

Edgar Filing: PACIFIC ENTERPRISES INC - Form 10-Q

PACIFIC ENTERPRISES INC  
Form 10-Q  
August 14, 2002

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

Quarterly report pursuant to Section 13 or 15(d) of the  
Securities Exchange Act of 1934

June 30, 2002

For the quarterly period ended.....  
Or

Transition report pursuant to Section 13 or 15(d) of the  
Securities Exchange Act of 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

| Commission<br>File<br>Number | Name of Registrant, State of<br>Incorporation, Address and<br>Telephone Number  | IRS Employer<br>Identification<br>Number |
|------------------------------|---|--|
| 1-40                         | Pacific Enterprises<br>(A California Corporation)<br>101 Ash Street<br>San Diego, California 92101<br>(619) 696-2020                      | 94-0743670                               |
| 1-1402                       | Southern California Gas Company<br>(A California Corporation)<br>555 West Fifth Street<br>Los Angeles, California 90013<br>(213) 244-1200 | 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 Sections 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.....

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 |

ITEM 1. FINANCIAL STATEMENTS

PACIFIC ENTERPRISES AND SUBSIDIARIES  
STATEMENTS OF CONSOLIDATED INCOME  
Dollars in millions

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|  | Three Months Ended<br>June 30, |        |
|--|--------------------------------|--------|
|  | 2002                           | 2001   |
| Operating Revenues                                     | \$ 680                         | \$ 927 |
| Operating Expenses                                     |                                |        |
| Cost of natural gas distributed                        | 269                            | 533    |
| Other operating expenses                               | 220                            | 200    |
| Depreciation   | 68                             | 67     |
| Income taxes   | 42                             | 38     |
| Other taxes and franchise payments                     | 23                             | 26     |
| Total operating expenses                               | 622                            | 864    |
| Operating Income                                       | 58                             | 63     |
| Other Income and (Deductions)                          |                                |        |
| Interest income  | 4                              | 12     |
| Regulatory interest - net                              | (2)                            | (1)    |
| Allowance for equity funds used<br>during construction | 2                              | 1      |
| Taxes on non-operating income                          | --                             | (3)    |
| Preferred dividends of subsidiaries                    | (1)                            | (1)    |
| Other - net  | 2                              | 2      |
| Total  | 5                              | 10     |
| Interest Charges                                       |                                |        |
| Long-term debt   | 10                             | 16     |
| Other  | 3                              | 8      |
| Total  | 13                             | 24     |
| Net Income   | 50                             | 49     |
| Preferred Dividend Requirements                        | 1                              | 1      |
| Earnings Applicable to Common Shares                   | \$ 49                          | \$ 48  |

See notes to Consolidated Financial Statements.

PACIFIC ENTERPRISES AND SUBSIDIARIES  
STATEMENTS OF CONSOLIDATED INCOME  
Dollars in millions

|                    | Six Months Ended<br>June 30, |          |
|--------------------|------------------------------|----------|
|                    | 2002                         | 2001     |
| Operating Revenues | \$ 1,402                     | \$ 2,475 |

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|  |        |       |
|--|--------|-------|
| Operating Expenses                                       |        |       |
| Cost of natural gas distributed                          | 616    | 1,684 |
| Other operating expenses                                 | 391    | 389   |
| Depreciation   | 136    | 132   |
| Income taxes   | 89     | 80    |
| Other taxes and franchise payments                       | 47     | 59    |
|  | -----  | ----- |
| Total operating expenses                                 | 1,279  | 2,344 |
|  | -----  | ----- |
| Operating Income   | 123    | 131   |
|  | -----  | ----- |
| Other Income and (Deductions)                            |        |       |
| Interest income  | 6      | 29    |
| Regulatory interest - net                                | (1)    | (6)   |
| Allowance for equity funds used<br>during construction   | 4      | 2     |
| Taxes on non-operating income                            | 3      | (5)   |
| Preferred dividends of subsidiaries                      | (1)    | (1)   |
| Other - net  | 5      | (2)   |
|  | -----  | ----- |
| Total  | 16     | 17    |
|  | -----  | ----- |
| Interest Charges   |        |       |
| Long-term debt   | 19     | 33    |
| Other  | 12     | 17    |
| Allowance for borrowed funds used<br>during construction | (1)    | (1)   |
|  | -----  | ----- |
| Total  | 30     | 49    |
|  | -----  | ----- |
| Net Income   | 109    | 99    |
| Preferred Dividend Requirements                          | 2      | 2     |
|  | -----  | ----- |
| Earnings Applicable to Common Shares                     | \$ 107 | \$ 97 |
|  | =====  | ===== |

See notes to Consolidated Financial Statements.

