

PACIFIC ENTERPRISES INC
Form 10-Q
August 02, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2007

| Commission File Number | Name of Registrant, State or other jurisdiction of incorporation or organization, Address and Telephone Number | I.R.S. Employer Identification No. |
|------------------------|--|------------------------------------|
| 1-40 | PACIFIC ENTERPRISES (A California Corporation) 101 Ash Street San Diego, California 92101 (619) 696-2020 | 94-0743670 |
| 1-1402 | SOUTHERN CALIFORNIA GAS COMPANY (A California Corporation) 555 West Fifth Street Los Angeles, California 90013 (213) 244-1200 | 95-1240705 |

No Change

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

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

Yes X No

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

Large accelerated filer Accelerated filer Non-accelerated filer

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

Yes No

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

Common stock outstanding:

Pacific Enterprises

Wholly owned by Sempra Energy

Southern California Gas Company

Wholly owned by Pacific Enterprises

INFORMATION REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report contains statements that are not historical fact and constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. The words "estimates," "believes," "expects," "anticipates," "plans," "intends," "may," "could," "would" and "should" or similar expressions, or discussions of strategy or of plans are intended to identify forward-looking statements. Forward-looking statements are not guarantees of performance. They involve risks, uncertainties and assumptions. Future results may differ materially from those expressed in these forward-looking statements.

Forward-looking statements are necessarily based upon various assumptions involving judgments with respect to the future and other risks, including, among others, local, regional and national economic, competitive, political, legislative and regulatory conditions and developments; actions by the California Public Utilities Commission, the California State Legislature, the Federal Energy Regulatory Commission and other environmental and regulatory bodies in the United States; capital markets conditions, inflation rates, interest rates and exchange rates; energy and trading markets, including the timing and extent of changes in commodity prices; the availability of natural gas and liquefied natural gas; weather conditions and conservation efforts; war and terrorist attacks; business, regulatory, environmental and legal decisions and requirements; the status of deregulation of retail natural gas and electricity delivery; the timing and success of business development efforts; the resolution of litigation; and other uncertainties, all of which are difficult to predict and many of which are beyond the control of the companies. Readers are cautioned not to rely unduly on any forward-looking statements and are urged to review and consider carefully the risks, uncertainties and other factors which affect the companies' business described in this report and other reports filed by the companies from time to time with the Securities and Exchange Commission.

PART I. FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

PACIFIC ENTERPRISES AND SUBSIDIARIES
STATEMENTS OF CONSOLIDATED INCOME

| (Dollars in millions) | Three months ended | | Six months ended | |
|--------------------------------------|--------------------|--------|------------------|----------|
| | June 30, | | June 30, | |
| | 2007 | 2006 | 2007 | 2006 |
| | | | (unaudited) | |
| Operating revenues | \$ 981 | \$ 908 | \$ 2,349 | \$ 2,333 |
| Operating expenses | | | | |
| Cost of natural gas | 529 | 476 | 1,441 | 1,462 |
| Other operating expenses | 249 | 233 | 492 | 466 |
| Depreciation | 70 | 67 | 139 | 133 |
| Franchise fees and other taxes | 29 | 27 | 65 | 66 |
| Total operating expenses | 877 | 803 | 2,137 | 2,127 |
| Operating income | 104 | 105 | 212 | 206 |
| Other expense, net | (1) | (1) | (3) | (2) |
| Interest income | 13 | 31 | 25 | 39 |
| Interest expense | (19) | (18) | (38) | (37) |
| Income before income taxes | 97 | 117 | 196 | 206 |
| Income tax expense | 41 | 50 | 82 | 88 |
| Net income | 56 | 67 | 114 | 118 |
| Preferred dividend requirements | 1 | 1 | 2 | 2 |
| Earnings applicable to common shares | \$ 55 | \$ 66 | \$ 112 | \$ 116 |

See Notes to Condensed Consolidated Financial Statements.

PACIFIC ENTERPRISES AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

| (Dollars in millions) | June 30, 2007 (unaudited) | December 31, 2006 |
|--|---------------------------------|----------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 474 | \$ 211 |
| Accounts receivable - trade | 405 | 640 |
| Accounts receivable - other | 15 | 33 |
| Interest receivable | 1 | 10 |
| Due from unconsolidated affiliates | 209 | 63 |
| Income taxes receivable | 22 | 54 |
| Deferred income taxes | 32 | 43 |
| Inventories | 50 | 106 |
| Other regulatory assets | 39 | 41 |
| Other | 37 | 17 |
| Total current assets | 1,284 | 1,218 |
| Other assets: | | |
| Due from unconsolidated affiliates | 453 | 448 |
| Regulatory assets arising from pension and other | | |
| postretirement benefit obligations | 155 | 136 |
| Other regulatory assets | 104 | 95 |
| Sundry | 34 | 41 |
| Total other assets | 746 | 720 |
| Property, plant and equipment: | | |
| Property, plant and equipment | 8,295 | 8,151 |
| Less accumulated depreciation | (3,304) | (3,248) |
| Property, plant and equipment, net | 4,991 | 4,903 |
| Total assets | \$ 7,021 | \$ 6,841 |

See Notes to Condensed Consolidated Financial Statements.

