirement Benefits**

The following tables provide the components of benefit costs:

(Dollars in millions)	Pension Benefits		Other Postretirement Benefits	
	Three months ended		Three months ended	
	September 30,		September 30,	
	2008	2007	2008	2007
Service cost	\$ 10	\$ 11	\$ 3	\$ 3
Interest cost	24	24	10	10
Expected return on assets	(26 )	(25 )	(10 )	(10 )
Amortization of:				
Prior service cost (credit)	1	1	(1 )	(1 )
Actuarial (gain) loss	--	(1 )	--	1
Regulatory adjustment	(8 )	(9 )	(2 )	4
Total net periodic benefit cost	\$ 1	\$ 1	\$ --	\$ 7

(Dollars in millions)	Pension Benefits		Other Postretirement Benefits	
	Nine months ended		Nine months ended	
	September 30,		September 30,	
	2008	2007	2008	2007
Service cost	\$ 30	\$ 31	\$ 12	\$ 14
Interest cost	73	72	31	33

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Expected return on assets	(77 )	(76 )	(32 )	(30 )
Amortization of:				
Prior service cost (credit)	2	2	(3 )	(4 )
Actuarial loss	--	--	--	4
Regulatory adjustment	(26 )	(27 )	1	6
Total net periodic benefit cost	\$ 2	\$ 2	\$ 9	\$ 23

The company expects to contribute \$3 million to its pension plan and \$22 million to its other postretirement benefit plans in 2008. For the nine months ended September 30, 2008, the company made contributions of \$1 million and \$9 million to the pension plan and other postretirement benefit plans, respectively, including \$1 million and a negligible amount, respectively, for the three months ended September 30, 2008.

### Capitalized Interest

The company recorded a negligible amount and \$2 million of capitalized interest for the three months and nine months ended September 30, 2008, respectively, including primarily the debt-related portion of allowance for funds used during construction. The company recorded a negligible amount and \$1 million of capitalized interest for the three months and nine months ended September 30, 2007, respectively, including primarily the debt-related portion of allowance for funds used during construction.

### Comprehensive Income

The following is a reconciliation of net income to comprehensive income for PE:

(Dollars in millions)	Three months ended September 30,		Nine months ended September 30,	
	2008	2007	2008	2007
Net income	\$ 80	\$ 66	\$ 195	\$ 180
Financial instruments*	(6 )	--	(6 )	--
Comprehensive income	\$ 74	\$ 66	\$ 189	\$ 180

\* Net of income tax benefit of \$4 million for both the three and nine months ended September 30, 2008.

The following is a reconciliation of net income to comprehensive income for SoCalGas:

(Dollars in millions)	Three months ended September 30,		Nine months ended September 30,	
	2008	2007	2008	2007
Net income	\$ 77	\$ 63	\$ 191	\$ 173
Financial instruments*	(6 )	--	(6 )	--
Comprehensive income	\$ 71	\$ 63	\$ 185	\$ 173

\* Net of income tax benefit of \$4 million for both the three and nine months ended September 30, 2008.

### Other Income (Expense), Net

Other Income (Expense), Net consists of the following:

(Dollars in millions)	Three months ended		Nine months ended	
	September 30,		September 30,	
	2008	2007	2008	2007
Allowance for equity funds used during construction	\$ 2	\$ 2	\$ 6	\$ 4
Regulatory interest, net	(2)	(1)	(4)	(6)
Sundry, net	(1)	(1)	(1)	(2)
Total at SoCalGas	(1)	--	1	(4)
Additional at Pacific Enterprises:				
Preferred dividends of subsidiary	--	--	(1)	(1)
Sundry, net	2			