PACIFIC ENTERPRISES AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS  
Dollars in millions

|                                     | Balance at       |                      |
|-------------------------------------|------------------|----------------------|
|                                     | June 30,<br>2002 | December 31,<br>2001 |
|                                     | -----            | -----                |
| ASSETS                              |                  |                      |
| Property, plant and equipment       | \$6,716          | \$6,590              |
| Accumulated depreciation            | (3,909)          | (3,793)              |
|                                     | -----            | -----                |
| Property, plant and equipment - net | 2,807            | 2,797                |
|                                     | -----            | -----                |
| Current assets:                     |                  |                      |
| Cash and cash equivalents           | 41               | 13                   |
| Accounts receivable - trade         | 233              | 415                  |

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|  |         |         |
|--|---------|---------|
| Accounts receivable - other  | 14      | 14      |
| Due from unconsolidated affiliates   | 288     | --      |
| Income taxes receivable  | --      | 20      |
| Deferred income taxes  | 59      | 33      |
| Regulatory assets arising from fixed-price contracts and other derivatives | 71      | 103     |
| Fixed-price contracts and other derivatives                                | 4       | 59      |
| Inventories  | 19      | 42      |
| Other  | 4       | 4       |
|  | -----   | -----   |
| Total current assets   | 733     | 703     |
|  | -----   | -----   |
| Other assets:  |         |         |
| Due from unconsolidated affiliates   | 324     | 409     |
| Regulatory assets arising from fixed-price contracts and other derivatives | 394     | 157     |
| Sundry   | 143     | 125     |
|  | -----   | -----   |
| Total other assets   | 861     | 691     |
|  | -----   | -----   |
| Total assets   | \$4,401 | \$4,191 |
|  | =====   | =====   |

See notes to Consolidated Financial Statements.

PACIFIC ENTERPRISES AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS  
Dollars in millions

|  | Balance at       |                      |
|--|------------------|----------------------|
|  | June 30,<br>2002 | December 31,<br>2001 |
|  | -----            | -----                |
| CAPITALIZATION AND LIABILITIES   |                  |                      |
| Capitalization:  |                  |                      |
| Common Stock (600,000,000 shares authorized;<br>83,917,664 shares outstanding) | \$1,318          | \$1,317              |
| Retained earnings  | 184              | 177                  |
|  | -----            | -----                |
| Total common equity  | 1,502            | 1,494                |
| Preferred stock  | 80               | 80                   |
|  | -----            | -----                |
| Total shareholders' equity   | 1,582            | 1,574                |
| Long-term debt   | 510              | 579                  |
|  | -----            | -----                |
| Total capitalization   | 2,092            | 2,153                |
|  | -----            | -----                |
| Current liabilities:   |                  |                      |
| Short-term debt  | --               | 50                   |
| Accounts payable - trade   | 204              | 160                  |
| Accounts payable - other   | 47               | 81                   |
| Due to unconsolidated affiliates   | 74               | 168                  |
| Regulatory balancing accounts - net  | 136              | 85                   |
| Interest payable   | 34               | 30                   |
| Regulatory liabilities   | 7                | 18                   |
| Fixed-price contracts and other derivatives                                    | 78               | 103                  |

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|  |         |         |
|--|---------|---------|
| Current portion of long-term debt            | 175     | 100     |
| Other  | 441     | 391     |
|  | -----   | -----   |
| Total current liabilities                    | 1,196   | 1,186   |
|  | -----   | -----   |
| Deferred credits and other liabilities:      |         |         |
| Customer advances for construction           | 27      | 24      |
| Post-retirement benefits other than pensions | 84      | 88      |
| Deferred income taxes                        | 131     | 110     |
| Deferred investment tax credits              | 48      | 50      |
| Regulatory liabilities                       | 111     | 86      |
| Fixed-price contracts and other derivatives  | 394     | 162     |
| Deferred credits and other liabilities       | 298     | 312     |
| Preferred stock of subsidiary                | 20      | 20      |
|  | -----   | -----   |
| Total deferred credits and other liabilities | 1,113   | 852     |
|  | -----   | -----   |
| Contingencies and commitments (Note 2)       |         |         |
| Total liabilities and shareholders' equity   | \$4,401 | \$4,191 |
|  | =====   | =====   |

See notes to Consolidated Financial Statements.