PACIFIC ENTERPRISES AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

| (Dollars in millions) | June 30, 2007 (unaudited) | December 31, 2006 |
|---|---------------------------------|----------------------|
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable - trade | \$ 386 | \$ 416 |
| Accounts payable - other | 77 | 114 |
| Due to unconsolidated affiliates | 113 | 102 |
| Regulatory balancing accounts, net | 250 | 167 |
| Customer deposits | 89 | 88 |
| Other | 341 | 305 |
| Total current liabilities | 1,256 | 1,192 |
| Long-term debt | 1,105 | 1,107 |
| Deferred credits and other liabilities: | | |
| Customer advances for construction | 94 | 91 |
| Pension and other postretirement benefit obligations, net of plan assets | 184 | 172 |
| Deferred income taxes | 103 | 107 |
| Deferred investment tax credits | 34 | 36 |
| Regulatory liabilities arising from removal obligations | 1,048 | 1,019 |
| Asset retirement obligations | 675 | 655 |
| Deferred taxes refundable in rates | 228 | 221 |
| Preferred stock of subsidiary | 20 | 20 |
| Deferred credits and other | 285 | 291 |
| Total deferred credits and other liabilities | 2,671 | 2,612 |
| Commitments and contingencies (Note 7) | | |
| Shareholders' equity: | | |
| Preferred stock | 80 | 80 |
| Common stock (600 million shares authorized; 84 million shares outstanding; no par value) | 1,462 | 1,464 |
| Retained earnings | 452 | 391 |
| Accumulated other comprehensive income (loss) | (5) | (5) |

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| | | |
|--|----------|----------|
| Total shareholders' equity | 1,989 | 1,930 |
| Total liabilities and shareholders' equity | \$ 7,021 | \$ 6,841 |

See Notes to Condensed Consolidated Financial Statements.

PACIFIC ENTERPRISES AND SUBSIDIARIES

CONDENSED STATEMENTS OF CONSOLIDATED CASH FLOWS

| (Dollars in millions) | Six months ended June 30, | |
|--|------------------------------|--------|
| | 2007 | 2006 |
| | (unaudited) | |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net income | \$ 114 | \$ 118 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation | 139 | 133 |
| Deferred income taxes and investment tax credits | 10 | (12) |
| Gain on sale of assets | (2) | (1) |
| Accretion of interest | 3 | 4 |
| Net changes in working capital components | 408 | 547 |
| Changes in other assets | 6 | 4 |
| Changes in other liabilities | (13) | 13 |
| Net cash provided by operating activities | 665 | 806 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Expenditures for property, plant and equipment | (191) | (193) |
| Increase in loans to affiliates, net | (105) | (122) |
| Proceeds from sale of assets | 2 | 2 |
| Other | (6) | -- |
| Net cash used in investing activities | (300) | (313) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Common dividends paid | (100) | (100) |
| Preferred dividends paid | (2) | (2) |
| Decrease in short-term debt | -- | (88) |
| Net cash used in financing activities | (102) | (190) |
| Increase in cash and cash equivalents | 263 | 303 |
| Cash and cash equivalents, January 1 | 211 | 90 |
| Cash and cash equivalents, June 30 | \$ 474 | \$ 393 |

SUPPLEMENTAL DISCLOSURE OF CASH FLOW

INFORMATION

| | | | | |
|---|----|----|----|----|
| Interest payments, net of amounts capitalized | \$ | 36 | \$ | 34 |
| Income tax payments, net of refunds | \$ | 26 | \$ | 8 |

SUPPLEMENTAL SCHEDULE OF NONCASH

INVESTING ACTIVITY

| | | | | |
|---|----|------|----|-----|
| Decrease in accounts payable from investments in property, plant and equipment | \$ | (12) | \$ | (4) |
|---|----|------|----|-----|

See Notes to Condensed Consolidated Financial Statements.

