

SEMPRA ENERGY
Form 10-Q
November 02, 2016

UNITED STATES
SECURITIES AND EXCHANGE
COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT
TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF
1934
For the quarterly period ended September 30, 2016

or

TRANSITION REPORT PURSUANT TO
SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF
1934
For the transition period from _____ to _____

Exact Name of Registrants as Specified in their Charters, File No. Address and Telephone Number	Incorporated in States of Incorporation	I.R.S. Employer Identification Nos.	Former name, former address and former fiscal year, if changed since last report No change
1-14201 SEMPRA ENERGY 488 8 th Avenue San Diego, California	California	33-0732627	No change

92101
(619) 696-2000

1-03779 SAN DIEGO
GAS & ELECTRIC COMPANY
California 951184800 No change
8326 Century
Park Court
San Diego,
California
92123
(619) 696-2000

1-01402 SOUTHERN
CALIFORNIA GAS COMPANY
California 951240705 No change
555 West Fifth
Street
Los Angeles,
California
90013
(213) 244-1200

Indicate by check mark whether the registrants
(1) have 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
registrants were required to file such reports),
and (2) have been subject to such filing
requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Sempra Energy	Yes	X No
San Diego Gas & Electric Company	Yes	X No
Southern California Gas Company	Yes	X No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

	Large accelerated filer	Accelerated filer	Non-accelerated filer	Smaller reporting company
Sempra Energy	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
San Diego Gas & Electric Company	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Southern California Gas Company	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>

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

Sempra Energy	Yes	No X
San Diego Gas & Electric Company	Yes	No X
Southern California Gas Company	Yes	No X

Indicate the number of shares outstanding of each of the issuers’ classes of common stock, as of the latest practicable date.

Common stock outstanding on October 27, 2016:

Sempra Energy	250,060,973 shares
San Diego Gas & Electric Company	Wholly owned by Enova Corporation, which is wholly owned by Sempra Energy
Southern California Gas Company	Wholly owned by Pacific Enterprises, which is wholly owned by Sempra Energy

SEMPRA ENERGY FORM 10-Q
 SAN DIEGO GAS & ELECTRIC COMPANY FORM 10-Q
 SOUTHERN CALIFORNIA GAS COMPANY FORM 10-Q
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This combined Form 10-Q is separately filed by Sempra Energy, San Diego Gas & Electric Company and Southern California Gas Company. Information contained herein relating to any individual company is filed by such company on its own behalf. Each company makes representations only as to itself and makes no other representation whatsoever as to any other company.

You should read this report in its entirety as it pertains to each respective reporting company. No one section of the report deals with all aspects of the subject matter. Separate Part I – Item 1 sections are provided for each reporting company, except for the Notes to Condensed Consolidated Financial Statements. The Notes to Condensed Consolidated Financial Statements for all of the reporting companies are combined. All Items other than Part I – Item 1 are combined for the reporting companies.

INFORMATION REGARDING FORWARD-LOOKING STATEMENTS

We make statements in this report that are not historical fact and constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements are necessarily based upon assumptions with respect to the future, involve risks and uncertainties, and are not guarantees of performance. These forward-looking statements represent our estimates and assumptions only as of the filing date of this report. We assume no obligation to update or revise any forward-looking statement as a result of new information, future events or other factors.

In this report, when we use words such as “believes,” “expects,” “anticipates,” “plans,” “estimates,” “projects,” “forecasts,” “contemplates,” “intends,” “assumes,” “depends,” “should,” “could,” “would,” “will,” “confident,” “may,” “potential,” “possible,” “target,” “pursue,” “goals,” “outlook,” “maintain,” or similar expressions, or when we discuss our guidance, strategy, plans, goals, opportunities, projections, initiatives, objectives or intentions, we are making forward-looking statements.