PACIFIC ENTERPRISES AND SUBSIDIARIES  
 CONDENSED STATEMENTS OF CONSOLIDATED CASH FLOWS  
 Dollars in millions

|   | Six Months Ended<br>June 30, |       |
|---|------------------------------|-------|
|   | 2002                         | 2001  |
|   | -----                        | ----- |
| Cash Flows from Operating Activities  |                              |       |
| Net Income  | \$ 109                       | \$ 99 |
| Adjustments to reconcile net income to net cash provided by operating activities: |                              |       |
| Depreciation  | 136                          | 132   |
| Deferred income taxes and investment tax credits                                  | (8)                          | 8     |
| Changes in other assets   | (1)                          | (4)   |
| Changes in other liabilities  | (14)                         | 51    |
| Net changes in other working capital components                                   | 399                          | 134   |
|   | -----                        | ----- |
| Net cash provided by operating activities   | 621                          | 420   |
|   | -----                        | ----- |
| Cash Flows from Investing Activities  |                              |       |
| Capital expenditures  | (143)                        | (114) |
| Loan to affiliate - net   | (298)                        | 215   |
|   | -----                        | ----- |
| Net cash provided by (used in) investing activities                               | (441)                        | 101   |
|   | -----                        | ----- |
| Cash Flows from Financing Activities  |                              |       |
| Common dividends paid   | (100)                        | (190) |

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|   |       |        |
|---|-------|--------|
| Preferred dividends paid                          | (2)   | (2)    |
| Decrease in short-term debt                       | (50)  | --     |
| Other   | --    | (3)    |
|   | ----- | -----  |
| Net cash used in financing activities             | (152) | (195)  |
|   | ----- | -----  |
| Increase in cash and cash equivalents             | 28    | 326    |
| Cash and cash equivalents, January 1              | 13    | 205    |
|   | ----- | -----  |
| Cash and cash equivalents, June 30                | \$ 41 | \$ 531 |
|   | ===== | =====  |
| Supplemental Disclosure of Cash Flow Information: |       |        |
| Interest payments, net of amounts capitalized     | \$ 24 | \$ 49  |
|   | ===== | =====  |
| Income tax payments, net of refunds               | \$ 74 | \$ 130 |
|   | ===== | =====  |

See notes to Consolidated Financial Statements.

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

|  | Three Months Ended<br>June 30, |        |
|--|--------------------------------|--------|
|  | 2002                           | 2001   |
|  | -----                          | -----  |
| Operating Revenues                                     | \$ 680                         | \$ 927 |
|  | -----                          | -----  |
| Operating Expenses                                     |                                |        |
| Cost of natural gas distributed                        | 269                            | 533    |
| Other operating expenses                               | 218                            | 198    |
| Depreciation   | 68                             | 67     |
| Income taxes   | 44                             | 38     |
| Other taxes and franchise payments                     | 23                             | 26     |
|  | -----                          | -----  |
| Total operating expenses                               | 622                            | 862    |
|  | -----                          | -----  |
| Operating Income                                       | 58                             | 65     |
|  | -----                          | -----  |
| Other Income and (Deductions)                          |                                |        |
| Interest income  | 1                              | 7      |
| Regulatory interest - net                              | (2)                            | (1)    |
| Allowance for equity funds used<br>during construction | 2                              | 1      |
| Taxes on non-operating income                          | 1                              | (2)    |
|  | -----                          | -----  |
| Total  | 2                              | 5      |
|  | -----                          | -----  |
| Interest Charges                                       |                                |        |
| Long-term debt   | 10                             | 16     |

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|                                      |       |       |
|--------------------------------------|-------|-------|
| Other                                | (2)   | 6     |
|                                      | ----- | ----- |
| Total                                | 8     | 22    |
|                                      | ----- | ----- |
| Net Income                           | 52    | 48    |
| Preferred Dividend Requirements      | 1     | 1     |
|                                      | ----- | ----- |
| Earnings Applicable to Common Shares | \$ 51 | \$ 47 |
|                                      | ===== | ===== |

See notes to Consolidated Financial Statements.

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

|  | Six Months Ended<br>June 30, |          |
|--|------------------------------|----------|
|  | 2002                         | 2001     |
|  | -----                        | -----    |
| Operating Revenues                                       | \$ 1,402                     | \$ 2,475 |
|  | -----                        | -----    |
| Operating Expenses                                       |                              |          |
| Cost of natural gas distributed                          | 616                          | 1,684    |
| Other operating expenses                                 | 386                          | 384      |
| Depreciation   | 136                          | 132      |
| Income taxes   | 92                           | 82       |
| Other taxes and franchise payments                       | 47                           | 59       |
|  | -----                        | -----    |
| Total operating expenses                                 | 1,277                        | 2,341    |
|  | -----                        | -----    |
| Operating Income   | 125                          | 134      |
|  | -----                        | -----    |
| Other Income and (Deductions)                            |                              |          |
| Interest income  | 2                            | 16       |
| Regulatory interest - net                                | (1)                          | (6)      |
| Allowance for equity funds used<br>during construction   | 4                            | 2        |
| Taxes on non-operating income                            | 5                            | (4)      |
| Other - net  | --                           | (1)      |
|  | -----                        | -----    |
| Total  | 10                           | 7        |
|  | -----                        | -----    |
| Interest Charges   |                              |          |
| Long-term debt   | 19                           | 33       |
| Other  | 5                            | 9        |
| Allowance for borrowed funds used<br>during construction | (1)                          | (1)      |
|  | -----                        | -----    |
| Total  | 23                           | 41       |
|  | -----                        | -----    |
| Net Income   | 112                          | 100      |
| Preferred Dividend Requirements                          | 1                            | 1        |
|  | -----                        | -----    |
| Earnings Applicable to Common Shares                     | \$ 111                       | \$ 99    |
|  | =====                        | =====    |

See notes to Consolidated Financial Statements.