SOUTHERN CALIFORNIA GAS COMPANY AND SUBSIDIARIES

STATEMENTS OF CONSOLIDATED INCOME

| (Dollars in millions) | Three months ended | | Six months ended | |
|--------------------------------------|--------------------|--------|------------------|----------|
| | June 30, | | June 30, | |
| | 2007 | 2006 | 2007 | 2006 |
| | (unaudited) | | | |
| Operating revenues | \$ 981 | \$ 908 | \$ 2,349 | \$ 2,333 |
| Operating expenses | | | | |
| Cost of natural gas | 529 | 476 | 1,441 | 1,462 |
| Other operating expenses | 248 | 232 | 491 | 465 |
| Depreciation | 70 | 67 | 139 | 133 |
| Franchise fees and other taxes | 29 | 27 | 65 | 66 |
| Total operating expenses | 876 | 802 | 2,136 | 2,126 |
| Operating income | 105 | 106 | 213 | 207 |
| Other expense, net | (2) | (1) | (4) | (1) |
| Interest income | 8 | 13 | 14 | 16 |
| Interest expense | (17) | (16) | (35) | (34) |
| Income before income taxes | 94 | 102 | 188 | 188 |
| Income tax expense | 39 | 43 | 78 | 80 |
| Net income | 55 | 59 | 110 | 108 |
| Preferred dividend requirements | 1 | 1 | 1 | 1 |
| Earnings applicable to common shares | \$ 54 | \$ 58 | \$ 109 | \$ 107 |

See Notes to Condensed Consolidated Financial Statements.

SOUTHERN CALIFORNIA GAS COMPANY AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

| (Dollars in millions) | June 30, 2007 (unaudited) | December 31, 2006 |
|--|---------------------------------|----------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 474 | \$ 211 |
| Accounts receivable - trade | 405 | 640 |
| Accounts receivable - other | 15 | 33 |
| Interest receivable | 1 | 10 |
| Due from unconsolidated affiliates | 204 | 108 |
| Deferred income taxes | 32 | 42 |
| Inventories | 50 | 106 |
| Other regulatory assets | 39 | 41 |
| Other | 36 | 18 |
| Total current assets | 1,256 | 1,209 |
| Other assets: | | |
| Regulatory assets arising from pension and other postretirement benefit obligations | 155 | 136 |
| Other regulatory assets | 104 | 95 |
| Sundry | 13 | 19 |
| Total other assets | 272 | 250 |
| Property, plant and equipment: | | |
| Property, plant and equipment | 8,292 | 8,148 |
| Less accumulated depreciation | (3,304) | (3,248) |
| Property, plant and equipment, net | 4,988 | 4,900 |
| Total assets | \$ 6,516 | \$ 6,359 |

See Notes to Condensed Consolidated Financial Statements.

SOUTHERN CALIFORNIA GAS COMPANY AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

| (Dollars in millions) | June 30, 2007 (unaudited) | December 31, 2006 |
|---|---------------------------------|----------------------|
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable - trade | \$ 386 | \$ 416 |
| Accounts payable - other | 77 | 114 |
| Due to unconsolidated affiliates | 33 | 74 |
| Income taxes payable | 40 | 13 |
| Regulatory balancing accounts, net | 250 | 167 |
| Customer deposits | 89 | 88 |
| Other | 340 | 304 |
| Total current liabilities | 1,215 | 1,176 |
| Long-term debt | 1,105 | 1,107 |
| Deferred credits and other liabilities: | | |
| Customer advances for construction | 94 | 91 |
| Pension and other postretirement benefit obligations, net of plan assets | 184 | 172 |
| Deferred income taxes | 119 | 124 |
| Deferred investment tax credits | 34 | 36 |
| Regulatory liabilities arising from removal obligations | 1,048 | 1,019 |
| Asset retirement obligations | 675 | 655 |
| Deferred taxes refundable in rates | 228 | 221 |
| Deferred credits and other | 265 | 268 |
| Total deferred credits and other liabilities | 2,647 | 2,586 |
| Commitments and contingencies (Note 7) | | |
| Shareholders' equity: | | |
| Preferred stock | 22 | 22 |
| Common stock (100 million shares authorized; 91 million shares outstanding; no par value) | 866 | 866 |

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| | | |
|---|----------|----------|
| Retained earnings | 666 | 607 |
| Accumulated other comprehensive income (loss) | (5) | (5) |
| Total shareholders' equity | 1,549 | 1,490 |
| Total liabilities and shareholders' equity | \$ 6,516 | \$ 6,359 |

See Notes to Condensed Consolidated Financial Statements.

SOUTHERN CALIFORNIA GAS COMPANY AND SUBSIDIARIES

CONDENSED STATEMENTS OF CONSOLIDATED CASH FLOWS

| | Six months ended | |
|--------------------------------------|------------------|------|
| | June 30, | |
| (Dollars in millions) | 2007 | 2006 |
| | (unaudited) | |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |