

Edgar Filing: PACIFIC ENTERPRISES INC - Form 10-Q

PACIFIC ENTERPRISES INC  
Form 10-Q  
May 06, 2003

UNITED STATES  
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

March 31, 2003

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 by check mark whether the registrant is an accelerated filer  
(as defined in Rule 12b-2 of the Exchange Act). 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

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## 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 "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 California Public Utilities Commission, the California Legislature, and the Federal Energy Regulatory Commission; 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 status 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.

### ITEM 1. FINANCIAL STATEMENTS.

#### PACIFIC ENTERPRISES AND SUBSIDIARIES STATEMENTS OF CONSOLIDATED INCOME Dollars in millions

|                                 | Three Months Ended<br>March 31, |        |
|---------------------------------|---------------------------------|--------|
|                                 | 2003                            | 2002   |
| OPERATING REVENUES              | \$ 1,008                        | \$ 732 |
| OPERATING EXPENSES              |                                 |        |
| Cost of natural gas distributed | 600                             | 347    |
| Other operating expenses        | 197                             | 181    |
| Depreciation                    | 69                              | 68     |
| Income taxes                    | 45                              | 47     |
| Franchise fees and other taxes  | 29                              | 24     |
| Total operating expenses        | 940                             | 667    |

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|  |       |       |
|--|-------|-------|
| Operating Income   | 68    | 65    |
|  | ----- | ----- |
| Other Income and (Deductions)                            |       |       |
| Interest income  | 2     | 2     |
| Regulatory interest - net                                | --    | (4)   |
| Allowance for equity funds used<br>during construction   | 2     | 2     |
| Income taxes on non-operating income                     | (1)   | 3     |
| Other - net  | 3     | 3     |
|  | ----- | ----- |
| Total  | 6     | 6     |
|  | ----- | ----- |
| Interest Charges   |       |       |
| Long-term debt   | 12    | 9     |
| Other  | 5     | 4     |
| Allowance for borrowed funds used<br>during construction | (1)   | (1)   |
|  | ----- | ----- |
| Total  | 16    | 12    |
|  | ----- | ----- |
| Net Income   | 58    | 59    |
| Preferred Dividend Requirements                          | 1     | 1     |
|  | ----- | ----- |
| Earnings Applicable to Common Shares                     | \$ 57 | \$ 58 |
|  | ===== | ===== |

See notes to Consolidated Financial Statements.

PACIFIC ENTERPRISES AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS  
Dollars in millions

|   | March 31,<br>2003 | December 31,<br>2002 |
|---|-------------------|----------------------|
|   | -----             | -----                |
| ASSETS  |                   |                      |
| Utility plant - at original cost  | \$6,750           | \$6,701              |
| Accumulated depreciation  | (3,973)           | (3,914)              |
|   | -----             | -----                |
| Utility plant - net   | 2,777             | 2,787                |
|   | -----             | -----                |
| Current assets:   |                   |                      |
| Cash and cash equivalents   | 139               | 22                   |
| Accounts receivable - trade   | 451               | 458                  |
| Accounts receivable - other   | 26                | 44                   |
| Due from unconsolidated affiliates  | 281               | 83                   |
| Income taxes receivable   | 10                | 97                   |
| Deferred income taxes   | 69                | 55                   |
| Regulatory assets arising from fixed-price<br>contracts and other derivatives | 90                | 92                   |
| Inventories   | 26                | 76                   |
| Other   | 8                 | 20                   |
|   | -----             | -----                |
| Total current assets  | 1,100             | 947                  |
|   | -----             | -----                |
| Other assets:   |                   |                      |

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|  |         |         |
|--|---------|---------|
| Due from unconsolidated affiliates   | 416     | 419     |
| Regulatory assets arising from fixed-price contracts and other derivatives | 212     | 233     |
| Sundry   | 169     | 173     |
|  | -----   | -----   |
| Total other assets   | 797     | 825     |
|  | -----   | -----   |
| Total assets   | \$4,674 | \$4,559 |
|  | =====   | =====   |

See notes to Consolidated Financial Statements.