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

|  | Balance at       |                      |
|--|------------------|----------------------|
|  | June 30,<br>2002 | December 31,<br>2001 |
| ASSETS   |                  |                      |
| Utility plant - at original cost   | \$6,591          | \$6,467              |
| Accumulated depreciation   | (3,823)          | (3,710)              |
| Utility plant - net  | 2,768            | 2,757                |
| Current assets:  |                  |                      |
| Cash and cash equivalents  | 41               | 13                   |
| Accounts receivable - trade  | 233              | 415                  |
| Accounts receivable - other  | 14               | 14                   |
| Due from unconsolidated affiliates   | 289              | --                   |
| Deferred income taxes  | 88               | 62                   |
| Regulatory assets arising from fixed-price contracts and other derivatives | 71               | 103                  |
| Fixed-price contracts and other derivatives                                | 4                | 59                   |
| Inventories  | 19               | 42                   |
| Other  | 4                | 4                    |
| Total current assets   | 763              | 712                  |
| Other assets:  |                  |                      |
| Regulatory assets arising from fixed-price contracts and other derivatives | 394              | 157                  |
| Sundry   | 155              | 136                  |
| Total other assets   | 549              | 293                  |
| Total assets   | \$4,080          | \$3,762              |

See notes to Consolidated Financial Statements.

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

|  | Balance at       |                      |
|--|------------------|----------------------|
|  | June 30,<br>2002 | December 31,<br>2001 |

CAPITALIZATION AND LIABILITIES  
Capitalization:



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|  |         |         |
|--|---------|---------|
| Common Stock (100,000,000 shares authorized;<br>91,300,000 shares outstanding) | \$ 836  | \$ 835  |
| Retained earnings  | 481     | 470     |
|  | -----   | -----   |
| Total common equity  | 1,317   | 1,305   |
| Preferred stock  | 22      | 22      |
|  | -----   | -----   |
| Total shareholders' equity   | 1,339   | 1,327   |
| Long-term debt   | 510     | 579     |
|  | -----   | -----   |
| Total capitalization   | 1,849   | 1,906   |
|  | -----   | -----   |
| Current liabilities:   |         |         |
| Short-term debt  | --      | 50      |
| Accounts payable - trade   | 204     | 160     |
| Accounts payable - other   | 47      | 81      |
| Due to unconsolidated affiliates   | 12      | 24      |
| Regulatory balancing accounts - net  | 136     | 85      |
| Income taxes payable   | 57      | 32      |
| Interest payable   | 30      | 29      |
| Regulatory liabilities   | 7       | 18      |
| Fixed-price contracts and other derivatives                                    | 78      | 103     |
| Current portion of long-term debt  | 175     | 100     |
| Other  | 440     | 390     |
|  | -----   | -----   |
| Total current liabilities  | 1,186   | 1,072   |
|  | -----   | -----   |
| Deferred credits and other liabilities:  |         |         |
| Customer advances for construction   | 27      | 24      |
| Deferred income taxes  | 200     | 183     |
| Deferred investment tax credits  | 48      | 50      |
| Regulatory liabilities   | 194     | 174     |
| Fixed-price contracts and other derivatives                                    | 394     | 162     |
| Deferred credits and other liabilities   | 182     | 191     |
|  | -----   | -----   |
| Total deferred credits and other liabilities                                   | 1,045   | 784     |
|  | -----   | -----   |
| Contingencies and commitments (Note 2)   |         |         |
| Total liabilities and shareholders' equity                                     | \$4,080 | \$3,762 |
|  | =====   | =====   |

See notes to Consolidated Financial Statements.

