Descriptive information concerning our equity method investments by segment follows.

SEMPRA COMMODITIES

RBS Sempra Commodities is a United Kingdom limited liability partnership formed to own and operate the commodities-marketing businesses previously operated through wholly owned subsidiaries of Sempra Energy, as we discuss in Note 3. We account for our investment in RBS Sempra Commodities under the equity method. Our share of partnership earnings is reported in the Sempra Commodities segment. Subject to certain limited exceptions, partnership pretax income is allocated each year as follows:

- First, we receive a preferred 15-percent return on our adjusted equity capital.
- Next, RBS receives a preferred 15-percent return on any capital in excess of capital attributable to us that is required by the U.K. Financial Services Authority to be maintained by RBS in respect of the operations of the partnership.
- Next, we receive 70 percent of the next $500 million in pretax income; RBS receives the remaining 30 percent.
- Then, we receive 30 percent and RBS receives 70 percent of any remaining pretax income.
- Any losses of the partnership are shared equally between us and RBS.

We had pretax equity earnings from RBS Sempra Commodities of $463 million for the year ended December 31, 2009, and $383 million for the nine months ended December 31, 2008. The partnership income that is distributable to us on an annual basis is computed on the partnership's basis of accounting, International Financial Reporting Standards (IFRS), as adopted by the European Union. This distributable income, on an IFRS basis, was $300 million for the year ended December 31, 2009, and $389 million for the nine months ended December 31, 2008. In 2009 and 2008, we received cash distributions from the partnership of $407 million and $85 million, respectively.

We have indemnified the partnership for certain litigation and tax liabilities related to the businesses purchased by the partnership. We recorded these obligations at a fair value of $5 million on April 1, 2008, the date we formed the partnership. This liability is being amortized over its expected life.

On February 16, 2010, Sempra Energy, RBS and the partnership entered into an agreement to sell certain businesses within the partnership. We discuss this transaction and related agreements, including expected changes in earnings sharing, affecting the partnership in Note 20.

We provide information regarding the Sempra Commodities segment in Note 18.

The following tables show summarized financial information for RBS Sempra Commodities (on a GAAP basis):

RBS SEMPRA COMMODITIES SUMMARIZED FINANCIAL INFORMATION
(Dollars in millions)

	Year ended December 31, 2009	Nine months ended December 31, 2008
Gross revenues and fee income	$ 2,179	$ 2,051
Gross profit	1,461	1,370
Income from continuing operations	639	592
Partnership net income	639	592

	December 31, 2009	December 31, 2008
Current assets	$ 7,272	$ 8,713
Noncurrent assets	521	516
Current liabilities	4,074	5,581

Investments in Other Unconsolidated Subsidiaries

In February 2007, Sempra Commodities sold its interests in an equity method investment, along with a related cost-basis investment, receiving cash and a 12.7-percent interest in a newly formed entity. The after-tax gain on this transaction, recorded in Equity Earnings (Losses), Net of Income Tax, on the Consolidated Statements of Operations, was $30 million.

Available-for-Sale Securities

Sempra Commodities recorded purchases of available-for-sale securities of $1 million in the first quarter of 2008 and $12 million in the year 2007. Sempra Commodities had no sales of available-for-sale securities in 2008 prior to the formation of the joint venture. Sempra Commodities sold $20 million of available-for-sale securities in 2007, yielding proceeds of $54 million. The cost basis of the sales was determined by the specific identification method and pretax gains of $34 million were realized as a result of the sales in 2007. There was no impairment of available-for-sale securities in 2008.

In June 2009, we reclassified into earnings a $7 million loss associated with available-for-sale securities held by RBS Sempra Commodities.

SEMPRA GENERATION

The 550-MW Elk Hills Power (Elk Hills) plant located near Bakersfield, California began commercial operations in July 2003. Elk Hills is 50-percent owned by Sempra Generation.

During 2009, Sempra Generation invested $235 million to become an equal partner with BP Wind Energy, a wholly owned subsidiary of BP p.l.c., in the development of the 200-MW Fowler Ridge II Wind Farm (Fowler Ridge II) project near Indianapolis, Indiana. The project became operational in December 2009. The project uses 133 wind turbines, each with the ability to generate 1.5 MW. The project's entire power output has been sold under four long-term contracts, each for 50 MW and 20-year terms. Our investment in Fowler Ridge II is accounted for as an equity method investment.

SEMPRA PIPELINES & STORAGE

Sempra Pipelines & Storage owns a 25-percent interest in Rockies Express, a partnership that operates a natural gas pipeline, the Rockies Express Pipeline (REX), that links producing areas in the Rocky Mountain region to the upper Midwest and the eastern United States. Kinder Morgan Energy Partners, L.P. (KMP) and ConocoPhillips (Conoco) own the remaining interests of 50 percent and 25 percent, respectively. We made investments in Rockies Express of $625 million in 2009, $150 million in 2008 and $100 million in 2007. We provide additional information in Note 6.

Sempra Pipelines & Storage owns a 50-percent interest in Chilquinta Energía S.A., a Chilean electric utility, and a 38-percent interest in Luz del Sur S.A., a Peruvian electric utility. In November 2009, Sempra Pipelines & Storage purchased $50 million of 2.75-percent bonds issued by Chilquinta Energía S.A. that are denominated in Chilean Unidades de Fomento. The Chilean Unidad de Fomento is a unit of account used in Chile that is adjusted for inflation, and its value is quoted in Chilean Pesos. The bonds mature on October 30, 2014. The carrying value of the bonds after the effect of foreign currency translation was $51 million at December 31, 2009.

Sempra Pipelines & Storage also owns 43 percent of two Argentine natural gas utility holding companies, Sodigas Pampeana and Sodigas Sur. As a result of the devaluation of the Argentine peso at the end of 2001 and subsequent changes in the value of the peso, Sempra Pipelines & Storage has reduced the carrying value of its investment by a cumulative total of $270 million as of December 31, 2009. These noncash adjustments, based on fluctuations in the value of the Argentine peso, did not affect earnings, but were recorded in Comprehensive Income and Accumulated Other Comprehensive Income (Loss).

The Argentine economic decline and government responses (including Argentina’s unilateral, retroactive abrogation of utility agreements early in 2002) continue to adversely affect the operations of these Argentine utilities. In 2002, Sempra Pipelines & Storage initiated arbitration proceedings at the International Center for the Settlement of Investment Disputes (ICSID) under the 1994 Bilateral Investment Treaty between the United States and Argentina for recovery of the diminution of the value of its investments that has resulted from Argentine governmental actions. In September 2007, the tribunal officially closed the arbitration proceedings and awarded us compensation of $172 million, which includes interest up to the award date. In January 2008, Argentina filed an action at the ICSID seeking to annul the award. The Annulment Committee lifted the stay of enforcement so that we may now attach and sell any non-sovereign assets of the Argentine government. The annulment hearing was held in early September 2009 and we anticipate a decision by the second quarter of 2010. We will not recognize the award until collectibility is assured.

In December 2006, we decided to sell our Argentine investments, and we continue to actively pursue their sale. We adjusted our investments to estimated fair value and recorded a noncash impairment charge to 2006 earnings of $221 million.

The following tables show summarized financial information for Sodigas Pampeana and Sodigas Sur:

SODIGAS PAMPEANA AND SODIGAS SUR – SUMMARIZED FINANCIAL INFORMATION
(Dollars in millions)

	Years ended December 31,		
	2009	2008	2007
Gross revenues	$ 241	$ 232	$ 227
Gross profit	100	110	111
Income from operations	30	12	21
Gain on sale of assets	1	1	1
Net income	20	4	14

	At December 31,	
	2009	2008
Current assets	$ 75	$ 93
Noncurrent assets	294	323
Current liabilities	169	192
Noncurrent liabilities	26	25

SEMPRA FINANCIAL

Prior to June 2006, Sempra Financial invested as a limited partner in affordable-housing properties. Sempra Financial’s portfolio included 1,300 properties throughout the United States that provided income tax benefits (primarily from income tax credits). In June 2006, Sempra Financial effectively sold the majority of its interests in affordable-housing projects to an unrelated party subject to certain guarantees. Because of the guarantees, the transaction was recorded as a financing transaction rather than as a sale, and we continue to consolidate the investments in the housing partnerships. The transaction almost completely eliminated the income tax benefits from the investments.

OTHER EQUITY METHOD INFORMATION

We present aggregated information below for:

- Chilquinta Energía S.A.
- Luz del Sur S.A.
- Elk Hills Power
- Fowler Ridge II, beginning in 2009
- Rockies Express
- Sempra Commodities' investments (prior to the formation of RBS Sempra Commodities)
- Sempra Energy’s housing partnerships (accounted for under the equity method)

OTHER EQUITY METHOD INFORMATION

(Dollars in millions)

	Years ended December 31,		
	2009	2008	2007
Gross revenues	$ 1,192	$ 1,852	$ 1,570
Gross profit	429	487	456
Income from operations	194	234	225
Gain (loss) on sale of assets	-	(46)	7
Net income	173	171	138

	At December 31,	
	2009	2008
Current assets	$ 1,056	$ 795
Noncurrent assets	3,395	2,091
Current liabilities	405	324
Noncurrent liabilities	625	519

NOTE 5. DISCONTINUED OPERATIONS

In June 2006, in line with our previously announced plan to focus resources on the development of our core businesses, we decided to sell Bangor Gas and Frontier Energy, Sempra Pipelines & Storage's natural gas distribution companies located in Maine and North Carolina, respectively. The sales of Frontier Energy and Bangor Gas were completed on September 30, and November 30, 2007, respectively, for a total of $5 million in cash.

We have reported the above operations as discontinued for all periods presented in our Consolidated Financial Statements and summarize the income statement information concerning our discontinued operations in the table below.

DISCONTINUED OPERATIONS
(Dollars in millions)

	Year ended December 31, 2007
Revenues	$ 10
Income from operations, before income taxes	$ 2
Income tax expense	(4)
	(2)
Loss on disposal, before income taxes	(2)
Income tax expense	(23)
Consolidated state tax adjustment	1
	(24)
	$ (26)

NOTE 6. DEBT AND CREDIT FACILITIES

COMMITTED LINES OF CREDIT

At December 31, 2009, Sempra Energy Consolidated had $4.3 billion in committed lines of credit to provide liquidity and to support commercial paper and variable-rate demand notes, the major components of which are detailed below. Available unused credit on these lines at December 31, 2009 was $3.6 billion.

These amounts exclude lines of credit associated with Sempra Commodities, some of which we continue to guarantee, as we discuss below in "RBS Sempra Commodities." RBS has replaced Sempra Energy as guarantor on all uncommitted lines of credit associated with Sempra Commodities. To the extent that Sempra Energy's credit support arrangements, including Sempra Commodities' committed facilities, have not been terminated or replaced, RBS has indemnified Sempra Energy for any claims or losses arising in connection with those arrangements.

Sempra Energy

Sempra Energy has a $1 billion, three-year syndicated revolving credit agreement expiring in 2011. Citibank, N.A. serves as administrative agent for the syndicate of 17 lenders. No single bank has greater than an 11-percent share.

Borrowings bear interest at benchmark rates plus a margin that varies with market index rates and Sempra Energy's credit ratings. The facility requires Sempra Energy to maintain a ratio of total indebtedness to total capitalization (as defined in the agreement) of no more than 65 percent at the end of each quarter. The actual ratio at December 31, 2009, calculated as defined in the agreement, was 48.1 percent.

At December 31, 2009, Sempra Energy had no outstanding borrowings under the facility.

Sempra Global

Sempra Global has a $2.5 billion, three-year syndicated revolving credit agreement expiring in 2011. Citibank, N.A. serves as administrative agent for the syndicate of 18 lenders. No single bank has greater than an 11-percent share. The facility also provides for issuance of up to $300 million of letters of credit on behalf of Sempra Global with the amount of borrowings otherwise available under the facility reduced by the amount of outstanding letters of credit.

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

At December 31, 2009, Sempra Global had letters of credit of $7 million outstanding and no outstanding borrowings under the facility. The facility provides support for $460 million of commercial paper outstanding at December 31, 2009. At December 31, 2008, $600 million of the $1.1 billion commercial paper outstanding under this facility was classified as long-term debt based on management's intent and ability to maintain this level of borrowing on a long-term basis either supported by this credit facility or by issuing long-term debt. The classification had no impact on cash flows.

Sempra Utilities

SDG&E and SoCalGas have a combined $800 million, three-year syndicated revolving credit agreement expiring in 2011. JPMorgan Chase Bank serves as administrative agent for the syndicate of 17 lenders. No single bank has greater than a 10-percent share. The agreement permits each utility to individually borrow up to $600 million, subject to a combined limit of $800 million for both utilities. It also provides for the issuance of letters of credit on behalf of each utility subject to a combined letter of credit commitment of $200 million for both utilities. The amount of borrowings otherwise available under the facility is reduced by the amount of outstanding letters of credit.

Borrowings under the facility bear interest at benchmark rates plus a margin that varies with market index rates and the borrowing utility's credit rating. The agreement requires each utility to maintain a ratio of total indebtedness to total capitalization (as defined in the agreement) of no more than 65 percent at the end of each quarter. The actual ratios for SDG&E and SoCalGas at December 31, 2009, calculated as defined in the agreement, were 48.8 percent and 42.3 percent, respectively.

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

At December 31, 2009, SDG&E and SoCalGas had no outstanding borrowings under this facility. SDG&E had $25 million of outstanding letters of credit and $237 million of variable-rate demand notes outstanding supported by this facility at December 31, 2009. Available unused credit on these lines at December 31, 2009 was $338 million at SDG&E and $538 million at SoCalGas; SoCalGas' availability reflects the impact of SDG&E's use of the combined credit available on the line.

RBS Sempra Commodities

RBS is obligated to provide RBS Sempra Commodities with all growth capital, working-capital requirements and credit support. However, as a transitional measure, we continue to provide back-up guarantees for a portion of RBS Sempra Commodities’ trading obligations and for a credit facility with third party lenders pending novation (legal transfer) of the remaining trading obligations to RBS, or after the closing of the transaction we discuss in Note 20, to J.P. Morgan Ventures Energy Corporation. Some of these back-up guarantees may continue for a prolonged period of time. RBS, which is controlled by the government of the United Kingdom, has fully indemnified us for any claims or losses in connection with these arrangements.

RBS Sempra Commodities’ net trading liabilities supported by Sempra Energy’s guarantees at December 31, 2009 were $798 million, consisting of guaranteed trading obligations net of collateral. The amount of guaranteed net trading liabilities varies from day to day with the value of the trading obligations and related collateral.

Sempra Energy also has guaranteed $344 million of $1.72 billion of RBS Sempra Commodities' commitments under a credit facility expiring September 29, 2010. Extensions of credit under the committed facility, which totaled $968 million at December 31, 2009, are limited to and secured by a borrowing base consisting of receivables, inventories and other joint venture assets that are valued at varying percentages of current market value. At December 31, 2009, the gross market value of the borrowing base assets was $3.3 billion. The facility will be reduced and end as the borrowing base assets are transferred to RBS as established by the joint-venture agreement.

On February 16, 2010, Sempra Energy, RBS and the partnership entered into an agreement to sell certain businesses within the partnership. We discuss this transaction and related agreements affecting the partnership in Note 20.

OTHER GUARANTEES

As discussed in Note 4, Sempra Energy, Conoco and KMP hold 25-percent, 25-percent and 50-percent ownership interests, respectively, in Rockies Express. Rockies Express operates a natural gas pipeline linking natural gas producing areas in the Rocky Mountain region to the upper Midwest and the eastern United States. Rockies Express has a $2 billion, five-year credit facility expiring in 2011 that provides for revolving extensions of credit that are guaranteed by Sempra Energy, Conoco and KMP in proportion to their respective ownership percentages.

Borrowings under the facility bear interest at rates varying with market rates plus a margin that varies with the credit ratings of the lowest-rated guarantor. The facility requires each guarantor to comply with various financial and other covenants comparable to those contained in its senior unsecured credit facilities. In the case of Sempra Energy, the primary requirement is that we maintain a ratio of total indebtedness to total capitalization (as defined in the facility) of no more than 65 percent at the end of each quarter. Rockies Express had $1.7 billion of outstanding borrowings under this facility at December 31, 2009, of which $418 million is guaranteed by Sempra Energy. The recorded fair value of this guarantee is negligible.

WEIGHTED AVERAGE INTEREST RATES

The weighted average interest rate on the total short-term debt outstanding at Sempra Energy was 0.79 percent at December 31, 2009. The weighted average interest rate on the total short-term debt outstanding at Sempra Energy, including commercial paper borrowings classified as long-term, was 4.985 percent at December 31, 2008.

LONG-TERM DEBT

The following tables show the detail and maturities of long-term debt outstanding:

LONG-TERM DEBT
(Dollars in millions)

	December 31, 2009	December 31, 2008
SDG&E		
First mortgage bonds:		
6.8% June 1, 2015	$ 14	$ 14
5.3% November 15, 2015	250	250
Variable rate (0.25% at December 31, 2009) July, 1 2018(1)	161	161
5.85% June 1, 2021(1)	60	60
6% June 1, 2026	250	250
5% to 5.25% December 1, 2027(1)	150	150
5.875% January and February 2034(1)	176	176
5.35% May 15, 2035	250	250
6.125% September 15, 2037	250	250
6% June 1, 2039	300	-
Variable rate (0.20% at December 31, 2009) May 1, 2039(1)	75	75
	1,936	1,636
Other long-term debt (unsecured unless otherwise noted):		
5.9% June 1, 2014	130	130
5.3% July 1, 2021(1)	39	39
5.5% December 1, 2021(1)	60	60
4.9% March 1, 2023(1)	25	25
OMEC LLC loan at variable rates (1.75% at December 31, 2009) payable 2010 through April 2019 (secured by project assets)	375	256
Orange Grove Energy L.P. project financing at variable rates (4.37% at December 31, 2009) June 30, 2010 (secured by project assets)(2)	87	-
Capital lease obligations	20	-
	736	510
	2,672	2,146
Current portion of long-term debt	(45)	(2)
Unamortized discount on long-term debt	(4)	(2)
Total SDG&E	2,623	2,142
SoCalGas		
First mortgage bonds:		
4.375% January 15, 2011	100	100
Variable rates after fixed-to-floating rate swaps (0.28% at December 31, 2009) January 15, 2011	150	150
4.8% October 1, 2012	250	250
5.5% March 15, 2014	250	250
5.45% April 15, 2018	250	250
5.75% November 15, 2035	250	250
Variable rate December 1, 2009	-	100
	1,250	1,350
Other long-term debt (unsecured):		
4.75% May 14, 2016(1)	8	8
5.67% January 18, 2028	5	5
Capital lease obligations	26	-
Market value adjustments for interest rate swap, net (expires January 18, 2011)	7	9
	46	22
	1,296	1,372
Current portion of long-term debt	(11)	(100)
Unamortized discount on long-term debt	(2)	(2)
Total SoCalGas	1,283	1,270

LONG-TERM DEBT (Continued)
(Dollars in millions)

	December 31, 2009	December 31, 2008
Other Sempra Energy		
First mortgage bonds:		
6.9% payable 2010 through 2017	8	8
8.75% payable 2010 through 2022	8	9
7.48% payable 2010 through 2023	6	7
	22	24
Other long-term debt (unsecured unless otherwise noted):		
Commercial paper borrowings at variable rates, classified as long-term debt	-	600
6.5% Notes June 1, 2016	750	-
6% Notes October 15, 2039	750	-
9.8% Notes February 15, 2019	500	500
6.15% Notes June 15, 2018	500	500
6% Notes February 1, 2013	400	400
Notes at variable rates after fixed-to-floating swap (3.71% at December 31, 2009)		
March 1, 2010	300	300
8.9% Notes November 15, 2013	250	250
7.95% Notes March 1, 2010	200	200
6.3% Notes December 31, 2021(1)	128	128
4.5% Notes July 1, 2024(1)	75	-
Employee Stock Ownership Plan		
Bonds at 5.781% (fixed rate to July 1, 2010) November 1, 2014(1)	50	50
Bonds at variable rates (1.4% at December 31, 2009) November 1, 2014(1)	7	22
Notes at 2.87% to 5.05% payable 2010 through 2013(1)	50	58
Industrial development bonds at variable rates (1.5% at December 31, 2009)		
August 1, 2037, secured(1)	55	55
8.45% Notes payable 2010 through 2017, secured	36	39
Debt incurred to acquire limited partnerships, secured by real estate,		
8.05% January 15, 2009	-	2
4.75% Notes May 15, 2009	-	300
Other debt	2	1
Market value adjustments for interest rate swap, net (expiring March 1, 2010)	7	15
	4,060	3,420
	4,082	3,444
Current portion of long-term debt	(517)	(308)
Unamortized discount on long-term debt	(11)	(4)
Total other Sempra Energy	3,554	3,132
Total Sempra Energy Consolidated	$ 7,460	$ 6,544

(1) Callable long-term debt.
(2) This credit facility will convert to a long-term loan maturing in June 2035.

MATURITIES OF LONG-TERM DEBT(1)
(Dollars in millions)

	SDG&E	SoCalGas	Other Sempra Energy	Total Sempra Energy Consolidated
2010	$ 40	$ -	$ 510	$ 550
2011	11	250	30	291
2012	11	250	13	274
2013	11	-	672	683
2014	141	250	64	455
Thereafter	2,438	513	2,786	5,737
Total	$ 2,652	$ 1,263	$ 4,075	$ 7,990

(1) Excludes capital lease obligations and market value adjustments for interest rate swaps.

Various long-term obligations totaling $4.2 billion at Sempra Energy at December 31, 2009 are unsecured. This includes unsecured long-term obligations totaling $254 million at SDG&E and $13 million at SoCalGas.

In May 2009, Sempra Energy publicly offered and sold $750 million of 6.5-percent notes, maturing in 2016. In October 2009, Sempra Energy publicly offered and sold $750 million of 6.0-percent notes, maturing in 2039.

CALLABLE LONG-TERM DEBT

At the option of Sempra Energy, SDG&E and SoCalGas, certain debt is callable subject to premiums at various dates:

CALLABLE LONG-TERM DEBT
(Dollars in millions)

	SDG&E	SoCalGas	Other Sempra Energy	Total Sempra Energy Consolidated
2010	$ 221	$ -	$ 365	$ 586
2013	45	-	-	45
2014	124	-	-	124
after 2014	356	8	-	364
Total	$ 746	$ 8	$ 365	$ 1,119
Callable bonds subject to make-whole provisions	$ 1,300	$ 1,250	$ 3,708	$ 6,258

In addition, the OMEC LLC project financing loan and the Orange Grove Energy L.P. project financing loan, discussed in Note 1, with $375 million and $87 million, respectively, of borrowings at December 31, 2009, may be prepaid at the borrowers' option.

FIRST MORTGAGE BONDS

The Sempra Utilities issue first mortgage bonds which are secured by a lien on utility plant. The Sempra Utilities may issue additional first mortgage bonds upon compliance with the provisions of their bond agreements (indentures). These indentures require, among other things, the satisfaction of pro forma earnings-coverage tests on first mortgage bond interest and the availability of sufficient mortgaged property to support the additional bonds, after giving effect to prior bond redemptions. The most restrictive of these tests (the property test) would permit the issuance, subject to CPUC authorization, of an additional $3.3 billion of first mortgage bonds at SDG&E and $536 million at SoCalGas at December 31, 2009.

In May 2009, SDG&E publicly offered and sold $300 million of 6.0-percent first mortgage bonds, maturing in 2039.

INDUSTRIAL DEVELOPMENT BONDS

SDG&E

During 2008, Sempra Energy purchased $413 million of industrial development bonds, net of sales and purchases with SDG&E as the cash flow needs of each entity changed. SDG&E purchased $488 million of the bonds during 2008, and sold $228 million to Sempra Energy during 2008. The bonds were initially issued as insured, auction-rate securities, the proceeds of which were loaned to SDG&E, and are repaid with payments on SDG&E first mortgage bonds that have terms corresponding to those of the industrial development bonds that they secure.

In December 2008, SDG&E remarketed $237 million of these industrial development bonds. These included $75 million remarketed at an initial daily floating rate of 0.65 percent (maturing in 2039), and $161 million initially remarketed for a three-month term at a rate of 1.00 percent (maturing in 2018). Beginning in March 2009, the interest rate on the $161 million series is reset on a weekly basis.

The remaining industrial development bonds, $24 million held by SDG&E and $152 million held by Sempra Energy, were classified as available-for-sale securities and included in Short-term Investments on the Consolidated Balance Sheets at December 31, 2008.

In June 2009, SDG&E remarketed the remaining $176 million of these bonds at a fixed rate of 5.875 percent, maturing in 2034. Prior to SDG&E's remarketing of the remaining bonds in 2009, SDG&E purchased $152 million of the bonds from Sempra Energy.

Sempra Pipelines & Storage

In July 2009, to secure an approved exemption from sales and use tax, Sempra Pipelines & Storage incurred $75 million out of a maximum available $265 million of long-term debt related to the construction and equipping of its Mississippi Hub Gas Storage facility. The debt is payable to the Mississippi Business Finance Corporation (MBFC), and we recorded bonds receivable from the MBFC for the same amount. Both the financing obligation and the bonds receivable have interest rates of 4.5 percent and are due on July 1, 2024.

In 2006, in order to reduce its property tax, Sempra Pipelines & Storage incurred $128 million of long-term debt related to the development of its Liberty Gas Storage (Liberty) facility in Calcasieu Parish, Louisiana. The debt is payable to the Calcasieu Parish Industrial Development Board. Related to the debt, we recorded bonds receivable from the Industrial Development Board for the same amount. Both the financing obligation and the bonds receivable have interest rates of 6.3 percent and are due on December 31, 2021.

DEBT OF EMPLOYEE STOCK OWNERSHIP PLAN (ESOP) AND TRUST (TRUST)

The ESOP covers substantially all Sempra Energy employees, including those of SDG&E and SoCalGas. The Trust is used to fund part of the retirement savings plan described in Note 9. The notes of the ESOP are payable by the Trust and mature in 2014.

In July 2007, $50 million of these notes was repriced at an interest rate of 5.781 percent for a three-year term ending July 1, 2010. The remaining $7 million of the notes is repriced weekly and subject to repurchase at our option. ESOP debt was paid down by a total of $35 million during the last three years when 815,593 shares of Sempra Energy common stock were released from the Trust in order to fund employer contributions to the Sempra Energy savings plan trust. Interest on the ESOP debt amounted to $3 million in 2009 and $4 million in each of 2008 and 2007. Dividends used for debt service amounted to $2 million in each of 2009, 2008 and 2007.

INTEREST RATE SWAPS

We discuss our fair value interest rate swaps and interest rate swaps to hedge cash flows in Note 11.

NOTE 7. FACILITIES UNDER JOINT OWNERSHIP

San Onofre Nuclear Generating Station (SONGS) and the Southwest Powerlink transmission line are owned jointly by SDG&E with other utilities. SDG&E's interests at December 31, 2009 were as follows:

(Dollars in millions)	SONGS	Southwest Powerlink
Percentage ownership	20 %	91 %
Utility plant in service	$ 117	$ 323
Accumulated depreciation and amortization	28	183
Construction work in progress	157	12

SDG&E, and each of the other owners, holds its undivided interest as a tenant in common in the property. Each owner is responsible for financing its share of each project and participates in decisions concerning operations and capital expenditures.

SDG&E's share of operating expenses is included in Sempra Energy's and SDG&E's Consolidated Statements of Operations.

SONGS DECOMMISSIONING

Objectives, work scope, and procedures for the dismantling and decontamination of the SONGS' units must meet the requirements of the Nuclear Regulatory Commission (NRC), the Environmental Protection Agency (EPA), the U.S. Department of the Navy (the land owner), the CPUC and other regulatory bodies.

SDG&E's asset retirement obligation related to decommissioning costs for the SONGS units was $474 million at December 31, 2009.

That amount includes the cost to decommission Units 2 and 3, and the remaining cost to complete the decommissioning of Unit 1, which is currently in progress. Southern California Edison (Edison), the operator of SONGS, updates decommissioning cost studies every three years. Rate recovery of decommissioning costs is allowed until the time that the costs are fully recovered and is subject to adjustment every three years based on the costs allowed by regulators. Collections are authorized to continue until 2022. The most recent cost study is under review by the CPUC, and we expect a decision by mid-2010. SDG&E's share of costs under the revised study is approximately $760 million.

Unit 1 was permanently shut down in 1992, and physical decommissioning began in January 2000. Most structures, foundations and large components have been dismantled, removed and disposed of. Spent nuclear fuel has been removed from the Unit 1 Spent Fuel Pool and stored on-site in an independent spent fuel storage installation (ISFSI) licensed by the NRC. The decommissioning of Unit 1 remaining structures (subsurface and intake/discharge) will take place when Units 2 and 3 are decommissioned. The ISFSI will be decommissioned after a permanent storage facility becomes available and the U.S. Department of Energy (DOE) removes the spent fuel from the site. The Unit 1 reactor vessel is expected to remain on site until Units 2 and 3 are decommissioned.

The amounts collected in rates for SONGS' decommissioning are invested in externally managed trust funds. Amounts held by the trusts are invested in accordance with CPUC regulations. These trusts are shown on the Sempra Energy and SDG&E Consolidated Balance Sheets at fair value with the offsetting credits recorded in Regulatory Liabilities Arising from Removal Obligations.

The following table shows the fair values and gross unrealized gains and losses for the securities held in the trust funds.

NUCLEAR DECOMMISSIONING TRUSTS
(Dollars in millions)

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
As of December 31, 2009:				
Debt securities:				
U.S. government(1)	$ 141	$ 12	$ (3)	$ 150
Municipal bonds(2)	85	3	(3)	85
Total debt securities	226	15	(6)	235
Equity securities	238	188	(5)	421
Cash and other securities(3)	21	1	-	22
Total available-for-sale securities	$ 485	$ 204	$ (11)	$ 678
As of December 31, 2008:				
Debt securities:				
U.S. government	$ 127	$ 28	$ -	$ 155
Municipal bonds	69	1	(9)	61
Total debt securities	196	29	(9)	216
Equity securities	251	105	(36)	320
Cash and other securities	40	3	(2)	41
Total available-for-sale securities	$ 487	$ 137	$ (47)	$ 577

(1) Maturity dates are 2011-2039.
(2) Maturity dates are 2010-2057.
(3) Maturity dates are 2010-2049.

The following table shows the proceeds from sales of securities in the trusts and gross realized gains and losses on those sales.

SALES OF SECURITIES
(Dollars in millions)

	Years ended December 31,		
	2009	2008	2007
Proceeds from sales	$ 224	$ 458	$ 578
Gross realized gains	6	18	18
Gross realized losses	(33)	(40)	(12)

Net unrealized gains (losses) are included in Regulatory Liabilities Arising from Removal Obligations on the Consolidated Balance Sheets. We determine the cost of securities in the trusts on the basis of specific identification.

The fair value of securities in an unrealized loss position as of December 31, 2009 was $110 million. The unrealized losses of $11 million were primarily caused by a negative market environment. We do not consider these investments to be other than temporarily impaired as of December 31, 2009.

Customer contribution amounts are determined by the CPUC using estimates of after-tax investment returns, decommissioning costs, and decommissioning cost escalation rates. Changes in investment returns and decommissioning costs may result in a change in future customer contributions.

We discuss the impact of asset retirement obligations in Note 1. We provide additional information about SONGS in Notes 15 and 17.

NOTE 8. INCOME TAXES

Reconciliation of net U.S. statutory federal income tax rates to the effective income tax rates are as follows:

RECONCILIATION OF FEDERAL INCOME TAX RATES TO EFFECTIVE INCOME TAX RATES

	Years ended December 31,		
	2009	2008(1)	2007(1)
Sempra Energy Consolidated			
U.S. federal statutory income tax rate	35 %	35 %	35 %
Utility depreciation	3	3	3
State income taxes, net of federal income tax benefit	3	3	4

Tax credits	(1)		(1)		(3)	
Allowance for equity funds used during construction	(1)		(1)		(1)	
Non-U.S. earnings taxed at lower statutory income tax rates	(5)		(2)		(1)	
Resolution of Internal Revenue Service audits	(2)		(2)		-	
Utility repair allowance	(1)		(1)		(1)	
Self-developed software expenditures	(3)		(2)		(1)	
Mexican foreign exchange and inflation effects	1		(3)		-	
Variable interest entities	(1)		1		-	
Noncontrolling interests	1		-		-	
Other, net	-		-		(1)	
Effective income tax rate	29	%	30	%	34	%
SDG&E						
U.S. federal statutory income tax rate	35	%	35	%	35	%
Depreciation	4		4		5	
State income taxes, net of federal income tax benefit	4		5		5	
Allowance for equity funds used during construction	(2)		(2)		(1)	
Resolution of Internal Revenue Service audits	(1)		(3)		(3)	
Utility repair allowance	(1)		(2)		(2)	
Self-developed software expenditures	(2)		(3)		(2)	
Regulatory reserve release	-		-		(2)	
Variable interest entities	(2)		4		1	
Other, net	(3)		(2)		(3)	
Effective income tax rate	32	%	36	%	33	%
PE						
U.S. federal statutory income tax rate	35	%	35	%	35	%
Depreciation	6		5		6	
State income taxes, net of federal income tax benefit	4		4		5	
Self-developed software expenditures	(6)		(3)		(1)	
Other, net	(4)		(5)		(5)	
Effective income tax rate	35	%	36	%	40	%
SoCalGas						
U.S. federal statutory income tax rate	35	%	35	%	35	%
Depreciation	6		6		6	
State income taxes, net of federal income tax benefit	4		4		5	
Self-developed software expenditures	(6)		(3)		(1)	
Other, net	(5)		(6)		(4)	
Effective income tax rate	34	%	36	%	41	%

(1) As adjusted at Sempra Energy, SDG&E and PE for the retrospective adoption of ASC 810 (SFAS 160).

The geographic components of Income from Continuing Operations Before Income Taxes and Equity Earnings of Certain Unconsolidated Subsidiaries at Sempra Energy are as follows:

	Years ended December 31,		
(Dollars in millions)	2009	2008(1)	2007(1)
U.S.	$ 1,007	$ 1,199	$ 1,275
Non-U.S.	469	244	268
Total	$ 1,476	$ 1,443	$ 1,543

(1) As adjusted for the retrospective adoption of ASC 810 (SFAS 160).