Factors, among others, that could cause our actual results and future actions to differ materially from those described in forward-looking statements include

local, regional, national and international economic, competitive, political, legislative, legal and regulatory conditions, decisions and developments;

actions and the timing of actions, including general rate case decisions, new regulations, issuances of permits to construct, operate, and maintain facilities and equipment and to use land, franchise agreements and licenses for operation, by the California Public Utilities Commission, California State Legislature, U.S. Department of Energy, California Division of Oil, Gas, and Geothermal Resources, Federal Energy Regulatory Commission, Nuclear Regulatory Commission, California Energy Commission, U.S. Environmental Protection Agency, Pipeline and Hazardous Materials Safety Administration, California Air Resources Board, South Coast Air Quality Management District, Los Angeles County Department of Public Health, Mexican Competition Commission, states, cities and counties, and other regulatory and governmental bodies in the countries in which we operate;

the timing and success of business development efforts and construction, maintenance and capital projects, including risks in obtaining, maintaining or extending permits, licenses, certificates and other authorizations on a timely basis, risks in obtaining the consent of our partners, and risks in obtaining adequate and competitive financing for such projects;

the resolution of civil and criminal litigation and regulatory investigations;

deviations from regulatory precedent or practice that result in a reallocation of benefits or burdens among shareholders and ratepayers, and delays in, or disallowance or denial of, regulatory agency authorization to recover costs in rates from customers or regulatory agency approval for projects required to enhance safety and reliability;

the availability of electric power, natural gas and liquefied natural gas, and natural gas pipeline and storage capacity, including disruptions caused by failures in the North American transmission grid, moratoriums on the ability to withdraw natural gas from or inject natural gas into storage facilities, pipeline explosions and equipment failures; energy markets; the timing and extent of changes and volatility in commodity prices; moves to reduce or eliminate reliance on natural gas as an energy source; and the impact on the value of our natural gas storage and related assets and our investments from low natural gas prices, low volatility of natural gas prices and the inability to procure favorable long-term contracts for natural gas storage services;

risks posed by decisions and actions of third parties who control the operations of investments in which we do not have a controlling interest, and risks that our partners or counterparties will be unable (due to liquidity issues, bankruptcy or otherwise) or unwilling to fulfill their contractual commitments;

weather conditions, natural disasters, catastrophic accidents, equipment failures, terrorist attacks and other events that may disrupt our operations, damage our facilities and systems, cause the release of greenhouse gases, radioactive materials and harmful emissions, and subject us to third-party liability for property damage or personal injuries, fines and penalties, some of which may not be covered by insurance (including costs in excess of applicable policy limits) or may be disputed by insurers;

cybersecurity threats to the energy grid, natural gas storage and pipeline infrastructure, the information and systems used to operate our businesses and the confidentiality of our proprietary information and the personal information of our customers and employees;

the ability to win competitively bid infrastructure projects against a number of strong competitors willing to aggressively bid for these projects;
capital markets conditions, including the availability of credit and the liquidity of our investments, and inflation, interest and currency exchange rates;
disallowance of regulatory assets associated with, or decommissioning costs of, the San Onofre Nuclear Generating Station facility due to increased regulatory oversight, including motions to modify settlements;
expropriation of assets by foreign governments and title and other property disputes;

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the impact on reliability of San Diego Gas & Electric Company's (SDG&E) electric transmission and distribution system due to increased amount and variability of power supply from renewable energy sources and increased reliance on natural gas and natural gas transmission systems;

the impact on competitive customer rates due to the growth in distributed and local power generation and the corresponding decrease in demand for power delivered through SDG&E's electric transmission and distribution system;

the impact on customer rates and other adverse consequences due to possible departing retail load resulting from customers transferring to Direct Access and Community Choice Aggregation;

the inability or determination not to enter into long-term supply and sales agreements or long-term firm capacity agreements due to insufficient market interest, unattractive pricing or other factors; and

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

We caution you not to rely unduly on any forward-looking statements. You should review and consider carefully the risks, uncertainties and other factors that affect our business as described herein and in our most recent Annual Report on Form 10-K and other reports that we file with the Securities and Exchange Commission.

PART I – FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

SEMPRA ENERGY
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Dollars in millions, except per share amounts)

	Three months ended September 30, 2016		Nine months ended September 30, 2015	
	2015	2016	2015	2016
	(unaudited)			
REVENUES				
Utilities	\$2,264	\$2,213	\$6,700	\$6,768
Energy-related businesses	271	268	613	762
Total revenues	2,535	2,481	7,313	7,530
EXPENSES AND OTHER INCOME				
Utilities:				
Cost of natural gas	(208)	(201)	(702)	(786)
Cost of electric fuel and purchased power	(604)	(666)	(1,680)	(1,645)
Energy-related businesses:				
Cost of natural gas, electric fuel and purchased power	(95)	(91)	(213)	(262)
Other cost of sales	(32)	(34)	(293)	(111)
Operation and maintenance	(703)	(701)	(2,109)	(2,072)
Depreciation and amortization	(328)	(315)	(970)	(925)
Franchise fees and other taxes	(108)	(111)	(315)	(314)
Impairment losses	(132)	—	(154)	—
Plant closure adjustment	—	—	—	21
Gain on sale of assets	131	—	131	62
Equity earnings, before income tax	12	33	4	79
Remeasurement of equity method investment	617	—	617	—
Other income, net	26	12	98	88
Interest income	7	6	19	23
Interest expense	(136)	(143)	(421)	(416)
Income before income taxes and equity earnings of certain unconsolidated subsidiaries	982	270	1,325	1,272
Income tax expense	(282)	(15)	(284)	(276)
Equity earnings, net of income tax	19	27	69	64
Net income	719	282	1,110	1,060
Earnings attributable to noncontrolling interests	(97)	(34)	(118)	(79)
Preferred dividends of subsidiary	—	—	(1)	(1)
Earnings	\$622	\$248	\$991	\$980
Basic earnings per common share	\$2.48	\$1.00	\$3.96	\$3.95
Weighted-average number of shares outstanding, basic (thousands)	250,386	248,432	250,073	248,090
Diluted earnings per common share	\$2.46	\$0.99	\$3.93	\$3.91
Weighted-average number of shares outstanding, diluted (thousands)	252,405	251,024	251,976	250,665

Dividends declared per share of common stock	\$0.76	\$0.70	\$2.27	\$2.10
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See Notes to Condensed Consolidated Financial Statements.

SEMPRA ENERGY
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(LOSS)
(Dollars in millions)

	Sempra Energy shareholders' equity				
	Income		Noncontrolling		Total
	Pretax tax amount(expense) benefit	Net-of-tax amount	interests (after-tax)		
	Three months ended September 30, 2016 and 2015 (unaudited)				
2016:					
Net income	\$904	\$ (282)	\$ 622	\$ 97	\$719
Other comprehensive income (loss):					
Foreign currency translation adjustments	(28)	—	(28)	(7)	(35)
Financial instruments	23	(10)	13	5	18
Pension and other postretirement benefits	4	(2)	2	—	2
Total other comprehensive loss	(1)	(12)	(13)	(2)	(15)
Comprehensive income	\$903	\$ (294)	\$ 609	\$ 95	\$704
2015:					
Net income	\$263	\$ (15)	\$ 248	\$ 34	\$282
Other comprehensive income (loss):					
Foreign currency translation adjustments	(92)	—	(92)	(8)	(100)
Financial instruments	(128)	50	(78)	(3)	(81)
Pension and other postretirement benefits	7	(2)	5	—	5
Total other comprehensive loss	(213)	48	(165)	(11)	(176)
Comprehensive income	\$50	\$ 33	\$ 83	\$ 23	\$106
	Nine months ended September 30, 2016 and 2015 (unaudited)				
2016:					
Net income	\$1,276	\$(284)	\$992	\$118	\$1,110
Other comprehensive income (loss):					
Foreign currency translation adjustments	51	—	51	(2)	49
Financial instruments	(214)	100	(114)	1	(113)
Pension and other postretirement benefits	8	(4)	4	—	4
Total other comprehensive loss	(155)	96	(59)	(1)	(60)
Comprehensive income	1,121	(188)	933	117	1,050
Preferred dividends of subsidiary	(1)	—	(1)	—	(1)
Comprehensive income, after preferred dividends of subsidiary	\$1,120	\$(188)	\$932	\$117	\$1,049
2015:					
Net income	\$1,257	\$(276)	\$981	\$79	\$1,060
Other comprehensive income (loss):					
Foreign currency translation adjustments	(197)	—	(197)	(21)	(218)
Financial instruments	(122)	48	(74)	(2)	(76)
Pension and other postretirement benefits	11	(4)	7	—	7
Total other comprehensive loss	(308)	44	(264)	(23)	(287)
Comprehensive income	949	(232)	717	56	773

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Preferred dividends of subsidiary	(1)	—	(1)	—	(1)
Comprehensive income, after preferred dividends of subsidiary	\$948	\$(232)	\$716	\$56	\$772

See Notes to Condensed Consolidated Financial Statements.

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SEMPRA ENERGY
CONDENSED CONSOLIDATED BALANCE SHEETS

(Dollars in millions)

	September 30, 2016	December 31, 2015(1)
	(unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 518	\$ 403
Restricted cash	14	27
Accounts receivable – trade, net	1,062	1,283
Accounts receivable – other	171	190
Due from unconsolidated affiliates	8	6
Income taxes receivable	28	30
Inventories	302	298
Regulatory balancing accounts – undercollected	248	307
Fixed-price contracts and other derivatives	53	80
Assets held for sale	181	—
Other	339	267
Total current assets	2,924	2,891
Other assets:		
Restricted cash	12	20
Due from unconsolidated affiliates	195	186
Regulatory assets	3,424	3,273
Nuclear decommissioning trusts	1,068	1,063
Investments	1,840	2,905
Goodwill	2,150	819
Other intangible assets	397	404
Dedicated assets in support of certain benefit plans	439	464
Insurance receivable for Aliso Canyon costs	664	325
Deferred income taxes	211	120
Sundry	715	641
Total other assets	11,115	10,220
Property, plant and equipment:		
Property, plant and equipment	41,938	38,200
Less accumulated depreciation and amortization	(10,451	) (10,161)
Property, plant and equipment, net (\$365 and \$383 at September 30, 2016 and December 31, 2015, respectively, related to VIE)	31,487	28,039
Total assets	\$ 45,526	\$ 41,150

(1) Derived from audited financial statements.

See Notes to Condensed Consolidated Financial Statements.

SEMPRA ENERGY
 CONDENSED CONSOLIDATED BALANCE SHEETS (CONTINUED)
 (Dollars in millions)