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

|  | Six Months Ended<br>June 30, |        |
|--|------------------------------|--------|
|  | 2002                         | 2001   |
|  | -----                        | -----  |
| Cash Flows from Operating Activities   |                              |        |
| Net income   | \$ 112                       | \$ 100 |
| Adjustments to reconcile net income to net<br>cash provided by operating activities: |                              |        |

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|   |       |        |
|---|-------|--------|
| Depreciation  | 136   | 132    |
| Deferred income taxes and investment tax credits    | (12)  | 10     |
| Changes in other assets                             | --    | (4)    |
| Changes in other liabilities                        | (12)  | 26     |
| Net changes in other working capital components     | 396   | 134    |
|   | ----- | -----  |
| Net cash provided by operating activities           | 620   | 398    |
|   | ----- | -----  |
| Cash Flows from Investing Activities                |       |        |
| Capital expenditures                                | (143) | (114)  |
| Loan to affiliate - net                             | (298) | 233    |
|   | ----- | -----  |
| Net cash provided by (used in) investing activities | (441) | 119    |
|   | ----- | -----  |
| Cash Flows from Financing Activities                |       |        |
| Dividends paid                                      | (101) | (191)  |
| Decrease in short-term debt                         | (50)  | --     |
|   | ----- | -----  |
| Net cash used in financing activities               | (151) | (191)  |
|   | ----- | -----  |
| Increase in cash and cash equivalents               | 28    | 326    |
| Cash and cash equivalents, January 1                | 13    | 205    |
|   | ----- | -----  |
| Cash and cash equivalents, June 30                  | \$ 41 | \$ 531 |
|   | ===== | =====  |
| Supplemental Disclosure of Cash Flow Information:   |       |        |
| Interest payments, net of amounts capitalized       | \$ 22 | \$ 41  |
|   | ===== | =====  |
| Income tax payments, net of refunds                 | \$ 74 | \$ 137 |
|   | ===== | =====  |

See notes to Consolidated Financial Statements.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### 1. GENERAL

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

The accompanying Consolidated Financial Statements have been prepared in accordance with the interim-period-reporting requirements of Form 10-Q. Results of operations for interim periods are not necessarily indicative of results for the entire year. In the opinion of management, the accompanying statements reflect all adjustments necessary for a fair presentation. These

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adjustments are only of a normal recurring nature. Certain changes in classification have been made to prior presentations to conform to the current financial statement presentation.

Information in this Quarterly Report is unaudited and should be read in conjunction with the companies' Annual Report on Form 10-K for the year ended December 31, 2001 (Annual Report) and Quarterly Report on Form 10-Q for the three months ended March 31, 2002.

The companies' significant accounting policies are described in Note 2 of the notes to Consolidated Financial Statements in the companies' Annual Report. The same accounting policies are followed for interim reporting purposes.

As described in the notes to Consolidated Financial Statements in the companies' Annual Report, SoCalGas accounts for the economic effects of regulation on utility operations in accordance with Statement of Financial Accounting Standards No. 71, "Accounting for the Effects of Certain Types of Regulation" (SFAS 71).

### NEW ACCOUNTING STANDARDS

In July 2001, the Financial Accounting Standards Board (FASB) issued two statements, SFAS 142 "Goodwill and Other Intangible Assets" and SFAS 143 "Accounting for Asset Retirement Obligations." The former is not presently relevant to the companies.

SFAS 143 addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. This applies to legal obligations associated with the retirement of long-lived assets. It requires entities to record the fair value of a liability for an asset retirement obligation in the period in which it is incurred. When the liability is initially recorded, the entity increases the carrying amount of the related long-lived asset to reflect the future retirement cost. Over time, the liability is accreted to its present value and paid, and the capitalized cost is depreciated over the useful life of the related asset. SFAS 143 is effective for financial statements issued for fiscal years beginning after June 15, 2002. The companies have not yet determined the precise effect of SFAS 143 on their Consolidated Balance Sheets, but have determined that it will not have a material impact on their Statements of Consolidated Income.

In August 2001, the FASB issued SFAS 144 "Accounting for the Impairment or Disposal of Long-Lived Assets" that replaces SFAS 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." The adoption of SFAS 144, which governs the determination of whether the carrying value of certain assets, primarily property, plant and equipment, should be reduced, has not affected the companies' financial statements.

In June, 2002, a consensus was reached in Emerging Issues Task Force (EITF) Issue 02-3, which codifies existing guidance on the recognition and reporting of gains and losses on energy trading contracts and addresses other aspects of the accounting for contracts involved in energy trading and risk management activities. Most of the consensus is not applicable to PE and SoCalGas, because of the way the companies conduct business and the requirements of SFAS 71. However, at a later date, the EITF will also address the application of fair value accounting in situations where there is very little market information, including whether it is appropriate to use fair-value accounting and, if so, how fair value should be determined.

### 2. MATERIAL CONTINGENCIES

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### GAS INDUSTRY RESTRUCTURING

As discussed in Note 15 of the notes to Consolidated Financial Statements in the Annual Report, in December 2001 the CPUC issued a decision related to gas industry restructuring, with implementation anticipated during 2002. However, during the quarter ended June 30, 2002, implementation has been delayed and the CPUC may order additional hearings.

### CPUC INVESTIGATION OF ENERGY-UTILITY HOLDING COMPANIES

In January 2002, the CPUC issued a decision that broadly determined that a holding company would be required to provide cash to a utility subsidiary to cover its operating expenses and working capital to the extent they are not adequately funded through retail rates. Also in January 2002, the CPUC ruled that it had jurisdiction to create the holding company system and, therefore, retains jurisdiction to enforce conditions to which the holding companies had agreed. The company subsequently filed a request for rehearing on the issues. On July 17, 2002, the CPUC denied a rehearing. The company is planning to seek judicial review of the orders in the California Court of Appeals. The company must file its appeal no later than August 21, 2002.

### LITIGATION

Lawsuits filed in 2000 and currently consolidated in San Diego Superior Court seek class-action certification and damages, alleging that Sempra Energy, SoCalGas and SDG&E, along with El Paso Energy Corp. and several of its affiliates, sought to maintain their positions in the natural gas market by agreeing, among other things, to restrict the supply of natural gas into Southern California. Management believes the allegations are without merit.

Except for the matter referred to above, neither the companies' nor their subsidiaries are party to, nor is their property the subject of, any material pending legal proceedings other than routine litigation incidental to their businesses. Management believes that these matters will not have a material adverse effect on the companies' financial condition or results of operations.

In response to an inquiry by the Federal Energy Regulatory Commission (FERC), SoCalGas has denied engaging in "wash" or "round trip" trading transactions. It is also cooperating with the FERC and other governmental agencies and officials in their various investigations of the California energy markets.

### QUASI-REORGANIZATION

In 1993, PE divested its merchandising operations and most of its oil and gas exploration and production business. In connection with the divestitures, PE effected a quasi-reorganization for financial reporting purposes effective December 31, 1992. Management believes the remaining balances of the liabilities established in connection with the quasi-reorganization are adequate.

### 3. COMPREHENSIVE INCOME

The following is a reconciliation of net income to comprehensive income.

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|  | Three Months      |       | Six Months        |       | Three Months      |       | Six Months        |       |
|--|-------------------|-------|-------------------|-------|-------------------|-------|-------------------|-------|
|  | Ended<br>June 30, |       | Ended<br>June 30, |       | Ended<br>June 30, |       | Ended<br>June 30, |       |
| (Dollars in millions)                    | 2002              | 2001  | 2002              | 2001  | 2002              | 2001  | 2002              | 2001  |
| Net income                               | \$ 50             | \$ 49 | \$ 109            | \$ 99 | \$ 52             | \$ 48 | \$ 112            | \$100 |
| Financial instruments<br>(Note 4)        | --                | --    | (1)*              | --    | --                | --    | (1)*              | --    |
| Minimum pension liability<br>adjustments | --                | 1     | --                | 1     | --                | 1     | --                | 1     |
| Comprehensive income                     | \$ 50             | \$ 50 | \$ 108            | \$100 | \$ 52             | \$ 49 | \$ 111            | \$101 |

\* This did not affect the reported balance of accumulated other comprehensive income related to this topic (\$0 at the beginning and end of the period) due to rounding.

4. FINANCIAL INSTRUMENTS

Note 8 of the notes to Consolidated Financial Statements in the companies' Annual Report discusses the companies' financial instruments, including the adoption of SFAS 133 and SFAS 138, accounting for derivative instruments and hedging activities, market risk, interest-rate risk management, energy derivatives and contracts, and fair value. Additional activity and information since January 1, 2002 related to financial instruments are described herein.

At June 30, 2002, \$4 million in current assets, \$3 million in sundry other assets, \$78 million in current liabilities and \$394 million in deferred credits and other liabilities were recorded in the Consolidated Balance Sheets for fixed-priced contracts and other derivatives. Regulatory assets and liabilities were established to the extent that derivative gains and losses are recoverable or payable through future rates. As such, \$71 million in current regulatory assets, \$394 million in noncurrent regulatory assets, and \$1 million in current regulatory liabilities were recorded in the Consolidated Balance Sheets as of June 30, 2002. For the six months ended June 30, 2002, \$2 million of losses were recorded in operating revenues in the Statements of Consolidated Income. Additionally, a market value adjustment of \$6 million was made to long-term debt relating to a fixed-to-floating interest rate swap agreement.

ITEM 2.

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

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

INFORMATION REGARDING FORWARD-LOOKING STATEMENTS

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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 "estimates," "believes," "expects," "anticipates," "plans," "intends," "may," "would" and "should" or similar expressions, or discussions of strategy or of plans are intended to identify forward-looking statements. Forward-looking statements are not guarantees of performance. They involve risks, uncertainties and assumptions. Future results may differ materially from those expressed in these forward-looking statements.

Forward-looking statements are necessarily based upon various assumptions involving judgments with respect to the future and other risks, including, among others, local, regional, national and international economic, competitive, political, legislative and regulatory conditions and developments; actions by the CPUC, the California Legislature, and the FERC; capital market conditions, inflation rates, interest rates and exchange rates; energy and trading markets, including the timing and extent of changes in commodity prices; weather conditions and conservation efforts; war and terrorist attacks; business, regulatory and legal decisions; the pace of deregulation of retail natural gas and electricity delivery; the timing and success of business development efforts; and other uncertainties, all of which are difficult to predict and many of which are beyond the control of the 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.

See also "Factors Influencing Future Performance" below.

### CAPITAL RESOURCES AND LIQUIDITY

The companies' California utility operations have historically been a major source of liquidity. See further discussion in the companies' Annual Report.

### CASH FLOWS FROM OPERATING ACTIVITIES

For the six-month period ended June 30, 2002, the increase in cash flows from operations compared to the corresponding period in 2001 was primarily due to increases in overcollected regulatory balancing accounts and customer deposits in 2002 and greater income tax payments made during the first six months of 2001 compared to the same period in 2002.

### CASH FLOWS FROM INVESTING ACTIVITIES

For the six-month period ended June 30, 2002, the increase in cash flows used in investing activities compared to the corresponding period in 2001 was primarily due to advances to Sempra Energy, which are payable on demand, and increased capital expenditures.

Capital expenditures for property, plant and equipment are estimated to be \$300 million for the full year 2002 and are being financed primarily by internally generated funds and security issuances. Construction, investment and financing programs are continuously reviewed and revised in response to changes in competition, customer growth, inflation, customer rates, the cost of capital, and environmental and regulatory requirements.

### CASH FLOWS FROM FINANCING ACTIVITIES

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For the six-month period ended June 30, 2002, cash flows used in financing activities decreased from the corresponding period in 2001 due primarily to the decrease in common dividends paid, partially offset by the repayment of short-term debt.

In May 2002, SDG&E and SoCalGas replaced their individual revolving lines of credit with a combined revolving credit agreement under which each utility may individually borrow up to \$300 million, subject to a combined borrowing limit for both utilities of \$500 million. Each utility's revolving credit line expires on May 16, 2003, at which time it may convert its then outstanding borrowings to a one-year term loan subject to having obtained any requisite regulatory approvals relating to long-term debt. Borrowings under the agreement, which are available for general corporate purposes including back-up support for commercial paper and variable-rate long-term debt, would bear interest at rates varying with market rates and the individual borrowing utility's credit rating. The agreement requires each utility individually to maintain a debt-to-total capitalization ratio (as defined in the agreement) of not to exceed 60%. The rights, obligations and covenants of each utility under the agreement are individual rather than joint with those of the other utility, and a default by one utility would not constitute a default by the other. These lines of credit were unused at June 30, 2002.

In April 2002, Fitch, Inc. confirmed its prior credit ratings of the companies' debt; Standard & Poor's reduced its ratings of the companies' secured debt one notch from AA- with a negative outlook to A+ with a stable outlook and made corresponding adjustments in the ratings and outlook of the companies' other debt including reducing PE's preferred stock from A- to BBB+; and Moody's Investors Service, Inc., confirmed its prior ratings of the debt of SoCalGas.

### RESULTS OF OPERATIONS

The companies' net income increased for the three-month and six-month periods ended June 30, 2002, compared to the corresponding period in 2001 primarily due to lower interest expense in 2002.

The table below summarizes natural gas volumes and revenues by customer class for the six-month periods ended June 30, 2002 and 2001.

Gas Sales, Transportation and Exchange  
(Volumes in billion cubic feet, dollars in millions)

|                              | Gas Sales |         | Transportation & Exchange |         | Total   |         |
|------------------------------|-----------|---------|---------------------------|---------|---------|---------|
|                              | Volumes   | Revenue | Volumes                   | Revenue | Volumes | Revenue |
| 2002:                        |           |         |                           |         |         |         |
| Residential                  | 144       | \$ 968  | 1                         | \$ 4    | 145     | \$ 972  |
| Commercial and industrial    | 53        | 271     | 142                       | 76      | 195     | 347     |
| Electric generation plants   | --        | --      | 85                        | 15      | 85      | 15      |
| Wholesale                    | --        | --      | 83                        | 10      | 83      | 10      |
|                              | <hr/>     |         |                           |         |         |         |
|                              | 197       | \$1,239 | 311                       | \$105   | 508     | \$1,344 |
| Balancing accounts and other |           |         |                           |         |         | 58      |

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|                              |       |         |     |       |     |         |
|------------------------------|-------|---------|-----|-------|-----|---------|
| Total                        |       |         |     |       |     | \$1,402 |
| -----                        |       |         |     |       |     |         |
| 2001:                        |       |         |     |       |     |         |
| Residential                  | 151   | \$1,598 | 1   | \$ 3  | 152 | \$1,601 |
| Commercial and industrial    | 49    | 445     | 122 | 93    | 171 | 538     |
| Electric generation plants   | --    | --      | 188 | 47    | 188 | 47      |
| Wholesale                    | --    | --      | 90  | 18    | 90  | 18      |
|                              | ----- |         |     |       |     |         |
|                              | 200   | \$2,043 | 401 | \$161 | 601 | 2,204   |
| Balancing accounts and other |       |         |     |       |     | 271     |
|                              | ----- |         |     |       |     |         |
| Total                        |       |         |     |       |     | \$2,475 |
| -----                        |       |         |     |       |     |         |

The decrease in natural gas revenues was primarily due to lower natural gas commodity prices and decreased transportation for electric generation plants.

The decrease in the cost of natural gas distributed was primarily due to lower natural gas commodity prices. Under the current regulatory framework, the cost of natural gas is passed on to customers without markup and changes in natural gas commodity prices do not affect net income since, as explained more fully in the Annual Report, current or future customer rates normally recover the actual commodity cost of natural gas on a substantially concurrent basis, subject to the mechanisms under performance-based ratemaking as explained in the Annual Report.

FACTORS INFLUENCING FUTURE PERFORMANCE

Performance of the companies will depend primarily on the ratemaking and regulatory process, electric and natural gas industry restructuring, and the changing energy marketplace. These factors are discussed in the companies' Annual Report.

Gas and Electric Rates

The CPUC has adopted a settlement proposed by SoCalGas in a recent case involving review of its Gas Cost Incentive Mechanism (GCIM). The CPUC decision finds that this mechanism, which allows SoCalGas to receive a share of the savings it achieves in buying natural gas for core customers, should continue indefinitely. Savings are determined by comparing the actual cost of gas purchases to a benchmark of monthly prices. SoCalGas has requested that the CPUC approve rewards of \$30.8 million and \$17 million for the last two completed program years. No rewards will be included in SoCalGas' earnings until approved by the CPUC. CPUC approval may be delayed pending the Commission's investigation into the run-up in California border natural gas prices during the winter of 2000-2001.

The California utilities will file applications with the CPUC in December 2002 to set new base rates. A CPUC decision is expected in late 2003, with new rates to become effective in 2004.

The California utilities have earned rewards for successful implementation of Demand-Side Management programs that have been scheduled by the CPUC for payout over several years. In a recent ruling,



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a CPUC Administrative Law Judge has indicated an intent to reanalyze the uncollected portion of past rewards earned by utilities (which have not been included in SoCalGas' income), and potentially recompute the amount of the rewards. The California utilities will oppose the recomputation.

### NEW ACCOUNTING STANDARDS

In July 2001, the Financial Accounting Standards Board (FASB) issued two statements, SFAS 142 "Goodwill and Other Intangible Assets" and SFAS 143 "Accounting for Asset Retirement Obligations." The former is not presently relevant to the companies. SFAS 143 addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs.

In August 2001, the FASB issued SFAS 144 "Accounting for the Impairment or Disposal of Long-Lived Assets" that replaces SFAS 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." SFAS 144 applies to all long-lived assets, including discontinued operations. See further discussion in Note 1 of the notes to Consolidated Financial Statements.

### ITEM 3. MARKET RISK

There have been no significant changes in the risk issues affecting the companies subsequent to those discussed in the Annual Report. As noted in that report, SoCalGas may, at times, be exposed to limited market risk in its natural gas purchase and sale activities as a result of activities under SoCalGas' Gas Cost Incentive Mechanism. The risk is managed within the parameters of the companies' market-risk management and trading framework.

As of June 30, 2002, the total Value at Risk of SoCalGas' natural gas positions was not material.

## PART II - OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

Except as described in Note 2 of the notes to Consolidated Financial Statements, neither the companies' nor their subsidiaries are party to, nor is their property the subject of, any material pending legal proceedings other than routine litigation incidental to their businesses.

### ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

#### (a) Exhibits

Exhibit 12 - Computation of ratios

12.1 Computation of Ratio of Earnings to Fixed Charges of PE.

12.2 Computation of Ratio of Earnings to Fixed Charges of SoCalGas.

#### (b) Reports on Form 8-K

There were no reports on Form 8-K filed after March 31, 2002.

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SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrants have duly cause this report to be signed on their behalf by the undersigned thereunto duly authorized.

PACIFIC ENTERPRISES

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(Registrant)

Date: August 13, 2002

By: /s/ F. H. Ault

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F. H. Ault  
Sr. Vice President and Controller

SOUTHERN CALIFORNIA GAS COMPANY

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(Registrant)

By: /s/ D.L. Reed

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D.L. Reed  
President and  
Chief Financial Officer