PACIFIC ENTERPRISES AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS  
Dollars in millions

|  | -----<br>March 31,<br>2003<br>----- | -----<br>December 31,<br>2002<br>----- |
|--|-------------------------------------|--|
| CAPITALIZATION AND LIABILITIES   |                                     |  |
| Capitalization:  |                                     |  |
| Common Stock (600,000,000 shares authorized;<br>83,917,664 shares outstanding) | \$1,318                             | \$1,318                                |
| Retained earnings  | 343                                 | 286                                    |
|  | -----                               | -----                                  |
| Total common equity  | 1,661                               | 1,604                                  |
| Preferred stock  | 80                                  | 80                                     |
|  | -----                               | -----                                  |
| Total shareholders' equity   | 1,741                               | 1,684                                  |
| Long-term debt   | 662                                 | 657                                    |
|  | -----                               | -----                                  |
| Total capitalization   | 2,403                               | 2,341                                  |
|  | -----                               | -----                                  |
| Current liabilities:   |                                     |  |
| Accounts payable - trade   | 294                                 | 200                                    |
| Accounts payable - other   | 69                                  | 36                                     |
| Due to unconsolidated affiliates   | 85                                  | 96                                     |
| Regulatory balancing accounts - net  | 191                                 | 184                                    |
| Interest payable   | 35                                  | 25                                     |
| Regulatory liabilities   | --                                  | 16                                     |
| Fixed-price contracts and other derivatives                                    | 97                                  | 96                                     |
| Current portion of long-term debt  | 100                                 | 175                                    |
| Customer deposits  | 127                                 | 108                                    |
| Other  | 268                                 | 265                                    |
|  | -----                               | -----                                  |
| Total current liabilities  | 1,266                               | 1,201                                  |
|  | -----                               | -----                                  |
| Deferred credits and other liabilities:  |                                     |  |
| Customer advances for construction   | 38                                  | 37                                     |
| Post-retirement benefits other than pensions                                   | 78                                  | 77                                     |
| Deferred income taxes  | 184                                 | 176                                    |
| Deferred investment tax credits  | 46                                  | 47                                     |
| Regulatory liabilities   | 127                                 | 121                                    |
| Fixed-price contracts and other derivatives                                    | 212                                 | 233                                    |
| Deferred credits and other liabilities   | 300                                 | 306                                    |

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|  |         |         |
|--|---------|---------|
| Preferred stock of subsidiary                | 20      | 20      |
|  | -----   | -----   |
| Total deferred credits and other liabilities | 1,005   | 1,017   |
|  | -----   | -----   |
| Contingencies and commitments (Note 3)       |         |         |
| Total liabilities and shareholders' equity   | \$4,674 | \$4,559 |
|  | =====   | =====   |

See notes to Consolidated Financial Statements.

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

|   | Three Months Ended<br>March 31, |       |
|---|---------------------------------|-------|
|   | 2003                            | 2002  |
|   | -----                           | ----- |
| CASH FLOWS FROM OPERATING ACTIVITIES  |                                 |       |
| Net income  | \$ 58                           | \$ 59 |
| Adjustments to reconcile net income to net cash provided by operating activities: |                                 |       |
| Depreciation  | 69                              | 68    |
| Deferred income taxes and investment tax credits                                  | (7)                             | 16    |
| Changes in other liabilities  | (2)                             | (12)  |
| Net changes in other working capital components                                   | 323                             | 343   |
|   | -----                           | ----- |
| Net cash provided by operating activities   | 441                             | 474   |
|   | -----                           | ----- |
| CASH FLOWS FROM INVESTING ACTIVITIES  |                                 |       |
| Capital expenditures  | (58)                            | (70)  |
| Loan to/from affiliate - net  | (195)                           | (200) |
|   | -----                           | ----- |
| Net cash used in investing activities   | (253)                           | (270) |
|   | -----                           | ----- |
| CASH FLOWS FROM FINANCING ACTIVITIES  |                                 |       |
| Common dividends paid   | --                              | (100) |
| Preferred dividends paid  | (1)                             | (1)   |
| Payment of long-term debt   | (70)                            | --    |
| Decrease in short-term debt   | --                              | (50)  |
|   | -----                           | ----- |
| Net cash used in financing activities   | (71)                            | (151) |
|   | -----                           | ----- |
| Increase in cash and cash equivalents   | 117                             | 53    |
| Cash and cash equivalents, January 1  | 22                              | 13    |
|   | -----                           | ----- |
| Cash and cash equivalents, March 31   | \$ 139                          | \$ 66 |
|   | =====                           | ===== |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION                                  |                                 |       |
| Interest payments, net of amounts capitalized                                     | \$ 5                            | \$ 13 |
|   | =====                           | ===== |
| Income tax refunds  | \$ 34                           | \$ -- |
|   | =====                           | ===== |

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See notes to Consolidated Financial Statements.

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

|  | Three Months Ended<br>March 31, |        |
|--|---------------------------------|--------|
|  | 2003                            | 2002   |
| OPERATING REVENUES                                       | \$ 1,008                        | \$ 732 |
| OPERATING EXPENSES                                       |                                 |        |
| Cost of natural gas distributed                          | 600                             | 347    |
| Other operating expenses                                 | 195                             | 178    |
| Depreciation   | 69                              | 68     |
| Income taxes   | 45                              | 48     |
| Franchise fees and other taxes                           | 29                              | 24     |
| Total operating expenses                                 | 938                             | 665    |
| Operating Income   | 70                              | 67     |
| Other Income and (Deductions)                            |                                 |        |
| Interest income  | 1                               | 1      |
| Regulatory interest - net                                | --                              | (4)    |
| Allowance for equity funds used<br>during construction   | 2                               | 2      |
| Income taxes on non-operating income                     | (1)                             | 4      |
| Other - net  | (1)                             | --     |
| Total  | 1                               | 3      |
| Interest Charges   |                                 |        |
| Long-term debt   | 12                              | 9      |
| Other  | 2                               | 2      |
| Allowance for borrowed funds used<br>during construction | (1)                             | (1)    |
| Total  | 13                              | 10     |
| Earnings Applicable to Common Shares                     | \$ 58                           | \$ 60  |

See notes to Consolidated Financial Statements.

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

|  | March 31,<br>2003 | December 31,<br>2002 |
|--|-------------------|----------------------|
| <b>ASSETS</b>  |                   |                      |
| Utility plant - at original cost   | \$6,750           | \$6,701              |
| Accumulated depreciation   | (3,973)           | (3,914)              |
| Utility plant - net  | 2,777             | 2,787                |
| <br>   |                   |                      |
| Current assets:  |                   |                      |
| Cash and cash equivalents  | 139               | 22                   |
| Accounts receivable - trade  | 451               | 458                  |
| Accounts receivable - other  | 26                | 44                   |
| Due from unconsolidated affiliates   | 279               | 81                   |
| Income taxes receivable  | --                | 28                   |
| Deferred income taxes  | 99                | 87                   |
| Regulatory assets arising from fixed-priced contracts<br>and other derivatives | 90                | 92                   |
| Inventories  | 26                | 76                   |
| Other  | 8                 | 20                   |
| Total current assets   | 1,118             | 908                  |
| <br>   |                   |                      |
| Other assets:  |                   |                      |
| Regulatory assets arising from fixed-priced contracts<br>and other derivatives | 212               | 233                  |
| Sundry   | 144               | 151                  |
| Total other assets   | 356               | 384                  |
| <br>   |                   |                      |
| Total assets   | \$4,251           | \$4,079              |

See notes to Consolidated Financial Statements.

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

|  | March 31,<br>2003 | December 31,<br>2002 |
|--|-------------------|----------------------|
| <b>CAPITALIZATION AND LIABILITIES</b>  |                   |                      |
| Capitalization:  |                   |                      |
| Common stock (100,000,000 shares authorized;<br>93,300,000 shares outstanding) | \$ 836            | \$ 836               |

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|  |         |         |
|--|---------|---------|
| Retained earnings                                  | 540     | 482     |
|  | -----   | -----   |
| Total common equity                                | 1,376   | 1,318   |
| Preferred stock                                    | 22      | 22      |
|  | -----   | -----   |
| Total shareholders' equity                         | 1,398   | 1,340   |
| Long-term debt                                     | 662     | 657     |
|  | -----   | -----   |
| Total capitalization                               | 2,060   | 1,997   |
|  | -----   | -----   |
| Current liabilities:                               |         |         |
| Accounts payable - trade                           | 294     | 199     |
| Accounts payable - other                           | 69      | 36      |
| Due to unconsolidated affiliates                   | 20      | 31      |
| Regulatory balancing accounts - net                | 191     | 184     |
| Income taxes payable                               | 59      | --      |
| Interest payable                                   | 31      | 24      |
| Regulatory liabilities                             | --      | 16      |
| Fixed-price contracts and other derivatives        | 97      | 96      |
| Current portion of long-term debt                  | 100     | 175     |
| Customer deposits                                  | 127     | 108     |
| Other  | 268     | 264     |
|  | -----   | -----   |
| Total current liabilities                          | 1,256   | 1,133   |
|  | -----   | -----   |
| Deferred credits and other liabilities:            |         |         |
| Customer advances for construction                 | 38      | 37      |
| Deferred income taxes                              | 244     | 237     |
| Deferred investment tax credits                    | 46      | 47      |
| Regulatory liabilities arising from deferred taxes | 164     | 164     |
| Other regulatory liabilities                       | 41      | 37      |
| Fixed-price contracts and other derivatives        | 212     | 233     |
| Deferred credits and other liabilities             | 190     | 194     |
|  | -----   | -----   |
| Total deferred credits and other liabilities       | 935     | 949     |
|  | -----   | -----   |
| Contingencies and commitments (Note 3)             |         |         |
| Total liabilities and shareholders' equity         | \$4,251 | \$4,079 |
|  | =====   | =====   |

See notes to Consolidated Financial Statements.

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

|                                      | Three Months Ended<br>March 31, |       |
|--------------------------------------|---------------------------------|-------|
|                                      | -----                           | ----- |
|                                      | 2003                            | 2002  |
|                                      | -----                           | ----- |
| CASH FLOWS FROM OPERATING ACTIVITIES |                                 |       |
| Net income                           | \$ 58                           | \$ 60 |



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|   |        |       |
|---|--------|-------|
| Adjustments to reconcile net income to net cash provided by operating activities: |        |       |
| Depreciation  | 69     | 68    |
| Deferred income taxes and investment tax credits                                  | (6)    | 13    |
| Changes in other liabilities  | (1)    | (10)  |
| Net changes in other working capital components                                   | 324    | 342   |
|   | -----  | ----- |
| Net cash provided by operating activities   | 444    | 473   |
|   | -----  | ----- |
| CASH FLOWS FROM INVESTING ACTIVITIES  |        |       |
| Capital expenditures  | (58)   | (70)  |
| Loan to/from affiliate - net  | (199)  | (200) |
|   | -----  | ----- |
| Net cash used in investing activities   | (257)  | (270) |
|   | -----  | ----- |
| CASH FLOWS FROM FINANCING ACTIVITIES  |        |       |
| Dividends paid  | --     | (100) |
| Payments of long-term debt  | (70)   | --    |
| Decrease in short-term debt   | --     | (50)  |
|   | -----  | ----- |
| Net cash used in financing activities   | (70)   | (150) |
|   | -----  | ----- |
| Increase in cash and cash equivalents   | 117    | 53    |
| Cash and cash equivalents, January 1  | 22     | 13    |
|   | -----  | ----- |
| Cash and cash equivalents, March 31   | \$ 139 | \$ 66 |
|   | =====  | ===== |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION                                  |        |       |
| Interest payments, net of amounts capitalized                                     | \$ 4   | \$ 11 |
|   | =====  | ===== |
| Income tax refunds  | \$ 34  | \$ -- |
|   | =====  | ===== |

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 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 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.

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

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

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

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.

As described in the notes to Consolidated Financial Statements in the 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).

### COMPREHENSIVE INCOME

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

| (Dollars in millions)             | Pacific Enterprises             |       | SoCalGas                        |       |
|-----------------------------------|---------------------------------|-------|---------------------------------|-------|
|                                   | Three months<br>ended March 31, |       | Three months<br>ended March 31, |       |
|                                   | 2003                            | 2002  | 2003                            | 2002  |
| Net income                        | \$ 58                           | \$ 59 | \$ 58                           | \$ 60 |
| Financial instruments<br>(Note 4) | --                              | (1)   | --                              | (1)   |
| Comprehensive income              | \$ 58                           | \$ 58 | \$ 58                           | \$ 59 |

### 2. NEW ACCOUNTING STANDARDS

SFAS 143, "Accounting for Asset Retirement Obligations":

On January 1, 2003, the company recorded asset retirement obligations of \$10 million associated with the future retirement of three storage facilities.

The change in the asset retirement obligations for the three months ended March 31, 2003 is as follows (dollars in millions):

|                               |       |
|-------------------------------|-------|
| Balance as of January 1, 2003 | \$ -- |
| Adoption of SFAS 143          | 10    |
| Accretion expense             | 1     |
|                               | ----- |
| Balance as of March 31, 2003  | \$ 11 |
|                               | ===== |

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Except for the items noted above, the company has determined that there are no other material retirement obligations associated with tangible long-lived assets.

### 3. MATERIAL CONTINGENCIES

#### NATURAL GAS INDUSTRY RESTRUCTURING

As discussed in Note 9 of the notes to Consolidated Financial Statements in the Annual Report, in December 2001 the CPUC issued a decision related to natural gas industry restructuring, with implementation anticipated during 2002. During 2002 the California Utilities filed a proposed implementation schedule and revised tariffs and rules required for implementation. However, on February 27, 2003, the CPUC issued a resolution rejecting without prejudice those proposed tariffs and rules. The resolution ordered SoCalGas to file a new application, which would address detailed proposals for implementation of the December 2001 decision, but also would allow reconsideration of the December 2001 decision. SoCalGas is required to file this new application by June 30, 2003, but has filed a petition for modification requesting the CPUC defer the filing of this application until October 15, 2003. If the December 2001 decision is implemented, it is not expected to adversely affect the California Utilities' earnings.

#### BORDER PRICE INVESTIGATION

In November 2002, the CPUC instituted an investigation into the Southern California natural gas market and the price of natural gas delivered to the California-Arizona (CA-AZ) border during the period of March 2000 through May 2001. If the investigation determines that the conduct of any respondent contributed to the natural gas price spikes at the CA-AZ border during this period, the CPUC may modify the respondent's applicable natural gas procurement incentive mechanism, reduce the amount of any shareholder award for the period involved, and/or order the respondent to issue a refund to ratepayers to offset the higher rates paid. The California Utilities, included among the respondents to the investigation, are fully cooperating in the investigation and believe that the CPUC will ultimately determine that they were not responsible for the high border prices during this period. Hearings have been scheduled for the Fall of 2003 and a decision is expected in 2004.

#### CPUC INVESTIGATION OF COMPLIANCE WITH AFFILIATE RULES

On February 27, 2003, the CPUC opened an investigation of the business activities of SDG&E, SoCalGas and Sempra Energy to ensure that they have complied with relevant statutes and CPUC decisions in the management, oversight and operations of their companies. The CPUC will evaluate energy-related business activities undertaken by Sempra Energy within the service territories of SDG&E and SoCalGas, relative to holding company systems and affiliate activities. In accordance with a December 16, 1997 CPUC order, the California Utilities' transactions with other Sempra Energy affiliates have been audited each year and there have been no adverse findings in those audits.

#### COST OF SERVICE

Although the California Utilities requested that a decision in their Cost of Service applications be effective January 1, 2004, the CPUC commissioner assigned to the applications has adopted a procedural schedule that would prevent the CPUC from issuing a decision before the second quarter of 2004. The California Utilities have filed a motion seeking reconsideration of this ruling. The motion also seeks

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authorization to implement an interim rate increase on January 1, 2004 to reflect an anticipated cost of service decision with any increase in rates to be subject to refund upon the final determination by the CPUC.

### GAS COST INCENTIVE MECHANISM (GCIM)

On March 18, 2003, a CPUC commissioner issued a scoping memorandum in SoCalGas' GCIM Year 7 and Year 8 proceedings, delaying decisions on GCIM Year 7 and Year 8 until certain issues in the Border Price Investigation are resolved (see above). This makes it unlikely that the anticipated rewards will be recorded in 2003 earnings. SoCalGas has requested that the CPUC approve rewards of \$30.8 million and \$17.4 million for GCIM Years 7 and 8, respectively.

### FERC ACTIONS

In response to a FERC inquiry regarding natural gas trading, the California Utilities have denied engaging in "wash" or "round trip" trading activities. The companies are also cooperating with the FERC and other governmental agencies and officials in their various investigations of the California energy markets.

### 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, unlawfully sought to control natural gas and electricity markets. In March 2003, plaintiffs in these cases and the applicable El Paso Corp. entities announced that they had reached a settlement in principle of the class actions, certain of the individual actions, claims asserted by the California Attorney General and by other western states, and certain complaint proceedings filed with FERC by the CPUC and the California Energy Oversight Board. The terms of the settlement remain subject to approval by the relevant state courts and the FERC. One of the settlement terms provides that El Paso will assist the plaintiffs in their litigation against the remaining defendants.

In April 2003, Sierra Pacific and its utility subsidiary Nevada Power jointly filed a lawsuit in U.S. District Court in Las Vegas against major natural gas suppliers, including Sempra Energy and the California Utilities, seeking damages resulting from an alleged conspiracy to drive up or control natural gas prices, eliminate competition and increase market volatility.