The components of income tax expense are as follows:

INCOME TAX EXPENSE
(Dollars in millions)

	Years ended December 31,		
	2009	2008	2007
Sempra Energy Consolidated			
Current:			
U.S. Federal	$ 39	$ (10)	$ 247
U.S. State	40	28	77
Non-U.S.	48	96	51
Total	127	114	375
Deferred:			
U.S. Federal	216	359	124
U.S. State	24	29	(5)
Non-U.S.	58	(59)	36
Total	298	329	155
Deferred investment tax credits	(3)	(5)	(6)
Total income tax expense	$ 422	$ 438	$ 524
SDG&E			
Current:			
U.S. Federal	$ 70	$ 25	$ 131
U.S. State	34	23	44
Total	104	48	175
Deferred:			
U.S. Federal	75	107	(24)
U.S. State	(2)	8	(14)
Total	73	115	(38)
Deferred investment tax credits	-	(2)	(2)
Total income tax expense	$ 177	$ 161	$ 135
PE			
Current:			
U.S. Federal	$ 52	$ 28	$ 122
U.S. State	21	21	33
Total	73	49	155
Deferred:			
U.S. Federal	68	89	15
U.S. State	7	6	(2)
Total	75	95	13
Deferred investment tax credits	(3)	(3)	(3)
Total income tax expense	$ 145	$ 141	$ 165
SoCalGas			
Current:			
U.S. Federal	$ 52	$ 31	$ 119
U.S. State	22	22	33
Total	74	53	152
Deferred:			
U.S. Federal	67	85	14
U.S. State	6	5	(3)
Total	73	90	11
Deferred investment tax credits	(3)	(3)	(3)
Total income tax expense	$ 144	$ 140	$ 160

We show details of accumulated deferred income taxes at December 31 for Sempra Energy, SDG&E, PE and SoCalGas in the tables below:

ACCUMULATED DEFERRED INCOME TAXES FOR SEMPRA ENERGY CONSOLIDATED
(Dollars in millions)

	December 31,	
	2009	2008
Deferred income tax liabilities:		
Differences in financial and tax bases of depreciable and amortizable assets	$ 1,528	$ 1,323
Regulatory balancing accounts	501	632
Unrealized revenue	25	22
Loss on reacquired debt	18	21
Property taxes	34	31
Difference in financial and tax bases of partnership interests	85	46
Other	61	15
Total deferred income tax liabilities	2,252	2,090
Deferred income tax assets:		
Investment tax credits	35	37
Equity losses	3	6
Net operating losses of separate state and foreign entities	21	77
Compensation-related items	177	193
Postretirement benefits	510	609
Other deferred assets	41	4
State income taxes	50	35
Bad debt allowance	7	7
Litigation and other accruals not yet deductible	129	233
Deferred income tax assets before valuation allowances	973	1,201
Less: valuation allowances	29	26
Total deferred income tax assets	944	1,175
Net deferred income tax liability	$ 1,308	$ 915

Our policy is to show deferred taxes of VIEs on a net basis, including valuation allowances. See table "Amounts Associated with Variable Interest Entities" in Note 1 for further information on VIEs.

ACCUMULATED DEFERRED INCOME TAXES FOR SDG&E, PE AND SOCALGAS
(Dollars in millions)

	SDG&E		PE		SoCalGas	
	December 31,		December 31,		December 31,	
	2009	2008	2009	2008	2009	2008
Deferred income tax liabilities:						
Differences in financial and tax bases of utility plant and other assets	$ 737	$ 625	$ 360	$ 278	$ 363	$ 281
Regulatory balancing accounts	190	229	322	413	322	413
Loss on reacquired debt	8	10	11	13	11	13
Property taxes	24	20	12	13	12	13
Other	16	-	-	-	-	-
Total deferred income tax liabilities	975	884	705	717	708	720
Deferred income tax assets:						
Postretirement benefits	152	173	283	357	285	359
Investment tax credits	18	18	19	21	19	21
Compensation-related items	17	14	50	49	51	49
State income taxes	25	22	16	17	16	16
Litigation and other accruals not yet deductible	25	37	33	74	32	75
Hedging transaction	-	-	11	16	11	16
Other	5	9	15	20	8	11
Total Deferred income tax assets	242	273	427	554	422	547
Net deferred income tax liability	$ 733	$ 611	$ 278	$ 163	$ 286	$ 173

Our policy is to show deferred taxes of VIEs on a net basis, including valuation allowances. See table "Amounts Associated with Variable Interest Entities" in Note 1 for further information on VIEs.

The net deferred income tax liabilities are recorded on the Consolidated Balance Sheets at December 31 as follows:

NET DEFERRED INCOME TAX LIABILITY
(Dollars in millions)

	Sempra Energy Consolidated 2009	Sempra Energy Consolidated 2008	SDG&E 2009	SDG&E 2008	PE 2009	PE 2008	SoCalGas 2009	SoCalGas 2008
Current (asset) liability	$ (10)	$ (31)	$ (41)	$ (17)	$ 5	$ 6	$ 6	$ 6
Noncurrent liability	1,318	946	774	628	273	157	280	167
Total	$ 1,308	$ 915	$ 733	$ 611	$ 278	$ 163	$ 286	$ 173

At December 31, 2009, Sempra Energy had established a valuation allowance against a portion of its total deferred income tax assets, as described above. A valuation allowance is recorded when, based on more-likely-than-not criteria, negative evidence outweighs positive evidence with regard to our ability to realize a deferred tax asset in the future. At both Sempra Energy and SDG&E, deferred income taxes for variable interest entities are shown on a net basis. Therefore, a valuation allowance of $117 million related to variable interest entities is not reflected in the tables above. Of Sempra Energy’s total valuation allowance of $29 million, $18 million is related to non-U.S. net operating losses, $7 million to other future deductions, and $4 million to U.S. state and local net operating losses. The total valuation allowance, excluding the amount related to variable interest entities, increased during 2009, when compared to 2008, primarily due to the increase in the valuation allowance established for U.S. state and local net operating losses. This increase was offset by a decrease in the valuation allowance established for U.S. state and local capital losses. We believe that it is more likely than not that the remainder of the total deferred income tax asset is realizable.

At December 31, 2009, Sempra Energy's non-U.S. subsidiaries had $46 million of unused net operating losses (NOLs) available to utilize in the future to reduce Sempra Energy's future non-U.S. income tax expense, which is in Denmark, Netherlands and Spain. The carry forward periods on our non-U.S. unused NOLs are as follows: $18 million does not expire and $28 million expires between 2011 and 2023. As of December 31, 2009, $215 million of Mexican subsidiary NOLs, which have been utilized on a consolidated level, are subject to recapture between 2013 and 2015 if the Mexican subsidiary that generated them does not have sufficient taxable income itself to realize them within 5 years. These NOLs expire between 2013 and 2019. Sempra Energy's U.S. subsidiaries had $100 million of unused U.S. state and local NOLs, primarily in Louisiana, Connecticut, Alabama and Washington D.C. These U.S. state and local NOLs expire between 2010 and 2028. We have not recorded income tax benefits on a portion of these NOLs because they were incurred in jurisdictions where we currently believe they will not be realized, as discussed above.

At December 31, 2009, Sempra Energy had not recognized a U.S. deferred income tax liability on $1.5 billion of cumulative undistributed earnings of non-U.S. subsidiaries that we expect to reinvest indefinitely outside the U.S. These earnings have previously been reinvested or will be reinvested in active non-U.S. operations, thus we do not intend to use these earnings as a source of funding for U.S. operations. It is not practical to determine the amount of U.S. income taxes that might be payable if these earnings were eventually distributed. U.S. deferred income taxes will be recorded when it is determined that all, or a part, of these earnings are no longer intended to be reinvested indefinitely.

Sempra Commodities recorded synthetic fuels tax credits of $32 million in 2007.

Following is a summary of unrecognized tax benefits at December 31:

SUMMARY OF UNRECOGNIZED TAX BENEFITS
(Dollars in millions)

	Sempra Energy Consolidated 2009	Sempra Energy Consolidated 2008	Sempra Energy Consolidated 2007	SDG&E 2009	SDG&E 2008	SDG&E 2007	PE/SoCalGas 2009	PE/SoCalGas 2008	PE/SoCalGas 2007
Total	$ 94	$ 104	$ 131	$ 14	$ 18	$ 26	$ 11	$ 19	$ 40
Of the total, amounts related to tax positions that, if recognized, in future years, would:									
decrease the effective tax rate	$ (76)	$ (64)	$ (109)	$ (13)	$ (17)	$ (23)	$ (1)	$ -	$ (22)
increase the effective tax rate	$ 13	$ 17	$ 44	$ 13	$ 17	$ 22	$ -	$ -	$ 21

Following is a reconciliation of the changes in unrecognized tax benefits for the years ended December 31:

RECONCILIATION OF UNRECOGNIZED TAX BENEFITS
(Dollars in millions)

	2009	2008	2007
Sempra Energy Consolidated:			
Balance as of January 1	$ 104	$ 131	$ 110
Increase in prior period tax positions	44	23	53
Decrease in prior period tax positions	(3)	(4)	(16)
Increase in current period tax positions	15	4	8
Decrease in current period tax positions	-	(5)	(2)
Settlements with taxing authorities	(54)	(38)	(16)
Expirations of statutes of limitations	(12)	(7)	(6)
Balance as of December 31	$ 94	$ 104	$ 131
SDG&E:			
Balance as of January 1	$ 18	$ 26	$ 40
Increase in prior period tax positions	1	2	6
Decrease in prior period tax positions	-	-	(9)
Increase in current period tax positions	3	3	3
Decrease in current period tax positions	-	(1)	(1)
Settlements with taxing authorities	(8)	(12)	(13)
Balance as of December 31	$ 14	$ 18	$ 26
PE/SoCalGas:			
Balance as of January 1	$ 19	$ 40	$ 33
Increase in prior period tax positions	1	-	12
Decrease in prior period tax positions	-	-	(2)
Settlements with taxing authorities	(1)	(21)	(3)
Expirations of statutes of limitations	(8)	-	-
Balance as of December 31	$ 11	$ 19	$ 40

It is reasonably possible that within the next 12 months unrecognized tax benefits could decrease due to the following:

POSSIBLE DECREASES IN UNRECOGNIZED TAX BENEFITS WITHIN 12 MONTHS
(Dollars in millions)

	At December 31, 2009	2008	2007
Sempra Energy Consolidated:			
Expiration of statutes of limitations on tax assessments	$ (7)	$ (6)	$ (20)
Potential resolution of audit issues with various U.S. federal, state and local and non-U.S. taxing authorities	(24)	(17)	(30)
Impact of federal and state timing items affecting taxable income	-	(3)	(10)
	$ (31)	$ (26)	$ (60)
SDG&E:			
Expiration of statutes of limitations on tax assessments	$ -	$ -	$ (6)
Potential resolution of audit issues with various U.S. federal, state and local taxing authorities	-	-	(4)
	$ -	$ -	$ (10)
PE/SoCalGas:			
Expiration of statutes of limitations on tax assessments	$ (6)	$ (3)	$ (3)
Potential resolution of audit issues with various U.S. federal, state and local taxing authorities	(1)	-	(22)
Impact of federal and state timing items affecting taxable income	-	(3)	(10)
	$ (7)	$ (6)	$ (35)

Amounts accrued for interest expense and penalties associated with income taxes are included in income tax expense on the Consolidated Statements of Operations and in various income tax balances on the Consolidated Balance Sheets. As of December 31, the following amounts were accrued:

INTEREST EXPENSE AND PENALTIES ASSOCIATED WITH INCOME TAXES
(Dollars in millions)

	Sempra Energy Consolidated			SDG&E			PE/SoCalGas		
	2009	2008	2007	2009	2008	2007	2009	2008	2007
Interest expense (benefit)	$ 2	$ 18	$ (7)	$ (2)	$ 2	$ (11)	$ 1	$ 4	$ 3
Penalties	4	1	2	-	-	-	1	-	-

INCOME TAX AUDITS

Sempra Energy is subject to U.S. federal income tax as well as to income tax of multiple state and foreign jurisdictions. We remain subject to examination for U.S. federal tax years after 2005. We are subject to examination by major state tax jurisdictions for tax years after 2001. Certain major foreign income tax returns from 1995 through the present are open to examination.

In addition, we have filed state refund claims for tax years back to 1998. The pre-2002 tax years are closed to new issues; therefore, no additional tax may be assessed by the taxing authorities for these years.

SDG&E, PE and SoCalGas are subject to U.S. federal income tax as well as income tax of state jurisdictions. They remain subject to examination for U.S. federal years after 2005 and by major state tax jurisdictions for years after 2001.

In addition, PE has state refund claims for tax years back to 1993. The pre-2002 tax years are closed to new issues; therefore, no additional tax may be assessed by the taxing authorities for these years.

NOTE 9. EMPLOYEE BENEFIT PLANS

We are required by applicable GAAP to:

- recognize an asset for a plan's overfunded status or a liability for a plan's underfunded status in the statement of financial position;
- measure a plan's assets and its obligations that determine its funded status as of the end of the fiscal year (with limited exceptions); and
- recognize changes in the funded status of a defined benefit postretirement plan in the year in which the changes occur. Generally, those changes are reported in other comprehensive income and as a separate component of shareholders' equity.

The information presented below covers the employee benefit plans of Sempra Energy and its principal subsidiaries.

Sempra Energy has funded and unfunded noncontributory defined benefit plans, including separate plans for SDG&E and SoCalGas, which together cover substantially all employees and Sempra Energy's board of directors. The plans generally provide defined benefits based on years of service and either final average or career salary.

Sempra Energy also has other postretirement benefit plans, including separate plans for SDG&E and SoCalGas, which together cover substantially all employees and Sempra Energy's board of directors. The life insurance plans are both contributory and noncontributory and the health-care plans are contributory. Participants' contributions are adjusted annually. Other postretirement benefits include medical benefits for retirees' spouses.

Pension and other postretirement benefits costs and obligations are dependent on assumptions used in calculating such amounts. These assumptions include

- discount rates
- expected return on plan assets
- health-care cost trend rates
- mortality rates
- compensation increase rates
- payout elections (lump sum or annuity)

We review these assumptions on an annual basis prior to the beginning of each year and update them as appropriate. We consider current market conditions, including interest rates, in making these assumptions. We use a December 31 measurement date for all of our plans.

In support of its Supplemental Executive Retirement, Cash Balance Restoration and Deferred Compensation Plans, Sempra Energy maintains dedicated assets, including investments in life insurance contracts, which totaled $453 million and $401 million at December 31, 2009 and 2008, respectively.

PENSION AND OTHER POSTRETIREMENT BENEFIT PLANS

Benefit Plan Amendments Affecting 2008 and 2009

Effective January 1, 2009, one of Sempra Energy's pension plans, separate from the Sempra Utilities' plans, was amended to increase the cash balance benefit obligation for certain participants. This amendment resulted in an increase of $3 million in the benefit obligation and unrecognized prior service costs as of December 31, 2008.

Effective October 1, 2009, the SDG&E pension plan was amended to set the automatic cost of living adjustment for retirees with grandfathered benefits at 0 percent for the period beginning October 1, 2009 and ending September 30, 2010. Without this amendment, the automatic cost of living adjustment for 2009 would have been negative, resulting in a reduction in benefits. This amendment resulted in an increase of $3 million in the benefit obligation and net periodic benefit costs as of December 31, 2009 for Sempra Energy and SDG&E.

During 2009, the SoCalGas pension plan was amended to provide a minimum benefit for participants that transfer from a position covered by the represented employees' pension plan to a management position covered by the cash balance plan after June 29, 2005. This amendment resulted in an increase of $1 million in the benefit obligation and unrecognized prior service costs as of December 31, 2009 for Sempra Energy and SoCalGas.

Effective December 1, 2009, the Sempra Utilities' other postretirement benefit plans were amended to establish a health reimbursement account benefit for represented retirees. This amendment resulted in an increase of $2 million, $4 million, and $6 million in the benefit obligation and unrecognized prior service costs as of December 31, 2009 for SDG&E, SoCalGas, and Sempra Energy, respectively.

Benefit Obligations and Assets

The following three tables provide a reconciliation of the changes in the plans' projected benefit obligations and the fair value of assets during 2009 and 2008, and a statement of the funded status at December 31, 2009 and 2008:

PROJECTED BENEFIT OBLIGATION, FAIR VALUE OF ASSETS AND FUNDED STATUS
(Dollars in millions)

	Pension Benefits		Other Postretirement Benefits	
Sempra Energy Consolidated	2009	2008	2009	2008
CHANGE IN PROJECTED BENEFIT OBLIGATION:				
Net obligation at January 1	$ 2,865	$ 2,791	$ 934	$ 871
Acquisition of EnergySouth	-	27	-	2
Service cost	74	71	26	24
Interest cost	170	166	56	53
Plan amendments	4	3	6	-
Actuarial loss	169	6	5	34
Curtailments	-	-	-	(5)
Settlements	(34)	(22)	-	-
Benefit payments	(165)	(184)	(44)	(48)
Federal subsidy (Medicare Part D)	-	-	2	2
Other	-	7	-	1
Net obligation at December 31	3,083	2,865	985	934

CHANGE IN PLAN ASSETS:				
Fair value of plan assets at January 1	1,742	2,528	545	743
Acquisition of EnergySouth	-	36	-	4
Actual return on plan assets	402	(682)	112	(194)
Employer contributions	185	66	45	40
Settlements	(34)	(22)	-	-
Benefit payments	(165)	(184)	(44)	(48)
Other	-	-	-	-
Fair value of plan assets at December 31	2,130	1,742	658	545
Funded status at December 31	$ (953)	$ (1,123)	$ (327)	$ (389)
Net recorded liability at December 31	$ (953)	$ (1,123)	$ (327)	$ (389)

The significant increase in actuarial loss in 2009 related to pension benefits for Sempra Energy, as well as for SDG&E and SoCalGas below, resulted primarily from a decrease in the discount rate from 6.00 percent in 2008 to 5.60 percent, 5.40 percent and 5.75 percent in 2009 for Sempra Energy, SDG&E and SoCalGas, respectively.

The actuarial loss for other postretirement plans in 2009 also increased due to a decrease in discount rates, from 6.10 percent to 5.55 percent, 5.75 percent and 5.90 percent at Sempra Energy, SDG&E and SoCalGas, respectively. However, this increase was more than offset by favorable claims experience and projections, primarily due to the decrease in the average cost for pre-65 retirees relative to the average cost of the total population for certain medical plans for SDG&E and SoCalGas.

PROJECTED BENEFIT OBLIGATION, FAIR VALUE OF ASSETS AND FUNDED STATUS
(Dollars in millions)

	Pension Benefits		Other Postretirement Benefits	
SDG&E	2009	2008	2009	2008
CHANGE IN PROJECTED BENEFIT OBLIGATION:				
Net obligation at January 1	$ 814	$ 803	$ 148	$ 139
Service cost	23	22	5	5
Interest cost	48	47	9	9
Plan amendments	3	-	2	-
Actuarial loss (gain)	58	(7)	2	1
Transfer of liability to other plans	(1)	(2)	-	-
Settlements	-	(1)	-	-
Benefit payments	(37)	(48)	(6)	(6)
Net obligation at December 31	908	814	160	148
CHANGE IN PLAN ASSETS:				
Fair value of plan assets at January 1	480	684	61	67
Actual return on plan assets	115	(191)	10	(16)
Employer contributions	58	38	16	16
Settlements	-	(1)	-	-
Transfer of assets to other plans	(1)	(2)	-	-
Benefit payments	(37)	(48)	(6)	(6)
Fair value of plan assets at December 31	615	480	81	61
Funded status at December 31	$ (293)	$ (334)	$ (79)	$ (87)
Net recorded liability at December 31	$ (293)	$ (334)	$ (79)	$ (87)

PROJECTED BENEFIT OBLIGATION, FAIR VALUE OF ASSETS AND FUNDED STATUS
(Dollars in millions)

	Pension Benefits		Other Postretirement Benefits	
SoCalGas	2009	2008	2009	2008
CHANGE IN PROJECTED BENEFIT OBLIGATION:				
Net obligation at January 1	$ 1,653	$ 1,624	$ 748	$ 694
Service cost	42	40	18	17
Interest cost	98	97	45	42
Plan amendments	1	-	4	-
Actuarial loss (gain)	74	7	(1)	33
Benefit payments	(105)	(115)	(36)	(40)
Transfer of liability from other plans	1	-	-	-
Federal subsidy (Medicare Part D)	-	-	2	2
Net obligation at December 31	1,764	1,653	780	748
CHANGE IN PLAN ASSETS:				
Fair value of plan assets at January 1	1,105	1,657	471	663
Actual return on plan assets	255	(438)	99	(174)
Employer contributions	76	1	28	22
Transfer of assets from other plans	1	-	-	-
Benefit payments	(105)	(115)	(36)	(40)
Fair value of plan assets at December 31	1,332	1,105	562	471
Funded status at December 31	$ (432)	$ (548)	$ (218)	$ (277)
Net recorded liability at December 31	$ (432)	$ (548)	$ (218)	$ (277)

Net Assets and Liabilities

The assets and liabilities of the pension and other postretirement benefit plans are affected by changing market conditions as well as when actual plan experience is different than assumed. Such events result in investment gains and losses, which we defer and recognize in pension and postretirement benefit costs over a period of years. Sempra Energy uses the asset smoothing method for its pension and other postretirement plans, except for the SDG&E plans. This method develops an asset value that recognizes realized and unrealized investment gains and losses over a three-year period. This adjusted asset value, known as the market-related value of assets, is used in conjunction with an expected long-term rate of return to determine the expected return-on-assets component of net periodic cost. SoCalGas also uses the asset smoothing method.

The 10-percent corridor accounting method is used at Sempra Energy, SDG&E and SoCalGas. Under the corridor-accounting method, if, as of the beginning of a year, unrecognized net gain or loss exceeds 10 percent of the greater of the projected benefit obligation or the market-related value of plan assets, the excess is amortized over the average remaining service period of active participants. The asset smoothing and 10-percent corridor accounting methods help mitigate volatility of net periodic costs from year to year.

We recognize the overfunded or underfunded status of defined benefit pension and other postretirement plans as assets or liabilities, respectively; unrecognized changes or credits in these assets and/or liabilities are normally recorded to other comprehensive income (loss) on the balance sheet. The Sempra Utilities and Mobile Gas record regulatory assets and liabilities that offset the funded pension and other postretirement plans' assets or liabilities, as these costs are expected to be recovered in future utility rates based on agreements with regulatory agencies.

The Sempra Utilities record annual pension and other postretirement net periodic benefit costs equal to the contributions to their plans as authorized by the CPUC. The annual contributions to the pension plans are limited to a minimum required funding amount as determined by the Internal Revenue Service. The annual contributions to the other postretirement plans are equal to the lesser of the maximum tax deductible amount or the net periodic cost calculated in accordance with GAAP for pension and other postretirement benefit plans. Mobile Gas records annual pension and other postretirement net periodic benefit cost based on an estimate of the net periodic cost at the beginning of the year calculated in accordance with GAAP for pension and other postretirement benefit plans, as authorized by the Alabama Public Service Commission. Any differences between booked net periodic benefit cost and amounts contributed to the pension and other postretirement plans are disclosed as regulatory adjustments in accordance with GAAP for regulated entities.

The net liability is included in the following captions on the Consolidated Balance Sheets at December 31:

	Pension Benefits		Other Postretirement Benefits	
(Dollars in millions)	2009	2008	2009	2008
Sempra Energy Consolidated				
Current liabilities	$ (27)	$ (25)	$ (1)	$ -
Noncurrent liabilities	(926)	(1,098)	(326)	(389)
Net recorded liability	$ (953)	$ (1,123)	$ (327)	$ (389)
SDG&E				
Current liabilities	$ (2)	$ (2)	$ -	$ -
Noncurrent liabilities	(291)	(332)	(79)	(87)
Net recorded liability	$ (293)	$ (334)	$ (79)	$ (87)
SoCalGas				
Current liabilities	$ (6)	$ (2)	$ -	$ -
Noncurrent liabilities	(426)	(546)	(218)	(277)
Net recorded liability	$ (432)	$ (548)	$ (218)	$ (277)

Amounts recorded in Accumulated Other Comprehensive Income (Loss) as of December 31, 2009 and 2008, net of tax effects and amounts recorded as regulatory assets, are as follows:

AMOUNTS IN ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)
(Dollars in millions)

	Pension Benefits		Other Postretirement Benefits	
	2009	2008	2009	2008
Sempra Energy Consolidated				
Net actuarial loss	$ (98)	$ (97)	$ (4)	$ (2)
Prior service credit	2	1	-	1
Total	$ (96)	$ (96)	$ (4)	$ (1)
SDG&E				
Net actuarial loss	$ (11)	$ (13)		
Prior service credit	1	1		
Total	$ (10)	$ (12)		
SoCalGas				
Net actuarial loss	$ (5)	$ (5)		
Prior service credit	1	1		
Total	$ (4)	$ (4)		

The accumulated benefit obligations for defined benefit pension plans at December 31, 2009 and 2008 were as follows:

	Sempra Energy Consolidated		SDG&E		SoCalGas	
(Dollars in millions)	2009	2008	2009	2008	2009	2008
Accumulated benefit obligation	$ 2,886	$ 2,668	$ 895	$ 803	$ 1,601	$ 1,493

Sempra Energy has unfunded and funded pension plans. SDG&E and SoCalGas each have an unfunded and a funded pension plan. The following table shows the obligations of funded pension plans with benefit obligations in excess of plan assets as of December 31:

(Dollars in millions)	2009	2008
Sempra Energy Consolidated		
Projected benefit obligation	$ 2,835	$ 2,621
Accumulated benefit obligation	2,660	2,449
Fair value of plan assets	2,130	1,742
SDG&E		
Projected benefit obligation	$ 878	$ 787
Accumulated benefit obligation	870	780
Fair value of plan assets	615	480
SoCalGas		
Projected benefit obligation	$ 1,730	$ 1,623
Accumulated benefit obligation	1,571	1,466
Fair value of plan assets	1,332	1,105

Net Periodic Benefit Cost, 2007-2009

The following three tables provide the components of net periodic benefit cost and amounts recognized in other comprehensive income for the years ended December 31:

NET PERIODIC BENEFIT COST AND AMOUNTS RECOGNIZED IN OTHER COMPREHENSIVE INCOME
(Dollars in millions)

	Pension Benefits			Other Postretirement Benefits		
Sempra Energy Consolidated	2009	2008	2007	2009	2008	2007
Net Periodic Benefit Cost						
Service cost	$ 74	$ 71	$ 76	$ 26	$ 24	$ 26
Interest cost	170	166	164	56	53	54
Expected return on assets	(139)	(161)	(158)	(45)	(48)	(44)
Amortization of:						
Prior service cost (credit)	7	4	5	(1)	(1)	(3)
Actuarial loss	23	8	8	3	-	6
Regulatory adjustment	28	(22)	(34)	7	7	7

Special termination benefit charge	-	-	1	-	-	-
Curtailment charge (credit)	-	-	6	-	(3)	-
Settlement charge	14	8	-	-	-	-
Total net periodic benefit cost	177	74	68	46	32	46
Other Changes in Plan Assets and Benefit Obligations Recognized in Other Comprehensive Income						
Net loss (gain)	9	54	(12)	3	1	(2)
Prior service cost (credit)	-	3	(4)	-	-	-
Amortization of prior service credit	-	-	-	1	1	1
Amortization of actuarial loss	(8)	(8)	(8)	-	-	-
Total recognized in other comprehensive income	1	49	(24)	4	2	(1)
Total recognized in net periodic benefit cost and other comprehensive income	$ 178	$ 123	$ 44	$ 50	$ 34	$ 45

NET PERIODIC BENEFIT COST AND AMOUNTS RECOGNIZED IN OTHER COMPREHENSIVE INCOME

(Dollars in millions)

	Pension Benefits			Other Postretirement Benefits		
SDG&E	2009	2008	2007	2009	2008	2007
Net Periodic Benefit Cost						
Service cost	$ 23	$ 22	$ 22	$ 5	$ 5	$ 5
Interest cost	48	47	47	9	9	8
Expected return on assets	(32)	(46)	(45)	(3)	(4)	(3)
Amortization of:						
Prior service cost	4	1	2	4	3	3
Actuarial loss	16	2	2	-	-	-
Regulatory adjustment	2	14	2	2	2	2
Settlement charge	2	2	-	-	-	-
Total net periodic benefit cost	63	42	30	17	15	15
Other Changes in Plan Assets and Benefit Obligations Recognized in Other Comprehensive Income						
Net gain	(1)	(4)	(6)	-	-	-
Amortization of actuarial loss	(2)	(2)	(2)	-	-	-
Total recognized in other comprehensive income	(3)	(6)	(8)	-	-	-
Total recognized in net periodic benefit cost and other comprehensive income	$ 60	$ 36	$ 22	$ 17	$ 15	$ 15

NET PERIODIC BENEFIT COST AND AMOUNTS RECOGNIZED IN OTHER COMPREHENSIVE INCOME

(Dollars in millions)

	Pension Benefits			Other Postretirement Benefits		
SoCalGas	2009	2008	2007	2009	2008	2007
Net Periodic Benefit Cost						
Service cost	$ 42	$ 40	$ 41	$ 18	$ 17	$ 19
Interest cost	98	97	96	45	42	44
Expected return on assets	(94)	(103)	(102)	(41)	(43)	(40)
Amortization of:						
Prior service cost (credit)	2	2	2	(4)	(4)	(6)
Actuarial loss	1	1	1	3	-	6
Settlement charge	1	-	-	-	-	-
Regulatory adjustment	28	(36)	(36)	6	5	5
Total net periodic benefit cost	78	1	2	27	17	28
Other Changes in Plan Assets and Benefit Obligations Recognized in Other Comprehensive Income						
Net loss (gain)	1	(1)	-	-	-	-
Amortization of actuarial loss	(1)	(1)	(1)	-	-	-
Total recognized in other comprehensive income	-	(2)	(1)	-	-	-
Total recognized in net periodic benefit cost and other comprehensive income	$ 78	$ (1)	$ 1	$ 27	$ 17	$ 28

The estimated net loss for the pension plans that will be amortized from Accumulated Other Comprehensive Income (Loss) into net periodic benefit cost in 2010 is $11 million for Sempra Energy Consolidated and $1 million at both SDG&E and SoCalGas. Negligible amounts of prior service credit for the pension plans will be similarly amortized.

The estimated prior service credit for the other postretirement benefit plans that will be amortized from Accumulated Other Comprehensive Income (Loss) into net periodic benefit cost in 2010 is $1 million at Sempra Energy.

Medicare Prescription Drug, Improvement and Modernization Act of 2003

The Medicare Prescription Drug, Improvement and Modernization Act of 2003 establishes a prescription drug benefit under Medicare (Medicare Part D) and a tax-exempt federal subsidy to sponsors of retiree health-care benefit plans that provide a benefit that actuarially is at least equivalent to Medicare Part D. We have determined that benefits provided to certain participants actuarially will be at least equivalent to Medicare Part D. Thus, we are entitled to a tax-exempt subsidy that reduced our accumulated postretirement benefit obligation under our plans at January 1, 2009 and reduced the net periodic cost for 2009 by the following amounts:

(Dollars in millions)	Sempra Energy Consolidated	SDG&E	SoCalGas
Accumulated postretirement benefit obligation reduction	$ 96	$ 21	$ 71
Net periodic benefit cost reduction	10	2	7

Assumptions for Pension and Other Postretirement Benefit Plans

Benefit Obligation and Net Periodic Benefit Cost

We develop the discount rate assumptions based on the results of a third party modeling tool that matches each plan's expected future benefit payments to a bond yield curve to determine their present value. We then calculate a single equivalent discount rate that produces the same present value. The modeling tool uses an actual portfolio of 500 to 600 non-callable bonds with a Moody’s Aa rating with an outstanding value of at least $50 million to develop the bond yield curve. This reflects over $300 billion in outstanding bonds with approximately 50 issues having maturities in excess of 20 years.

Long-term return on assets is based on the weighted-average of the plans’ investment allocation as of the measurement date and the expected returns for those asset types.

The significant assumptions affecting benefit obligation and net periodic benefit cost are as follows:

WEIGHTED-AVERAGE ASSUMPTIONS

	Pension Benefits		Other Postretirement Benefits	
	2009	2008	2009	2008
WEIGHTED-AVERAGE ASSUMPTIONS USED TO DETERMINE BENEFIT OBLIGATION AS OF DECEMBER 31:				
Discount rate	5.63 %	6.00 %	5.86 %	6.10 %
Rate of compensation increase	4.50 %	4.50 %	(1)	(2)

WEIGHTED-AVERAGE ASSUMPTIONS USED TO DETERMINE NET PERIODIC BENEFIT COST FOR YEARS ENDED DECEMBER 31:

Sempra Energy Consolidated				
Discount rate	(3)	6.10 %	(4)	6.20 %
Expected return on plan assets	7.00 %	7.00 %	6.19 %	6.88 %
Rate of compensation increase	(5)	(5)	(1)	(2)
SDG&E				
Discount rate	6.00 %	6.10 %	6.10 %	6.20 %
Expected return on plan assets	7.00 %	7.00 %	6.25 %	5.89 %
Rate of compensation increase	(6)	(6)	N/A	N/A
SoCalGas				
Discount rate	6.00 %	6.10 %	6.10 %	6.20 %
Expected return on plan assets	7.00 %	7.00 %	7.00 %	7.00 %
Rate of compensation increase	(6)	(6)	(1)	(2)

(1) 4.00% for the life insurance and Health Reimbursement Arrangement (HRA) benefits for SoCalGas' represented employees. There are no compensation-based benefits for all other postretirement benefit plans.

(2) 4.00% for the life insurance benefits for SoCalGas' represented employees. There are no compensation-based benefits for all other postretirement benefit plans.

(3) 6.10% for EnergySouth pension plans, 6.00% for all others.

(4) 5.85% for the Executive Life Plan, 6.10% for all others.

(5) 4.50% for the unfunded pension plans and 4.00% for the funded pension plan for SoCalGas' represented participants. An age-based formula is used for all the other funded pension plans' participants.

(6) 4.50% for the unfunded pension plan. An age-based formula is used for the funded pension plan.

Health-Care Cost Trend Rates

Assumed health-care cost trend rates have a significant effect on the amounts that we report for the health-care plan costs. Following are the health-care cost trend rates applicable to our postretirement benefit plans:

	2009	2008
ASSUMED HEALTH-CARE COST TREND RATES AT DECEMBER 31:		
Health-care cost trend rate(1)	9.00 %	9.44 %
Rate to which the cost trend rate is assumed to decline (the ultimate trend)	5.50 %	5.50 %
Year that the rate reaches the ultimate trend	2016	2014 and 2016 (2)

(1) In 2008, the rate is the weighted average of the increases for all of our health plans. The rate for these plans ranged from 8.50% to 10.00%.

(2) The ultimate trend rate is reached in 2014 for HMOs and 2016 for Anthem Blue Cross in 2008.

A one-percent change in assumed health-care cost trend rates would have the following effects:

	Sempra Energy Consolidated		SDG&E		SoCalGas	
(Dollars in millions)	1% Increase	1% Decrease	1% Increase	1% Decrease	1% Increase	1% Decrease
Effect on total of service and interest cost components of net periodic postretirement health-care benefit cost	$ 11	$ (9)	$ 1	$ (1)	$ 10	$ (8)
Effect on the health-care component of the accumulated other postretirement benefit obligation	$ 101	$ (83)	$ 6	$ (5)	$ 93	$ (76)

Plan Assets

Investment Allocation Strategy for Sempra Energy's Pension Master Trust

Sempra Energy's pension master trust holds the investments for the pension and other postretirement benefit plans. We maintain additional trusts as we discuss below for certain of Sempra Utilities' other postretirement plans. Other than index weight, the trusts do not invest in securities of Sempra Energy.

The current asset allocation objective for the pension master trust is to protect the funded status of the plans while generating sufficient returns to cover future benefit payments and accruals. We assess the portfolio performance by comparing actual returns with relevant benchmarks, such as the Morgan Stanley Capital International (MSCI) US Investable Index, the MSCI Pacific Rim and Europe Indices, the MSCI Emerging Markets Index, and the Barclays Aggregate and Long Government Credit Indices.

Both the equity and fixed income portions of the asset allocation use primarily passive investment strategies to achieve risk and return exposures consistent with these indices. The fixed income asset allocation consists of some longer-duration fixed income securities in order to reduce plan exposure to interest rate variation. The foreign equity components provide a growth element, diversification and exposure to different currencies and economies.

The asset allocation of the plans is reviewed by our Pension and Benefits Investment Committee (the Committee) on a regular basis. When evaluating its strategic asset allocation, the Committee considers many variables, including:

- long-term cost
- variability and level of contributions
- funded status
- a range of expected outcomes over varying confidence levels

We maintain allocations at strategic levels with reasonable bands of variance. When asset class exposure reaches a minimum or maximum level, we generally rebalance the portfolio back to target allocations, unless the Committee determines otherwise.

Rate of Return Assumption

For all plans except the SDG&E postretirement medical plans, we base the long-term rate of return assumption on the asset-weighted-average of the expected return for each asset class. We develop the expected returns from examining periods of historical returns and expectations for future returns from several investment and actuarial consultants. Specifically, we reached a 7.0 percent return expectation by assuming a 4.5 percent yield/return on a risk-free bond portfolio (treasury securities), adding a 50 basis point risk premium for our investment grade bond portfolio and another 300 basis point risk premium for equity securities. A 70 percent equity/30 percent bond portfolio mix results in a total portfolio return expectation of approximately 7.0 percent.

The expected rate of return for the SDG&E postretirement medical plan assets is based on the weighted average after-tax expected return of the portfolio's target asset allocation of 30 percent equity/70 percent fixed income. The fixed-income portfolio is invested in tax-exempt municipal bond securities, while the equity portfolio is invested 25 percent S&P (Standard & Poor's) 500 index/5 percent MSCI EAFE index (MSCI Index for equity market performance in Europe, Australasia and Far East).

Concentration of Risk

Plan assets are fully diversified across global equity and bond markets, and other than what is indicated by the target asset allocations, contain no concentration of risk in any one economic, industry, maturity, or geographic sector.

Investment Strategy for SoCalGas' Other Postretirement Benefit Plans

SoCalGas' other postretirement benefit plans are funded by cash contributions from SoCalGas and current retirees. The assets of these plans are placed in the pension master trust and other Voluntary Employee Beneficiary Association (VEBA) trusts, as we detail below. The assets in the VEBA trusts are invested at identical allocations to the pension master trust, 70 percent equities/30 percent bonds, using primarily index funds. This allocation has been formulated to best suit the long-term nature of the obligations.

Investment Strategy for SDG&E's Postretirement Health Plans

SDG&E’s postretirement health plans are funded by cash contributions from SDG&E and current retirees. The assets are placed in the pension master trust and a VEBA trust, as we detail below. Assets in the pension master trust are invested at the 70 percent equity/30 percent bond asset mix using index funds. Assets in the VEBA trust are taxable and therefore have a different asset allocation strategy. These assets are invested with a target asset allocation of 30 percent equity/70 percent bonds, with a large portion of the bond portfolio placed in actively managed tax-exempt municipal bonds. The equity portfolio is indexed.

Fair Value of Pension and Other Postretirement Benefit Plan Assets

We classify the investments in Sempra Energy's pension master trust and the trusts for the Sempra Utilities' other postretirement benefit plans into:

- Level 1, for securities valued using quoted prices from active markets for identical assets;
- Level 2, for securities not traded on an active market but for which observable market inputs are readily available;
- Level 3, for securities and investments valued based on the lowest level of input that is significant to the fair value measurement.

We provide more discussion of fair value measurements in Notes 1 and 2. The following table sets forth by level within the fair value hierarchy a summary of the investments in Sempra Energy's pension and other postretirement benefit plan trusts measured at fair value on a recurring basis at December 31, 2009.

The fair values of our pension plan assets by asset category are as follows:

FAIR VALUE MEASUREMENTS AT DECEMBER 31, 2009
(Dollars in millions)

	Level 1	Level 2	Level 3	Total
Sempra Energy Consolidated				
Pension Plans - Investment Assets				
SDG&E (see table below)	$ 459	$ 141	$ 9	$ 609
SoCalGas (see table below)	996	304	19	1,319
Other Sempra Energy				
Equity securities:				
Domestic large-cap(1)	60	-	-	60
Domestic mid-cap(1)	12	-	-	12
Domestic small-cap(1)	8	-	-	8
Foreign emerging market funds	-	12	-	12
Foreign large-cap	30	-	-	30
Foreign mid-cap	6	-	-	6
Foreign small-cap	4	-	-	4
Registered investment company	2	-	-	2
Fixed income securities:				
U.S. Treasury securities	15	-	-	15
Other U.S. government securities	-	13	-	13
Foreign government bonds	-	1	-	1
Domestic corporate bonds(2)	-	14	-	14
Foreign corporate bonds	-	3	-	3
Other types of investments:				
Private equity funds(3) (stated at net asset value)	-	-	2	2
Total other Sempra Energy(4)	137	43	2	182
Total Sempra Energy Consolidated(5)	$ 1,592	$ 488	$ 30	$ 2,110

(1) Investments in common stock of domestic corporations stratified according to the MSCI 2500 index.
(2) Investment-grade bonds of U.S. issuers from diverse industries.
(3) Investments in venture capital and real estate funds.
(4) Excludes cash balance of $1 million.
(5) Excludes cash balance of $20 million.

FAIR VALUE MEASUREMENTS AT DECEMBER 31, 2009

(Dollars in millions)

	Level 1	Level 2	Level 3	Total
SDG&E				
Equity securities:				
Domestic large-cap(1)	$ 198	$ -	$ -	$ 198
Domestic mid-cap(1)	41	-	-	41
Domestic small-cap(1)	27	-	-	27
Foreign emerging market funds	-	37	-	37
Foreign large-cap	101	-	-	101
Foreign mid-cap	21	-	-	21
Foreign small-cap	15	-	-	15
Registered investment company	5	-	-	5
Fixed income securities:				
U.S. Treasury securities	51	-	-	51
Other U.S. government securities	-	42	-	42
Domestic municipal bonds	-	3	-	3
Foreign government bonds	-	5	-	5
Domestic corporate bonds(2)	-	48	-	48
Foreign corporate bonds	-	11	-	11
Other types of investments:				
Securities lending program(3)	-	(5)	-	(5)
Private equity funds(4) (stated at net asset value)	-	-	9	9
Total investment assets(5)	$ 459	$ 141	$ 9	$ 609

(1) Investments in common stock of domestic corporations stratified according to the MSCI 2500 index.

(2) Investment grade bonds of U.S. issuers from diverse industries.

(3) An obligation to return collateral in excess of assets held under a securities lending agreement, allocated to each of the plans that hold assets in the pension master trust. Some of the collateral held in asset-backed securities is impaired.

(4) Investments in venture capital and real estate funds.

(5) Excludes cash balance of $6 million.

FAIR VALUE MEASUREMENTS AT DECEMBER 31, 2009
(Dollars in millions)

	Level 1	Level 2	Level 3	Total
SoCalGas				
Equity securities:				
Domestic large-cap(1)	$ 428	$ -	$ -	$ 428
Domestic mid-cap(1)	88	-	-	88
Domestic small-cap(1)	60	-	-	60
Foreign emerging market funds	-	81	-	81
Foreign large-cap	220	-	-	220
Foreign mid-cap	46	-	-	46
Foreign small-cap	33	-	-	33
Registered investment company	11	-	-	11
Fixed income securities:				
U.S. Treasury securities	110	-	-	110
Other U.S. government securities	-	90	-	90
Domestic municipal bonds	-	6	-	6
Foreign government bonds	-	11	-	11
Domestic corporate bonds(2)	-	104	-	104
Foreign corporate bonds	-	23	-	23
Other types of investments:				
Securities lending program(3)	-	(11)	-	(11)
Private equity funds(4) (stated at net asset value)	-	-	19	19
Total investment assets(5)	$ 996	$ 304	$ 19	$ 1,319

(1) Investments in common stock of domestic corporations stratified according to the MSCI 2500 index.
(2) Investment grade bonds of U.S. issuers from diverse industries.
(3) An obligation to return collateral in excess of assets held under a securities lending agreement, allocated to each of the plans that hold assets in the pension master trust. Some of the collateral held in asset-backed securities is impaired.
(4) Investments in venture capital and real estate funds.
(5) Excludes cash balance of $13 million.

The investments of the pension master trust allocated to the pension plans classified as Level 3 are private equity funds and represent a percentage of each plan's total allocated assets as follows:

	Private Equity Funds			
(Dollars in millions)	SDG&E	SoCalGas	All Other	Total
Total Level 3 investment assets	$ 9	$ 19	$ 2	$ 30
Percentage of total investment assets	1%	1%	1%	1%

The following table provides a reconciliation of changes in the fair value of investments classified as Level 3:

LEVEL 3 RECONCILIATIONS
(Dollars in millions)

	Private Equity Funds			
	SDG&E	SoCalGas	All Other	Total
Balance as of January 1, 2009	$ 9	$ 21	$ 2	$ 32
Realized gains	-	1	-	1
Unrealized gains relating to instruments still held at the reporting date	-	(2)	-	(2)
Purchases, sales and settlements - net	-	(1)	-	(1)
Balance as of December 31, 2009	$ 9	$ 19	$ 2	$ 30

The fair values of the postretirement benefit plan assets held in the pension master trust and in the additional trusts for SoCalGas' postretirement benefit plans and SDG&E'S postretirement benefit plans (PBOP plan trusts) at December 31, 2009, by asset category are as follows:

FAIR VALUE MEASUREMENTS AT DECEMBER 31, 2009
(Dollars in millions)

	Level 1	Level 2	Level 3	Total
Sempra Energy Consolidated				

Other Postretirement Benefit Plans - Investment assets

SDG&E	(see table below)	$ 40	$ 40	$ 1	$ 81
SoCalGas	(see table below)	201	323	4	528
Other Sempra Energy					
Equity securities:					
Domestic large-cap(1)		4	-	-	4
Domestic mid-cap(1)		1	-	-	1
Foreign emerging market funds		-	2	-	2
Foreign large-cap		1	-	-	1
Registered investment company		1	-	-	1
Fixed income securities:					
U.S. Treasury securities		2	-	-	2
Other U.S. government securities		-	1	-	1
Foreign government bonds		-	1	-	1
Domestic corporate bonds(2)		-	2	-	2
Common/collective trusts(3)		-	1	-	1
Other types of investment:					
Securities lending program(4)		-	(1)	-	(1)
Total other Sempra Energy		9	6	-	15
Total Sempra Energy Consolidated(5)		$ 250	$ 369	$ 5	$ 624

(1) Investments in common stock of domestic corporations stratified according to the MSCI 2500 index.
(2) Investment-grade bonds of U.S. issuers from diverse industries.
(3) Investment in common/collective trusts held in a PBOP plan trust.
(4) An obligation to return collateral in excess of assets held under a securities lending agreement, allocated to each of the plans that hold assets in the pension master trust. Some of the collateral held in asset-backed securities is impaired.
(5) Excludes cash balance of $34 million, $30 million of which is held in a SoCalGas PBOP plan trust.

FAIR VALUE MEASUREMENTS AT DECEMBER 31, 2009

(Dollars in millions)

	Level 1	Level 2	Level 3	Total
SDG&E				
Equity securities:				
Domestic large-cap(1)	$ 19	$ -	$ -	$ 19
Domestic mid-cap(1)	4	-	-	4
Domestic small-cap(1)	2	-	-	2
Foreign emerging market funds	-	2	-	2
Foreign large-cap	9	-	-	9
Foreign mid-cap	2	-	-	2
Foreign small-cap	1	-	-	1
Fixed income securities:				
U.S. Treasury securities	3	-	-	3
Other U.S. government securities	-	3	-	3
Domestic municipal bonds(2)	-	10	-	10
Domestic corporate bonds(3)	-	3	-	3
Foreign corporate bonds	-	1	-	1
Common/collective trusts	-	21	-	21
Other types of investment:				
Private equity funds(4) (stated at net asset value)	-	-	1	1
Total investment assets	$ 40	$ 40	$ 1	$ 81

(1) Investments in common stock of domestic corporations stratified according to the MSCI 2500 index.

(2) Bonds of California municipalities held in the SDG&E PBOP plan trusts.

(3) Investment-grade bonds of U.S. issuers from diverse industries.

(4) Investments in venture capital and real estate funds.

FAIR VALUE MEASUREMENTS AT DECEMBER 31, 2009
(Dollars in millions)

	Level 1	Level 2	Level 3	Total
SoCalGas				
Equity securities:				
Domestic large-cap(1)	$ 86	-	$ -	$ 86
Domestic mid-cap(1)	18	-	-	18
Domestic small-cap(1)	12	-	-	12
Foreign emerging market funds	-	16	-	16
Broad market fund(2)	-	189	-	189
Foreign large-cap	45	-	-	45
Foreign mid-cap	9	-	-	9
Foreign small-cap	7	-	-	7
Registered investment company	2	-	-	2
Fixed income securities:				
U.S. Treasury securities	22	-	-	22
Other U.S. government securities	-	18	-	18
Domestic municipal bonds	-	1	-	1
Foreign government bonds	-	2	-	2
Domestic corporate bonds(3)	-	21	-	21
Foreign corporate bonds	-	5	-	5
Common/collective trusts(4)	-	73	-	73
Other types of investments:				
Securities lending program(5)	-	(2)	-	(2)
Private equity funds(6) (stated at net asset value)	-	-	4	4
Total investment assets(7)	$ 201	$ 323	$ 4	$ 528

(1) Investments in common stock of domestic corporations stratified according to the MSCI 2500 index.
(2) A passively managed broad market fund held in a SoCalGas PBOP plan trust.
(3) Investment-grade bonds of U.S. issuers from diverse industries.
(4) Investment in common/collective trusts held in a PBOP plan trust.
(5) An obligation to return collateral in excess of assets held under a securities lending agreement, allocated to each of the plans that hold assets in the pension master trust. Some of the collateral held in asset-backed securities is impaired.
(6) Investments in venture capital and real estate funds.
(7) Excludes cash balance of $34 million, $30 million of which is held in a SoCalGas PBOP plan trust.

The investments of the pension master trust allocated to the postretirement benefit plans classified as Level 3 are private equity funds and represent a percentage of each plan's total allocated assets as follows:

	Private Equity Funds		
(Dollars in millions)	SDG&E	SoCalGas	Total
Total Level 3 investment assets	$ 1	$ 4	$ 5
Percentage of total investment assets	1%	1%	1%

There were no changes in the fair value of these investments in 2009.

Securities Lending

The pension master trust participates in securities lending programs through agents that are managed by external investment advisors. Under these programs, the Sempra Energy pension trust requires collateral in the form of cash equal to 102 percent and 105 percent of the fair value of the loaned domestic and foreign securities, respectively. The trust maintains effective control of the loaned investments during the terms of the agreement, in that they may recall the securities loaned at any time prior to the maturity of the agreement. Upon maturity of the agreement, the borrower must return the same, or substantially the same, investments that were borrowed. The risks of securities lending programs include collateral reinvestment risk, trade settlement risk, borrower default and operational negligence. All agents engaged through the securities lending programs provide indemnification against trade settlement risk and operational negligence. Additionally, the agent of the separately managed account provides indemnification against borrower defaults. Under the securities lending program, cash collateral received may be invested in various funds, managed by the external agents, in a manner that generally seeks to preserve principal, and to provide liquidity and current income. The collateral received on the Sempra Energy pension trust's securities loaned in the separately managed account that was reinvested, the fair values of such investments and the resulting unrealized losses as of December 31, 2009 and 2008 are as follows:

SECURITIES LENDING
(Dollars in millions)

	Pension Benefits			Other Postretirement Benefits		
	Collateral Received	Fair Value of Invested Collateral	Unrealized Loss	Collateral Received	Fair Value of Invested Collateral	Unrealized Loss
2009						
SDG&E	$ 88	$ 83	$ (5)	$ 6	$ 6	$ -
SoCalGas	191	180	(11)	38	36	(2)
Other Sempra Energy	25	25	-	2	1	(1)
Total	$ 304	$ 288	$ (16)	$ 46	$ 43	$ (3)
2008						
SDG&E	$ 157	$ 146	$ (11)	$ 9	$ 8	$ (1)
SoCalGas	360	334	(26)	76	70	(6)
Other Sempra Energy	41	38	(3)	3	3	-
Total	$ 558	$ 518	$ (40)	$ 88	$ 81	$ (7)

Collateral received was reinvested in a portfolio of investments, through an agent, mostly consisting of AAA-rated asset backed floating rate notes, and floating rate notes rated A2 or better at the time of purchase by Moody's Investor Service or A by S&P.

Derivative Financial Instruments

In accordance with the Company's pension investment guidelines, derivative financial instruments are used by the pension master trust's equity and fixed income portfolio investment managers. Futures and foreign currency exchange contracts are used primarily to rebalance the fixed income/equity allocation of the pension master trust's portfolio and to hedge all or a portion of the currency risk component of the foreign equity investments. Currency hedge positions are not permitted to exceed the level of underlying foreign security exposure in the pension master trust's related assets. Some of the fixed income investment managers are permitted to use certain specified types of derivative instruments as part of their respective strategies. These strategies include the use of futures and options as substitutes for certain types of fixed income securities. During 2009 and 2008, the pension master trust owned shares in funds that held futures contracts and foreign currency forward contracts. In 2009 and 2008, such funds in which the pension master trust owned shares were the S&P 1500 Index and the Foreign Equity Index managed by Barclay's Global Investors. As these futures contracts are not held directly by the pension master trust, they are not included in the following discussion.

At December 31, 2009 and 2008, the pension master trust did not directly hold any futures or currency forward contracts. As we discuss above, interest rate swaps are used directly, in conjunction with the securities lending program and indirectly, through an index fund in the pension master trust.

The asset allocations for our plans' assets at December 31, 2008, by asset category were as follows:

	Sempra Energy Consolidated Pension Master Trust	SDG&E Postretirement Health Plans	SoCalGas Other PBOP Plans
U.S. equity	42 %	28 %	61 %
Foreign equity	22	4	-
Fixed income	36	68	39
Total	100 %	100 %	100 %

Future Payments

We expect to contribute the following amounts to our pension and other postretirement benefit plans in 2010:

(Dollars in millions)	Sempra Energy Consolidated	SDG&E	SoCalGas
Pension plans	$ 168	$ 58	$ 82
Other postretirement benefit plans	55	16	36

The following two tables show the total benefits we expect to pay for the next 10 years to current employees and retirees from the plans or from company assets.

	Sempra Energy Consolidated		SDG&E		SoCalGas	
(Dollars in millions)	Pension Benefits	Other Postretirement Benefits	Pension Benefits	Other Postretirement Benefits	Pension Benefits	Other Postretirement Benefits
2010	$ 294	$ 48	$ 86	$ 7	$ 170	$ 38
2011	304	51	89	8	169	40
2012	301	54	84	9	167	41
2013	292	57	85	10	176	43
2014	299	60	86	11	177	46
2015-2019	1,408	353	397	67	848	265

The expected future Medicare Part D subsidy payments are as follows:

(Dollars in millions)	Sempra Energy Consolidated	SDG&E	SoCalGas
2010	$ 3	$ -	$ 2
2011	3	-	2
2012	3	-	3
2013	3	-	3
2014	4	-	3
2015-2019	23	4	18

SAVINGS PLANS

Sempra Energy offers trusteed savings plans to all employees. Participation in the plans is immediate for salary deferrals for all employees except for the represented employees at SoCalGas, who are eligible upon completion of one year of service. Subject to plan provisions, employees may contribute from one percent to 25 percent of their regular earnings when they begin employment. After one year of the employee's completed service, Sempra Energy makes matching contributions. Employer contribution amounts and methodology vary by plan, but generally the contributions are equal to 50 percent of the first 6 percent of eligible base salary contributed by employees and, if certain company goals are met, an additional amount related to incentive compensation payments.

Employer contributions are initially invested in Sempra Energy common stock, but the employee may transfer the contribution to other investments. Employee contributions are invested in Sempra Energy stock, mutual funds or institutional trusts (the same investments to which employees may direct the employer contributions), which the employee selects. In Sempra Energy plans, employee contributions may also be invested in guaranteed investment contracts. Employer contributions for the Sempra Energy and SoCalGas plans are partially funded by the ESOP referred to below.

Contributions to the savings plans were as follows:

(Dollars in millions)	2009	2008	2007
Sempra Energy Consolidated	$ 31	$ 32	$ 31
SDG&E	13	13	12
PE/SoCalGas	13	12	12

The market value of Sempra Energy common stock held by the savings plans was $919 million and $700 million at December 31, 2009 and 2008, respectively.

EMPLOYEE STOCK OWNERSHIP PLAN

All contributions to the ESOP Trust (described in Note 6) are made by Sempra Energy; there are no contributions made by the participants. As Sempra Energy makes contributions, the ESOP debt service is paid and shares are released in proportion to the total expected debt service. We charge compensation expense and credit equity for the market value of the released shares. Dividends on unallocated shares are used to pay debt service and are applied against the liability. The shares held by the Trust are unallocated and consist of 0.9 million shares of Sempra Energy common stock with a fair value of $49 million at December 31, 2009, and 1.2 million shares of Sempra Energy common stock with a fair value of $50 million at December 31, 2008.

NOTE 10. SHARE-BASED COMPENSATION

SEMPRA ENERGY EQUITY COMPENSATION PLANS

Sempra Energy has share-based compensation plans intended to align employee and shareholder objectives related to the long-term growth of Sempra Energy. The plans permit a wide variety of share-based awards, including:

- non-qualified stock options
- incentive stock options
- restricted stock
- restricted stock units
- stock appreciation rights
- performance awards
- stock payments
- dividend equivalents

Eligible Sempra Utilities employees participate in Sempra Energy's share-based compensation plans as a component of their compensation package.

At December 31, 2009, Sempra Energy had the following types of equity awards outstanding:

- *Non-Qualified Stock Options:* Options have an exercise price equal to the market price of the common stock at the date of grant, are service-based, become exercisable over a four-year period, and expire 10 years from the date of grant. Vesting and/or the ability to exercise may be accelerated upon a change in control, in accordance with severance pay agreements or upon eligibility for retirement. Options are subject to forfeiture or earlier expiration when an employee terminates employment.
- *Restricted Stock:* Substantially all restricted stock awards vest at the end of four-year performance periods based on Sempra Energy's total return to shareholders relative to that of market indices. Vesting is subject to earlier forfeiture upon termination of employment and accelerated vesting upon a change in control, in accordance with severance pay agreements or upon eligibility for retirement. Holders of restricted stock have full voting rights. They also have full dividend rights; however, dividends paid on restricted stock held by officers are reinvested to purchase additional shares that become subject to the same vesting conditions as the restricted stock to which the dividends relate.
- *Restricted Stock Units:* Restricted stock unit awards vest at the end of four-year performance periods based on Sempra Energy's total return to shareholders relative to that of market indices. If Sempra Energy's total return to shareholders exceeds the target levels established under the 2008 Long Term Incentive Plan for awards granted beginning in 2008, up to an additional 50 percent of the number of granted restricted stock units may be issued. If Sempra Energy's total return to shareholders is below the target levels, shares are subject to partial vesting on a pro rata basis. Vesting is subject to earlier forfeiture upon termination of employment and accelerated vesting upon a change in control, in accordance with severance pay agreements or upon eligibility for retirement. Dividend equivalents on shares subject to restricted stock units are reinvested to purchase additional shares that become subject to the same vesting conditions as the restricted stock units to which the dividends relate.

The Sempra Energy 2008 Long Term Incentive Plan for EnergySouth, Inc. Employees and Other Eligible Individuals (the Plan) authorizes the issuance of up to 302,478 shares of Sempra Energy common stock. In connection with the acquisition of EnergySouth in October 2008, we adopted the Plan to utilize the shares remaining available for future awards under the 2008 Incentive Plan of EnergySouth, Inc. (the Prior Plan). All awards outstanding under the Prior Plan at the time of the acquisition were canceled, and the holders were paid the merger consideration in accordance with the terms of the merger agreement. The Plan provides for the grant of substantially the same types of share-based awards (other than incentive stock options) that are available under the Sempra Energy 2008 Long Term Incentive Plan.

SHARE-BASED AWARDS AND COMPENSATION EXPENSE

We measure and recognize compensation expense for all share-based payment awards made to our employees and directors based on estimated fair values on the date of grant. We recognize compensation costs net of an estimated forfeiture rate (based on historical experience) and recognize the compensation costs for non-qualified stock options and restricted stock and stock units on a straight-line basis over the requisite service period of the award, which is generally four years. However, in the year that an employee becomes eligible for retirement, the remaining expense related to the employee's awards is recognized immediately. Substantially all awards outstanding are classified as equity instruments, therefore we recognize additional paid in capital as we recognize the compensation expense associated with the awards.

As of December 31, 2009, 5,421,920 shares were authorized and available for future grants of share-based awards. Company practice is to satisfy share-based awards by issuing new shares rather than by open-market purchases.

Total share-based compensation expense for all of Sempra Energy's share-based awards was comprised as follows:

SHARE-BASED COMPENSATION EXPENSE - SEMPRA ENERGY CONSOLIDATED
(Dollars in millions, except per share amounts)

	Years ended December 31, 2009	2008	2007
Share-based compensation expense, before income taxes	$ 34	$ 44	$ 45
Income tax benefit	(13)	(17)	(17)
Share-based compensation expense, net of income taxes	$ 21	$ 27	$ 28
Net share-based compensation expense, per common share			
Basic	$ 0.09	$ 0.11	$ 0.11
Diluted	$ 0.08	$ 0.11	$ 0.11

Sempra Energy's capitalized compensation cost was $5 million in 2009, $5 million in 2008 and $3 million in 2007.

We classify the tax benefits resulting from tax deductions in excess of the tax benefit related to compensation cost recognized for stock option exercises as financing cash flows.

Sempra Energy subsidiaries record an expense for the plans to the extent that subsidiary employees participate in the plans and/or the subsidiaries are allocated a portion of the Sempra Energy plans' corporate staff costs. Expenses and capitalized compensation cost recorded by SDG&E and SoCalGas were as follows:

SHARE-BASED COMPENSATION EXPENSE - SDG&E AND SOCALGAS
(Dollars in millions)

	Years ended December 31, 2009	2008	2007

SDG&E			
Compensation expense	$ 6	$ 8	$ 6
Capitalized compensation cost	3	3	2
SoCalGas			
Compensation expense	$ 7	$ 9	$ 8
Capitalized compensation cost	2	2	1

SEMPRA ENERGY NON-QUALIFIED STOCK OPTIONS

We use a Black-Scholes option-pricing model (Black-Scholes model) to estimate the fair value of each non-qualified stock option grant. The use of a valuation model requires us to make certain assumptions about selected model inputs. Expected volatility is calculated based on the historical volatility of Sempra Energy's stock price. We base the average expected life for options issued in 2009 and 2008 on the contractual term of the option and expected employee exercise and post-termination behavior. We developed the average expected life for options issued in 2007 with the simplified approach in accordance with Securities and Exchange Commission guidance.

The risk-free interest rate is based on U.S. Treasury zero-coupon issues with a remaining term equal to the expected life assumed at the date of the grant. The weighted-average per-share fair values for options granted were $5.29 in 2009, $12.53 in 2008 and $13.82 in 2007. To calculate these fair values, we used the Black-Scholes model with the following weighted-average assumptions:

	2009	2008	2007
Stock price volatility	18%	19%	21%
Risk-free rate of return	1.9%	3.6%	4.7%
Annual dividend yield	3.2%	2.0%	2.1%
Expected life	5.6 years	6.4 years	6.2 years

The following table shows a summary of the non-qualified stock options as of December 31, 2009 and activity for the year then ended:

NON-QUALIFIED STOCK OPTIONS

	Shares Under Option	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in millions)
Outstanding at December 31, 2008	6,852,256	$ 36.42		
Granted	918,200	$ 43.87		
Exercised	(1,835,184)	$ 25.46		$ 45
Forfeited/canceled	(17,925)	$ 50.65		
Outstanding at December 31, 2009	5,917,347	$ 40.93	5.3	$ 94
Vested or expected to vest, at December 31, 2009	5,871,335	$ 40.85	5.3	$ 94
Exercisable at December 31, 2009	3,953,822	$ 35.89	4.1	$ 81

The aggregate intrinsic value at December 31, 2009 is the total of the difference between Sempra Energy's closing stock price and the exercise price for all in-the-money options. The total fair value of shares vested in the last three years was

- $9 million in 2009
- $8 million in 2008
- $7 million in 2007

The $5 million of total compensation cost related to nonvested stock options not yet recognized as of December 31, 2009 is expected to be recognized over a weighted-average period of 2.1 years.

We received cash from option exercises during 2009 totaling $47 million. The realized tax benefits for the share-based payment award deductions, in addition to the $13 million benefit shown above, totaled $33 million for 2009.

SEMPRA ENERGY RESTRICTED STOCK AWARDS AND UNITS

We use a Monte-Carlo simulation model to estimate the fair value of the restricted stock awards and units. Our determination of fair value is affected by the volatility of the stock price and the dividend yields for Sempra Energy and its peer group companies. The valuation also is affected by the risk-free rates of return, and a number of other variables. Below are key assumptions for Sempra Energy:

	2009	2008	2007
Risk-free rate of return	1.4%	3.1%	4.6%
Annual dividend yield	3.2%	2.3%	2.2%
Stock price volatility	25%	18%	19%

Restricted Stock Awards

We provide a summary of Sempra Energy's restricted stock awards as of December 31, 2009 and the activity during the year below.

RESTRICTED STOCK AWARDS

	Shares	Weighted-Average Grant-Date Fair Value
Nonvested at December 31, 2008	1,710,988	$ 34.06
Granted	37,233	$ 40.34
Vested	(885,814)	$ 30.11
Forfeited	(4,000)	$ 34.20
Nonvested at December 31, 2009	858,407	$ 38.36
Vested or expected to vest, at December 31, 2009	851,958	$ 38.37

The $4 million of total compensation cost related to nonvested restricted stock awards not yet recognized as of December 31, 2009 is expected to be recognized over a weighted-average period of 1.2 years. The total fair value of shares vested in the last three years was

- $27 million in 2009
- $39 million in 2008
- $37 million in 2007

Restricted Stock Units

We provide a summary of Sempra Energy's restricted stock units as of December 31, 2009 and the activity during the year below.

RESTRICTED STOCK UNITS

	Units	Weighted-Average Grant-Date Fair Value
Nonvested at December 31, 2008	626,350	$ 52.70
Granted	907,700	$ 35.96
Forfeited	(11,400)	$ 40.71
Nonvested at December 31, 2009(1)	1,522,650	$ 43.03
Vested or expected to vest, at December 31, 2009	1,473,935	$ 43.12

(1) Each unit represents the right to receive one share of our common stock if applicable performance conditions are satisfied. Up to an additional 50% of the shares represented by the units may be issued if Sempra Energy exceeds target performance conditions.

The $21 million of total compensation cost related to nonvested restricted stock units not yet recognized as of December 31, 2009 is expected to be recognized over a weighted-average period of 2.6 years.

NOTE 11. DERIVATIVE FINANCIAL INSTRUMENTS

On January 1, 2009, we adopted SFAS 161 (ASC 815) as discussed in Note 2. The adoption had no impact on our consolidated financial statements, but requires additional disclosures, which we provide below. Comparative disclosures for periods prior to the date of adoption are not required and we have not provided them.

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

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

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

HEDGE ACCOUNTING

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

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

ENERGY DERIVATIVES

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

- The Sempra Utilities use natural gas energy derivatives, on their customers' behalf, with the objective of managing price risk and lowering natural gas costs. These derivatives include fixed price natural gas positions, options, and basis risk instruments and are governed by risk management and transacting activity plans that have been filed with and approved by the CPUC. Natural gas derivative activities are recorded as commodity costs that are offset by regulatory account balances and are recovered in rates. Net commodity cost impacts on the Consolidated Statements of Operations are reflected in Cost of Electric Fuel and Purchased Power or in Cost of Natural Gas.
- SDG&E is allocated and may purchase congestion revenue rights (CRRs), which serve to reduce the regional electricity price volatility risk which may result from local transmission capacity constraints. Unrealized gains and losses do not impact earnings, as they are offset by regulatory account balances. Realized gains and losses associated with CRRs are recorded in Cost of Electric Fuel and Purchased Power on the Consolidated Statements of Operations. We provide further discussion in Note 15.
- Sempra Generation uses natural gas and electricity instruments to market and optimize the earnings of its power generation fleet. Gains and losses associated with these derivatives are recognized in Sempra Global and Parent Revenues or in Cost of Natural Gas, Electric Fuel and Purchased Power on the Consolidated Statements of Operations.
- Sempra LNG and Sempra Pipelines & Storage use natural gas derivatives to market and optimize the earnings of the liquefied natural gas business and Sempra Pipelines & Storage's natural gas storage and transportation assets. Sempra Pipelines & Storage also uses natural gas energy derivatives with the objective of managing price risk and lowering natural gas prices at its Mexican distribution operations. Sempra Pipelines & Storage’s derivatives are either undesignated or are recorded as commodity costs that are offset by regulatory account balances and are recovered in rates. Sempra LNG’s derivatives are undesignated and their impact on earnings is recorded in Sempra Global and Parent Revenues on the Consolidated Statements of Operations. The impacts on earnings are recognized in Sempra Global and Parent Revenues or in Cost of Natural Gas, Electric Fuel and Purchased Power on the Consolidated Statements of Operations.

From time to time, our various businesses, including the Sempra Utilities, may use other energy derivatives to hedge exposures such as the price of vehicle fuel. These derivatives are typically accounted for as cash flow hedges.

We summarize net commodity derivative volumes as of December 31, 2009 as follows:

Business Unit and Commodity	Volume
Sempra Utilities:	
SDG&E:	
Natural gas	44 million MMBtu (1)
Congestion revenue rights	18 million MWh (2)
SoCalGas - natural gas	1 million MMBtu
Sempra Global:	
Sempra LNG - natural gas	8 million MMBtu
Sempra Generation - electric power	1 million MWh

(1) Million British thermal units (of natural gas)
(2) Megawatt hours

In addition to the amounts noted above, we frequently use commodity derivatives to manage risks associated with the physical locations of our customers, assets and other contractual obligations, such as natural gas purchases.

INTEREST RATE DERIVATIVES

We are exposed to interest rates primarily as a result of our current and expected use of financing. We periodically enter into interest rate derivative agreements intended to moderate our exposure to interest rates and to lower our overall costs of borrowing. We utilize interest rate swaps typically designated as fair value hedges, as a means to achieve our targeted level of variable rate debt as a percent of total debt. In addition, we may utilize interest rate swaps, which are typically designated as cash flow hedges, to lock in interest rates in anticipation of future financings.

Interest rate derivatives are utilized by the Sempra Utilities as well as by other Sempra Energy subsidiaries. Although the Sempra Utilities generally recover borrowing costs in rates over time, the use of interest rate derivatives is subject to certain regulatory constraints, and the impact of interest rate derivatives may not be recovered from customers as timely as described above with regard to natural gas derivatives. Accordingly, interest rate derivatives are generally accounted for as hedges at the Sempra Utilities, as at the rest of Sempra Energy's subsidiaries.

The net notional amounts of our interest-rate derivatives as of December 31, 2009 and December 31, 2008 were:

	December 31, 2009		December 31, 2008	
(Dollars in millions)	Notional Debt	Maturities	Notional Debt	Maturities
Sempra Energy Consolidated(1)	$ 75-355	2010-2019	$ 65-355	2009-2019
SDG&E(1)	285-375	2019	285-515	2009-2019
SoCalGas	150	2011	150	2011

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

FINANCIAL STATEMENT PRESENTATION

The following table provides the fair values of derivative instruments, without consideration of margin deposits held or posted, on the Consolidated Balance Sheets as of December 31, 2009:

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

	December 31, 2009			
Derivatives designated as hedging instruments	Current assets: Fixed-price contracts and other derivatives(1)	Investments and other assets: Sundry	Current liabilities: Fixed-price contracts and other derivatives(2)	Deferred credits and other liabilities: Fixed-price contracts and other derivatives
Sempra Energy Consolidated:				
Interest rate instruments	$ 12	$ 2	$ -	$ -
Commodity contracts not subject to rate recovery	1	-	-	-
Total	$ 13	$ 2	$ -	$ -
SoCalGas:				
Interest rate instruments	$ 6	$ 2	$ -	$ -
Derivatives not designated as hedging instruments				
Sempra Energy Consolidated:				
Interest rate instruments(3)	$ 9	$ 15	$ (25)	$ (33)
Commodity contracts not subject to rate recovery	74	30	(64)	(42)
Associated offsetting commodity contracts	(34)	(6)	34	6
Commodity contracts subject to rate recovery	20	7	(20)	(13)
Associated offsetting commodity contracts	(14)	(9)	14	9
Total	$ 55	$ 37	$ (61)	$ (73)
SDG&E:				
Interest rate instruments(3)	$ -	$ -	$ (17)	$ (26)
Commodity contracts subject to rate recovery	18	7	(13)	(9)
Associated offsetting commodity contracts	(13)	(9)	13	9
Total	$ 5	$ (2)	$ (17)	$ (26)
SoCalGas:				
Commodity contracts subject to rate recovery	$ 2	$ -	$ (1)	$ -
Associated offsetting commodity contracts	(1)	-	1	-
Total	$ 1	$ -	$ -	$ -

(1) Included in Current assets: Other for SoCalGas.
(2) Included in Current liabilities: Other for SoCalGas.
(3) Includes Otay Mesa VIE. All of SDG&E's amounts relate to Otay Mesa VIE.

The effects of derivative instruments designated as hedges on the Consolidated Statements of Operations for the year ended December 31, 2009 were:

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

	Year ended December 31, 2009	
	Gain (loss) on derivative recognized in earnings	
	Location	Amount
Sempra Energy Consolidated:		
Interest rate instruments	Interest Expense	$ 19
Interest rate instruments	Other Income (Expense), Net	(11)
Total		$ 8
SoCalGas:		
Interest rate instrument	Interest Expense	$ 6
Interest rate instrument	Other Income (Expense), Net	(2)
Total		$ 4

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

	Year ended December 31, 2009		
	Amount of pretax gain (loss) on derivative recognized in OCI (effective portion)	Gain (loss) reclassified from AOCI into earnings (effective portion)	
		Location	Amount
Sempra Energy Consolidated:			
Interest rate instruments	$ -	Interest Expense	$ (2)
Interest rate instruments	13	Other Income, Net(1)	3
Commodity contracts not subject to rate recovery	17	Revenues: Sempra Global and Parent	22
Commodity contracts not subject to rate recovery	-	Cost of Natural Gas, Electric Fuel and Purchased Power	(16)
Commodity contracts not subject to rate recovery	1	Operation and Maintenance	2
Commodity contracts not subject to rate recovery	37	Equity Earnings: RBS Sempra Commodities LLP	7
Total	$ 68		$ 16
SDG&E:			
Interest rate instruments	$ -	Interest Expense	$ 3
Commodity contracts not subject to rate recovery	-	Operation and Maintenance	1
Total	$ -		$ 4
SoCalGas:			
Interest rate instrument	$ -	Interest Expense	$ (4)
Commodity contracts not subject to rate recovery	1	Operation and Maintenance	1
Total	$ 1		$ (3)

(1) Gains reclassified into earnings due to changes in timing of forecasted interest payments.

In the third quarter of 2005, Sempra Energy entered into derivative transactions to hedge future interest payments associated with forecasted borrowings of $450 million for facilities related to Sempra LNG's Energía Costa Azul project. The swaps expire in 2027. During the second quarter of 2007, we revised our borrowing plans in anticipation of receiving net cash proceeds in connection with the sale of the commodities-marketing businesses. Accordingly, as of June 30, 2007, we reclassified the cash flow hedge gain of $30 million pretax from Accumulated Other Comprehensive Income (Loss) to Other Income (Expense), Net in the Consolidated Statements of Operations. In August 2007, we entered into interest rate swaps with a collective notional value of $450 million to economically offset the original swap instruments.

Sempra Energy expects that gains of $12 million, which are net of income tax expense, that are currently recorded in Accumulated Other Comprehensive Income (Loss) related to cash flow hedges will be reclassified into earnings during the next twelve months as the hedged items affect earnings. Actual amounts ultimately reclassified to earnings depend on the commodity prices and interest rates in effect when derivative contracts that are currently outstanding mature. For all forecasted transactions, the maximum term over which we are hedging exposures to the variability of cash flows, excluding interest payments, is 30 months at December 31, 2009. The maximum term over which RBS Sempra Commodities hedges forecasted natural gas purchases and sales is six years.

SDG&E and SoCalGas expect that losses of $1 million and $3 million, respectively, which are net of income tax benefit, that are currently recorded in Accumulated Other Comprehensive Income (Loss) related to these cash flow hedges will be reclassified into earnings during the next twelve months as the hedged items affect earnings.

HEDGE INEFFECTIVENESS

We recorded negligible hedge ineffectiveness in 2009. Following is a summary of the hedge ineffectiveness gains (losses) in 2008 and 2007 for Sempra Energy. Information related to the Sempra Utilities is noted separately within the table:

	Years ended December 31,	
(Dollars in millions)	2008	2007
Commodity hedges(1):		
Cash flow hedges	$ (3)	$ 3
Fair value hedges	(9)	29
Time value exclusions from hedge assessment	-	192
Total unrealized gains (losses)	(12)	224
Interest rate hedges(2):		
Cash flow hedges held by SDG&E(3)	(1)	(3)
Total unrealized losses	(1)	(3)
Total ineffectiveness gains (losses)	$ (13)	$ 221

(1) For commodity derivative instruments, we record ineffectiveness gains (losses) in Revenues from Sempra Global and Parent on the Consolidated Statements of Operations.

(2) For interest rate swap instruments, all companies record ineffectiveness gains (losses) in Other Income (Expense), Net on the Consolidated Statements of Operations.

(3) These losses include $(1) million in 2008 and a negligible amount in 2007 associated with Otay Mesa VIE.

For commodity derivative instruments designated as fair value hedges,

- the ineffectiveness gains relate to hedges of commodity inventory and include gains that represent the time value of money, which is excluded for hedge assessment purposes.

For commodity derivative instruments designated as cash flow hedges,

- the ineffectiveness amounts relate to hedges of natural gas purchases and sales related to transportation and storage capacity arrangements.

These commodity derivative instruments were held by our commodities-marketing businesses.

The effects of derivative instruments not designated as hedging instruments on the Consolidated Statements of Operations for the year ended December 31, 2009 were:

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

	Gain (loss) on derivative recognized in earnings		
	Location		Year ended December 31, 2009
Sempra Energy Consolidated:			
Interest rate instruments(1)	Other Income (Expense), Net	$	30
Commodity contracts not subject to rate recovery	Revenues: Sempra Global and Parent		47
Commodity contracts not subject to rate recovery	Cost of Natural Gas, Electric Fuel and Purchased Power		(39)
Commodity contracts subject to rate recovery	Cost of Natural Gas		(5)
Commodity contracts subject to rate recovery	Cost of Electric Fuel and Purchased Power		(54)
Commodity contracts subject to rate recovery	Cost of Natural Gas, Electric Fuel and Purchased Power		(5)
Total		$	(26)
SDG&E:			
Interest rate instruments(1)	Other Income (Expense), Net	$	27
Commodity contracts subject to rate recovery	Cost of Electric Fuel and Purchased Power		(54)
Total		$	(27)
SoCalGas:			
Commodity contracts subject to rate recovery	Cost of Natural Gas	$	(5)

(1) Related to Otay Mesa VIE. Sempra Energy Consolidated also includes additional instruments.

CONTINGENT FEATURES

For Sempra Energy and SDG&E, certain of our derivative instruments contain credit limits which vary depending upon our credit rating. Generally, these provisions, if applicable, may reduce our credit limit if a specified credit rating agency reduces our rating. In certain cases, if our credit rating were to fall below investment grade, the counterparty to these derivative liability instruments could request immediate payment or demand immediate and ongoing full collateralization.

For Sempra Energy, the total fair value of this group of derivative instruments in a net liability position at December 31, 2009 is $4 million. As of December 31, 2009, if the credit rating of Sempra Energy were reduced below investment grade, $4 million of additional assets could be required to be posted as collateral for these derivative contracts.

For Sempra Energy, SDG&E, PE and SoCalGas, some of our derivative contracts contain a provision that would permit the counterparty, in certain circumstances, to request adequate assurance of our performance under the contract. Such additional assurance, if needed, is not material and is not included in the amounts above.

NOTE 12. FAIR VALUE MEASUREMENTS

FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair values of certain of our financial instruments (cash, temporary investments, accounts and notes receivable, dividends and accounts payable, short-term debt and customer deposits) approximate their carrying amounts. The following table provides the carrying amounts and fair values of the remaining financial instruments at December 31:

FAIR VALUE OF FINANCIAL INSTRUMENTS
(Dollars in millions)

	2009		2008	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Sempra Energy Consolidated:				
Investments in affordable housing partnerships(1)	$ 34	$ 59	$ 43	$ 63
Total long-term debt(2)	8,050	8,618	6,962	7,013

Due to unconsolidated affiliates		2		2		102		101
Preferred stock of subsidiaries		179		156		179		149
SDG&E:								
Total long-term debt(3)	$	2,672	$	2,828	$	2,146	$	2,073
Contingently redeemable preferred stock		79		76		79		71
PE and SoCalGas:								
Total long-term debt(4)	$	1,296	$	1,382	$	1,372	$	1,333
PE:								
Preferred stock	$	80	$	61	$	80	$	59
Preferred stock of subsidiary		20		19		20		19
	$	100	$	80	$	100	$	78
SoCalGas:								
Preferred stock	$	22	$	20	$	22	$	20

(1) We discuss our investments in affordable housing partnerships in Note 4.

(2) Before reductions for unamortized discount of $17 million at December 31, 2009 and $8 million at December 31, 2008.

(3) Before reductions for unamortized discount of $4 million at December 31, 2009 and $2 million at December 31, 2008.

(4) Before reductions for unamortized discount of $2 million at December 31, 2009 and $2 million at December 31, 2008.

Sempra Energy based the fair values of investments in affordable housing partnerships on the present value of estimated future cash flows, discounted at rates available for similar investments. Sempra Energy estimated the fair values of debt incurred to acquire affordable housing partnerships based on the present value of the future cash flows, discounted at rates available for similar notes with comparable maturities.

All entities based the fair values of the long-term debt and preferred stock on their quoted market prices or quoted market prices for similar securities.

Derivative Positions Net of Cash Collateral

Each Consolidated Balance Sheet reflects the offsetting of net derivative positions with fair value amounts for cash collateral with the same counterparty when management believes a legal right of offset exists.

The following table provides the amount of fair value of cash collateral receivables that were not offset in the Consolidated Balance Sheets as of December 31, 2009 and 2008:

(Dollars in millions)	December 31, 2009	December 31, 2008
Sempra Energy Consolidated	$ 36	$ 28
SDG&E	30	21
SoCalGas	5	7

Fair Value Hierarchy

We discuss the valuation techniques we use to measure fair value and the definition of the three levels of the fair value hierarchy in Note 1 under "Fair Value Measurements" and in Note 2 under "FSP FAS 157-4."

The three tables below, by level within the fair value hierarchy, set forth our financial assets and liabilities that were accounted for at fair value on a recurring basis as of December 31, 2009 and 2008. We classify financial assets and liabilities in their entirety based on the lowest level of input that is significant to the fair value measurement. Our assessment of the significance of a particular input to the fair value measurement requires judgment, and may affect the valuation of fair value assets and liabilities, and their placement within the fair value hierarchy levels.

The fair value of commodity derivative assets and liabilities is determined in accordance with our netting policy, as discussed above under "Derivative Positions Net of Cash Collateral."

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

Our financial assets and liabilities that were accounted for at fair value on a recurring basis as of December 31, 2009 and 2008 in the tables below include the following:

- Nuclear decommissioning trusts reflect the assets of SDG&E's nuclear decommissioning trusts, excluding cash balances, as we discuss in Note 7. The trust assets are valued by a third party trustee. The trustee obtains prices from pricing services that are derived from observable data. We monitor the prices supplied by pricing services by validating pricing with other sources of data.
- Investments include marketable securities and are primarily priced based on observable interest rates for similar instruments actively trading in the marketplace.
- Commodity and other derivative positions, which include other interest rate management instruments, are entered into primarily as a means to manage price exposures. We use market participant assumptions to price these derivatives. Market participant assumptions include those about risk, and the risk inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated, or generally unobservable.

In the third quarter of 2007, the California Independent System Operator (ISO) began the process of allocating CRRs to load serving entities, including SDG&E. These instruments are included with commodity derivatives and are recorded at fair value based on the most current annual auction prices published by the California ISO. Prior to the ISO auction conducted in November 2008, the CRRs were priced based on discounted cash flows. They are classified as Level 3 and reflected in the Sempra Energy and SDG&E tables below. Changes in the fair value of CRRs are deferred and recorded in regulatory accounts to the extent they are recoverable or refundable through rates.

RECURRING FAIR VALUE MEASURES -- SEMPRA ENERGY CONSOLIDATED

(Dollars in millions)

	At fair value as of December 31, 2009				
	Level 1	Level 2	Level 3	Collateral Netted	Total
Assets:					
Nuclear decommissioning trusts(1)	$ 532	$ 137	$ -	$ -	$ 669
Investments	1	-	-	-	1
Commodity derivatives	39	65	10	(40)	74
Other derivatives	-	38	-	-	38
Total	$ 572	$ 240	$ 10	$ (40)	$ 782
Liabilities:					
Commodity derivatives	$ 9	$ 74	$ -	$ (9)	$ 74
Other derivatives	-	59	-	-	59
Total	$ 9	$ 133	$ -	$ (9)	$ 133

	At fair value as of December 31, 2008				
	Level 1	Level 2	Level 3	Collateral Netted	Total
Assets:					
Nuclear decommissioning trusts(1)	$ 421	$ 148	$ -	$ -	$ 569
Short-term investments(2)	1	176	-	-	177
Commodity derivatives	55	76	27	(38)	120
Other derivatives	-	76	-	-	76
Total	$ 477	$ 476	$ 27	$ (38)	$ 942
Liabilities:					
Commodity derivatives	$ 63	$ 110	$ -	$ (63)	$ 110
Other derivatives	-	130	-	-	130
Total	$ 63	$ 240	$ -	$ (63)	$ 240

(1) Excludes cash balances.

(2) Level 2 amounts are industrial development bonds discussed in Note 6.

RECURRING FAIR VALUE MEASURES -- SDG&E

(Dollars in millions)

	At fair value as of December 31, 2009				
	Level 1	Level 2	Level 3	Collateral Netted	Total
Assets:					
Nuclear decommissioning trusts(1)	$ 532	$ 137	$ -	$ -	$ 669
Commodity derivatives	30	2	10	-	42
Total	$ 562	$ 139	$ 10	$ -	$ 711
Liabilities:					
Commodity derivatives	$ 9	$ -	$ -	$ (9)	$ -
Other derivatives	-	43	-	-	43
Total	$ 9	$ 43	$ -	$ (9)	$ 43

	At fair value as of December 31, 2008				
	Level 1	Level 2	Level 3	Collateral Netted	Total
Assets:					
Nuclear decommissioning trusts(1)	$ 421	$ 148	$ -	$ -	$ 569
Commodity derivatives	21	-	27	-	48
Short-term investments(2)	-	24	-	-	24
Total	$ 442	$ 172	$ 27	$ -	$ 641
Liabilities:					
Commodity derivatives	$ 52	$ 24	$ -	$ (52)	$ 24
Other derivatives	-	88	-	-	88
Total	$ 52	$ 112	$ -	$ (52)	$ 112

(1) Excludes cash balances.

(2) Level 2 amounts are industrial development bonds discussed in Note 6.

RECURRING FAIR VALUE MEASURES -- SOCALGAS

(Dollars in millions)

	At fair value as of December 31, 2009				
	Level 1	Level 2	Level 3	Collateral Netted	Total
Assets:					
Commodity derivatives	$ 6	$ 1	$ -	$ -	$ 7
Other derivatives	-	8	-	-	8
Total	$ 6	$ 9	$ -	$ -	$ 15

	At fair value as of December 31, 2008				
	Level 1	Level 2	Level 3	Collateral Netted	Total
Assets:					
Commodity derivatives	$ 8	$ 3	$ -	$ -	$ 11
Other derivatives	-	10	-	-	10
Total	$ 8	$ 13	$ -	$ -	$ 21
Liabilities:					
Commodity derivatives	$ 11	$ -	$ -	$ (11)	$ -

Level 3 Information

The following table sets forth reconciliations of changes in the fair value of net trading and other derivatives classified as Level 3 in the fair value hierarchy:

LEVEL 3 RECONCILIATIONS
(Dollars in millions)

	Sempra Energy Consolidated			SDG&E		
	Years ended December 31,			Years ended December 31,		
	2009	2008	2007	2009	2008	2007
Balance as of January 1	$ 27	$ 401	$ 519	$ 27	$ 7	$ -
Realized and unrealized gains (losses)	(31)	(79)	(272)	(31)	3	-
Allocated transmission instruments	15	17	-	15	17	7
Purchases and issuances	-	24	154	-	-	-
Settlements	(1)	-	-	(1)	-	-
Sale of the commodities-marketing businesses	-	(336)	-	-	-	-
Balance as of December 31	$ 10	$ 27	$ 401	$ 10	$ 27	$ 7
Change in unrealized gains or losses relating to instruments still held at December 31	$ (16)	$ 27	$ 75	$ (16)	$ 27	$ 7

Transfers in and/or out of Level 3 represent existing assets or liabilities that were either:

- previously categorized as a higher level for which the inputs to the model became unobservable; or
- assets and liabilities that were previously classified as Level 3 for which the lowest significant input became observable during the period.

There were no transfers in or out of Level 3 during the periods presented.

Gains and losses (realized and unrealized) for Level 3 recurring items are primarily related to the commodities-marketing businesses and were included in Revenues for Sempra Global and Parent on the Consolidated Statements of Operations for the three months ended March 31, 2008 and the year ended December 31, 2007. With the sale of these businesses on April 1, 2008, Level 3 recurring activity was substantially reduced.

Gains and losses (realized and unrealized) for SDG&E's Level 3 recurring items are primarily related to congestion revenue rights and were included in Cost of Electric Fuel and Purchased Power on the Consolidated Statements of Operations for the years ended December 31, 2009 and 2008 and the second half of 2007.

NOTE 13. PREFERRED STOCK

The table below shows the details of preferred stock for SDG&E, PE and SoCalGas.

PREFERRED STOCK

	Call/ Redemption Price	December 31, 2009	December 31, 2008
		(in millions)	
Contingently redeemable:			
SDG&E:			
$20 par value, authorized 1,375,000 shares:			
5% Series, 375,000 shares outstanding	$ 24.00	$ 8	$ 8
4.5% Series, 300,000 shares outstanding	$ 21.20	6	6
4.4% Series, 325,000 shares outstanding	$ 21.00	7	7
4.6% Series, 373,770 shares outstanding	$ 20.25	7	7
Without par value:			
$1.70 Series, 1,400,000 shares outstanding	$ 25.595	35	35
$1.82 Series, 640,000 shares outstanding	$ 26.00	16	16
SDG&E - Total contingently redeemable preferred stock		79	79
Sempra Energy - total preferred stock of subsidiary, contingently redeemable		$ 79	$ 79
PE:			
Without par value, authorized 15,000,000 shares:			
$4.75 Dividend, 200,000 shares outstanding	$ 100.00	$ 20	$ 20

$4.50 Dividend, 300,000 shares outstanding	$	100.00	30	30
$4.40 Dividend, 100,000 shares outstanding	$	101.50	10	10
$4.36 Dividend, 200,000 shares outstanding	$	101.00	20	20
$4.75 Dividend, 253 shares outstanding	$	101.00	-	-
Total preferred stock of PE			80	80
SoCalGas:				
$25 par value, authorized 1,000,000 shares:				
6% Series, 79,011 shares outstanding			3	3
6% Series A, 783,032 shares outstanding			19	19
Total preferred stock of SoCalGas			22	22
Less: 50,970 shares of the 6% Series outstanding owned by PE			(2)	(2)
PE - total preferred stock of subsidiary			20	20
Sempra Energy - total preferred stock of subsidiaries			$ 100	$ 100

Following are the attributes of each company's preferred stock. No amounts currently outstanding are subject to mandatory redemption.

SDG&E

- All outstanding series are callable.
- The $20 par value preferred stock has two votes per share on matters being voted upon by shareholders of SDG&E and a liquidation preference at par plus any unpaid dividends.
- All outstanding series of SDG&E's preferred stock have cumulative preferences as to dividends.
- The no-par-value preferred stock is nonvoting and has a liquidation preference of $25 per share plus any unpaid dividends.
- SDG&E is authorized to issue 10 million shares of no-par-value preferred stock (both subject to and not subject to mandatory redemption).

SDG&E is currently authorized to issue up to 25 million shares of an additional class of preference shares designated as "Series Preference Stock." The Series Preference Stock is in addition to the Cumulative Preferred Stock, Preference Stock (Cumulative) and Common Stock that SDG&E was otherwise authorized to issue, and when issued would rank junior to the Cumulative Preferred Stock and Preference Stock (Cumulative). The stock's rights, preferences and privileges would be established by the board of directors at the time of issuance.

SDG&E's outstanding preferred securities are classified as contingently redeemable because they contain a contingent redemption feature that allows the holder to elect a majority of SDG&E's board of directors if dividends are not paid for eight consecutive quarters, and such a redemption triggering event is not solely within the control of SDG&E. They are therefore presented separate from and outside of equity in a manner consistent with temporary equity. We provide additional information concerning these securities in Note 2.

PACIFIC ENTERPRISES

- Outstanding PE preferred stock is subject to redemption at PE's option at any time with at least 30 days' notice at the applicable redemption price for each series plus any unpaid dividends.
- All outstanding series have one vote per share, cumulative preferences as to dividends, and liquidation preferences of $100 per share plus any unpaid dividends.

PE currently is authorized to issue 10 million shares of series preferred stock, less currently outstanding shares, and 5 million shares of Class A series preferred stock, both without par value and with cumulative preferences as to dividends and liquidation value. Class A series preferred stock, when issued, would rank junior to other series of preferred stock. Other rights and privileges of the stock would be established by the board of directors at the time of issuance.

SOCALGAS

- None of SoCalGas' outstanding preferred stock is callable.
- All outstanding series have one vote per share, cumulative preferences as to dividends and liquidation preferences of $25 per share plus any unpaid dividends.

SoCalGas currently is authorized to issue 5 million shares of series preferred stock and 5 million shares of preference stock, both without par value and with cumulative preferences as to dividends and liquidation value. The preference stock would rank junior to all series of preferred stock. Other rights and privileges of the stock would be established by the board of directors at the time of issuance.

NOTE 14. SEMPRA ENERGY - SHAREHOLDERS' EQUITY AND EARNINGS PER SHARE

The following table provides the per share computations for income from continuing operations for the years ended December 31. Basic earnings per common share (EPS) is calculated by dividing earnings applicable to common stock by the weighted-average number of common shares outstanding for the year. Diluted EPS includes the potential dilution of common stock equivalent shares that could occur if securities or other contracts to issue common stock were exercised or converted into common stock.

EARNINGS PER SHARE COMPUTATIONS
(Dollars in millions, except per share amounts; shares in thousands)

	Years ended December 31,		
	2009	2008(1)	2007(1)
Numerator:			
Income from continuing operations	$ 1,122	$ 1,068	$ 1,118
Losses from continuing operations attributable to noncontrolling interests	7	55	17
Preferred dividends of subsidiaries	(10)	(10)	(10)
Income from continuing operations attributable to common shares	$ 1,119	$ 1,113	$ 1,125
Denominator:			
Weighted-average common shares outstanding for basic EPS	243,339	247,387	259,269
Dilutive effect of stock options, restricted stock awards and restricted stock units	4,045	3,772	4,735
Weighted-average common shares outstanding for diluted EPS	247,384	251,159	264,004
Income from continuing operations attributable to common shares:			
Per common share, basic	$ 4.60	$ 4.50	$ 4.34
Per common share, diluted	$ 4.52	$ 4.43	$ 4.26

(1) As adjusted for the retrospective adoption of ASC 810 (SFAS 160).

The dilution from common stock options is based on the treasury stock method. Under this method, proceeds based on the exercise price plus unearned compensation and windfall tax benefits and minus tax shortfalls are assumed to be used to repurchase shares on the open market at the average market price for the year. The windfall tax benefits are tax deductions we would receive upon the assumed exercise of stock options in excess of the deferred income taxes we recorded related to the compensation expense on the stock options. Tax shortfalls occur when the assumed tax deductions are less than recorded deferred income taxes. The calculation excludes options for which the exercise price on common stock was greater than the average market price during the year. We had 1,504,250; 1,496,500 and 55,800 such stock options outstanding during 2009, 2008 and 2007, respectively.

During 2007, we had 699,600 stock options outstanding that were antidilutive because of the unearned compensation and windfall tax benefits included in the assumed proceeds under the treasury stock method. There were no such antidilutive stock options outstanding during 2009 or 2008.

The dilution from unvested restricted stock awards and units is also based on the treasury stock method. Assumed proceeds equal to the unearned compensation and windfall tax benefits and minus tax shortfalls related to the awards are assumed to be used to repurchase shares on the open market at the average market price for the year. The windfall tax benefits or tax shortfalls are the difference between tax deductions we would receive upon the assumed vesting of restricted stock awards and units and the deferred income taxes we recorded related to the compensation expense on the restricted stock awards and units. We had 1,009 restricted stock awards and units outstanding that were antidilutive during 2008. There were no such anti-dilutive restricted stock awards or units in 2009 or 2007.

We are authorized to issue 750,000,000 shares of no-par-value common stock. In addition, we are authorized to issue 50,000,000 shares of preferred stock having rights, preferences and privileges that would be established by the Sempra Energy board of directors at the time of issuance.

Shares of common stock held by the ESOP were 868,173; 1,177,196 and 1,488,046 at December 31, 2009, 2008 and 2007, respectively. These shares are unallocated and therefore excluded from the computation of EPS.

Excluding shares held by the ESOP, common stock activity consisted of the following:

COMMON STOCK ACTIVITY

	2009	2008	2007
Common shares outstanding, January 1	243,324,281	261,214,009	262,005,690
Savings plan issuance	1,021,023	-	268,178
Shares released from ESOP	309,023	310,850	195,720
Stock options exercised	1,835,184	683,858	1,245,696
Restricted stock issuances	37,233	4,002	803,706
Common stock investment plan(1)	381,167	1,508	95,499
Shares repurchased	(396,046)	(18,841,287)	(3,349,771)
Shares forfeited and other	(4,000)	(48,659)	(50,709)
Common shares outstanding, December 31	246,507,865	243,324,281	261,214,009

(1) Participants in the Direct Stock Purchase Plan may reinvest dividends to purchase newly issued shares.

Our board of directors has the discretion to determine the payment and amount of future dividends.

COMMON STOCK REPURCHASE PROGRAM

On September 11, 2007, our board of directors authorized the repurchase of additional shares of our common stock provided that the amounts expended for such purposes did not exceed the greater of $2 billion or amounts expended to purchase no more than 40 million shares. Purchases may include open-market and negotiated transactions, structured purchase arrangements, and tender offers.

In April 2008, we entered into a Collared Accelerated Share Acquisition Program under which we prepaid $1 billion to repurchase shares of our common stock to be delivered later in 2008 in a share forward transaction. Our outstanding shares used to calculate earnings per share were reduced by the number of shares repurchased when they were delivered to us, and the $1 billion purchase price was recorded as a reduction in shareholders’ equity upon its prepayment. We received 18,416,241 shares under the program during 2008 based on a final weighted average price of $54.30 per share.

This share repurchase program is unrelated to share-based compensation as described in Note 10.

NOTE 15. ELECTRIC INDUSTRY REGULATION

BACKGROUND

California's legislative response to the 2000 - 2001 energy crisis resulted in the DWR purchasing a substantial portion of power for California's electricity users. In 2001, the DWR entered into long-term contracts with suppliers, including Sempra Generation, to provide power for the utility procurement customers of each of the California investor-owned utilities (IOUs), including SDG&E. The CPUC allocates the power and its administrative responsibility, including collection of power contract costs from utility customers, among the IOUs. Effective in 2003, the IOUs resumed responsibility for electric commodity procurement above their allocated share of the DWR's long-term contracts.

POWER PROCUREMENT AND RESOURCE PLANNING

Effective in 2003, the CPUC:

- directed the IOUs, including SDG&E, to resume electric commodity procurement to cover their net short energy requirements, which are the total customer energy requirements minus supply from resources owned, operated or contracted;
- implemented legislation regarding procurement and renewable energy portfolio standards; and
- established a process for review and approval of the utilities' long-term resource and procurement plans.

This process is intended to identify anticipated needs for generation and transmission resources in order to support transmission grid reliability and to better serve customers.

Sunrise Powerlink Electric Transmission Line

In December 2008, the CPUC issued a final decision authorizing SDG&E to construct a 500-kilovolt (kV) electric transmission line between the Imperial Valley and the San Diego region (Sunrise Powerlink). This line is designed to provide 1,000 MW of increased import capability into the San Diego area. The decision allows SDG&E to construct the Sunrise Powerlink along a route that would generally run south of the Anza-Borrego Desert State Park. The decision also approves the environmental impact review conducted jointly by the CPUC and the Bureau of Land Management (BLM) and establishes a total project cost cap of $1.9 billion, including approximately $190 million for environmental mitigation costs.

In January 2009, the BLM issued its decision approving the project, route and environmental review. Three community groups and an individual have filed a lawsuit in Federal District Court in Sacramento, California, for Declaratory and Injunctive Relief regarding Sunrise Powerlink. The complaint alleges that the BLM failed to properly assess the environmental impacts of the approved Sunrise Powerlink route and the related potential development of renewable resources in east San Diego County and Imperial County. The complaint requests a declaration that the BLM violated Federal law in approving Sunrise Powerlink and an injunction against any construction activities.

Sunrise Powerlink costs will be recovered in SDG&E's Electric Transmission Formula Rate, where SDG&E must demonstrate to the FERC that such costs were prudently incurred.

The CPUC decision requires SDG&E to adhere to certain commitments it made during the application process, as follows:

- not to contract, for any length of term, with conventional coal generators to deliver power via the Sunrise Powerlink;
- if any currently approved renewable energy contract that is deliverable via the Sunrise Powerlink fails, to replace it with a viable contract with a renewable generator located in the Imperial Valley; and
- voluntarily raise SDG&E's RPS goal to 33 percent by 2020.

After the issuance of the CPUC final decision, applications for rehearing before the CPUC were filed by the Utility Consumers Action Network (UCAN) and the Center for Biological Diversity/Sierra Club (CBD). The CPUC issued a final decision in July 2009 denying the requests for rehearing. UCAN and CBD jointly filed a petition with the California Supreme Court in August 2009 challenging the CPUC's decision with regard to implementation of the California Environmental Quality Act (CEQA). UCAN also filed a petition with the California Court of Appeal (Court of Appeal) challenging the decision on other legal grounds. The CPUC, the ISO and SDG&E filed separate motions with the California Supreme Court requesting transfer of the UCAN petition to the California Supreme Court, which denied the transfer requests. Responses to the UCAN petition before the Court of Appeal were filed in January 2010. After a ruling by the Court of Appeal, the California Supreme Court will address the UCAN/CBD petition regarding CEQA.

Three appeals of the BLM decision approving the segment of the route in its jurisdiction were filed by individuals, a community organization, and the Viejas Indian tribe in March 2009. A request to stay the BLM's decision was also filed. The Interior Board of Land Appeals (IBLA) has dismissed the appeal filed by the individuals and issued a ruling in July 2009 denying the request for stay. In addition, the Viejas Indian tribe withdrew its appeal in July 2009. The IBLA is still reviewing the one remaining appeal.

The Sunrise Powerlink also requires approval from the United States Forest Service (USFS). SDG&E expects the USFS to issue a decision approving the segment of the route in its jurisdiction in the first quarter of 2010. The USFS decision is also subject to administrative and judicial review.

SDG&E commenced procurement activities for the project in 2009, but before construction can begin, additional agency permits must be obtained. The total amount invested by SDG&E in the Sunrise Powerlink project as of December 31, 2009 was $235 million, which is included in Property, Plant and Equipment on the Consolidated Balance Sheets of Sempra Energy and SDG&E. SDG&E expects the Sunrise Powerlink to be in commercial operation in 2012.

Renewable Energy

Certain California electric retail sellers, including SDG&E, are required to deliver 20 percent of their retail demand from renewable energy sources beginning in 2010. The rules governing this requirement, administered by both the CPUC and the California Energy Commission (CEC), are generally known as the Renewables Portfolio Standard (RPS) Program. In September 2009, the Governor of California issued an Executive Order which requires California utilities by 2020 to procure 33 percent of their electric energy requirements from renewable energy sources. This Executive Order designates the California Air Resources Board (CARB) as the agency responsible for establishing the compliance rules and regulations.

In 2008, the CPUC issued a decision defining flexible compliance mechanisms that can be used to defer compliance with or meet the RPS Program mandates in 2010 and beyond. The decision established that a finding by the CPUC of insufficient transmission is a permissible reason to defer compliance with the RPS Program mandates. This decision also confirmed that any renewable energy procured in excess of the established targets, currently and in the future, could be applied to any shortfalls in the years 2010 and beyond.

SDG&E continues to aggressively secure renewable energy supplies to achieve the RPS Program goals. A substantial number of these supply contracts, however, are contingent upon many factors, including:

- access to electric transmission infrastructure (including SDG&E's Sunrise Powerlink transmission line);
- timely regulatory approval of contracted renewable energy projects;
- the renewable energy project developers' ability to obtain project financing and permitting; and
- successful development and implementation of the renewable energy technologies.

As previously noted, SDG&E expects the Sunrise Powerlink transmission line to be in operation in 2012. This would be too late to provide transmission capability to meet the RPS Program requirements for 2010 and 2011. However, SDG&E believes it will be able to comply with the RPS Program requirements based on its contracting activity and application of the flexible compliance mechanisms. SDG&E's failure to comply with the RPS Program requirements in 2010, or in any subsequent years, could subject it to a CPUC-imposed penalty of 5 cents per kilowatt hour of renewable energy under-delivery up to a maximum penalty of $25 million per year.

Miramar II Peaking Plant

Miramar II is a 48.6-MW natural gas-fired peaking plant in San Diego, located next to an existing SDG&E peaking plant. Built by SDG&E at a cost of approximately $50 million, Miramar II began commercial operation in August 2009.

Solar Photovoltaic Program

In July 2008, SDG&E filed an application with the CPUC proposing to invest up to $250 million to install solar photovoltaic panels in the San Diego area. These panels could generate approximately 50 MW of direct current power (approximately equivalent to 35 MW of power to the electric grid). In March 2009, SDG&E, UCAN and other interested parties submitted a settlement agreement which, if approved by the CPUC, would, among other provisions, reduce SDG&E's investment in the program to the lesser of $125 million or 26 MW (direct current). A CPUC decision is expected in the first half of 2010. If approved, SDG&E expects to install its portion of the panels in phases from 2011 through 2015.

San Onofre Nuclear Generating Station (SONGS)

SONGS is jointly owned by Edison (78.21%), SDG&E (20%) and the city of Riverside (1.79%). In March 2009, as part of Edison's

2009 General Rate Case, the CPUC granted SDG&E's request for an approximate $116 million base revenue requirement for 2009 (an approximate $10 million increase from its 2008 base revenue) to recover costs for its 20-percent ownership in SONGS. The final decision also grants SDG&E's request for approximately $13 million, a decrease of $2.7 million, for its share of SONGS refueling outage expenses (per refueling outage) in 2009.

Edison is in the process of replacing the steam generators at SONGS. Project completion is expected in 2010 and 2011 for Units 2 and 3, respectively. Total estimated capital expenditure for the project, in 2004 dollars, is $671 million, excluding AFUDC. SDG&E's current expected share is $169 million, of which it has incurred $95 million through December 31, 2009, and there are $38 million of firm commitments at December 31, 2009. In 2006, the CPUC approved SDG&E's participation in the replacement project as well as providing SDG&E with full recovery of current operating and maintenance costs via balancing account treatment effective January 1, 2007.

Spent Nuclear Fuel

SONGS owners are responsible for interim storage of spent nuclear fuel generated at SONGS until the DOE accepts it for final disposal. Spent nuclear fuel has been stored in the SONGS Units 1, 2 and 3 spent fuel pools and in the ISFSI. Movement of all Unit 1 spent fuel to the ISFSI was completed in 2005.

- Spent fuel for Unit 2 is being stored in both the Unit 2 spent fuel pool and the ISFSI.
- Spent fuel for Unit 3 is being stored in both the Unit 3 spent fuel pool and the ISFSI.

A second ISFSI pad, completed in 2009, will provide sufficient storage capacity to allow for the continued operation of SONGS through 2022.

NOTE 16. OTHER REGULATORY MATTERS

GENERAL RATE CASE (GRC)

The CPUC uses a general rate case proceeding to prospectively set rates sufficient to allow the Sempra Utilities to recover their reasonable cost of operations and to provide the opportunity to realize an acceptable rate of return on their investment. The Sempra Utilities are scheduled to file their next rate case with the CPUC with a 2012 test year.

In November 2009, SDG&E and SoCalGas, jointly with the Division of Ratepayer Advocates (DRA), a division of the CPUC representing the interests of customers, filed petitions with the CPUC to delay the filing of SDG&E's and SoCalGas' next GRC applications by one year. If approved by the CPUC, both SDG&E and SoCalGas would file their next GRC application in late 2011 for test year 2013. The petitions propose methodologies to determine the 2012 revenue requirements for each company which would result in SDG&E and SoCalGas receiving an increase of no less than approximately $45 million and $55 million, respectively, in authorized margin, or three percent, above the 2011 authorized margin. The parties also agreed, among other things, to allow the Sempra Utilities to recover the increase, as deemed reasonable, in their annual excess liability insurance premiums in 2012, primarily due to the coverage for wildfire claims. In December 2009, The Utility Reform Network, UCAN and Aglet Consumer Alliance filed a joint response opposing the requested increase.

In February 2010, due to the lack of progress by the CPUC in responding to the joint request to delay the GRC filings by one year, SDG&E and SoCalGas filed with the CPUC to withdraw the request for delay. If the withdrawal requests are approved by the CPUC, SDG&E and SoCalGas will each file in the third quarter of 2010 a Notice of Intent to file a GRC with a 2012 test year.

UTILITY INCENTIVE MECHANISMS

The CPUC applies performance-based measures and incentive mechanisms to all California utilities. Under these, the Sempra Utilities have earnings potential above authorized base margins if they achieve or exceed specific performance and operating goals. Generally, for performance-based awards, if performance is above or below specific benchmarks, the utility is eligible for financial awards or subject to financial penalties. There are four general areas that operate under an incentive structure:

- operational incentives
- energy efficiency/demand side management
- natural gas procurement
- unbundled natural gas storage and system operator hub services

Incentive awards are included in our earnings when we receive any required CPUC approval of the award. We would record penalties for results below the specified benchmarks in earnings when we believe it is more likely than not that the CPUC would assess a penalty.

We provide a summary of the incentive awards recognized below.

UTILITY INCENTIVE AWARDS 2007-2009
(Dollars in millions)

	Years ended December 31,		
	2009	2008	2007
Sempra Energy Consolidated			
Natural gas procurement	$ 7	$ 12	$ 12
Operational incentives	1	12	10
Energy efficiency and demand side management	2	28	12
Unbundled natural gas storage and hub services	19	15	26
Total awards	$ 29	$ 67	$ 60
SDG&E			
Natural gas procurement	$ -	$ 3	$ 2
Operational incentives	1	10	9
Energy efficiency and demand side management	-	23	12
Total awards	$ 1	$ 36	$ 23
SoCalGas			
Natural gas procurement	$ 7	$ 9	$ 10
Operational incentives	-	2	1
Energy efficiency and demand side management	2	5	-
Unbundled natural gas storage and hub services	19	15	26
Total awards	$ 28	$ 31	$ 37

Operational Incentives

The CPUC has established operational incentive mechanisms that have been based on measurements of safety, reliability and customer satisfaction. The 2008 GRC proposed modified performance measures for customer satisfaction for both SDG&E and SoCalGas, and electric reliability for SDG&E. The Sempra Utilities filed responses in September 2008 rejecting the electric reliability and customer satisfaction measures. As a result, effective in 2008, the Sempra Utilities are no longer eligible for awards or subject to penalties for electric reliability and customer satisfaction.

The Sempra Utilities plan to submit their employee safety results and incentive awards claims in May 2010 for performance in 2009.

Energy Efficiency and Demand Side Management

The CPUC established incentive mechanisms that are based on the effectiveness of energy efficiency and demand side management programs. The CPUC-approved energy efficiency awards in 2008 were net of a holdback of 65 percent. In May 2009, SDG&E and SoCalGas filed a partial party settlement agreement regarding the appropriate method to determine incentive awards for the 2006 – 2008 program period. The settlement, if approved by the CPUC, would have resulted in 1) awards of $10.7 million for SDG&E and $12.5 million for SoCalGas; and 2) upon conclusion of the CPUC's assessment and audit process, awards of up to $11.6 million for SDG&E and $9.5 million for SoCalGas for the remaining holdback amounts. The CPUC issued a decision in December 2009 rejecting the settlement agreement and instead awarding $0.3 million and $2.1 million to SDG&E and SoCalGas, respectively. The decision held back 35 percent of the program incentive awards pending a final true-up in 2010. In the first quarter of 2010, the Sempra Utilities expect to file a petition for modification of the December 2009 decision to address errors identified in the decision.

In September 2009, the CPUC approved the Sempra Utilities' energy efficiency programs through 2012 and will use a similar annual review process to determine any utility incentive awards. The CPUC is also considering future enhancements to the overall incentive award process and mechanism, and a draft decision on possible changes will likely be issued in the first half of 2010.

Natural Gas Procurement

The Sempra Utilities procure natural gas on behalf of their core natural gas customers. The CPUC has established incentive mechanisms to allow the Sempra Utilities the opportunity to share in the savings and/or costs from buying natural gas for its core customers at prices below or above market-based monthly benchmarks. Beginning April 1, 2008, the SDG&E and SoCalGas core natural gas supply portfolios were combined, and SoCalGas now procures natural gas for SDG&E's core natural gas customers' requirements. All SDG&E assets associated with its core natural gas supply portfolio were transferred or assigned to SoCalGas. Accordingly, SDG&E's incentive mechanism for natural gas procurement awards or penalties ended as of the effective date of the combination of the core natural gas supply portfolios, and SoCalGas' gas cost incentive mechanism (GCIM) is applied on the combined portfolio basis going forward.

In January 2010, the CPUC approved a SoCalGas GCIM award of $12 million for its procurement activities in the 12-month period ended March 31, 2009, which will be recorded in the first quarter of 2010.

Unbundled Natural Gas Storage and System Operator Hub Services

The CPUC has established a revenue sharing mechanism which provides for the sharing between ratepayers and SoCalGas of the net revenues generated by SoCalGas' unbundled natural gas storage and system operator hub services. In 2008, the CPUC adopted an uncontested settlement agreement in Phase I of the Sempra Utilities' Biennial Cost Allocation Proceeding (BCAP) which, among other things, established that the annual net revenues (revenues less allocated service costs) be shared on a graduated basis, as follows:

- the first $15 million of net revenue to be shared 90 percent ratepayer/10 percent shareholders;
- the next $15 million of net revenue to be shared 75 percent ratepayer/25 percent shareholders;
- all additional net revenues to be shared evenly between ratepayer and shareholders; and

- the maximum total annual shareholder-allocated portion of the net revenues cannot exceed $20 million.

COST OF CAPITAL

A cost of capital proceeding determines the Sempra Utilities' authorized capital structure and the authorized rate of return that the Sempra Utilities may earn on their electric and natural gas distribution and electric generation assets.

SoCalGas

SoCalGas' authorized return on equity (ROE) is 10.82 percent and its authorized return on rate base (ROR) is 8.68 percent. These rates continue to be effective until market interest rate changes are large enough to trigger an automatic adjustment or until the CPUC orders a periodic review. SoCalGas' current authorized capital structure is

- 48.0 percent common equity
- 6.4 percent preferred equity
- 45.6 percent long-term debt

In July 2009, the CPUC denied SoCalGas' petition seeking to suspend its cost of capital Market Index Capital Adjustment Mechanism (MICAM). SoCalGas believes that the index used for the MICAM does not provide a strong correlation with utility risks and that further government actions to manage interest rates could increase the likelihood of triggering the MICAM in the future. Although the MICAM did not trigger in 2009, SoCalGas may eventually seek a change in the MICAM benchmarks to defer any resultant change in its cost of capital and propose a more indicative index associated with the natural gas distribution business.

SDG&E

SDG&E's authorized ROE is 11.10 percent and its authorized ROR is 8.40 percent. SDG&E's current authorized capital structure is

- 49.00 percent common equity
- 5.75 percent preferred equity
- 45.25 percent long-term debt

In January 2010, the CPUC approved SDG&E's and the DRA's joint petition to delay SDG&E's next scheduled cost of capital application for two years. With this approval, SDG&E's next cost of capital application is scheduled to be filed in April 2012, consistent with the schedule for cost of capital applications for each of Edison and Pacific Gas and Electric (PG&E).

ADVANCED METERING INFRASTRUCTURE

SDG&E

In April 2007, the CPUC approved SDG&E's request to install advanced meters with integrated two-way communications functionality, including electric remote disconnect and home area network capability. SDG&E estimates expenditures for this project of $572 million (including approximately $500 million in capital investment). This project involves replacing approximately 1.4 million electric meters and 850,000 natural gas meters throughout SDG&E's service territory. SDG&E began mass installation of the advanced meters in March 2009, and is on schedule to complete the project by the end of 2011.

SoCalGas

In September 2008, SoCalGas filed an application with the CPUC for approval to upgrade approximately six million natural gas meters with an advanced metering infrastructure (AMI) at an estimated cost of $1.1 billion (including approximately $900 million in capital investment). The administrative law judge's (ALJ) preliminary decision and an assigned commissioner's alternate decision (AD) were both issued in February 2010. While the ALJ draft decision finds a gas-only AMI system is consistent with the state's energy policy goals and that the AMI system is technically feasible, the ALJ draft decision finds that the gas-only AMI system is not cost effective. The AD approves the project and finds that the proposal provides reasonable assurance that the project can be cost effective for ratepayers, provided that adequate safeguards are put in place. We expect a final CPUC decision in mid-2010. If approved, installation of the meters is expected to begin in 2012 and continue through 2017.

2007 WILDFIRES COST RECOVERY

SDG&E filed an application with the CPUC in March 2009 seeking to recover the incremental cost incurred to replace and repair company facilities under CPUC jurisdiction damaged by the October 2007 wildfires. This application was filed in accordance with the CPUC rules governing incremental costs incurred as a result of a declared emergency or catastrophic event. The DRA filed a protest to SDG&E's request for recovery of the incremental costs, requesting that the CPUC stay the proceeding until completion of the fire investigations, which we describe in Note 17. SDG&E and the DRA have reached an agreement in principle regarding the cost recovery request which, if approved by the CPUC, would result in SDG&E recovering $43 million. A formal settlement agreement is being finalized, but no specific filing date has been established.

SDG&E also incurred $30.1 million of incremental costs for the replacement and repair of company facilities under FERC jurisdiction, which are currently being recovered in SDG&E's electric transmission rates.

In regard to the 2007 wildfire litigation discussed in Note 17, if SDG&E's liability were to exceed the remaining amounts recoverable from its insurers, SDG&E will file with the FERC and the CPUC for recovery of the excess costs from utility customers. SDG&E is continuing to evaluate the likelihood, amount and timing of any such recoveries.

INSURANCE COST RECOVERY

SDG&E filed an application with the CPUC in August 2009 seeking authorization to recover higher liability insurance premium and deductible expenses which SDG&E began incurring on July 1, 2009. Evidentiary hearings are scheduled for April 2010 and a final CPUC decision is expected by the end of 2010. SDG&E made the filing under the CPUC’s rules allowing utilities to seek recovery of significant cost increases resulting from unforeseen circumstances. SDG&E is requesting a $29 million revenue requirement for the 2009/2010 policy period for the incremental increase in its liability and wildfire insurance premium costs above what is currently authorized in rates. The CPUC's rules allow a utility to recover costs that meet certain criteria, subject to a $5 million deductible per event. Through December 31, 2009, SDG&E has expensed $15 million (pretax) of incremental insurance premiums associated with this wildfire coverage.

FUTURE EXCESS CLAIMS COST RECOVERY

SDG&E and SoCalGas filed an application with the CPUC in August 2009 proposing a new mechanism for the full recovery of future wildfire-related claims, litigation and insurance premium expenses that are in excess of amounts authorized by the CPUC for recovery in rates. The filing was made jointly with Edison and PG&E. The utilities are asking the CPUC to approve their joint request by the second quarter of 2010. Several parties protested the request and a proceeding schedule has not yet been established.

GREENHOUSE GAS REGULATION

Legislation was enacted in 2006, including California Assembly Bill 32 (AB 32) and California Senate Bill 1368, mandating reductions in greenhouse gas emissions. The CARB is the lead agency in developing a plan to meet these requirements and is in the process of developing rules and market mechanisms that will be implemented on January 1, 2012. The CPUC and CEC are also in the process of making recommendations to the CARB regarding the rules that should apply for the electricity and natural gas sectors. The CARB's formal AB 32 Scoping Plan was adopted in December 2008.

The U.S. Environmental Protection Agency (EPA) has announced that it will complete a review of the national ambient air quality standards by the end of 2011 for ozone (nitrogen oxide and volatile organic chemicals), particulate matter, carbon monoxide, nitrogen dioxide, sulfur dioxide, and lead. This review could result in more stringent emissions limits on fossil-fired electric generating plants.

These legislative mandates could affect costs and growth at the Sempra Utilities and at Sempra Generation's power plants. Any cost impact at the Sempra Utilities is expected to be recoverable through rates. As discussed in Note 17 under "Environmental Issues," compliance with this and similar legislation could adversely affect Sempra Generation. However, such legislation could also have a positive impact on Sempra Generation because of an increasing preference for natural gas and renewables for electric generation, as opposed to other sources.

NOTE 17. COMMITMENTS AND CONTINGENCIES

LEGAL PROCEEDINGS

We record loss reserves for legal proceedings when it is probable that a loss has been incurred and the amounts of the loss can be reasonably estimated. However, the uncertainties inherent in legal proceedings make it difficult to estimate with reasonable certainty the costs and effects of resolving these matters. Accordingly, actual costs incurred may differ materially from reserved amounts or exceed applicable insurance coverages and could materially adversely affect our business, cash flows, results of operations, and financial condition.

At December 31, 2009, Sempra Energy's reserves for legal proceedings, on a consolidated basis, were $465 million, of which $270 million is offset by an insurance receivable for wildfire litigation and $161 million is for previously resolved matters, as described further below. At December 31, 2009, SDG&E and SoCalGas had reserves of $290 million (including the $270 million offset) and $11 million, respectively.

SDG&E 2007 Wildfire Litigation

In October 2007, San Diego County experienced several catastrophic wildfires. Reports issued by the California Department of Forestry and Fire Protection (Cal Fire) concluded that two of these fires (the Witch and Rice fires) were SDG&E "power line caused" and that a third fire (the Guejito fire) occurred when a wire securing a Cox Communications' fiber optic cable came into contact with an SDG&E power line "causing an arc and starting the fire." Cal Fire reported that the Rice fire burned approximately 9,500 acres and damaged 206 homes and two commercial properties, and the Witch and Guejito fires merged and eventually burned approximately 198,000 acres, resulting in two fatalities, approximately 40 firefighters injured and approximately 1,141 homes destroyed.

A September 2008 staff report issued by the CPUC's Consumer Protection and Safety Division reached substantially the same conclusions as the Cal Fire reports, but also contended that the power lines involved in the Witch and Rice fires and the lashing wire involved in the Guejito fire were not properly designed, constructed and maintained. In November 2008, the CPUC initiated proceedings to determine if any of its rules were violated and in October 2009, SDG&E and the Consumer Protection and Safety Division entered into a settlement agreement that, if approved by the CPUC, would resolve these proceedings by SDG&E's payment of $14.75 million without any admission of responsibility for the wildfires.

Numerous plaintiffs have sued SDG&E and Sempra Energy in San Diego County Superior Court seeking recovery of unspecified amounts of damages, including punitive damages, from the three fires. Plaintiffs include owners and insurers of properties that were destroyed or damaged in the fires and public entities seeking recovery of firefighting, emergency response, and environmental costs. Plaintiffs assert various bases for recovery, including inverse condemnation based upon a California Court of Appeal decision finding that another California investor-owned utility was subject to strict liability, without regard to foreseeability or negligence, for damages resulting from a wildfire ignited by power lines. In June 2009, the trial court ruled that the plaintiffs' claims must be pursued in individual lawsuits (rather than as class actions on behalf of all persons who incurred wildfire damages), and the plaintiffs have appealed that ruling.

SDG&E has filed cross-complaints against Cox Communications seeking indemnification for any liability that SDG&E may incur that relates to the Guejito fire and may file additional actions against other parties relating to the Witch and Rice fires.

By early February 2010, SDG&E and homeowner insurers holding almost all of the insurer plaintiffs' 19,000 claims entered into settlement agreements resolving all of their claims relating to the three wildfires. These include claims for amounts paid or reserved for payment by the insurers to their policyholders for approximately 1,000 of the 1,300 houses, mobile homes, and apartment units identified in public records as having been destroyed by the three fires.

Under the settlement agreements, SDG&E has paid or will pay the settling insurers 57.5 percent of the approximately $1.6 billion paid or reserved for payment by the insurers to their policyholders, and the settling insurers have assigned their claims against Cox Communications and other potentially responsible parties to SDG&E. In addition to the claims of homeowner insurers, the wildfire litigation also includes claims for damage to uninsured and underinsured structures, business interruption, evacuation expenses, agricultural damage, emotional harm, personal injuries and other losses. Of the approximately 2,500 remaining plaintiffs, primarily individuals and businesses, only approximately 500 have thus far submitted settlement demands. Individual and business demands total approximately $430 million. In addition, government entities have submitted a total of approximately $135 million in demands, and additional demands from these entities are expected.

After giving effect to the amounts paid and to be paid in connection with the homeowner insurer settlements, additional reserves and estimated defense costs, SDG&E's remaining insurance coverage for the wildfire liabilities is approximately $20 million. SDG&E is continuing to gather information to evaluate and assess estimated liabilities related to the wildfires and establishes reserves as data for specific claims becomes available and probable damages are able to be estimated.

SDG&E does not at this time have sufficient information to reasonably estimate the costs of resolving the remaining unreserved wildfire claims. It is also unable to reasonably estimate the amount that it may recover from Cox Communications and other potentially responsible parties both in respect of the amounts it has already expended to settle claims and amounts that it may expend in the future.

However, before giving effect to any amounts that it may recover from Cox Communications and other potentially responsible parties, SDG&E expects that the aggregate costs that it may incur in resolving the remaining unreserved wildfire claims will substantially exceed its insurance coverage. If its liability for the three wildfires were to exceed the remaining insurance, SDG&E will file with the FERC and the CPUC to recover the excess amount from utility customers. SDG&E is continuing to evaluate the likelihood, amount and timing of any such recoveries.

If SDG&E were unable to conclude that recovery from utility customers is likely, either on a current basis or in the future, SDG&E's and therefore Sempra Energy's earnings would be materially adversely affected to the extent that it resolves wildfire claims or obtains sufficient information to establish reserves for amounts that exceed its remaining insurance, even though all or a portion of such amounts (including amounts already paid in settlements with homeowner insurers) may ultimately be recovered from Cox Communications and other potentially responsible parties or from utility customers in subsequent reporting periods. Cash flow would also be adversely affected by any delays in obtaining any such recoveries.

In light of the complexity of these matters and the large number of parties involved, the wildfire litigation, including any appeals, could take several years to be resolved.

DWR Contract

In February 2002, the California Energy Oversight Board (CEOB) and the CPUC filed challenges at the FERC to the DWR's contracts with Sempra Generation and other power suppliers. After the FERC upheld the contracts in 2003, the CEOB and CPUC appealed to the U.S. Court of Appeals for the Ninth Circuit (Ninth Circuit Court of Appeals) and challenged the FERC's application of the Mobile-Sierra doctrine's "public interest" standard of review to the contracts. In June 2008, the United States Supreme Court (Supreme Court) ruled that the FERC was correct to apply the Mobile-Sierra doctrine (which presumes that contract rates are just and reasonable) absent a demonstration that one of the contracting parties engaged in unlawful market manipulation that directly affected contract rates. The Supreme Court ruled that the FERC should clarify its findings on this issue and consider whether the contract rates seriously harm the public interest. The FERC has not yet acted.

At various times since the contract's inception, Sempra Generation and the DWR have also had disputes regarding the meaning of terms and performance of the agreement under which Sempra Generation sells electricity to the DWR. In 2002, in a state civil action, the DWR sought to terminate its contract with Sempra Generation claiming misrepresentation and breach of contract, and seeking rescission, damages, injunctive and declaratory relief, and $100 million in punitive damages. After various procedural decisions and appeals, on November 30, 2009, a San Diego jury returned a verdict denying all of the DWR's claims and requested relief, and granting all of Sempra Generation's requested relief. The DWR has appealed the judgment.

In February 2006, the DWR began an additional arbitration against Sempra Generation related to the manner in which Sempra Generation schedules its Mexicali plant. The DWR sought $100 million in damages and an order terminating the contract. Arbitration hearings were held in November 2008, and in January 2009, the arbitration panel issued a decision denying all of the DWR's claims. The panel decision was confirmed by the San Francisco Superior Court in May 2009.

In September 2008, the DWR initiated another arbitration proceeding against Sempra Generation, alleging that Sempra Generation had breached the parties' agreement in various operational respects, and violated the order issued by an earlier arbitration panel relating to the amount refunded to the DWR and the manner in which Sempra Generation operates. The DWR seeks approximately $80 million in damages and an order terminating the contract. Arbitration hearings are scheduled for August 2010.

FERC Refund Proceedings

The FERC is investigating prices charged by various electric suppliers to buyers in the California Power Exchange (PX) and ISO markets. In March 2003, the FERC ordered suppliers to pay refunds on certain sales made during the October 2, 2000 through June 20, 2001 time period.

Various parties, including Sempra Commodities, appealed the FERC's order to the Ninth Circuit Court of Appeals. In August 2006, the Ninth Circuit Court of Appeals held that the FERC had properly established October 2, 2000 through June 20, 2001 as the refund period and had properly excluded certain short-term bilateral transactions between sellers and the DWR from the refund proceedings. However, the court also held that the FERC erred in excluding certain multi-day transactions from the refund proceedings. Finally, while the court upheld the FERC's decision not to extend the refund proceedings to the summer period (prior to October 2, 2000), it found that the FERC should have considered other remedies for tariff violations that are alleged to have occurred prior to October 2, 2000. The FERC is in the process of addressing these issues on remand.

In August 2007, the Ninth Circuit Court of Appeals issued a decision reversing and remanding FERC orders declining to provide refunds in a related proceeding regarding short-term bilateral sales up to one month in the Pacific Northwest. The court found that some of the short-term sales between the DWR and various sellers (including Sempra Commodities) that had previously been excluded from the refund proceeding involving sales in the ISO and PX markets in California were within the scope of the Pacific Northwest refund proceeding. The FERC has not yet acted on the court's order.

In a separate complaint filed with the FERC in 2002, the California Attorney General contended that electricity sellers had failed to comply with the FERC's quarterly reporting requirements. The Attorney General requested that the FERC order refunds from suppliers. The FERC dismissed the complaint and instead ordered sellers to restate their reports. After an appeal by the California Attorney General, the Ninth Circuit Court of Appeals stated that failure to file transaction-specific quarterly reports gave the FERC authority to order refunds with respect to jurisdictional sellers. The FERC is in the process of addressing these issues on remand.

In May 2009, the California Attorney General filed another complaint at the FERC against various sellers, including Sempra Commodities. In this complaint, the Attorney General seeks to collect for alleged overcharges related to short-term bilateral transactions between sellers and the DWR from January 18, 2001 through June 20, 2001. These transactions also have been the subject of the Ninth Circuit Court of Appeals' orders in the proceedings described above. The FERC has not yet acted on the complaint.

In the cases described above, the FERC could order additional refunds or the disgorgement of profits. RBS Sempra Commodities has reserves for its estimate of the effect of the FERC's revision of the benchmark prices it will use to calculate refunds and other related developments. Pursuant to the agreements related to the formation of RBS Sempra Commodities, we have indemnified RBS related to these proceedings should the liability from the final resolution be greater than the reserves.

FERC Manipulation Investigation

The FERC has separately investigated whether there was manipulation of short-term energy markets in the western United States that would constitute violations of applicable tariffs and warrant disgorgement of associated profits.

In June 2003, the FERC ordered a number of entities, including Sempra Commodities, to show why they should not disgorge profits from certain transactions between January 1, 2000 and June 20, 2001 that are asserted to have constituted gaming and/or anomalous market behavior under the California ISO and/or PX tariffs. In October 2003, Sempra Commodities agreed to pay $7.2 million in full resolution of these investigations. That liability was recorded as of December 31, 2003. The Sempra Commodities settlement was approved by the FERC in August 2004 and reaffirmed in November 2008. The California parties have appealed the FERC's orders to the Ninth Circuit Court of Appeals.

Other Litigation

Sempra Energy and several subsidiaries, along with three oil and natural gas companies, the City of Beverly Hills, and the Beverly Hills Unified School District, are defendants in a toxic tort lawsuit filed in Los Angeles County Superior Court by approximately 1,000 plaintiffs. This lawsuit claims that various emissions resulted in cancer or fear of cancer. We have submitted the case to our insurers, who have reserved their rights with respect to coverage. In November 2006, the court granted the defendants' summary judgment motions based on lack of medical causation for the 12 initial plaintiffs scheduled to go to trial first. The court also granted summary judgment excluding punitive damages. The court has stayed the case as to the remaining plaintiffs pending the appeal of the rulings.

RBS Sempra Commodities assumed litigation reserves related to Sempra Commodities, however, we have indemnified RBS should the liabilities from the final resolution of these matters be greater than the reserves.

We are also defendants in ordinary routine litigation incidental to our businesses, including personal injury, product liability, property damage and other claims. California juries have demonstrated an increasing willingness to grant large awards, including punitive damages, in these cases.

Resolved Matters

The reserves for legal proceedings described above include amounts for resolved matters that are primarily related to certain litigation arising out of the 2000 – 2001 California energy crisis.

The following is a description of specific litigation settlements.

Continental Forge Settlement

At December 31, 2009, $161 million of reserves at Sempra Energy relate to the Continental Forge class-action and individual antitrust and unfair competition lawsuits in California and Nevada, which alleged that Sempra Energy and the Sempra Utilities unlawfully sought to control natural gas and electricity markets. The detailed terms of these settlements were reported previously, and included cash payments, in annual installments, totaling $377 million. As provided for under the terms of the agreement, in November 2009, we prepaid the remaining installments with a lump sum of $119 million, including accrued interest and discounted at seven percent, which satisfied all cash payment obligations.

Additional consideration for the January 2006 California settlement includes an agreement that Sempra LNG would sell to the Sempra Utilities, subject to annual CPUC approval, regasified liquefied natural gas (LNG) from Sempra LNG's Energía Costa Azul facility for a period of 18 years beginning in 2011 at the California border index price minus $0.02 per million British thermal units (MMBtu). Also, Sempra Generation voluntarily would reduce the price that it charges for power and limit the locations at which it would deliver power under its DWR contract.

Other Cases

Sempra Energy. As previously reported, in January 2009, we agreed to pay $2 million to settle five cases pending in Nevada claiming that energy prices had been manipulated. The settlement amount was paid following court approval of the settlement in August 2009.

SoCalGas. As previously reported, in May 2009, SoCalGas settled for a nominal amount class action litigation relating to its retirement plans. The court approved the settlement in October 2009.

Wildfire Reserves and Insurance Receivables

Based on discussions with the homeowner insurers in the litigation that resulted in the settlements of their claims in the SDG&E wildfire litigation described above, SDG&E concluded in the first six months of 2009 that its exposure to the homeowner insurers was reasonably estimable and established a reserve of $940 million that was recorded as a current liability in the Consolidated Balance Sheets and was fully offset by a current receivable of $940 million payable from SDG&E's $1.1 billion of liability insurance. In the fourth quarter of 2009, SDG&E recorded additional reserves and a corresponding receivable from its liability insurance for additional settlements with the homeowner insurers and reasonably estimable amounts related to the claims of other plaintiffs. There was no effect on SDG&E's or Sempra Energy's 2009 earnings from the recording of the reserves. In 2009, cash received from liability insurance ($662 million), net of settlement payments ($652 million), was $10 million. Also, SDG&E's insurance paid $150 million of claims directly to plaintiffs. After payments by SDG&E's liability insurers in 2009, remaining reserves at December 31, 2009 were $270 million. The remaining receivable of $273 million reflects timing differences between payments by SDG&E's liability insurers and settlement payments.

NATURAL GAS CONTRACTS

Natural Gas

SoCalGas has the responsibility for procuring natural gas for both SDG&E’s and SoCalGas’ core customers in a combined portfolio. SoCalGas buys natural gas under short-term and long-term contracts for this portfolio. Purchases are from various southwestern U.S., U.S. Rockies, Canadian and California suppliers and are primarily based on published monthly bid-week indices.

SoCalGas transports natural gas primarily under long-term firm interstate pipeline capacity agreements that provide for annual reservation charges, which are recovered in rates. SoCalGas has commitments with interstate pipeline companies for firm pipeline capacity under contracts that expire at various dates through 2025.

At December 31, 2009, the future minimum payments under existing natural gas contracts and natural gas storage and transportation contracts were:

Sempra Energy Consolidated

(Dollars in millions)	Transportation	Natural Gas(1)	Total(1)
2010	$ 123	$ 1,039	$ 1,162
2011	80	315	395
2012	46	7	53
2013	45	7	52
2014	35	6	41
Thereafter	176	-	176
Total minimum payments	$ 505	$ 1,374	$ 1,879

(1) Excludes amounts related to Sempra LNG's contracts with Tangguh PSC and RasGas discussed below.

SoCalGas

(Dollars in millions)	Transportation	Natural Gas	Total
2010	$ 123	$ 1,003	$ 1,126
2011	80	309	389
2012	46	3	49
2013	45	3	48
2014	35	3	38
Thereafter	176	-	176
Total minimum payments	$ 505	$ 1,321	$ 1,826

Total payments under these natural gas contracts were:

	Years ended December 31,		
(Dollars in millions)	2009	2008	2007
Sempra Energy Consolidated	$ 1,754	$ 3,469	$ 2,976
SDG&E	-	12	390
SoCalGas	1,452	3,145	2,413

LNG

Sempra LNG has a purchase agreement with Tangguh PSC Contractors (Tangguh PSC) for the supply of LNG equivalent to 500 million cubic feet of natural gas per day to be delivered from Tangguh PSC's Indonesian liquefaction facility to the Energía Costa Azul receipt terminal. The contracted deliveries under this 20-year agreement began in late 2009 and will use half of the capacity of Energía Costa Azul. The price of LNG under this contract is based on the Southern California border index.

Although the LNG purchase contract specifies a minimum number of cargoes to be delivered, under the terms of the contract, Tangguh PSC may divert certain cargoes to other customers, which would reduce amounts paid under the contract by Sempra LNG. As of December 31, 2009, if all cargoes under the contract were to be delivered, future payments under this contract would be

- $847 million in 2010
- $1.0 billion in 2011
- $1.0 billion in 2012
- $1.1 billion in 2013
- $1.1 billion in 2014
- $18.2 billion for the remainder of the contract term

The amounts above are based on forward prices of the Southern California border index price from 2010 to 2014, plus an estimated one percent escalation per year beyond 2014. Sempra LNG has a natural gas sales contract to sell a portion of the LNG purchased from Tangguh PSC to Mexico's national electric company, Comisión Federal de Electricidad (CFE) at prices that are based on the Southern California border index price. Sempra LNG also has a natural gas sales agreement with RBS Sempra Commodities for RBS Sempra Commodities to market any volumes purchased from Tangguh PSC that are not sold by Sempra LNG to the CFE.

Sempra LNG has a purchase agreement with Ras Laffan Liquefied Natural Gas Company Limited (RasGas) for the supply of LNG cargoes to be delivered by RasGas to Sempra LNG's Cameron LNG receipt terminal. Under this agreement, effective August 2009 through the end of 2010, RasGas has the option to deliver and sell up to 52 cargoes to Sempra LNG, at a price based on market prices in the U.S. Gulf of Mexico. As of December 31, 2009, RasGas may deliver up to 32 cargoes through 2010. If all cargoes were to be delivered, payments in 2010 for these cargoes would be approximately $813 million.

PURCHASED-POWER CONTRACTS

For 2010, SDG&E expects to receive 25 percent of its customer power requirements from DWR allocations. The remaining requirements are expected to be met as follows

- SONGS: 17 percent
- Long-term contracts: 23 percent (of which 10 percent is provided by renewable energy contracts expiring on various dates through 2025)
- Other SDG&E-owned generation (including Palomar) and tolling contracts (including OMEC and Orange Grove): 28 percent
- Spot market purchases: 7 percent

The long-term contracts expire on various dates through 2035.

At December 31, 2009, the estimated future minimum payments under SDG&E's long-term purchased-power contracts (not including the DWR allocations) were:

(Dollars in millions)	
2010	$ 335
2011	238
2012	238
2013	235

2014		194
Thereafter		1,425
Total minimum payments(1)	$	2,665

(1) *Excludes amounts related to Otay Mesa VIE and Orange Grove VIE as they are consolidated at SDG&E.*

The payments represent capacity charges and minimum energy purchases. SDG&E is required to pay additional amounts for actual purchases of energy that exceed the minimum energy commitments. Excluding DWR-allocated contracts, total payments under the contracts were:

- $413 million in 2009
- $393 million in 2008
- $351 million in 2007

OPERATING LEASES

Sempra Energy, SDG&E, PE and SoCalGas have operating leases on real and personal property expiring at various dates from 2010 to 2045. Certain leases on office facilities contain escalation clauses requiring annual increases in rent ranging from two percent to six percent at Sempra Energy, two percent to six percent at SDG&E, and two percent to five percent at both PE and SoCalGas. The rentals payable under these leases may increase by a fixed amount each year or by a percentage of a base year, and most leases contain extension options that we could exercise.

The Sempra Utilities had an operating lease agreement for fleet vehicles with GE Capital that was terminated in November 2008, with remaining rental commitments to be paid by January 2011. In November 2008, to replace the prior agreement, the Sempra Utilities entered into an operating lease agreement for fleet vehicles with RBS Asset Finance, Inc. with an aggregate maximum lease limit of $100 million.

Rent expense for all operating leases totaled:

	Years ended December 31,		
(Dollars in millions)	2009	2008	2007
Sempra Energy Consolidated	$ 101	$ 100	$ 141
SDG&E	24	25	24
PE	65	65	68
SoCalGas	52	52	54

At December 31, 2009, the minimum rental commitments payable in future years under all noncancelable operating leases were as follows:

(Dollars in millions)	Sempra Energy Consolidated	SDG&E	PE	SoCalGas
2010	$ 88	$ 20	$ 50	$ 43
2011	77	19	36	36
2012	46	17	6	6
2013	42	15	5	5
2014	41	14	4	4
Thereafter	360	58	12	12
Total future rental commitments	$ 654	$ 143	$ 113	$ 106

CAPITAL LEASES

During 2009, the Sempra Utilities entered into an agreement with U.S. Bancorp Asset Finance which provides leases for fleet vehicles that were not renewed under the agreement with GE Capital, which we discuss above. Under the agreement with U.S. Bancorp Asset Finance, the leases for fleet vehicles are capital leases.

Total capital lease payments were as follows:

(Dollars in millions)	Year ended December 31, 2009
Sempra Energy Consolidated	$ 4
SDG&E	1
SoCalGas	3

There were no capital lease payments in 2008 or 2007.

At December 31, 2009, the minimum commitments payable in future years under all capital leases were as follows:

(Dollars in millions)	Sempra Energy Consolidated	SDG&E	SoCalGas
2010	$ 16	$ 5	$ 11
2011	12	5	7
2012	10	5	5
2013	5	3	2
2014	3	2	1
Thereafter	-	-	-
Total future rental commitments	$ 46	$ 20	$ 26

CONSTRUCTION AND DEVELOPMENT PROJECTS

Sempra Energy has various capital projects in progress in the United States and in Mexico. The following is a summary of contractual commitments and contingencies related to the construction projects.

SDG&E

At December 31, 2009, SDG&E has commitments to make future payments of $453 million for construction projects including:

- $219 million for implementation of the Advanced Metering Infrastructure Program;
- $166 million for the engineering, material procurement and construction costs associated with the Sunrise Powerlink project; and
- $49 million related to the replacement of the steam generators and other construction projects at SONGS.

SDG&E expects future payments under these contractual commitments to be $355 million in 2010, $81 million in 2011 and $17 million in 2012.

SoCalGas

At December 31, 2009, SoCalGas has commitments to make future payments of $48 million for construction and infrastructure improvements for natural gas transmission and distribution operations. The future payments under these contractual commitments are expected to be $47 million in 2010 and $1 million in 2011.

Sempra Pipelines & Storage

Sempra Pipelines & Storage has commitments for the construction of natural gas storage facilities at Bay Gas and Mississippi Hub. At December 31, 2009, Sempra Pipelines & Storage expects to make payments of $16 million and $30 million, respectively, in 2010 under these contracts.

Sempra Pipelines & Storage owns 75 percent of the partnership that is developing the Liberty Gas Storage facility located in Cameron Parish, Louisiana. The partnership is committed to construction agreements and expects to make payments of $1 million in 2010 under these agreements.

GUARANTEES

Sempra Energy's guarantees related to RBS Sempra Commodities and Rockies Express are discussed in Note 6.

As of December 31, 2009, SDG&E and SoCalGas did not have any outstanding guarantees.

SEMPRA GENERATION'S CONTRACT WITH THE DWR

In May 2001, Sempra Generation entered into a ten-year agreement with the DWR to supply up to 1,900 MW of power to California. Sempra Generation delivers energy to the DWR, primarily from its portfolio of natural gas-fired plants in the western United States and Baja California, Mexico. Additional information concerning this contract is provided under "Legal Proceedings - DWR Contract" above.

DEPARTMENT OF ENERGY NUCLEAR FUEL DISPOSAL

The Nuclear Waste Policy Act of 1982 made the DOE responsible for the disposal of spent nuclear fuel. However, it is uncertain when the DOE will begin accepting spent nuclear fuel from SONGS. This delay will lead to increased costs for spent fuel storage. This cost will be recovered through SONGS revenue unless SDG&E is able to recover the increased cost from the federal government.

OTHER

We discuss reserves at Sempra Energy and SDG&E for wildfire litigation above in "SDG&E Wildfire Litigation."

ENVIRONMENTAL ISSUES

Our operations are subject to federal, state and local environmental laws. We also are subject to regulations related to hazardous wastes, air and water quality, land use, solid waste disposal and the protection of wildlife. These laws and regulations require that we investigate and correct the effects of the release or disposal of materials at sites associated with our past and our present operations. These sites include those at which we have been identified as a Potentially Responsible Party (PRP) under the federal Superfund laws and similar state laws.

In addition, we are required to obtain numerous governmental permits, licenses and other approvals to construct facilities and operate our businesses. The related costs of environmental monitoring, pollution control equipment, cleanup costs, and emissions fees are significant. Increasing national and international concerns regarding global warming and mercury, carbon dioxide, nitrogen oxide and sulfur dioxide emissions could result in requirements for additional pollution control equipment or significant emissions fees or taxes that could adversely affect Sempra Generation. The Sempra Utilities' costs to operate their facilities in compliance with these laws and regulations generally have been recovered in customer rates.

We generally capitalize the significant costs we incur to mitigate or prevent future environmental contamination or extend the life, increase the capacity, or improve the safety or efficiency of property used in current operations. The following table shows (in millions) our capital expenditures in order to comply with environmental laws and regulations:

	Years ended December 31,		
	2009	2008	2007
Sempra Energy Consolidated(1)	$ 43	$ 30	$ 19
SDG&E	24	18	11
SoCalGas	17	9	6

(1) In cases of non-wholly owned affiliates, includes only our share.

Increases in 2009 compared to 2008 are primarily due to SoCalGas' spending on gas transmission projects, SDG&E's improvements to its electric transmission system and spending on emissions-control equipment. Increases in 2008 compared to 2007 are primarily due to SDG&E's spending related to the Sunrise Powerlink and the Miramar II peaking plant, and Sempra LNG's spending related to the Energía Costa Azul LNG receipt terminal. We have not identified any significant environmental issues outside the United States. From 2009 through 2013, SDG&E expects to incur costs of approximately $190 million for environmental mitigation measures associated with the Sunrise Powerlink construction project.

At the Sempra Utilities, costs that relate to current operations or an existing condition caused by past operations are generally recorded as a regulatory asset due to the probability that these costs will be recovered in rates.

The environmental issues currently facing us or resolved during the last three years include 1) investigation and remediation of the Sempra Utilities' manufactured-gas sites, 2) cleanup of third-party waste-disposal sites used by the Sempra Utilities at sites which have been identified as PRPs and 3) mitigation of damage to the marine environment caused by the cooling-water discharge from SONGS. The requirements for enhanced fish protection and restoration of 150 acres of coastal wetlands for the SONGS mitigation are in process and a 150-acre artificial reef was completed in 2008. The table below shows the status at December 31, 2009, of the Sempra Utilities' manufactured-gas sites and the third-party waste-disposal sites identified as PRPs:

	# Sites Completed	# Sites In Process
SDG&E		
Manufactured-gas sites	3	-
Third-party waste-disposal sites	1	1
SoCalGas		
Manufactured-gas sites	35	7
Third-party waste-disposal sites	1	1

We record environmental liabilities at undiscounted amounts when our liability is probable and the costs can be reasonably estimated. In many cases, however, investigations are not yet at a stage where we can determine whether we are liable or, if the liability is probable, to reasonably estimate the amount or range of amounts of the costs. Estimates of our liability are further subject to uncertainties such as the nature and extent of site contamination, evolving cleanup standards and imprecise engineering evaluations. We review our accruals periodically and, as investigations and cleanup proceed, we make adjustments as necessary. The following table shows (in millions) our accrued liabilities for environmental matters at December 31, 2009:

	Manufactured Gas Sites	Waste Disposal Sites (PRP)(1)	Former Fossil-Fueled Power Plants	Other Hazardous Waste Sites	Total
SDG&E(2)	$ 0.4	$ 0.2	$ 6.1	$ 0.7	$ 7.4
SoCalGas	26.4	0.5	-	1.0	27.9
Other	0.2	0.9	-	-	1.1
Total Sempra Energy	$ 27.0	$ 1.6	$ 6.1	$ 1.7	$ 36.4

(1) Site for which we have been identified as a Potentially Responsible Party.
(2) Does not include SDG&E's liability for SONGS marine mitigation.

We expect to pay the majority of these accruals over the next three years. In connection with the issuance of operating permits, SDG&E and the other owners of SONGS previously reached an agreement with the California Coastal Commission to mitigate the damage to the marine environment caused by the cooling-water discharge from SONGS. At December 31, 2009, SDG&E's share of the estimated mitigation costs remaining to be spent through 2050 is $14 million, which is recoverable in rates.

We discuss renewable energy requirements in Note 15 and greenhouse gas regulation in Note 16.

NUCLEAR INSURANCE

SDG&E and the other owners of SONGS have insurance to cover claims from nuclear liability incidents arising at SONGS. This insurance provides $300 million in coverage limits, the maximum amount available, including coverage for acts of terrorism. In addition, the Price-Anderson Act provides for up to $12.2 billion of secondary financial protection (SFP). If a nuclear liability loss occurring at any U.S. licensed/commercial reactor exceeds the $300 million insurance limit, all nuclear reactor owners could be required to contribute to the SFP. SDG&E' s contribution would be up to $47 million. This amount is subject to an annual maximum of $7 million, unless a default occurs by any other SONGS owner. If the SFP is insufficient to cover the liability loss, SDG&E could be subject to an additional assessment.

The SONGS owners, including SDG&E, also have $2.75 billion of nuclear property, decontamination, and debris removal insurance. In addition, the SONGS owners have up to $490 million insurance coverage for outage expenses and replacement power costs due to accidental property damage. This coverage is limited to $3.5 million per week for the first 52 weeks, then $2.8 million per week for up to 110 additional weeks. There is a 12-week waiting period deductible. These insurance coverages are provided through a mutual insurance company. Insured members are subject to retrospective premium assessments. SDG&E could be assessed up to $8.5 million.

The nuclear property insurance program includes an industry aggregate loss limit for non-certified acts of terrorism (as defined by the Terrorism Risk Insurance Act). The industry aggregate loss limit for property claims arising from non-certified acts of terrorism is $3.24 billion. This is the maximum amount that will be paid to insured members who suffer losses or damages from these non-certified terrorist acts.

CONCENTRATION OF CREDIT RISK

We maintain credit policies and systems to manage our overall credit risk. These policies include an evaluation of potential counterparties' financial condition and an assignment of credit limits. These credit limits are established based on risk and return considerations under terms customarily available in the industry. We grant credit to utility customers and counterparties, substantially all of whom are located in our service territory, which covers most of Southern California and a portion of central California for SoCalGas, and all of San Diego County and an adjacent portion of Orange County for SDG&E.

As described above, Sempra Generation has a contract with the DWR to supply up to 1,900 MW of power to the state over 10 years, beginning in 2001. Sempra Generation would be at risk for the amounts of outstanding billings and the continued viability of the contract if the DWR were to default on its payments under this contract. The average monthly billing related to this contract is $26 million and is normally collected by the end of the next month.

When they become operational, projects at Sempra LNG and Sempra Pipelines & Storage place significant reliance on the ability of their suppliers and customers to perform on long-term agreements and on our ability to enforce contract terms in the event of nonperformance. We consider many factors, including the negotiation of supplier and customer agreements, when we evaluate and approve development projects.

As a transitional measure, we continue to provide back-up guarantees for a portion of RBS Sempra Commodities' trading obligations and for certain credit facilities with third party lenders pending novation of the remaining trading obligations to RBS, or after the closing of the transaction we discuss in Note 20, to J.P. Morgan Ventures Energy Corporation. In addition, in conjunction with the other owners of the Rockies Express, we guarantee Rockies Express' borrowings under its credit facility. We discuss these credit guarantees in Note 6.

NOTE 18. SEGMENT INFORMATION

We have five separately managed reportable segments, as follows:

1. *SDG&E* provides electric service to San Diego and southern Orange counties and natural gas service to San Diego County.

2. *SoCalGas* is a natural gas distribution utility, serving customers throughout most of Southern California and part of central California.

3. *Sempra Commodities* holds our investment in RBS Sempra Commodities, a joint venture with RBS. The partnership was formed on April 1, 2008 from our commodities-marketing businesses previously reported in this segment. The partnership's commodity trading businesses serve customers in natural gas, electricity, petroleum and petroleum products, and base metals. Sempra Commodities also includes the operating results of Sempra Rockies Marketing, which holds firm service capacity on the Rockies Express Pipeline. We provide further discussion regarding the joint venture in Note 4.

   On February 16, 2010, Sempra Energy, RBS and the partnership entered into an agreement to sell certain businesses within the partnership. We discuss this transaction and related agreements affecting the partnership in Note 20.

4. *Sempra Generation* develops, owns and operates, or holds interests in, electric power plants and energy projects in Arizona, California, Nevada, Indiana, Hawaii and Mexico to serve wholesale electricity markets in North America.

5. *Sempra Pipelines & Storage* develops, owns and operates, or holds interests in, natural gas pipelines and storage facilities in the United States and Mexico, and companies that provide natural gas or electricity services in Argentina, Chile, Mexico and Peru. We are currently pursuing the sale of our interests in the Argentine utilities, which we discuss further in Note 4. Sempra Pipelines & Storage also operates a small natural gas distribution utility in Southwest Alabama.

We evaluate each segment's performance based on its contribution to Sempra Energy’s reported earnings. The Sempra Utilities operate in essentially separate service territories, under separate regulatory frameworks and rate structures set by the CPUC. The Sempra Utilities' operations are based on rates set by the CPUC and the FERC. We describe the accounting policies of our segments in Note 1.

Sales to the DWR, which is a customer of the Sempra Generation segment and which is discussed in various sections of this Annual Report, comprised 9 percent of our revenues in 2009, 10 percent in 2008 and 9 percent in 2007.

The operations of Bangor Gas and Frontier Energy, which we discontinued in June 2006 and discuss in Note 5, had been in the Sempra Pipelines & Storage segment.

The following tables show selected information by segment from our Consolidated Statements of Operations and Consolidated

Balance Sheets. The tables exclude amounts from discontinued operations, unless otherwise noted.

Amounts labeled as "all other" in the following tables consist primarily of parent organizations and Sempra LNG.

SEGMENT INFORMATION
(Dollars in millions)

	Years ended December 31,								
	2009			2008			2007		
REVENUES									
SDG&E	$	2,916	36 %	$	3,251	30 %	$	2,852	25 %
SoCalGas		3,355	41		4,768	44		4,282	38
Sempra Commodities		73	1		500	5		2,674	23
Sempra Generation		1,106	14		1,784	17		1,476	13
Sempra Pipelines & Storage		465	6		457	4		314	3
All other		278	3		74	1		(22)	-
Adjustments and eliminations		-	-		(7)	-		(51)	(1)
Intersegment revenues		(87)	(1)		(69)	(1)		(87)	(1)
Total	$	8,106	100 %	$	10,758	100 %	$	11,438	100 %
INTEREST EXPENSE									
SDG&E	$	104		$	96		$	96	
SoCalGas		68			62			70	
Sempra Commodities		7			23			48	
Sempra Generation		12			15			15	
Sempra Pipelines & Storage		34			18			16	
All other		303			156			206	
Intercompany eliminations		(161)			(117)			(179)	
Total	$	367		$	253		$	272	
INTEREST INCOME									
SDG&E	$	1		$	6		$	8	
SoCalGas		3			11			27	
Sempra Commodities		-			7			17	
Sempra Generation		12			9			28	
Sempra Pipelines & Storage		17			18			14	
All other		149			111			157	
Intercompany eliminations		(161)			(117)			(179)	
Total	$	21		$	45		$	72	
DEPRECIATION AND AMORTIZATION									
SDG&E	$	329	42 %	$	298	43 %	$	301	44 %
SoCalGas		293	38		280	41		281	41
Sempra Commodities		-	-		6	1		26	3
Sempra Generation		58	8		56	8		56	8
Sempra Pipelines & Storage		45	6		20	3		11	2
All other		50	6		27	4		11	2
Total	$	775	100 %	$	687	100 %	$	686	100 %
INCOME TAX EXPENSE (BENEFIT)									
SDG&E	$	177		$	161		$	135	
SoCalGas		144			140			160	
Sempra Commodities		108			201			252	
Sempra Generation		103			100			111	
Sempra Pipelines & Storage		(20)			23			(2)	
All other		(90)			(187)			(132)	
Total	$	422		$	438		$	524	

SEGMENT INFORMATION (Continued)

(Dollars in millions)

	Years ended December 31, 2009			2008			2007	
EQUITY EARNINGS (LOSSES)								
Earnings (losses) recorded before tax:								
Sempra Commodities	$ 463			$ 383			$ -	
Sempra Generation	(2)			8			9	
Sempra Pipelines & Storage	50			43			(4)	
All other	(12)			(14)			(14)	
Total	$ 499			$ 420			$ (9)	
Earnings recorded net of tax:								
Sempra Pipelines & Storage	$ 68			$ 60			$ 59	
Sempra Commodities	-			3			40	
Total	$ 68			$ 63			$ 99	
EARNINGS (LOSSES)								
SDG&E(1)	$ 344	31	%	$ 339	31	%	$ 283	25 %
SoCalGas(1)	273	24		244	22		230	21
Sempra Commodities	345	31		345	31		499	45
Sempra Generation	162	15		222	20		162	15
Sempra Pipelines & Storage	101	9		106	9		64	6
Discontinued operations	-	-		-	-		(26)	(2)
All other	(106)	(10)		(143)	(13)		(113)	(10)
Total	$ 1,119	100	%	$ 1,113	100	%	$ 1,099	100 %
ASSETS								
SDG&E	$ 10,229	36	%	$ 9,079	34	%	$ 8,499	30 %
SoCalGas	7,287	25		7,351	28		6,406	22
Sempra Commodities	2,255	8		2,092	8		8,620	30
Sempra Generation	2,048	7		1,860	7		1,759	6
Sempra Pipelines & Storage	4,485	16		4,060	15		2,287	8
All other	2,872	10		2,843	11		2,182	8
Intersegment receivables	(664)	(2)		(885)	(3)		(1,036)	(4)
Total	$ 28,512	100	%	$ 26,400	100	%	$ 28,717	100 %
EXPENDITURES FOR PROPERTY, PLANT & EQUIPMENT								
SDG&E	$ 955	50	%	$ 884	43	%	$ 714	35 %
SoCalGas	480	25		454	22		457	23
Sempra Commodities	-	-		21	1		43	2
Sempra Generation	38	2		59	3		13	1
Sempra Pipelines & Storage	200	10		264	13		267	13
All other	239	13		379	18		517	26
Total	$ 1,912	100	%	$ 2,061	100	%	$ 2,011	100 %
GEOGRAPHIC INFORMATION								
Long-lived assets:								
United States	$ 19,870	88	%	$ 17,637	88	%	$ 13,752	85 %
Latin America	2,734	12		2,476	12		2,352	15
Europe	-	-		-	-		23	-
Total	$ 22,604	100	%	$ 20,113	100	%	$ 16,127	100 %
Revenues:								
United States	$ 7,476	92	%	$ 9,743	91	%	$ 10,165	89 %
Latin America	630	8		918	8		652	6
Europe	-	-		93	1		525	5
Canada	-	-		(12)	-		37	-
Asia	-	-		16	-		59	-
Total	$ 8,106	100	%	$ 10,758	100	%	$ 11,438	100 %

(1) After preferred dividends.

NOTE 19. QUARTERLY FINANCIAL DATA (UNAUDITED)

SEMPRA ENERGY
(In millions, except for per share amounts)

	Quarters ended			
	March 31	June 30	September 30	December 31
2009				
Revenues	$ 2,108	$ 1,689	$ 1,853	$ 2,456
Expenses and other income	$ 1,690	$ 1,433	$ 1,443	$ 2,064
Net income	$ 325	$ 189	$ 302	$ 306
Earnings attributable to Sempra Energy	$ 316	$ 198	$ 317	$ 288
Basic per-share amounts(1):				
Net income	$ 1.35	$ 0.78	$ 1.24	$ 1.25
Earnings attributable to Sempra Energy	$ 1.31	$ 0.82	$ 1.30	$ 1.18
Weighted average common shares outstanding	241.8	242.7	243.9	244.9
Diluted per-share amounts(1):				
Net income	$ 1.33	$ 0.76	$ 1.21	$ 1.23
Earnings attributable to Sempra Energy	$ 1.29	$ 0.80	$ 1.27	$ 1.16
Weighted average common shares outstanding	245.0	247.1	248.5	248.7
2008(2)				
Revenues	$ 3,270	$ 2,503	$ 2,692	$ 2,293
Expenses and other income	$ 2,920	$ 2,057	$ 2,314	$ 2,024
Net income	$ 244	$ 262	$ 302	$ 260
Earnings attributable to Sempra Energy	$ 242	$ 244	$ 308	$ 319
Basic per-share amounts(1):				
Net income	$ 0.94	$ 1.07	$ 1.24	$ 1.07
Earnings attributable to Sempra Energy	$ 0.94	$ 0.99	$ 1.26	$ 1.32
Weighted average common shares outstanding	258.6	245.6	243.8	241.7
Diluted per-share amounts(1):				
Net income	$ 0.93	$ 1.05	$ 1.22	$ 1.06
Earnings attributable to Sempra Energy	$ 0.92	$ 0.98	$ 1.24	$ 1.30
Weighted average common shares outstanding	262.7	249.7	247.9	244.5

(1) Earnings per share are computed independently for each of the quarters presented and therefore may not sum to the total for the year.
(2) As adjusted for the retrospective adoption of ASC 810 (SFAS 160).

In the first quarter of 2009, Net Income and Earnings Attributable to Sempra Energy included $116 million at Sempra Commodities for earnings from the joint venture with RBS, compared to $59 million of earnings for the commodities businesses in the same period in 2008, prior to the formation of the joint venture.

In the second quarter of 2009, Expenses and Other Income included an asset write-off of $132 million related to Sempra Pipelines & Storage's Liberty Gas Storage project. The write-off negatively impacted Net Income and Earnings Attributable to Sempra Energy by $97 million and $64 million, respectively.

In the first quarter of 2008, Revenues included $457 million and Expenses and Other Income included $362 million for Sempra Commodities prior to the formation of RBS Sempra Commodities on April 1, 2008.

We discuss quarterly fluctuations related to SDG&E, PE and SoCalGas below.

SDG&E
(Dollars in millions)

	Quarters ended			
	March 31	June 30	September 30	December 31
2009				
Operating revenues	$ 732	$ 631	$ 773	$ 780
Operating expenses	557	518	601	651
Operating income	$ 175	$ 113	$ 172	$ 129
Net income	$ 107	$ 91	$ 92	$ 83
(Earnings) losses attributable to noncontrolling interests	(7)	(20)	18	(15)
Earnings	100	71	110	68
Dividends on preferred stock	(1)	(1)	(2)	(1)
Earnings attributable to common shares	$ 99	$ 70	$ 108	$ 67
2008(1)				
Operating revenues	$ 746	$ 754	$ 949	$ 802
Operating expenses	617	642	757	665
Operating income	$ 129	$ 112	$ 192	$ 137
Net income	$ 75	$ 77	$ 118	$ 20
(Earnings) losses attributable to noncontrolling interests	-	(15)	7	62
Earnings	75	62	125	82
Dividends on preferred stock	(1)	(1)	(2)	(1)
Earnings attributable to common shares	$ 74	$ 61	$ 123	$ 81

(1) As adjusted for the retrospective adoption of ASC 810 (SFAS 160).

Net Income and Earnings Attributable to Common Shares in both the first and second quarters of 2009 included $16 million of authorized base margin due to the implementation of the 2008 GRC in the third quarter 2008. We discuss the final CPUC decision, issued in July 2008, in Note 16.

Net Income and Earnings Attributable to Common Shares in the first quarter of 2008 included the favorable resolution of prior years' income tax issues of $9 million. Net Income and Earnings Attributable to Common Shares in the third quarter of 2008 included $33 million for the retroactive impact of the 2008 GRC decision for January 1 through June 30, 2008, offset by reserves for litigation matters of $17 million.

PE

(Dollars in millions)

	Quarters ended			
	March 31	June 30	September 30	December 31
2009				
Operating revenues	$ 920	$ 694	$ 662	$ 1,079
Operating expenses	810	579	527	963
Operating income	$ 110	$ 115	$ 135	$ 116
Net income	$ 59	$ 63	$ 73	$ 75
Preferred dividends of subsidiary	-	(1)	-	-
Earnings	59	62	73	75
Dividends on preferred stock	(1)	(1)	(1)	(1)
Earnings attributable to common shares	$ 58	$ 61	$ 72	$ 74
2008(1)				
Operating revenues	$ 1,556	$ 1,143	$ 1,077	$ 992
Operating expenses	1,447	1,041	946	899
Operating income	$ 109	$ 102	$ 131	$ 93
Net income	$ 58	$ 58	$ 80	$ 57
Preferred dividends of subsidiary	-	(1)	-	-
Earnings	58	57	80	57
Dividends on preferred stock	(1)	(1)	(1)	(1)
Earnings attributable to common shares	$ 57	$ 56	$ 79	$ 56

(1) As adjusted for the retrospective adoption of ASC 810 (SFAS 160).

SOCALGAS
(Dollars in millions)

	Quarters ended			
	March 31	June 30	September 30	December 31
2009				
Operating revenues	$ 920	$ 694	$ 662	$ 1,079
Operating expenses	810	578	530	961
Operating income	$ 110	$ 116	$ 132	$ 118
Net income	$ 59	$ 66	$ 74	$ 75
Dividends on preferred stock	-	(1)	-	-
Earnings attributable to common shares	$ 59	$ 65	$ 74	$ 75
2008				
Operating revenues	$ 1,556	$ 1,143	$ 1,077	$ 992
Operating expenses	1,446	1,042	946	900
Operating income	$ 110	$ 101	$ 131	$ 92
Net income	$ 57	$ 57	$ 77	$ 54
Dividends on preferred stock	-	(1)	-	-
Earnings attributable to common shares	$ 57	$ 56	$ 77	$ 54

Net Income and Earnings Attributable to Common Shares in both the first and second quarters of 2009 included $3 million of authorized base margin due to the implementation of the 2008 GRC in the third quarter of 2008. We discuss the final CPUC decision, issued in July 2008, in Note 16.

Fluctuations in Revenues and Expenses and Other Income in 2009 compared to 2008 were largely driven by natural gas prices, which were substantially lower in 2009. Compared to the third quarter of 2009, Operating Revenues and Operating Expenses increased in the fourth quarter of 2009 due to higher natural gas prices and volumes.

Net Income and Earnings Attributable to Common Shares in the third quarter of 2008 for PE and SoCalGas included $7 million for the retroactive impact of the 2008 GRC decision for January 1 through June 30, 2008.

Net Income and Earnings Attributable to Common Shares in the fourth quarter of 2008 for PE and SoCalGas included litigation expenses of $7 million.

NOTE 20. SUBSEQUENT EVENT

In November 2009, RBS announced its intention to divest its interest in RBS Sempra Commodities in connection with a directive from the European Commission to dispose of certain assets. On February 16, 2010, Sempra Energy, RBS and the partnership (Seller Parties) entered into an agreement (the Purchase Agreement) with J.P. Morgan Ventures Energy Corporation (J.P. Morgan Ventures), whereby J.P. Morgan Ventures will purchase the following businesses from the joint venture:

- the global oil, metals, coal, emissions (other than emissions related to the partnership's North American power business), plastics, agricultural commodities and concentrates commodities trading and marketing business
- the European power and gas business
- the investor products business

RBS Sempra Commodities will retain its North American power and natural gas trading businesses and its retail energy solutions business. These businesses have historically generated 40 to 60 percent of total earnings of the businesses in the partnership, and have averaged more than 50 percent.

The transaction is expected to close in the second quarter of 2010. J.P. Morgan Ventures will pay an aggregate purchase price equal to the estimated book value at closing of the businesses purchased, generally computed on the basis of IFRS (as adopted by the European Union), plus an amount equal to $468 million. Sempra Energy will be entitled to 53-1/3 percent of the aggregate purchase price, and RBS will be entitled to 46-2/3 percent of the aggregate purchase price. We are currently evaluating the effect of the proposed transaction on our investment and share of equity method earnings, which will be impacted by the joint venture's allocation of goodwill to the transaction, U.S. GAAP/IFRS differences and the application of equity method accounting.

In conjunction with the transaction, JPMorgan Chase & Co. has delivered a guaranty in favor of the Seller Parties to guarantee certain obligations, including the payment obligations, of J.P. Morgan Ventures under the Purchase Agreement.

The closing is subject to several conditions, including the following:

- governmental approvals from the U.K. Financial Services Authority, the U.S. Department of Justice or Federal Trade Commission under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, and antitrust approvals from regulators in Canada and in a limited number of other jurisdictions
- if necessary, the obtaining of a license from the Swiss Federal Market Supervisory Authority
- a condition to the obligation of the Seller Parties to close the transaction that JP Morgan Chase & Co. not experience a ratings downgrade below the level specified in the Purchase Agreement
- entering into certain related agreements, including an agreement pursuant to which the partnership will provide transition services to the purchased businesses following the closing

In connection with the transaction under the Purchase Agreement, we and RBS entered into a letter agreement to negotiate, prior to closing of the transaction, definitive documentation to amend certain provisions of the Limited Liability Partnership Agreement dated April 1, 2008 between Sempra Energy and RBS (Partnership Agreement) to, among other things:

- Consider the distribution of excess cash of the partnership to us and RBS
- Eliminate each partner's preferred return (currently 15 percent per year) and to move to a 50/50 sharing of net income, if and when our invested capital is reduced to $950 million or less by the return of capital to the partners
- Terminate the restrictions on the partners' ability to transfer their partnership interests prior to April 2012 (but not the partners' right of first offer and other rights, including our tag-along right with respect to the transfer of that interest or the requirement that any transferee be reasonably acceptable to us

As RBS continues to be obligated to divest its remaining interest in the partnership, the letter agreement also provides for negotiating the framework for the entertaining of bids for the remaining part of the partnership's business.

GLOSSARY

AB 32	California Assembly Bill 32	EITF	Emerging Issues Task Force
AD	Alternate Decision	Elk Hills	Elk Hills Power
AFUDC	Allowance for Funds Used During Construction	EPA	Environmental Protection Agency
ALJ	Administrative Law Judge	EPS	Earnings per Share
AOCI	Accumulated Other Comprehensive Income	ESOP	Employee Stock Ownership Plan
AMI	Advanced Metering Infrastructure	FASB	Financial Accounting Standards Board

ARB	Accounting Research Bulletin	FERC	Federal Energy Regulatory Commission
ASC	Accounting Standards Codification	FIN	FASB Interpretation
ASU	Accounting Standards Update	Fowler Ridge II	Fowler Ridge II Wind Farm
Bay Gas	Bay Gas Storage Company	FSP	FASB Staff Position
BCAP	Biennial Cost Allocation Proceeding	GAAP	Accounting Principles Generally Accepted in the United States of America
Bcf	Billion Cubic Feet (of natural gas)	GCIM	Gas Cost Incentive Mechanism
Black-Scholes Model	Black-Scholes Option-Pricing Model	GRC	General Rate Case
BLM	Bureau of Land Management	IBLA	Interior Board of Land Appeals
Cal Fire	California Department of Forestry and Fire Protection	ICSID	International Center for the Settlement of Investment Disputes
CARB	California Air Resources Board	IFRS	International Financial Reporting Standards
CBD	Center for Biological Diversity/Sierra Club	IOUs	Investor-owned Utilities
CEC	California Energy Commission	ISFSI	Independent Spent Fuel Storage Installation
CEOB	California Energy Oversight Board	ISO	Independent System Operator
CEQA	California Environmental Quality Act	J.P. Morgan Ventures	J.P. Morgan Ventures Energy Corporation
CFE	Comisión Federal de Electricidad	KMP	Kinder Morgan Energy Partners, L.P.
Conoco	ConocoPhillips	kV	Kilovolt
Court of Appeal	California Court of Appeal	Liberty	Liberty Gas Storage
CPUC	California Public Utilities Commission	LIFO	Last-in first-out inventory costing method
CRRs	Congestion Revenue Rights	LNG	Liquefied Natural Gas
DOE	Department of Energy	MBFC	Mississippi Business Finance Corporation
DRA	Division of Ratepayer Advocates	Mcf	Thousand Cubic Feet (of natural gas)
DWR	Department of Water Resources	Medicare Part D	Medicare
Ecogas	Ecogas Mexico, S de RL de CV	Mississippi Hub	Mississippi Hub, LLC
Edison	Southern California Edison Company	MICAM	Market Index Capital Adjustment Mechanism

GLOSSARY (CONTINUED)

MMBtu	Million British Thermal Units (of natural gas)	Rockies Express	Rockies Express Pipeline LLC
Mobile Gas	Mobile Gas Service Corporation	ROE	Return on Equity
MSCI	Morgan Stanley Capital International	ROR	Return on Rate Base
MSCI EAFE index	MSCI Index for equity market performance in Europe, Australasia and Far East	RPS	Renewables Portfolio Standard
MW	Megawatt	SDG&E	San Diego Gas & Electric Company
MWh	Megawatt hour	Seller Parties	Sempra Energy, Royal Bank of Scotland plc and RBS Sempra Commodities LLP
NAV	Net Asset Value per Share	Sempra Utilities	San Diego Gas & Electric Company and Southern California Gas Company
Ninth Circuit Court of Appeals	U.S. Court of Appeals for the Ninth Circuit	SFAS	Statement of Financial Accounting Standards
NRC	Nuclear Regulatory Commission	SFP	Secondary Financial Protection
OCI	Other Comprehensive Income	Shell	Shell México Gas Natural
OMEC	Otay Mesa Energy Center	SoCalGas	Southern California Gas Company
OMEC LLC	Otay Mesa Energy Center LLC	SONGS	San Onofre Nuclear Generating Station
Orange Grove	Orange Grove Energy L.P.	S&P	Standard & Poor's
Orange Grove VIE	Orange Grove Energy L.P.	Supreme Court	United States Supreme Court
Otay Mesa VIE	Otay Mesa Energy Center LLC	Tangguh PSC	Tangguh PSC Contractors
OTC	Over-the-counter	The Committee	Pension and Benefits Investment Committee
PBOP plan trusts	Postretirement benefit plan trusts	The Plan	Sempra Energy 2008 Long Term Incentive Plan for EnergySouth, Inc. Employees and Other Eligible Individuals
PE	Pacific Enterprises	The Prior Plan	2008 Incentive Plan of EnergySouth, Inc.
PG&E	Pacific Gas and Electric	The Purchase Agreement	Agreement between Seller Parties and J.P. Morgan Ventures
ProLiance	ProLiance Transportation LLC	Trust	ESOP Trust
PRP	Potentially Responsible Party	UCAN	Utility Consumers Action Network
PX	Power Exchange	USFS	United States Forest Service
RasGas	Ras Laffan Liquefied Natural Gas Company Limited	VaR	Value at Risk
RBS	The Royal Bank of Scotland plc	VEBA	Voluntary Employee Beneficiary Association
RBS Sempra Commodities	RBS Sempra Commodities LLP	VIE	Variable Interest Entity
REX	Rockies Express Pipeline		

Exhibit 21.1
Sempra Energy
Schedule of Significant Subsidiaries
at December 31, 2009

Subsidiary	State of Incorporation or Other Jurisdiction
Enova Corporation	California
Pacific Enterprises	California
Pacific Enterprises International	California
San Diego Gas & Electric Company	California
Sempra Commodities, Inc.	Delaware
Sempra Energy International	California
Sempra Energy Holdings III B.V.	Netherlands
Sempra Energy Holdings XII B.V.	Netherlands
Sempra Energy Holdings X B.V.	Netherlands
Sempra Generation	California
Sempra Global	California
Southern California Gas Company	California

Exhibit 21.2
Pacific Enterprises
Schedule of Significant Subsidiaries
at December 31, 2009

Subsidiary	State of Incorporation or Other Jurisdiction
Southern California Gas Company	California

EXHIBIT 31.1

CERTIFICATION

I, Donald E. Felsinger, certify that:

1. I have reviewed this report on Form 10-K of Sempra Energy;

2. Based on my knowledge, this 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 report;

3. Based on my knowledge, the financial statements, and other financial information included in this 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 report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13(a)-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, 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 report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report, based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

February 25, 2010

/S/ Donald E. Felsinger

Donald E. Felsinger
Chief Executive Officer

EXHIBIT 31.2

CERTIFICATION

I, Mark A. Snell, certify that:

1. I have reviewed this report on Form 10-K of Sempra Energy;

2. Based on my knowledge, this 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 report;

3. Based on my knowledge, the financial statements, and other financial information included in this 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 report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13(a)-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, 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 report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report, based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

February 25, 2010

/S/ Mark A. Snell
Mark A. Snell
Chief Financial Officer

EXHIBIT 31.3

CERTIFICATION

I, Debra L. Reed, certify that:

1. I have reviewed this report on Form 10-K of San Diego Gas & Electric Company;

2. Based on my knowledge, this 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 report;

3. Based on my knowledge, the financial statements, and other financial information included in this 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 report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13(a)-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, 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 report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report, based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

February 25, 2010

/S/ Debra L. Reed

Debra L. Reed
Chief Executive Officer

EXHIBIT 31.4

CERTIFICATION

I, Robert Schlax, certify that:

1. I have reviewed this report on Form 10-K of San Diego Gas & Electric Company;

2. Based on my knowledge, this 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 report;

3. Based on my knowledge, the financial statements, and other financial information included in this 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 report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13(a)-15(f) and 15d-15(f)) for the registrant and have:

    a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, 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 report is being prepared;

    b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report, based on such evaluation; and

    d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

    a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

February 25, 2010

/S/ Robert Schlax

Robert Schlax
Chief Financial Officer

EXHIBIT 31.5

CERTIFICATION

I, Debra L. Reed, certify that:

1. I have reviewed this report on Form 10-K of Pacific Enterprises;

2. Based on my knowledge, this 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 report;

3. Based on my knowledge, the financial statements, and other financial information included in this 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 report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13(a)-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, 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 report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report, based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

February 25, 2010

/S/ Debra L. Reed
Debra L. Reed
Chief Executive Officer

CERTIFICATION

I, Robert Schlax, certify that:

1. I have reviewed this report on Form 10-K of Pacific Enterprises;

2. Based on my knowledge, this 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 report;

3. Based on my knowledge, the financial statements, and other financial information included in this 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 report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13(a)-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, 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 report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report, based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

February 25, 2010

/S/ Robert Schlax
Robert Schlax
Chief Financial Officer

EXHIBIT 31.7

CERTIFICATION

I, Debra L. Reed, certify that:

1. I have reviewed this report on Form 10-K of Southern California Gas Company;

2. Based on my knowledge, this 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 report;

3. Based on my knowledge, the financial statements, and other financial information included in this 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 report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13(a)-15(f) and 15d-15(f)) for the registrant and have:

    a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, 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 report is being prepared;

    b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report, based on such evaluation; and

    d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

    a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

February 25, 2010

/S/ Debra L. Reed

Debra L. Reed
Chief Executive Officer

EXHIBIT 31.8

CERTIFICATION

I, Robert Schlax, certify that:

1. I have reviewed this report on Form 10-K of Southern California Gas Company;

2. Based on my knowledge, this 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 report;

3. Based on my knowledge, the financial statements, and other financial information included in this 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 report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13(a)-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, 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 report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report, based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

February 25, 2010

/S/ Robert Schlax
Robert Schlax
Chief Financial Officer

Exhibit 32.1

Statement of Chief Executive Officer

Pursuant to 18 U.S.C. Sec 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned Chief Executive Officer of Sempra Energy (the "Company") certifies that:

(i) the Annual Report on Form 10-K of the Company filed with the Securities and Exchange Commission for the year ended December 31, 2009 (the "Annual Report") fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and

(ii) the information contained in the Annual Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

February 25, 2010

/S/ Donald E. Felsinger

Donald E. Felsinger

Chief Executive Officer

Exhibit 32.2

Statement of Chief Financial Officer

Pursuant to 18 U.S.C. Sec 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned Chief Financial Officer of Sempra Energy (the "Company") certifies that:

(i) the Annual Report on Form 10-K of the Company filed with the Securities and Exchange Commission for the year ended December 31, 2009 (the "Annual Report") fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and

(ii) the information contained in the Annual Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

February 25, 2010

/S/ Mark A. Snell

Mark A. Snell

Chief Financial Officer

Exhibit 32.3

Statement of Chief Executive Officer

Pursuant to 18 U.S.C. Sec 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned Chief Executive Officer of San Diego Gas & Electric Company (the "Company") certifies that:

(i) the Annual Report on Form 10-K of the Company filed with the Securities and Exchange Commission for the year ended December 31, 2009 (the "Annual Report") fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and

(ii) the information contained in the Annual Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

February 25, 2010

/S/ Debra L. Reed
Debra L. Reed
Chief Executive Officer

Exhibit 32.4

Statement of Chief Financial Officer

Pursuant to 18 U.S.C. Sec 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned Chief Financial Officer of San Diego Gas & Electric Company (the "Company") certifies that:

(i) the Annual Report on Form 10-K of the Company filed with the Securities and Exchange Commission for the year ended December 31, 2009 (the "Annual Report") fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and

(ii) the information contained in the Annual Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

February 25, 2010

/S/ Robert Schlax

Robert Schlax
Chief Financial Officer

Exhibit 32.5

Statement of Chief Executive Officer

Pursuant to 18 U.S.C. Sec 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned Chief Executive Officer of Pacific Enterprises (the "Company") certifies that:

(i) the Annual Report on Form 10-K of the Company filed with the Securities and Exchange Commission for the year ended December 31, 2009 (the "Annual Report") fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and

(ii) the information contained in the Annual Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

February 25, 2010

/S/ Debra L. Reed

Debra L. Reed
Chief Executive Officer

Exhibit 32.6

Statement of Chief Financial Officer

Pursuant to 18 U.S.C. Sec 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned Chief Financial Officer of Pacific Enterprises (the "Company") certifies that:

(i) the Annual Report on Form 10-K of the Company filed with the Securities and Exchange Commission for the year ended December 31, 2009 (the "Annual Report") fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and

(ii) the information contained in the Annual Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

February 25, 2010

/S/ Robert Schlax
Robert Schlax
Chief Financial Officer

Exhibit 32.7

Statement of Chief Executive Officer

Pursuant to 18 U.S.C. Sec 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned Chief Executive Officer of Southern California Gas Company (the "Company") certifies that:

(i) the Annual Report on Form 10-K of the Company filed with the Securities and Exchange Commission for the year ended December 31, 2009 (the "Annual Report") fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and

(ii) the information contained in the Annual Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

February 25, 2010

/S/ Debra L. Reed

Debra L. Reed
Chief Executive Officer

Exhibit 32.8

Statement of Chief Financial Officer

Pursuant to 18 U.S.C. Sec 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned Chief Financial Officer of Southern California Gas Company (the "Company") certifies that:

(i) the Annual Report on Form 10-K of the Company filed with the Securities and Exchange Commission for the year ended December 31, 2009 (the "Annual Report") fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and

(ii) the information contained in the Annual Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

February 25, 2010

/S/ Robert Schlax
Robert Schlax
Chief Financial Officer

Exhibit 99.1

RBS Sempra Commodities LLP and Subsidiaries

Consolidated Financial Statements as of
December 31, 2009 and 2008, and for the
Year Ended December 31, 2009, and the
Period From April 1, 2008 (Date of Commencement) to
December 31, 2008, and Report of
Independent Registered Public Accounting Firm

RBS SEMPRA COMMODITIES LLP AND SUBSIDIARIES

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Members of
RBS Sempra Commodities LLP and Subsidiaries:

We have audited the accompanying consolidated statements of financial condition of RBS Sempra Commodities LLP and subsidiaries (the "Partnership") as of December 31, 2009 and 2008, and the related consolidated statements of income, cash flows, and changes in members' capital, for the year ended December 31, 2009 and the period from April 1, 2008 (Date of Commencement) to December 31, 2008. These financial statements are the responsibility of the Partnership's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards as established by the Auditing Standards Board (United States) and in accordance with generally accepted auditing standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Partnership is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Partnership's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of RBS Sempra Commodities LLP and subsidiaries as of December 31, 2009 and 2008, and the results of their operations and their cash flows for the year ended December 31, 2009 and the period from April 1, 2008 to December 31, 2008, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 17 to the consolidated financial statements, on February 16, 2010, the Partnership entered into an agreement to sell certain businesses.

/s/ Deloitte & Touche LLP

New York, New York

February 22, 2010

RBS SEMPRA COMMODITIES LLP AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
AS OF DECEMBER 31, 2009 AND 2008
(Dollars in thousands)

	2009	2008
ASSETS		
Cash and cash equivalents	$139,276	$190,182
Trading assets	4,594,647	5,833,511
Commodities owned	1,751,541	1,162,559
Receivables from affiliates — net	299,439	924,715
Investments in marketable securities	55,310	54,125
Finance lease receivable	193,244	192,328
Prepaid and other assets	238,451	355,682
Property, plant and equipment — net	149,824	144,889
Goodwill	371,418	371,418
Total	$7,793,150	$9,229,409
LIABILITIES AND MEMBERS' CAPITAL		
LIABILITIES:		
Short-term borrowings	$ -	$320,236
Trading liabilities	3,487,647	4,521,149
Accounts payable and accrued liabilities	582,175	737,781
Payables to affiliate	3,859	1,433
Total liabilities	4,073,681	5,580,599
MEMBERS' CAPITAL	3,719,469	3,648,810
TOTAL	$7,793,150	$9,229,409

See notes to consolidated financial statements.

RBS SEMPRA COMMODITIES LLP AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEAR ENDED DECEMBER 31, 2009, AND THE PERIOD FROM APRIL 1, 2008 (DATE OF COMMENCEMENT) TO DECEMBER 31, 2008
(Dollars in thousands)

	2009	2008
REVENUES:		
Fee income	$999,093	$1,397,376
Principal transactions — net	1,175,143	639,708
Interest and other income	4,918	13,805
Total revenues	2,179,154	2,050,889
EXPENSES:		
Compensation and benefits	587,490	613,871
Storage and transportation	605,157	597,317
Facilities and communications	88,257	61,811
Brokerage, execution and clearing	73,325	59,656
Professional fees	40,394	27,612
Interest expense	40,132	23,867
Other expenses	73,014	55,985
Total expenses	1,507,769	1,440,119
INCOME FROM CONTINUING OPERATIONS BEFORE PROVISION FOR INCOME TAXES AND EQUITY IN INCOME (LOSS) OF UNCONSOLIDATED AFFILIATES — Net of provision for income taxes	671,385	610,770
PROVISION FOR INCOME TAXES	40,124	16,418
EQUITY IN INCOME (LOSS) OF UNCONSOLIDATED AFFILIATES — Net of provision for income taxes	8,059	(2,549)
NET INCOME	$639,320	$591,803

See notes to consolidated financial statements.

RBS SEMPRA COMMODITIES LLP AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2009, AND THE PERIOD FROM APRIL 1, 2008 (DATE OF COMMENCEMENT) TO DECEMBER 31, 2008
(Dollars in thousands)

	2009	2008
OPERATING ACTIVITIES:		
Net income	$639,320	$591,803
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	91,980	63,652
Deferred taxes	(1,663)	3,101
Loss on investment in marketable securities	44,306	-
Loss on investment in unconsolidated affiliate	12,535	-
Equity in (income) loss of unconsolidated affiliates — net of provision for income taxes	(8,059)	2,549
Net change in:		
Trading assets	1,282,912	50,251
Commodities owned	(588,982)	459,139
Trading securities	10	15,931
Prepaid and other assets	45,773	(190,696)
Receivables from affiliates — net	625,276	(933,723)
Commodities sold under agreements to repurchase	-	(502,136)
Trading liabilities	(1,033,502)	317,389
Payables to affiliate	2,426	1,433
Accounts payable and accrued liabilities	(153,943)	259,559
Net cash provided by operating activities	958,389	138,252
INVESTING ACTIVITIES:		
Purchases of investments in available-for-sale securities	-	(3,348)
Distribution from investment in unconsolidated affiliates	1,650	-
Purchases of property, plant and equipment	(41,267)	(56,967)
Acquisition of subsidiaries — net of cash acquired	-	(2,372,273)
Proceeds from (increase in) finance lease receivable	9,095	(173,145)
Purchase of other investments	-	(15,000)
Net cash used in investing activities	(30,522)	(2,620,733)
FINANCING ACTIVITIES:		
Net decrease in short-term borrowings	(320,236)	(431,325)
Members' capital contributions	-	3,265,000
Distributions paid to members	(658,537)	(161,012)
Net cash (used in) provided by financing activities	(978,773)	2,672,663
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(50,906)	190,182
CASH AND CASH EQUIVALENTS — Beginning of period	190,182	-
CASH AND CASH EQUIVALENTS — End of period	$139,276	$190,182
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION — Cash paid during the period for income taxes	$37,413	$47,563

See notes to consolidated financial statements.

RBS SEMPRA COMMODITIES LLP AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' CAPITAL FOR THE YEAR ENDED DECEMBER 31, 2009, AND THE PERIOD FROM APRIL 1, 2008 (DATE OF COMMENCEMENT) TO DECEMBER 31, 2008

(Dollars in thousands)

	Comprehensive Income (Loss)	Members' Capital	Accumulated Other Comprehensive Income (Loss)	Total Members' Capital
BALANCE — April 1, 2008		$-	$-	$-
Members' capital contributions		3,265,000	-	3,265,000
Net income	$591,803	591,803	-	591,803
Other comprehensive income (loss) — net of applicable income taxes:				
Change in unrealized loss on available-for-sale securities	(43,765)	-	(43,765)	(43,765)
Change in unrealized loss on cash flow hedging activities	(3,216)	-	(3,216)	(3,216)
Comprehensive income	$544,822			
Distributions paid to Members		(161,012)	-	(161,012)
BALANCE — December 31, 2008		3,695,791	(46,981)	3,648,810
Net income	$639,320	639,320	-	639,320
Other comprehensive income (loss) — net of applicable income taxes:				
Change in unrealized gain (loss) on available-for-sale securities	45,828	-	45,828	45,828
Change in unrealized gain (loss) on cash flow hedging activities	44,048	-	44,048	44,048
Comprehensive income	$729,196			
Distributions paid to Members		(658,537)	-	(658,537)
BALANCE — December 31, 2009		$3,676,574	$42,895	$3,719,469

See notes to consolidated financial statements.

RBS SEMPRA COMMODITIES LLP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2009 AND 2008, AND FOR THE YEAR ENDED DECEMBER 31, 2009, AND THE PERIOD FROM APRIL 1, 2008 (DATE OF COMMENCEMENT) TO DECEMBER 31, 2008

1. NATURE OF OPERATIONS

The Partnership engages in physical and financial derivative trading and marketing activities in natural gas, electricity, petroleum, petroleum products, base metals and other commodities with domestic and foreign corporations, financial institutions, multinational organizations, sovereign entities and end users. The Partnership's operations are subject to regulation by the Financial Services Authority, the New York Mercantile Exchange, the Commodity Futures Trading Commission, the Federal Energy Regulatory Commission (FERC), the London Metals Exchange, NYSE Euronext, the Board of Governors of the U.S. Federal Reserve System, and the National Futures Association.

2. FORMATION AND ORGANIZATION OF THE PARTNERSHIP

On July 9, 2007, Sempra Energy (Sempra) and The Royal Bank of Scotland plc (RBS) (collectively, the Members) entered into a Master Formation and Equity Interest Purchase Agreement to form a partnership, RBS Sempra Commodities LLP (the Partnership or RBSSC), to purchase and operate Sempra's commodity trading and marketing businesses. RBSSC is a partnership formed in the United Kingdom under the Limited Liability Partnership Act 2000. On April 1, 2008, Sempra and RBS made initial capital investments of $1,600 million and $1,665 million respectively. The Partnership simultaneously purchased Sempra's commodity trading and marketing subsidiaries (collectively, the Sempra Energy Trading Companies or SET Companies) at a price of $2,754 million. The formation of the Partnership and the purchase of the SET Companies was effected on April 1, 2008 (Closing Date or Date of Commencement), although the partnership was legally formed on August 31, 2007.

The cost of the acquisition of $2,754 million was allocated to the assets acquired and liabilities assumed based on their respective fair values. The fair value of net assets acquired was $2,383 million and the excess purchase price of $371 million was allocated as goodwill arising on the acquisition of the SET Companies.

The formation and operation of the Partnership is subject to various agreements between the Members including primarily the Master Formation and Equity Interest Purchase Agreement, the Limited Liability Partnership Agreement and the Commodities Trading Activities Master Agreement. These agreements include provisions which dictate, among other matters, the rights and responsibilities of the Members, capital contributions by the Members, the formation and termination of the Partnership, the profit distributions to the Members, the execution of commodities trading activities by the joint venture, and the governance of the Partnership. The Partnership will make profit distributions, as and when the Board determines, in accordance with the Limited Liability Partnership Agreement.

The Partnership is governed by a board of seven directors, three appointed by Sempra and four by RBS, acting on behalf of the designated members. The consent of Sempra will be required before the Partnership may take certain significant actions, including materially changing the scope of the Partnership's businesses, providing credit support outside the ordinary course, incurring certain types of indebtedness and entering into agreements of significant size or duration, all as more fully specified in the Limited Liability Partnership Agreement. The Partnership is fully consolidated by RBS.

On December 1, 2008, the UK Government through HM Treasury became the ultimate controlling party of the Royal Bank of Scotland Group plc (RBS Group, the ultimate parent company). The UK Government's shareholding is managed by UK Financial Investments Limited, a company wholly owned by the UK Government.

On November 3, 2009, RBS Group reached agreement with the UK Government on key terms of its participation in the Asset Protection Scheme (APS) on revised terms to those announced on February 26, 2009. To comply with the European Commission (EC) State Aid requirements RBS Group has agreed to a series of restructuring measures to be implemented over a four year period. In accordance with the restructuring measures RBS Group agreed to divest its interest in the Partnership (see Note 17 – Subsequent Events).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation — The consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) and include the accounts of the Partnership and entities controlled by the Partnership as of December 31, 2009. All material intercompany balances and transactions have been eliminated.

The Partnership has a controlling financial interest in an entity if it owns a majority of the voting interests of the entity or is considered the primary beneficiary of the entity. A variable interest entity (VIE) is consolidated by its primary beneficiary, who is the party subject to the majority of the expected losses or the majority of the expected residual returns of the VIE, or both. The Partnership assesses its involvement with VIEs to determine whether consolidation of VIEs is required. All facts and circumstances are taken into consideration when determining whether the Partnership has variable interests that would deem it the primary beneficiary and, therefore, require consolidation of the related VIE.

Trading Instruments — Trading assets and Trading liabilities are recorded on a trade-date basis. These amounts include unrealized gains and losses from exchange-traded futures and options and over-the-counter (OTC) forwards, swaps, and options. Unrealized gains and losses on OTC derivative transactions reflect amounts which would be received from or paid to a third party upon liquidation of these contracts under current market conditions. Unrealized gains and losses on these OTC derivative transactions are reported separately as assets and liabilities unless a legal right of setoff exists under enforceable master netting agreements. All derivative Trading assets and Trading liabilities are carried at fair value. Principal transaction revenues are recognized on a trade-date basis and include realized gains and losses and the net change in unrealized gains and losses.

Futures and exchange-traded option transactions are recorded as contractual commitments on a trade-date basis and are carried at fair value. Commodity forward and swap transactions are accounted for as contractual commitments on a trade-date basis and are carried at fair value derived from dealer quotations and underlying commodity exchange quotations. OTC options purchased or written are recorded on a trade-date basis and are carried at fair value.

Fair values for trading instruments not quoted in an active market are determined using appropriate valuation techniques, including discounting future cash flows, option pricing models and other methods that are consistent with accepted economic methodologies for pricing trading instruments. These valuation techniques utilize, among other things, available market information, including current interest rates, commodity prices and volatility rates, as applicable. Where market information is not available or where management deems appropriate, current interest rates, commodity prices and volatility rates are estimated by reference to current market levels. Given the nature, size and timing of transactions, estimated values may differ from realized values.

Cash and Cash Equivalents — Cash and cash equivalents are comprised of cash on hand, demand deposits and other short-term highly liquid investments (with original maturities of three months or less) which are subject to an insignificant risk of changes in value. Cash paid for interest approximates interest expense.

Investments in Marketable Securities — Investments in marketable securities are accounted for on a specific identification basis and are reported at fair value, including reviews for impairment. Unrealized gains and losses on available-for-sale securities are included in Accumulated Other Comprehensive Income (Loss) (AOCI), net of applicable taxes. Unrealized gains and losses on trading securities are recorded in income. The Partnership reviews securities identified with an unrealized loss to determine if the impairment in value is temporary or other-than-temporary. The amount of any impairment loss that is recognized in current period earnings is dependent on the Partnership's intent to sell (or not sell) the security.

Investments in Unconsolidated Affiliates — Investments in affiliated companies are accounted for under the equity method when the Partnership has an ownership interest between 20% and 50% and is deemed to have significant influence but not control. The Partnership's percentage ownership of the affiliates' net assets are included in Prepaid and other assets, and are adjusted for the Partnership's share of each investee's earnings or losses, dividends and foreign currency translation effects, if any. Equity earnings or losses are recorded net of income tax as a separate caption on the Consolidated statements of income.

Commodities Owned — Commodities owned are recorded on a trade-date basis. Natural gas, oil and other non-base metal physical commodities are carried on a lower-of-cost-or-market basis. When a specific contract cost of new inventory cannot be determined, the Partnership uses the appropriate market index at the time of purchase as the cost basis.

Property, Plant and Equipment — Property, plant and equipment is carried at cost less accumulated depreciation and amortization. Depreciation and amortization are provided on a straight-line basis over the estimated useful life of the asset, generally three to five years. Leasehold improvements are amortized over the lesser of the economic useful life of the improvements or the remaining term of the lease. On a regular basis the Partnership assesses whether there is any indication that property, plant and equipment is impaired.

Goodwill — Goodwill is the excess of the cost of an acquisition over the Partnership's interest in the fair value of the identifiable assets acquired and liabilities and contingent liabilities assumed at the date of acquisition and is recognized at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes indicate that it might be impaired. The Partnership completed its annual goodwill impairment testing, as of September 30, 2009 and 2008, which did not result in any goodwill impairment.

Prepaid and Other Assets — Prepaid and other assets primarily consist of transactional tax deposits related to goods and services taxes and value added taxes, net deferred tax assets, interest receivables, deposits, expenses paid in advance, certain beneficial contracts and miscellaneous other investments. Beneficial contracts are amortized over their estimated useful lives.

Fee Income — Fee income includes fees earned by the Partnership while engaged in certain commodities trading activities, in its capacity as agent for RBS as dictated by various partnership agreements. This includes income derived from realized and unrealized gains and losses, net of associated execution costs, including interest, associated with the trading activities of the Partnership.

Income Taxes — The Partnership is a Limited Liability Partnership, incorporated under the Limited Liability Partnership Act of 2000 of the United Kingdom and the regulations made thereunder. For U.S. purposes RBSSC elected to be treated as a partnership for federal, state and local filings, as permitted. Each member is responsible for reporting its income or loss based on its share of the income and expenses. Certain subsidiaries of the Partnership are subject to tax in foreign jurisdictions where such subsidiary entity may be treated as a corporation under local tax law. The Partnership records the financial statement effects for the amount of income tax positions for which it is more likely than not that a tax position will not be sustained upon examination by the respective taxing authority.

Use of Estimates — The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported market value of assets and liabilities at the date and reporting period of the financial statements. The most important of the estimates and assumptions relate to fair value measures and the accounting for goodwill. The recorded values of these assets and liabilities may be more or less than values that might be realized, if the Partnership were to sell or close out the positions prior to maturity.

Foreign Currency Transactions — Foreign currency transactions are translated into U.S. dollars at the then current exchange rates during the reporting period. Assets and liabilities denominated in foreign currencies have been converted into U.S. dollars at year-end exchange rates. Gains and losses resulting from foreign currency transactions are included in Principal transactions — net.

Recently Issued Accounting Pronouncements — On September 15, 2009, the Financial Accounting Standards Board (FASB) enacted Statement of Financial Accounting Standards (SFAS) No. 168 (SFAS 168), "The FASB Accounting Standards Codification TM and the Hierarchy of Generally Accepted Accounting Principles". This statement establishes the FASB Accounting Standards Codification TM (the Codification) as the single source of authoritative GAAP in the United States. The topically-organized codification is not intended to change GAAP but it significantly changes the way that GAAP is presented and referenced in financial statements.

SFAS 168 also changes the way in which new authoritative GAAP is issued. The Financial Accounting Statements, FASB Interpretations, and Emerging Issues Task Force (EITF) abstracts were replaced by Accounting Standard Updates (ASU), which provide updates to the Codification, background information on about the new guidance and the basis for conclusions. New pronouncements issued before July 1, 2009 are referred to by their original title.

In March 2008, the FASB issued SFAS No. 161 "Disclosures about Derivative Instruments and Hedging Activities — an Amendment of FASB Statement No. 133" (SFAS 161). SFAS 161 expands the disclosure requirements about an entities derivative instruments and hedging activities. The additional disclosures required by this Standard are included in Note 6 – Derivatives and Hedging Activities.

In April 2009, the FASB issued FASB Staff Position (FSP) FAS No. 115-2 and FAS No. 124-2 "Recognition and Presentation of Other-Than-Temporary Impairments" (FSP FAS No. 115-2 and FAS No. 124-2) which change the method for determining whether an other-than-temporary impairment (OTTI) exists for debt securities and the amount of OTTI charges recorded in earnings. If an entity intends to sell a security and it is more-likely-than-not that the entity will sell the security prior to recovering its cost basis, an OTTI exists and the entire difference between the fair value and the cost basis will be reflected in earnings. If an entity does not intend to sell a security and it is more-likely-than-not that the entity will sell the security prior to recovering its cost basis, the portion of the difference between the fair value and the cost basis related to credit losses will be treated as an OTTI and reflected in earnings. The remaining difference will be recognized as part of other comprehensive income. In addition to the new OTTI determination method, entities are required to provide enhanced disclosures, including methodology details and key inputs used for determining the amount of credit losses recorded in earnings. FSP FAS No. 115-2 and FAS No. 124-2 were effective upon issuance and incorporated in the initial release of the Codification under the topic on Investments in Debt and Equity Securities. The adoption of FSP FAS No. 115-2 and FAS No. 124-2 did not materially affect the Partnership's consolidated financial statements.

In April 2009, the FASB issued FSP FAS No. 157-4 "Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly" (FSP FAS No. 157-4) which provides additional guidance to determine the fair value of a financial instrument in an inactive market. If the market for a financial instrument is inactive and it is determined that one or more quoted prices are associated with one or more distressed transactions, the reporting entity may use valuation methods other than one that uses quoted prices without significant adjustment. Otherwise, the quoted price is viewed as a valid quote and should be used as a relevant input to the fair value. FSP FAS No. 157-4 was effective upon issuance . The adoption of FSP FAS No. 157-4 did not materially impact the Partnership's consolidated financial statements.

In May 2009, the FASB issued SFAS No. 165 "Subsequent Events" (SFAS 165) which establishes standards to account for and disclose events that occur after balance sheet date but before the financial statements are issued. The statement specifies that an entity must disclose all subsequent events that provide additional evidence about conditions that existed at the balance sheet date, including any estimates that were inherent in the process of preparing the financial statements. The statement also specifies that an entity must disclose the date through which subsequent events were evaluated. This statement was effective upon issuance. The adoption of SFAS 165 did not materially impact the Partnership's consolidated financial statements.

In June 2009, the FASB issued SFAS No. 166 "Accounting for Transfers of Financial Assets — an Amendment of FASB Statement No. 140" (SFAS 166) and SFAS No. 167 "Amendments to FASB Interpretation No. 46(R)" (SFAS 167) that amend the accounting requirements for securitizations and, specifically those utilizing Qualifying Special Purpose Entities (QSPEs). SFAS 166 retains the legal isolation criteria for sale accounting but eliminates the QSPE concept, and transfers of participations are now limited to only pro-rata participations. Under SFAS 167 amendments, all variable interest entities (VIEs), including former QSPEs, need to be considered for consolidation, and an increased number of circumstances will trigger reconsideration of VIE status. The method for determining the Primary Beneficiary of a VIE has been changed from a quantitative model to a qualitative model which focuses on the power to direct the activities of the VIE. SFAS 166 and SFAS 167 also require enhanced disclosures about transfers of financial assets and interests in variable interest entities. Both statements are effective for reporting periods beginning after November 15, 2009. The Partnership does not expect the adoption of these standards to have a material impact on the Partnership's consolidated financial statements.

4. TRANSACTIONS WITH AFFILIATES

In the normal course of business the Partnership conducts transactions with affiliated companies.

In accordance with the Master Formation and Equity Interest Purchase Agreement, and provided the required consents were obtained, RBS has assumed, and the SET Companies have novated to RBS, the rights and obligations of certain contractual arrangements of the SET Companies that existed prior to the formation of the Partnership. This included various trading agreements and other material business contracts as defined. To the extent that such contracts have not been novated to RBS, RBS assumed the risk and rewards of ownership of those contracts through the execution of market risk index swaps with certain subsidiary companies of the Partnership. The market risk index swaps effectively transfer the risks and rewards, related to market risk, of the contracts, along with the associated income and expenses, from certain SET Companies to RBS. However, all such risks, rewards, income and related expenses are for the Partnership's account.

For novated counterparties the Partnership acts as agent for RBS and receives fee income from RBS. This fee income represents realized and unrealized gains and losses, net of execution costs associated with these activities.

The performance of certain non-novated counterparts is guaranteed by Sempra. RBS has agreed to indemnify Sempra for any associated claims under Sempra's guarantee.

The Partnership earned interest income and incurred interest expenses with RBS related to the Partnership's operating and investing activities. The Partnership was also allocated costs from RBS related to compensation and benefits for services provided.

The following table summarizes the Partnership's assets and liabilities as of December 31, 2009 and 2008 and the Partnership's revenues and expenses for the year ended December 31, 2009 and for the period from April 1, 2008 (date of commencement) to December 31, 2008 with affiliated companies (in thousands):

	2009	2008
Assets:		
Trading assets	$156,748	$139,850
Receivables from affiliates — net	299,439	924,715
Liabilities:		
Trading liabilities	383,116	399,720
Payables to affiliate	3,859	1,433
Revenues and expenses:		
Fee income	999,093	1,397,376
Principal transactions — net	(103)	(2,477)
Interest income	266	5,783
Interest expense	1,692	13,895
RBS allocated expenses	4,896	2,443

5. TRADING ASSETS AND TRADING LIABILITIES

As of December 31, 2009 and 2008, Trading assets and Trading liabilities are comprised of the following (in thousands):

	2009	2008
Trading assets:		
Unrealized gains on forwards, swaps and options	$2,578,446	$3,376,475
Due from commodity clearing brokers	657,503	801,114
Due from trading counterparties	2,012,649	2,960,366
Less effect of netting	(653,951)	(1,304,444)
	$4,594,647	$5,833,511
Trading liabilities:		
Unrealized losses on forwards, swaps and options	$2,298,474	$3,647,342
Due to trading counterparties	1,843,124	2,178,251
Less effect of netting	(653,951)	(1,304,444)
	$3,487,647	$4,521,149

6. DERIVATIVES AND HEDGING ACTIVITIES

The Partnership utilizes derivative instruments, which include forwards, swaps, options, and futures to reduce its exposure to unfavorable changes in market prices.

The Partnership recognizes derivative instruments as either assets or liabilities in the Consolidated statements of financial condition and measures those instruments at fair value. The changes in fair value of a majority of the derivative transactions of the Partnership are currently presented, in all material respects, as a component of Principal transactions — net in the Consolidated statements of income. The accounting for changes in the fair value of other derivatives depends on the intended use of the derivative and the resulting designation.

Hedge accounting treatment can be applied when certain criteria are met. For a derivative instrument designated as a fair value hedge, the gain or loss is recognized in earnings in the period of change together with the offsetting gain or loss on the hedged item of the risk being hedged. For a derivative being designated as a cash flow hedge, the effective portion of the derivative gain or loss is initially reported as a component of AOCI and subsequently reclassified into earnings when the hedged exposure affects earnings. The ineffective portion (excess derivative gain or loss) is reported in earnings immediately.

The following table summarizes the fair values of the Partnership's derivative assets and liabilities, as well as the notional values of its derivative transactions as of December 31, 2009 (in thousands).

	Derivative Assets	Derivative Liabilities	Notional Value
Derivatives accounted for as trading activities — commodity contracts	$6,820,619	$5,211,601	$270,122,254
Derivatives accounted for as hedges:			
Commodity contracts	93,377	297,817	2,012,324
Interest rate contracts	3,762	11,999	910,586
Total derivative contracts accounted for as hedges	97,139	309,816	2,922,910
Gross fair value of derivative contracts	6,917,758	5,521,417	$273,045,164
Counterparty Netting (1)	(3,160,980)	(3,160,980)	
Collateral netting (2)	(387,896)	(266,055)	
Fair value included in Trading assets and liabilities	$3,368,882	$2,094,382	

(1) Represents the netting of counterparty balances pursuant to various contractual agreements.
(2) Represents the netting of cash collateral received and posted on a counterparty basis pursuant to credit support agreements.

Derivatives Accounted for as Trading Activities — The Partnership primarily uses trading derivative instruments to reduce its exposure to commodity price risk. Gains and losses attributable to trading derivatives are included in Principal transactions — net in the Consolidated statements of income. The amount below summarizes the gains related to derivative instruments classified as trading for the year ended December 31, 2009 (in thousands).

Commodity contracts	$838,237

Derivatives Accounted for as Hedges — The Partnership utilizes both fair value hedges and cash flow hedges to hedge commodity price risk as well as interest rate risk.

Derivatives designated as fair value hedges are used to hedge price risk in commodity inventories as well as interest rate risk. Gains and losses related to fair value hedges are recorded under Principal transactions — net in the Consolidated statements of income. The amounts below summarize the gains and losses related to derivatives designated in fair value hedge relationships for year ended December 31, 2009 (in thousands).

Commodity contracts	($529,033)
Interest rate contracts	7,095
Total	($521,938)

The amounts below summarize the gains and losses related to non-derivative hedged items designated in fair value hedge relationships for year ended December 31, 2009 (in thousands).

Commodities owned	$908,482
Finance lease receivable	(6,140)
Total	$902,342

Ineffectiveness relating to fair value hedges resulted in a positive impact on revenue of approximately $380 million and $5 million for the year ended December 31, 2009 and for the period from April 1, 2008 to December 31, 2008, respectively.

Derivatives designated as cash flow hedges are used primarily to hedge the commodity price risk associated with natural gas purchases and sales related to transportation and storage capacity arrangements. The effective portion of cash flow hedges reclassified to income in the current year as well as the ineffectiveness gains and losses on cash flow hedges are recorded in Principal transactions — net in the Consolidated statements of income. The amounts below summarize the gains and losses and the impacts on comprehensive income of cash flow hedging activities for year ended December 31, 2009 (in thousands).

	Derivatives — Effective Portion Reclassified to Income	Hedge Ineffectiveness Recorded in Income	Derivatives — Effective Portion Recorded in OCI
Commodity contracts	$15,098	$3,405	($44,095)

A net derivative unrealized gain/(loss) of approximately $41 million and $(3) million is included in AOCI for 2009 and 2008, respectively. The ineffective portion of cash flow hedges resulted in a positive impact on revenue of approximately $3 million and $13 million for the year ended December 31, 2009 and the period from April 1, 2008 to December 31, 2008, respectively. Derivative unrealized gains included in AOCI expected to affect earnings in 2010 are approximately $50 million. Due to volatility and uncertainty in the commodity markets, the corresponding value in AOCI will likely change prior to its reclassification to earnings. As of December 31, 2009, the maximum tenor of derivative instruments that hedge forecasted purchase and sales transactions is 6 years.

7. FAIR VALUE OF ASSETS AND LIABILITIES

The Partnership applies recurring fair value measurements to certain assets and liabilities that are carried at fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price). The Partnership utilizes market data or assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated, or generally unobservable. The Partnership primarily applies the market approach for recurring fair value measurements and endeavors to utilize the best available information. Accordingly, the Partnership utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. The Partnership is able to classify fair value balances based on the observability of those inputs. The fair value hierarchy prioritizes the inputs used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurement). The three levels of the fair value hierarchy are defined as follows:

Level 1 — Quoted prices are available in active exchange markets for identical assets or liabilities as of the reporting date. Active exchange markets are those in which transactions for the asset or liability occur in sufficient frequency and volume to provide pricing information on an ongoing basis. Level 1 primarily consists of financial instruments such as exchange-traded derivatives and listed equities.

Level 2 — Quoted prices in active and inactive markets are not available, however, pricing inputs are either directly or indirectly observable as of the reporting date. Level 2 includes those financial instruments that are valued using models or other valuation methodologies. These models are primarily industry-standard models that consider various assumptions, including quoted forward prices for commodities, time value, volatility factors, and current market and contractual prices for the underlying instruments, as well as other relevant economic data. Substantially all of these assumptions are observable in the marketplace throughout the full term of the instrument, can be derived from observable data or are supported by observable levels at which transactions are executed in the marketplace. Instruments in this category include non-exchange-traded derivatives such as forwards, swaps and options and certain exchange traded/cleared derivatives.

Level 3 — Pricing inputs include significant inputs that are generally less observable from objective sources. These inputs may be used with internally developed methodologies that result in management's best estimate of fair value. Level 3 instruments include those that may be more structured or otherwise tailored to customers' needs. At each balance sheet date, the Partnership performs an analysis of all assets and liabilities at fair value and includes in Level 3 all of those whose fair value is based on significant unobservable inputs.

The following tables set forth by level within the fair value hierarchy the assets and liabilities that were accounted for at fair value on a recurring basis as of December 31, 2009 and 2008. Assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The Partnership's assessment of the significance of a particular input to the fair value measurement requires judgment, and may affect the valuation of fair value assets and liabilities and their placement within the fair value hierarchy levels.

As of December 31, 2009
(in thousands)

Assets	Level 1	Level 2	Level 3	Total (1)
Exchange-traded/cleared derivative instruments	$676,215	$502,118	$-	$1,178,333
OTC derivative trading instruments	-	2,483,475	94,971	2,578,446
Commodities owned	-	1,741,097	-	1,741,097
Available-for-sale securities	45,504	2,229	7,357	55,090
Trading securities	220	-	-	220
Total	$721,939	$4,728,919	$102,328	$5,553,186

Liabilities	Level 1	Level 2	Level 3	Total (1)
Exchange-traded/cleared derivative instruments	$49,798	$12,165	$-	$61,963
OTC derivative trading instruments	-	2,168,015	130,459	2,298,474
Total	$49,798	$2,180,180	$130,459	$2,360,437

(1) Amounts exclude the effects of netting

As of December 31, 2008 (2)
(in thousands)

Assets	Level 1	Level 2	Level 3	Total (1)
Exchange-traded/cleared derivative instruments	$1,533,252	$993,727	$-	$2,526,979
OTC derivative trading instruments	-	3,352,884	23,591	3,376,475
Commodities owned	-	1,152,716	-	1,152,716
Available-for-sale securities	21,322	2,010	7,111	30,443
Trading securities	210	-	-	210
Total	$1,554,784	$5,501,337	$30,702	$7,086,823

Liabilities	Level 1	Level 2	Level 3	Total (1)
Exchange-traded/cleared derivative instruments	$94,660	$10,299	$-	$104,959
OTC derivative trading instruments	-	3,621,035	26,307	3,647,342
Total	$94,660	$3,631,334	$26,307	$3,752,301

(1) Amounts exclude the effects of netting
(2) Management has made adjustments to its original classification of certain financial instruments for purposes of this table. Accordingly, approximately $518 million in assets and $40 million in liabilities have been changed from Level III to Level II.

Exchange-traded/cleared derivative instruments, which are cash settled during the life of the transaction, are classified as part of Trading assets and shown net on the Consolidated statements of financial condition. The table above does not include certain commodities owned that are carried on a lower-of-cost-or-market basis. The table does include a portion of commodities owned for which fair value hedge accounting is applied.

	As of December 31, 2009 (in thousands)	As of December 31, 2008 (in thousands)
Commodities owned:		
Per consolidated statements of financial condition	$1,751,541	$1,162,559
Less amounts recorded at lower-of-cost-or-market	10,444	9,843
Per recurring fair value measures table	$1,741,097	$1,152,716

The determination of the fair values above incorporates various factors including not only the credit standing of the counterparties involved and the impact of credit enhancements (such as cash deposits, letters of credit and priority interests), but also the impact of the Partnership's non-performance risk on its liabilities.

Trading derivatives and commodities owned reflect positions held by the Partnership. The fair value of derivative contracts, which include futures and exchange-traded options, is generally based on unadjusted quoted prices in active exchange markets and are classified within Level 1. Some exchange-cleared derivatives are valued using broker or dealer quotations, or market transactions in either the listed or OTC markets. In such cases, these exchange-traded/cleared derivatives are classified within Level 2. In addition, certain OTC-cleared forwards, swaps, and options are included in Level 2. OTC derivative trading instruments include forwards, swaps, and options and complex structures that are valued at fair value and may be offset with similar positions in exchange-cleared markets. In certain instances, these instruments may utilize models to measure fair value. Generally, the Partnership uses a similar model to value similar instruments. Valuation models utilize various inputs that include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, other observable inputs for the asset or liability, and market-corroborated inputs (i.e., inputs derived principally from or corroborated by observable market data by correlation or other means.) Where observable inputs are available for substantially the full term of the asset or liability, the instrument is categorized in Level 2. Certain OTC derivatives trade in less active markets with a lower availability of pricing information. In addition, complex or structured transactions can introduce the need for internally-developed model inputs that might not be observable in or corroborated by the market. When such inputs have a significant impact on the measurement of fair value, the instrument is categorized in Level 3.

The following table sets forth a reconciliation of changes in the fair value of net trading derivatives classified as Level 3 in the fair value hierarchy (in thousands):

Balance as of April 1, 2008	$436,164
Realized and unrealized gains (losses)	(462,896)
Purchases, settlements, sales and issuances	20,154
Transfers in and/or out of Level 3	10,972
Balance as of December 31, 2008	4,394
Realized and unrealized gains (losses)	(194,473)
Purchases, settlements, sales and issuances	8,824
Transfers in and/or out of Level 3	153,124
Balance as of December 31, 2009	($28,131)
Change in unrealized gains (losses) relating to instruments still held as of December 31, 2009	($126,398)

Gains and losses (realized and unrealized) for Level 3 items are included primarily in Principal transactions — net.

Transfers in and/or out of Level 3 represent existing assets or liabilities that were either previously categorized as a higher level for which the inputs to the model became unobservable or assets and liabilities that were previously classified as Level 3 for which the lowest significant input became observable during the period.

Given the nature, size, timing and tenor of certain complex transactions, changing one or more of the less observable inputs within the valuation model, may materially change the values used by management.

8. TRADING ACTIVITY AND RISK MANAGEMENT

The Partnership derives a substantial portion of its revenue from market-making and trading activities, as an agent for RBS and as principal, in natural gas, electricity, petroleum, petroleum products, base metals and other commodities. It quotes bid and offer prices to other market makers and end users. It also earns trading profits as a dealer by structuring and executing transactions that permit its counterparts to manage their risk profiles. In addition, it takes positions in markets based on the expectation of future market conditions. These positions may be offset with similar positions or may be offset by positions taken in exchange-traded markets. These positions include forwards, swaps, options, and futures. These financial instruments represent contracts with counterparts whereby payments are linked to or derived from market indices or on terms predetermined by the contract, which may or may not be financially settled by the Partnership.

Forward and future transactions are contracts for delayed delivery of commodity instruments in which the counterparty agrees to make or take delivery at a specified price. Commodity swap transactions may involve the exchange of fixed and floating payment obligations without the exchange of the underlying commodity. For additional information about derivatives and related hedging activities see Note 6 — Derivatives and Hedging Activities.

Options, which are either exchange-traded or directly negotiated between counterparties, provide the holder with the right to buy from or sell to the writer an agreed amount of commodity at a specified strike price within, or at, a specified period of time. As a writer of options, the Partnership receives an option premium then manages the risk of an unfavorable change in the value of the underlying commodity.

Market risk arises from the potential for changes in the value of physical and financial instruments resulting from fluctuations in prices and basis for natural gas, electricity, petroleum, petroleum products, base metals and other commodities. Market risk is also affected by changes in volatility and liquidity in markets in which these instruments are traded. The Partnership has established position and stop-loss limits for each line of business to monitor its market risk. Traders are required to maintain positions within these market risk limits. The position limits are monitored during the day by senior management of the Partnership. Reports which present each trading book's position and the prior day's profit and loss are reviewed daily by traders and the Partnership's senior management.

The Partnership also uses Value-at-Risk (VaR) to measure its exposure to market risk. VaR is an estimate of the potential loss on a position or portfolio of positions over a specified holding period, based on normal market conditions and within a given statistical confidence interval. The Partnership has adopted the historical simulation methodology in its calculation of VaR, and uses a 95-percent confidence interval. Holding periods are specific to the types of positions being measured, and are determined based on the size of the position or portfolios, market liquidity, tenor and other factors. Historical volatilities are used in the calculation. Based upon these and other risk management procedures, the Partnership's senior management determines whether to adjust the Partnership's market risk profile.

The Partnership's credit risk from physical and financial instruments as of December 31, 2009 and 2008 is represented by the positive fair value of financial instruments after consideration of netting and collateral in the form of customer margins and Letters of Credit. Credit risk disclosures, however, relate to the net losses that would be recognized if all counterparties failed to completely perform their obligations. Options written expose the Partnership to credit risk until premiums are paid by the counterparty. Exchange-traded futures and options are not deemed to have significant credit exposure as the exchanges guarantee that every contract will be properly settled on a daily basis.

The following table approximates the counterparty credit quality and exposure expressed in terms of net replacement value as determined by rating agencies or by internal models intended to approximate rating agency determinations. These exposures are net of collateral in the form of customer margin and/or letters of credit of $554 million and $955 million as of December 31, 2009 and 2008, respectively:

	2009	2008
Counterparty credit quality (in thousands):		
AAA	$20,454	$20,467
AA	174,389	338,739
A	734,819	692,580
BBB	605,580	556,036
Below investment grade	826,296	882,963
Exchanges	657,503	801,114
	$3,019,041	$3,291,899

The Partnership monitors and controls its credit risk exposures through various systems and processes, which evaluate the Partnership's credit risk through credit approvals and limits. To manage the level of credit risk the Partnership enters into netting agreements whenever possible and, where appropriate, obtains collateral. Netting agreements incorporate rights of setoff that provide for the net settlement of subject contracts with the same counterpart in the event of default.

The Partnership provides committed and uncommitted letters of credit issued by various banks, in addition to cash, to counterparts to satisfy various collateral and margin deposit requirements (see Note 13 — Borrowings and Credit Facilities).

9. INVESTMENTS IN MARKETABLE SECURITIES

Available-for-Sale Securities — The Partnership held equity securities of $55.1 million and $53.9 million categorized as available-for-sale securities, included in Investments in marketable securities as of December 31, 2009 and 2008, respectively. As of December 31, 2009, gross unrealized gains were $7.9 million and gross unrealized losses were $9.9 million, and as of December 31, 2008, gross unrealized gains were $0.1 million and gross unrealized losses were $47.6 million. During 2009, the Partnership realized a loss on available-for-sale securities, that was previously recorded in AOCI, of $44.3 million. During 2008, the Partnership purchased $2.0 million and novated to RBS $30.3 million of available-for-sale securities. The fair value of securities in an unrealized loss position at December 31, 2009 was $20.8 million and was $37.0 million at December 31, 2008. The unrealized losses were primarily caused by temporary declines in the market values of the securities. As of December 31, 2009, the Partnership does not consider these investments to be other-than-temporarily impaired.

Trading Securities — As of December 31, 2009 and 2008, the Partnership had $0.2 million and $0.2 million of securities classified as trading securities, respectively, included in Investments in marketable securities. The Partnership recorded unrealized losses of $0.7 million related to trading securities for the period from April 1, 2008 to December 31, 2008. During 2008, the Partnership sold $2.5 million and novated to RBS $2.0 million of trading securities.

10. INVESTMENTS IN UNCONSOLIDATED AFFILIATES

As of December 31, 2009 and 2008, the Partnership owned 30% of Gateway Energy Services Corporation (Gateway). Gateway is a retail marketer of natural gas and electricity, serving residential, commercial, and light industrial customers primarily in the northeast, mid-west, and mid-atlantic regions of the U.S. During 2009, the Partnership recorded a loss of $12.5 million on its investment in Gateway. As of December 31, 2009 and 2008 the Partnership owned 25% of Great Eastern Energy Co. LLC (GEEC). GEEC supplies natural gas and electricity to commercial and industrial customers within major markets across the United States. During 2009, the Partnership received a $1.6 million distribution from GEEC. The carrying value of these investments is $28.0 million and $34.1 million as of December 31, 2009 and 2008, respectively, and is included in Prepaid and other assets.

11. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are carried at cost less accumulated depreciation. These assets consist of leasehold improvements and office equipment, computer equipment (which includes computer hardware and software) and machinery and equipment. Property, plant and equipment by major functional categories are as follows (in thousands):

As of December 31, 2009	Cost	Accumulated Depreciation	Book Value
Leasehold improvements and office equipment	$121,646	$37,522	$84,124
Computer equipment	215,668	153,999	61,669
Machinery and equipment	9,471	5,440	4,031
	$346,785	$196,961	$149,824

As of December 31, 2008	Cost	Accumulated Depreciation	Book Value
Leasehold improvements and office equipment	$115,620	$29,485	$86,135
Computer equipment	184,281	127,948	56,333
Machinery and equipment	7,625	5,204	2,421
	$307,526	$162,637	$144,889

12. FINANCE LEASE RECEIVABLE

In connection with a transaction entered into during 2008, the Partnership entered into a sales type lease that is recorded in the consolidated statements of financial condition as a Finance lease receivable. The balances at December 31, 2009 and December 31, 2008 are as follows (in thousands):

Gross receivable	$211,988	$224,254
Unearned income	(133,744)	(146,926)
Unguaranteed residual value	115,000	115,000
Finance lease receivable	$193,244	$192,328

Contractual maturities of the gross receivable as of December 31, 2009 were as follows (in thousands):

2010	$11,111
2011	14,273
2012	14,893
2013	13,233
2014	19,740
Thereafter	138,738
	$211,988

13. BORROWINGS AND CREDIT FACILITIES

Certain subsidiaries of the Partnership have a $1.72 billion, five year committed syndicated revolving credit facility (consisting of borrowings, letters of credit and other credit support accommodations) maturing in September 2010. The amount of credit available under the facility is limited to the amount of a borrowing base consisting of receivables, inventories and other assets of a subsidiary of the Partnership that secure the credit facility and are valued for purposes of the borrowing base at varying percentages of current market value. Extensions of credit are guaranteed by Sempra Energy subject to a maximum guarantee liability of 20% of the lenders' total commitments under the facility. The facility requires a subsidiary of the Partnership to meet certain financial tests at the end of each quarter, including minimum working capital, leverage ratio, senior debt to tangible net worth ratio, and minimum net worth and tangible net worth tests. It also imposes certain other limitations on the subsidiary and certain affiliates, including certain limitations on other indebtedness, capital expenditures, liens, transfers of assets, investments, loans, advances, dividends, other distributions, modifications of risk management policies and transactions with affiliates. As of December 31, 2009, the facility had $968 million of letters of credit and no borrowings outstanding. In addition to commitment fees, these borrowings accrue interest at market rates based on a base rate or libor plus a fixed margin. In May 2008, the facility was amended to permit the implementation of the transfer of certain businesses of the Partnership to RBS and to ensure that after such transfer, the Partnership businesses would continue to be able to utilize the credit facility. In addition, there were adjustments to covenants and the margin applicable to loans.

At December 31, 2009, RBS, on behalf of itself and certain subsidiaries of the Partnership, maintained $1.282 billion in various uncommitted lines of credit. At December 31, 2009, these facilities had outstanding $985 million of letters of credit and no short term borrowings. These facilities exclude a line of credit provided by RBS to subsidiaries of the Partnership as well as loans made by RBS to the Partnership (or its subsidiaries) pursuant to its obligation to lend cash and other working capital to the Partnership as necessary to fund all of its ongoing operating expenses, to provide capital to the Partnership to support the trading activities of its subsidiaries at a level prevailing as of April 1, 2008, to support the business plan of the Partnership, and to support its reasonable growth.

14. INCOME TAXES

The Partnership is a Limited Liability Partnership, incorporated under the laws of the United Kingdom and for U.S. purposes has elected to be treated as a Partnership for U.S. federal, state and local filings. The income or loss applicable to the operations of the Partnership is includable in the U.S. income tax returns of the Members. Certain subsidiaries of the Partnership are subject to tax in foreign jurisdictions where such subsidiary is treated as a corporation under local tax laws.

The provision for income taxes is summarized below (in thousands):

	For the Year Ended December 31, 2009	For the Period Ended December 31, 2008
Current — foreign	$34,553	$13,317
Current — state	7,234	-
Deferred — foreign	(1,663)	3,101
Total provision for income taxes	$40,124	$16,418

As of December 31, 2009 and 2008, the Partnership has a net deferred tax asset of $3.2 million and $3.8 million, respectively.

The provision for income taxes varies from the federal income tax rate of 35% primarily because the entity is treated as a partnership for federal and state tax purposes and the income or loss applicable to its operations is included in the income tax returns of the Members.

The total amounts of gross unrecognized tax benefits at the beginning and ending of the year are as follows (in thousands):

Unrecognized tax benefits, as of April 1, 2008	$38,315
Gross decreases — tax positions in prior period	(26,920)
Unrecognized tax benefits, as of December 31, 2008	11,395
Gross increases — tax positions in prior period	2,106
Gross decreases — tax positions in prior period	(9,483)
Gross increases — current period tax positions	1,758
Unrecognized tax benefits, as of December 31, 2009	$5,776

Of the total unrecognized tax benefits, approximately $6 million represents the amount of unrecognized tax benefits that, if recognized, would favorably affect the effective tax rate in future periods.

As a result of the organization of the Partnership (see Note 2 — Formation and Organization of the Partnership), any tax liability arising from the Partnership's operations prior to the effective date of the joint venture will be borne by Sempra. The Partnership commenced on April 1, 2008. The current year ended December 31, 2009 and the prior short period from April 1, 2008 to December 31, 2008 are open under statute for examination for U.S. federal, state and local tax returns. The statute of limitations for other material foreign tax returns remains open for 1995 and forward.

15. EMPLOYEE BENEFIT PLANS

The Partnership's employees participate in various benefit plans, including a defined contribution savings plan (401(k) plan). Included in Compensation and benefits is approximately $13.2 million and $10.7 million of expenses for the year ended December 31, 2009 and the period ended December 31, 2008, respectively, related to these plans.

16. COMMITMENTS AND CONTINGENCIES

Minimum non-cancelable lease commitments for office facilities, exclusive of real estate taxes and other expenses are as follows (in thousands):

2010	$33,630
2011	23,644
2012	15,708
2013	12,453
2014	9,047
Thereafter	30,710
	$125,192

Office leases, which expire at various dates through 2024, contain provisions for escalation based on certain cost increases incurred by the lessors. Rent expense was $12.9 million and $9.4 million for the year ended December 31, 2009 and for the period from April 1, 2008 (date of commencement) to December 31, 2008, respectively.

As part of its normal business, the Partnership enters into various fixed-price non-cancelable commitments to purchase or sell transportation and storage capacity. These commitments are recognized as performed.

Certain claims, suits and allegations that arise in the ordinary course of business have been filed or are pending against the Partnership. In addition, the Partnership is a respondent in a complaint proceeding initiated at the FERC concerning rates charged for short-term sales of power to the California Independent System Operator Corporation (ISO) and the California Power Exchange (PX) for power supplied during the period of October 2, 2000 through June 20, 2001. On March 26, 2003, the FERC expanded the basis for refunds by adopting a staff recommendation from a separate investigation to change the natural gas proxy component of the mitigated market-clearing price that is used to calculate refunds. The FERC released its final instructions, and ordered the ISO and PX to recalculate the precise number through their settlement models. In August 2006, the Ninth Circuit Court of Appeals (Court of Appeals) upheld the FERC's decision not to extend the refund period and held that FERC properly excluded certain bilateral transactions from the refund proceedings. However, they also held that the FERC erred in excluding certain multi-day transactions from the refund proceedings and in not considering other remedies for tariff violations that occurred prior to October 2, 2000. The Court of Appeals remanded the matter to the FERC for further proceedings. In November 2007, the Partnership and other entities filed requests for rehearing of the Court of Appeals' August 2006 decision. In April 2009 the Ninth Circuit denied the rehearing requests. In November 2009, FERC issued an order establishing the parameters of the proceeding on remand. The remand proceeding is being held in abeyance pending FERC sponsored settlement discussions. In August 2007, the Ninth Circuit Court of Appeals issued a decision reversing and remanding FERC orders declining to provide refunds in a related proceeding regarding short-term bilateral sales up to one month in the Pacific Northwest. The court found that some of the short-term sales between the DWR and various sellers (including the Partnership) that had previously been excluded from the refund proceeding involving sales in the ISO and PX markets in California, were within the scope of the Pacific Northwest refund proceeding. In December 2007, the Partnership and other sellers filed requests for rehearing of the Court of Appeals' August 2007 decision. In April 2009 the Ninth Circuit denied the rehearing requests. On September 4, 2009, the Partnership filed in the US Supreme Court a petition for cert of the Ninth Circuit decision which was denied in January 2010. FERC has not yet issued a remand order in this matter. It is possible that on remand, the FERC could order refunds for short-term sales to the DWR in the Pacific Northwest refund proceeding.

The Partnership has reserves for its estimated refund liability that reflect its estimate of the effect of the FERC's revision of the benchmark prices it will use to calculate refunds and other refund-related developments.

In a separate complaint filed with the FERC in 2002, the California Attorney General challenged the FERC's authority to establish a market-based rate regime, and further contended that, even if such a regime were valid, electricity sellers had failed to comply with the FERC's quarterly reporting requirements. The Attorney General requested that the FERC order refunds from suppliers. The FERC dismissed the complaint and instead ordered sellers to restate their reports. After an appeal by the California Attorney General, the Ninth Circuit Court of Appeals upheld the FERC's authority to establish a market-based rate regime, but ordered remand of the case to the FERC for further proceedings, stating that failure to file transaction-specific quarterly reports gave the FERC authority to order refunds with respect to jurisdictional sellers. In December 2006, a group of sellers petitioned the United States Supreme Court to review the Ninth Circuit Court of Appeals' decision. In June 2007, the Supreme Court declined further review of the Ninth Circuit Court of Appeals' order. On March 21, 2008, FERC issued a procedural order setting the matter for further hearings before an ALJ on remand. FERC issued a clarifying order on October 6, 2008 from which the California Parties sought rehearing, which FERC denied on December 28, 2009. The California parties filed a notice of appeal of these orders with the Ninth Circuit Court of Appeals in January 2010. A hearing is scheduled at FERC for April 2010. On remand, it is possible that the FERC could order refunds or disgorgement of profits for periods in addition to those covered by its prior refund orders and substantially increase the refunds that ultimately may be required to be paid by the Partnership and other power suppliers.

On or about May 22, 2009, the California Attorney General filed an action at FERC against various sellers of power to the CA state agency CDWR-CERS during the period Jan. 18 – June 20, 2001, including the Partnership. The complaint alleges that these sellers benefited from the improper exercise of market power and the violation of various tariffs by selling power to CERS at unjust and unreasonable prices. The complaint alleges that "Sempra," in particular, manipulated the market. The remedies being sought from the Partnership are largely duplicative of those being sought in the proceedings described above. The Partnership filed a motion to dismiss and answer on September 3, 2009. In May 2009, the CA Parties moved FERC to consolidate and grant summary disposition of this matter and certain other matters, including those described above. The Partnership filed an answer in August 2009.

In connection with the formation of the joint venture, Sempra has agreed to indemnify RBS and the Partnership from any liability arising out of these matters.

As of December 31, 2009, the Partnership is owed approximately $100 million from energy sales made in 2000 and 2001 through the ISO and the PX markets. The collection of these receivables depends on several factors, including the California ISO and PX refund case. The Partnership believes adequate reserves have been recorded.

In the normal course of business, the Partnership has been named, from time to time, as a defendant in various legal actions, including arbitrations, class actions and other litigation. The Partnership is also involved, from time to time, in other reviews, investigations and proceedings (both formal and informal) by governmental and regulatory agencies regarding the Company's business, including, among other matters, accounting and operational matters. The Partnership contests liability and/or the amount of damages as appropriate in each pending matter. In view of the inherent difficulty of predicting the outcome of such matters, the Partnership cannot predict with certainty the loss or range of loss, if any, related to such matters. Subject to the foregoing, the Partnership believes, based on current knowledge and after consultation with counsel, that the outcome of such pending matters should not have a material adverse effect on the consolidated financial condition of the Partnership, although the outcome of such matters could be material to the Partnership's operating results and cash flows for a particular future period, depending on, among other things, the level of the Partnership's revenues, income or cash flows for such period.

17. SUBSEQUENT EVENTS

On February 16, 2010, and in accordance with the restructuring measures that were previously agreed between RBS and the EC, Sempra, RBS and the Partnership entered into an agreement (the Purchase Agreement) with J.P. Morgan Ventures Energy Corporation (J.P. Morgan Ventures), whereby J.P. Morgan Ventures will purchase the oil, metals and European power and gas businesses from the joint venture (the Transaction). RBSSC will retain its North American power and natural gas businesses, and its retail energy solutions business.

The Transaction is expected to close in the second quarter of 2010, and at closing, J.P. Morgan Ventures will pay an aggregate purchase price equal to the estimated book value of the businesses purchased at closing, computed on the basis of IFRS, plus an amount equal to $468 million.

The closing is subject to several conditions which include obtaining various regulatory approvals, obtaining certain regulatory licenses, the maintenance of certain credit rating levels by J.P. Morgan Chase & Co., and the execution of certain related agreements including an agreement pursuant to which the Partnership will be providing transition services to the subject businesses following the closing.

In connection with the Transaction under the Purchase Agreement, the Partnership expects, subject to the negotiation of a definitive agreement, to amend certain provisions of the various Partnership agreements to reflect the sharing of the proceeds of and indemnities under the Transaction.

The Partnership has evaluated subsequent events for adjustment to or disclosure in its financial statements through February 22, 2010, the date the consolidated financial statements were issued. No recordable or disclosable events, other than the events as disclosed above, occurred through this date.

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