Except for the matters referred to above, neither the company nor its subsidiaries are party to, nor is their property the subject of, any material pending legal proceedings other than routine litigation incidental to their businesses.

Management believes that none of these matters will have a material adverse effect on the company's financial condition or results of operations.

### QUASI-REORGANIZATION

In 1993, PE divested its merchandising operations and most of its oil and natural 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.

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### 4. FINANCIAL INSTRUMENTS

Note 7 of the notes to Consolidated Financial Statements in the Annual Report discusses the companies' financial instruments, including the adoption of SFAS 133, "Accounting for Derivative Instruments and Hedging Activities," as amended by SFAS 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities," which recognizes all derivatives as either assets or liabilities on the balance sheet, measures those instruments at fair value, and recognizes any changes in the fair value of derivatives in earnings for the period that the change occurs unless the derivative qualifies as an effective hedge that offsets certain exposure.

The company utilizes derivative financial instruments to manage its exposure to unfavorable changes in commodity prices, which are subject to significant and often volatile fluctuations. Derivative financial instruments include futures, forwards, swaps, options and long-term delivery contracts. These contracts allow the company to predict with greater certainty the effective prices to be received by the company and, in the case of the California Utilities, their customers. As allowed under SFAS 133, the company has elected to take the normal purchases and sales exception for certain contracts that are settled by physical delivery. These contracts are accounted for at historical cost with gains and losses reflected in the income statement at the contract settlement date.

Fixed-price contracts and other derivatives on the Consolidated Balance Sheets primarily reflect the company's derivative gains and losses related to long-term delivery contracts for natural gas transportation. The company has established regulatory assets and liabilities to the extent that these gains and losses are recoverable or payable through future rates. The changes in fixed-price contracts and other derivatives on the consolidated balance sheets for the three months ended March 31, 2003 were primarily due to physical deliveries under long-term natural gas transportation contracts. The transactions associated with fixed-price contracts and other derivatives had no material impact to the Statements of Consolidated Income for the three months ended March 31, 2003 or 2002.

### 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 Annual Report.

#### RESULTS OF OPERATIONS

Natural gas revenues increased to \$1 billion in 2003 from \$732 million in 2002, and the cost of natural gas distributed increased to \$600 million in 2003 from \$347 million in 2002. These changes were primarily attributable to natural gas cost increases, which are passed on to customers, partially offset by reduced volumes.

Under the current regulatory framework, changes in core-market natural gas prices (natural gas purchased for customers that are primarily residential and small commercial and industrial customers without

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alternative fuel capability) or consumption levels do not affect net income, since core customer rates generally recover the actual cost of natural gas on a substantially concurrent basis and consumption levels are fully balanced. However, SoCalGas' GCIM allows SoCalGas to share in the savings or costs from buying natural gas for customers below or above monthly benchmarks. The mechanism permits full recovery of all costs within a tolerance band above the benchmark price and refunds all savings within a tolerance band below the benchmark price. The costs or savings outside the tolerance band are shared between customers and shareholders.

The table below summarizes natural gas volumes and revenues by customer class for the three months ended March 31, 2003 and 2002.

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

|                              | Gas Sales |         | Transportation & Exchange |         | Total   |         |
|------------------------------|-----------|---------|---------------------------|---------|---------|---------|
|                              | Volumes   | Revenue | Volumes                   | Revenue | Volumes | Revenue |
| 2003:                        |           |         |                           |         |         |         |
| Residential                  | 76        | \$ 679  | 1                         | \$ 2    | 77      | \$ 681  |
| Commercial and industrial    | 33        | 227     | 69                        | 38      | 102     | 265     |
| Electric generation plants   | --        | --      | 39                        | 11      | 39      | 11      |
| Wholesale                    | --        | --      | 37                        | 6       | 37      | 6       |
|                              | 109       | \$ 906  | 146                       | \$ 57   | 255     | \$ 963  |
| Balancing accounts and other |           |         |                           |         |         | 45      |
| Total                        |           |         |                           |         |         | \$1,008 |
| 2002:                        |           |         |                           |         |         |         |
| Residential                  | 95        | \$ 586  | 1                         | \$ 2    | 96      | \$ 588  |
| Commercial and industrial    | 29        | 145     | 71                        | 31      | 100     | 176     |
| Electric generation plants   | --        | --      | 43                        | 7       | 43      | 7       |
| Wholesale                    | --        | --      | 45                        | 3       | 45      | 3       |
|                              | 124       | \$ 731  | 160                       | \$ 43   | 284     | \$ 774  |
| Balancing accounts and other |           |         |                           |         |         | (42)    |
| Total                        |           |         |                           |         |         | \$ 732  |

Net income for SoCalGas decreased to \$58 million in 2003 compared to \$60 million in 2002, primarily due to the end of sharing of the merger savings (discussed in the Annual Report) partially offset by increased margins and other factors.

### CAPITAL RESOURCES AND LIQUIDITY

SoCalGas' operations are the major source of liquidity. In addition,

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working capital requirements can be met through the issuance of short-term and long-term debt. Cash requirements primarily consist of capital expenditures for utility plant. At March 31, 2003, the company had \$139 million in cash and \$800 million in unused, committed lines of credit available (of which PE had \$500 million for the sole purpose of providing loans to Sempra Energy Global Enterprises (Global) and SoCalGas had \$300 million).

Management believes these amounts, cash flows from operations, and new debt issuances will be adequate to finance capital expenditure requirements, and other commitments. Management continues to regularly monitor the company's ability to adequately meet the needs of its operating, financing and investing activities.

### CASH FLOWS FROM OPERATING ACTIVITIES

Net cash provided by operating activities totaled \$441 million and \$474 million for the three months ended March 31, 2003 and 2002, respectively. The decrease in cash flows from operations was primarily attributable to deferred taxes.

### CASH FLOWS FROM INVESTING ACTIVITIES

Net cash used in investing activities totaled \$253 million and \$270 million for the three months ended March 31, 2003 and 2002, respectively.

Capital expenditures for property, plant and equipment are estimated to be \$350 million for the full year 2003 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

Net cash used in financing activities totaled \$71 million and \$151 million for the three months ended March 31, 2003 and 2002, respectively. The change in cash flows from financing activities was attributable to the repayment of \$70 million of medium-term notes in January 2003. In addition, in the first quarter of 2002, dividends paid to Sempra Energy and repayments of short-term debt amounted to \$100 million and \$50 million, respectively.

On April 7, 2003, the company called its \$100 million 7.375% first-mortgage bonds at a premium of 3.53 percent.

In April 2003, PE amended its revolving line of credit and extended the expiration date by an additional two years. The revolving credit commitment, initially \$500 million, declines semi-annually by \$125 million until expiration on April 5, 2005 and is for the purpose of funding loans by PE to Global. Borrowings under the agreement would bear interest at rates varying with market rates, PE's credit ratings and the amount of the borrowings outstanding. They would be guaranteed by Sempra Energy and would be subject to mandatory repayment if SoCalGas' unsecured long-term credit ratings were to cease to be at least BBB by S&P and Baa2 by Moody's, if Sempra Energy's or SoCalGas' debt to total capitalization ratio (as defined in the agreement) were to exceed 65%, or if there were to be a change in law materially and adversely affecting the ability of SoCalGas to pay dividends or make distributions to PE. No borrowings have been made under this agreement.

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### 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 Annual Report and in Note 3 of the notes to Consolidated Financial Statements herein.

#### Natural Gas Restructuring and Gas Rates

As discussed in the Annual Report, in December 2001 the CPUC issued a decision related to natural gas industry restructuring, with implementation anticipated during 2002. During 2002 the California Utilities filed a proposed implementation schedule and revised tariffs and rules required for implementation. However, on February 27, 2003, the CPUC issued a resolution rejecting without prejudice those proposed tariffs and rules. The resolution ordered SoCalGas to file a new application, which would address detailed proposals for implementation of the December 2001 decision, but also would allow reconsideration of the December 2001 decision. SoCalGas is required to file this new application by June 30, 2003, but has filed a petition for modification requesting the CPUC defer the filing of this application until October 15, 2003. If the December 2001 decision is implemented, it is not expected to adversely affect the California Utilities' earnings.

#### Cost of Service

Although the California Utilities requested that a decision in their Cost of Service applications be effective January 1, 2004, the CPUC commissioner assigned to the applications has adopted a procedural schedule that would prevent the CPUC from issuing a decision before the second quarter of 2004. The California Utilities have filed a motion seeking reconsideration of this ruling. The motion also seeks authorization to implement an interim rate increase on January 1, 2004 to reflect an anticipated cost of service decision with any increase in rates to be subject to refund upon the final determination by the CPUC.

### NEW ACCOUNTING STANDARDS

New pronouncements that have recently become effective or that are yet to be effective are SFAS 143 and 148, Interpretations 45 and 46, EITF 02-3, and the rescission of EITF 98-10. SFAS 143 requires accounting and disclosure changes concerning legal obligations related to future asset retirements. SFAS 148 amends SFAS 123 and adds two additional transition methods to the fair value method of accounting for stock-based compensation. Interpretation 45 clarifies that a guarantor is required to recognize a liability for the fair value of obligations undertaken in issuing guarantees. Interpretation 46 addresses consolidation by business enterprises of variable-interest entities (previously referred to as "special-purpose entities" in most cases). See further discussion in Note 2 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 of March 31, 2003, the total Value at Risk of SoCalGas' natural gas positions was not material.

### ITEM 4. CONTROLS AND PROCEDURES



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The companies have designed and maintain disclosure controls and procedures to ensure that information required to be disclosed in the companies' reports under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission and is accumulated and communicated to the companies' management, including their Chief Executive Officers and Chief Financial Officers, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating these controls and procedures, management recognizes that any system of controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired objectives and necessarily applies judgment in evaluating the cost-benefit relationship of other possible controls and procedures.

Under the supervision and with the participation of management, including the Chief Executive Officers and the Chief Financial Officers, the companies within 90 days prior to the date of this report have evaluated the effectiveness of the design and operation of the companies' disclosure controls and procedures. Based on that evaluation, the companies' Chief Executive Officers and Chief Financial Officers have concluded that the controls and procedures are effective.

There have been no significant changes in the companies' internal controls or in other factors that could significantly affect the internal controls subsequent to the date the companies completed their evaluations.

### PART II - OTHER INFORMATION

#### ITEM 1. LEGAL PROCEEDINGS

Except as described in Note 3 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.

99.1 Statements of PE's Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Sec. 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002.

99.2 Statements of SoCalGas' Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Sec. 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002.

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

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The following report on Form 8-K was filed after December 31, 2002:

Current Report on Form 8-K filed May 1, 2003, filing as an exhibit Semptra Energy's press release of May 1, 2003, giving the financial results for the three months ended March 31, 2003.

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: May 5, 2003

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

CERTIFICATIONS

I, Stephen L. Baum, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Pacific Enterprises;
2. Based on my knowledge, this Quarterly Report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances

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under which such statements were made, not misleading with respect to the period covered by this Quarterly Report;

3. Based on my knowledge, the financial statements and other financial information included in this Quarterly Report fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this Quarterly Report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this Quarterly Report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this Quarterly Report (the "Evaluation Date"); and

c) presented in this Quarterly Report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this Quarterly Report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

May 5, 2003

/S/ STEPHEN L. BAUM  
Stephen L. Baum  
Chief Executive Officer

I, Neal E. Schmale, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Pacific

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Enterprises;

2. Based on my knowledge, this Quarterly Report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this Quarterly Report;

3. Based on my knowledge, the financial statements and other financial information included in this Quarterly Report fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this Quarterly Report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this Quarterly Report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this Quarterly Report (the "Evaluation Date"); and

c) presented in this Quarterly Report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this Quarterly Report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

May 5, 2003

/S/ NEAL E. SCHMALE  
Neal E. Schmale  
Chief Financial Officer

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I, Edwin A. Guiles, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Southern California Gas Company;
2. Based on my knowledge, this Quarterly Report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this Quarterly Report;
3. Based on my knowledge, the financial statements and other financial information included in this Quarterly Report fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this Quarterly Report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
  - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this Quarterly Report is being prepared;
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this Quarterly Report (the "Evaluation Date"); and
  - c) presented in this Quarterly Report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
  - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this Quarterly Report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

May 5, 2003

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/S/ EDWIN A. GUILLES  
Edwin A. Guiles  
Chief Executive Officer

I, Debra L. Reed, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Southern California Gas Company;
2. Based on my knowledge, this Quarterly Report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this Quarterly Report;
3. Based on my knowledge, the financial statements and other financial information included in this Quarterly Report fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this Quarterly Report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
  - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this Quarterly Report is being prepared;
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this Quarterly Report (the "Evaluation Date"); and
  - c) presented in this Quarterly Report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
  - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this Quarterly Report whether or not there were significant changes in internal controls or in other factors that could significantly

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affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

May 5, 2003

/S/ DEBRA L. REED  
Debra L. Reed  
Chief Financial Officer