	September 30, 2016 (unaudited)	December 31, 2015(1)
LIABILITIES AND EQUITY		
Current liabilities:		
Short-term debt	\$ 2,869	\$ 622
Accounts payable – trade	1,173	1,133
Accounts payable – other	125	142
Due to unconsolidated affiliates	9	14
Dividends and interest payable	357	303
Accrued compensation and benefits	298	423
Regulatory balancing accounts – overcollected	146	34
Current portion of long-term debt	904	907
Fixed-price contracts and other derivatives	94	56
Customer deposits	153	153
Reserve for Aliso Canyon costs	73	274
Liabilities held for sale	35	—
Other	558	551
Total current liabilities	6,794	4,612
Long-term debt (\$296 and \$303 at September 30, 2016 and December 31, 2015, respectively, related to VIE)	13,522	13,134
Deferred credits and other liabilities:		
Customer advances for construction	153	149
Pension and other postretirement benefit plan obligations, net of plan assets	1,199	1,152
Deferred income taxes	3,326	3,157
Deferred investment tax credits	34	32
Regulatory liabilities arising from removal obligations	2,878	2,793
Asset retirement obligations	2,508	2,126
Fixed-price contracts and other derivatives	413	240
Deferred credits and other	1,508	1,176
Total deferred credits and other liabilities	12,019	10,825
Commitments and contingencies (Note 11)		
Equity:		
Preferred stock (50 million shares authorized; none issued)	—	—
Common stock (750 million shares authorized; 250 million and 248 million shares outstanding at September 30, 2016 and December 31, 2015, respectively; no par value)	2,684	2,621
Retained earnings	10,527	9,994
Accumulated other comprehensive income (loss)	(865	) (806)
Total Sempra Energy shareholders' equity	12,346	11,809
Preferred stock of subsidiary	20	20
Other noncontrolling interests	825	750

Total equity	13,191	12,579
Total liabilities and equity	\$ 45,526	\$41,150

(1) Derived from audited financial statements.
See Notes to Condensed Consolidated Financial Statements.

SEMPRA ENERGY
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in millions)

	Nine months ended September 30,	
	2016	2015
	(unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 1,110	\$ 1,060
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	970	925
Deferred income taxes and investment tax credits	170	179
Impairment losses	154	—
Plant closure adjustment	—	(21)
Gain on sale of assets	(131)	(62)
Equity earnings	(73)	(143)
Remeasurement of equity method investment	(617)	—
Fixed-price contracts and other derivatives	39	(20)
Other	50	28
Net change in other working capital components	224	260
Insurance receivable for Aliso Canyon costs	(339)	—
Changes in other assets	(4)	(112)
Changes in other liabilities	138	(5)
Net cash provided by operating activities	1,691	2,089
CASH FLOWS FROM INVESTING ACTIVITIES		
Expenditures for property, plant and equipment	(3,087)	(2,227)
Expenditures for investments and acquisition of businesses, net of cash and cash equivalents acquired	(1,212)	(183)
Proceeds from sale of assets, net of cash sold	761	347

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Distributions from investments	23		14	
Purchases of nuclear decommissioning and other trust assets	(418))	(407))
Proceeds from sales by nuclear decommissioning and other trusts	486		431	
Increases in restricted cash	(53)	)	(81))
Decreases in restricted cash	71		68	
Advances to unconsolidated affiliates	(12)	)	(24))
Repayments of advances to unconsolidated affiliates	11		74	
Other	(2)	)	9)
Net cash used in investing activities	(3,432)	)	(1,979))
CASH FLOWS FROM FINANCING ACTIVITIES				
Common dividends paid	(510)	)	(468))
Preferred dividends paid by subsidiary	(1)	)	(1))
Issuances of common stock	40		41	
Repurchases of common stock	(55)	)	(74))
Issuances of debt (maturities greater than 90 days)	2,013		2,058	
Payments on debt (maturities greater than 90 days)	(1,298)	)	(1,316))
Increase (decrease) in short-term debt, net	1,636		(201))
Deposit for sale of noncontrolling interest	78		—	
Net distributions to noncontrolling interests	(43)	)	(57))
Tax benefit related to share-based compensation	—		56	
Other	(12)	)	(9))
Net cash provided by financing activities	1,848		29	
Effect of exchange rate changes on cash and cash	8		(12))

equivalents

Increase in cash and cash equivalents	115		127
Cash and cash equivalents, January 1	403		570
Cash and cash equivalents, September 30	\$ 518		\$ 697

See Notes to Condensed Consolidated Financial Statements.

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SEMPRA ENERGY
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
 (Dollars in millions)

	Nine months ended September 30, 2016 2015 (unaudited)	
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest payments, net of amounts capitalized	\$367	\$355
Income tax payments, net of refunds	103	37
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Acquisition of businesses:		
Assets acquired, net of cash and cash equivalents	\$2,692	\$10
Fair value of equity method investment immediately prior to acquisition	(1,144)	—
Liabilities assumed	(448)	(2)
Accrued purchase price	(4)	(5)
Cash paid, net of cash and cash equivalents acquired	\$1,096	\$3
Accrued capital expenditures	\$483	\$459
Financing of build-to-suit property	—	61
Redemption of industrial development bonds	—	79
Common dividends issued in stock	40	41
Dividends declared but not paid	195	179
See Notes to Condensed Consolidated Financial Statements.		

SAN DIEGO GAS & ELECTRIC COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Dollars in millions)

	Three months ended September 30, 2016 2015 (unaudited)		Nine months ended September 30, 2016 2015	
Operating revenues				
Electric	\$1,111	\$1,140	\$2,851	\$2,819
Natural gas	98	90	341	349
Total operating revenues	1,209	1,230	3,192	3,168
Operating expenses				
Cost of electric fuel and purchased power	364	427	926	906
Cost of natural gas	25	27	89	112
Operation and maintenance	268	251	780	723
Depreciation and amortization	161	152	478	446
Franchise fees and other taxes	68	73	190	193
Plant closure adjustment	—	—	—	(21)
Total operating expenses	886	930	2,463	2,359
Operating income	323	300	729	809
Other income, net	11	8	38	26
Interest expense	(49)	(51)	(145)	(155)
Income before income taxes	285	257	622	680
Income tax expense	(91)	(75)	(204)	(217)
Net income	194	182	418	463
(Earnings) losses attributable to noncontrolling interest	(11)	(12)	1	(20)
Earnings attributable to common shares	\$183	\$170	\$419	\$443

See Notes to Condensed Consolidated Financial Statements.

SAN DIEGO GAS & ELECTRIC COMPANY
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE
 INCOME (LOSS)

(Dollars in millions)

	SDG&E shareholder's equity				
	Pretax amount	Income tax expense	Net-of-tax amount	Noncontrolling interest (after-tax)	Total
Three months ended September 30, 2016 and 2015 (unaudited)					
2016:					
Net income	\$274	\$ (91)	\$ 183	\$ 11	\$ 194
Other comprehensive income (loss):					
Financial instruments	—	—	—	5	5
Total other comprehensive income	—	—	—	5	5
Comprehensive income	\$274	\$ (91)	\$ 183	\$ 16	\$ 199
2015:					
Net income	\$245	\$ (75)	\$ 170	\$ 12	\$ 182
Other comprehensive income (loss):					
Financial instruments	—	—	—	(1)	(1)
Total other comprehensive loss	—	—	—	(1)	(1)
Comprehensive income	\$245	\$ (75)	\$ 170	\$ 11	\$ 181
Nine months ended September 30, 2016 and 2015 (unaudited)					
2016:					
Net income (loss)	\$623	\$ (204)	\$419	\$ (1)	\$418
Other comprehensive income (loss):					
Financial instruments	—	—	—	4	4
Total other comprehensive income	—	—	—	4	4
Comprehensive income	\$623	\$ (204)	\$419	\$3	\$422
2015:					
Net income/Comprehensive income	\$660	\$ (217)	\$443	\$20	\$463

See Notes to Condensed Consolidated Financial Statements.

SAN DIEGO GAS & ELECTRIC COMPANY
CONDENSED CONSOLIDATED BALANCE SHEETS

(Dollars in millions)

	September 30, 2016	December 31, 2015(1)
	(unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 23	\$ 20
Restricted cash	10	23
Accounts receivable – trade, net	358	331
Accounts receivable – other	17	17
Due from unconsolidated affiliates	88	1
Income taxes receivable	84	1
Inventories	73	75
Regulatory balancing accounts – net undercollected	248	307
Regulatory assets	124	107
Fixed-price contracts and other derivatives	23	53
Other	98	69
Total current assets	1,146	1,004
Other assets:		
Deferred taxes recoverable in rates	971	914
Other regulatory assets	1,036	977
Nuclear decommissioning trusts	1,068	1,063
Sundry	373	301
Total other assets	3,448	3,255
Property, plant and equipment:		
Property, plant and equipment	17,344	16,458
Less accumulated depreciation and amortization	(4,492	) (4,202)
Property, plant and equipment, net (\$365 and \$383 at September 30, 2016 and December 31, 2015, respectively, related to VIE)	12,852	12,256
Total assets	\$ 17,446	\$ 16,515

(1) Derived from audited financial statements.

See Notes to Condensed Consolidated Financial Statements.

SAN DIEGO GAS & ELECTRIC COMPANY
CONDENSED CONSOLIDATED BALANCE SHEETS (CONTINUED)

(Dollars in millions)

	September 30, 2016	December 31, 2015(1)
	(unaudited)	
LIABILITIES AND EQUITY		
Current liabilities:		
Short-term debt	\$ 54	\$ 168
Accounts payable	422	377
Due to unconsolidated affiliates	10	55
Interest payable	47	39
Accrued compensation and benefits	87	129
Accrued franchise fees	39	66
Current portion of long-term debt	191	50
Asset retirement obligations	72	99
Fixed-price contracts and other derivatives	59	51
Customer deposits	71	72
Other	116	101
Total current liabilities	1,168	1,207
Long-term debt (\$296 and \$303 at September 30, 2016 and December 31, 2015, respectively, related to VIE)	4,660	4,455
Deferred credits and other liabilities:		
Customer advances for construction	53	46
Pension and other postretirement benefit plan obligations, net of plan assets	226	212
Deferred income taxes	2,628	2,472
Deferred investment tax credits	21	19
Regulatory liabilities arising from removal obligations	1,742	1,629
Asset retirement obligations	760	729
Fixed-price contracts and other derivatives	207	106
Deferred credits and other	441	364
Total deferred credits and other liabilities	6,078	5,577
Commitments and contingencies (Note 11)		
Equity:		
Common stock (255 million shares authorized; 117 million shares outstanding; no par value)	1,338	1,338
Retained earnings	4,160	3,893
Accumulated other comprehensive income (loss)	(8	) (8)
Total SDG&E shareholder's equity	5,490	5,223
Noncontrolling interest	50	53
Total equity	5,540	5,276
Total liabilities and equity	\$ 17,446	\$ 16,515

(1) Derived from audited financial statements.

See Notes to Condensed Consolidated Financial Statements.

SAN DIEGO GAS & ELECTRIC COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in millions)

	Nine months ended September 30, 2016 2015 (unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$418	\$463
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	478	446
Deferred income taxes and investment tax credits	98	170
Plant closure adjustment	—	(21)
Fixed-price contracts and other derivatives	(2)	(3)
Other	(29)	(14)
Net change in other working capital components	14	136
Changes in other assets	(47)	(93)
Changes in other liabilities	3	10
Net cash provided by operating activities	933	1,094
CASH FLOWS FROM INVESTING ACTIVITIES		
Expenditures for property, plant and equipment	(959)	(835)
Purchases of nuclear decommissioning trust assets	(415)	(404)
Proceeds from sales by nuclear decommissioning trusts	486	431
Increases in restricted cash	(30)	(29)
Decreases in restricted cash	43	27
Increase in loans to affiliate, net	(107)	—
Net cash used in investing activities	(982)	(810)
CASH FLOWS FROM FINANCING ACTIVITIES		
Common dividends paid	(175)	(150)
Issuances of debt (maturities greater than 90 days)	498	388
Payments on debt (maturities greater than 90 days)	(148)	(294)
Decrease in short-term debt, net	(114)	(202)
Capital distributions made by VIE	(6)	(14)
Other	(3)	—
Net cash provided by (used in) financing activities	52	(272)
Increase in cash and cash equivalents	3	12
Cash and cash equivalents, January 1	20	8
Cash and cash equivalents, September 30	\$23	\$20
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest payments, net of amounts capitalized	\$132	\$141
Income tax payments, net	165	62
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING ACTIVITY		
Accrued capital expenditures	\$139	\$142

See Notes to Condensed Consolidated Financial Statements.

SOUTHERN CALIFORNIA GAS COMPANY
CONDENSED STATEMENTS OF OPERATIONS

(Dollars in millions)

	Three months ended September 30, 2016		Nine months ended September 30, 2015	
	2016	2015	2016	2015
	(unaudited)			
Operating revenues	\$686	\$620	\$2,336	\$2,448
Operating expenses				
Cost of natural gas	171	163	571	626
Operation and maintenance	322	325	966	985
Depreciation and amortization	121	116	355	342
Franchise fees and other taxes	33	29	100	94
Impairment losses	1	—	23	—
Total operating expenses	648	633	2,015	2,047
Operating income (loss)	38	(13)	321	401
Other income, net	8	8	24	25
Interest income	—	—	—	3
Interest expense	(25)	(23)	(71)	(61)
Income (loss) before income taxes	21	(28)	274	368
Income tax (expense) benefit	(21)	20	(75)	(91)
Net (loss) income	—	(8)	199	277
Preferred dividend requirements	—	—	(1)	(1)
(Losses) earnings attributable to common shares	\$—	\$(8)	\$198	\$276

See Notes to Condensed Financial Statements.

SOUTHERN CALIFORNIA GAS COMPANY
 CONDENSED STATEMENTS OF COMPREHENSIVE
 INCOME (LOSS)

(Dollars in millions)

	Income		
	Pretax tax		Net-of-tax
	amount	(expense)	amount
		benefit	
	Three months ended		
	September 30, 2016 and		
	2015		
	(unaudited)		
2016:			
Net income	\$21	\$ (21)	\$ —
Other comprehensive income (loss):			
Financial instruments	1	—	1
Total other comprehensive income	1	—	1
Comprehensive income	\$22	\$ (21)	\$ 1
2015:			
Net loss/Comprehensive loss	\$(28)	\$ 20	\$ (8)
	Nine months		
	ended September		
	30, 2016 and 2015		
	(unaudited)		
2016:			
Net income	\$274	\$(75)	\$199
Other comprehensive income (loss):			
Financial instruments	1	—	1
Total other comprehensive income	1	—	1
Comprehensive income	\$275	\$(75)	\$200
2015:			
Net income/Comprehensive income	\$368	\$(91)	\$277

See Notes to Condensed Financial Statements.

SOUTHERN CALIFORNIA GAS COMPANY
CONDENSED BALANCE SHEETS

(Dollars in millions)

	September 30, 2016	December 31, 2015(1)
	(unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 8	\$ 58
Accounts receivable – trade, net	344	635
Accounts receivable – other	81	99
Due from unconsolidated affiliates	35	48
Income taxes receivable	12	—
Inventories	77	79
Regulatory assets	8	7
Other	70	40
Total current assets	635	966
Other assets:		
Regulatory assets arising from pension obligations	747	699
Other regulatory assets	637	636
Insurance receivable for Aliso Canyon costs	664	325
Sundry	276	207
Total other assets	2,324	1,867
Property, plant and equipment:		
Property, plant and equipment	15,186	14,171
Less accumulated depreciation and amortization	(4,997	) (4,900)
Property, plant and equipment, net	10,189	9,271
Total assets	\$ 13,148	\$ 12,104

(1) Derived from audited financial statements.

See Notes to Condensed Financial Statements.

SOUTHERN CALIFORNIA GAS COMPANY
CONDENSED BALANCE SHEETS (CONTINUED)

(Dollars in millions)

	September 30, 2016	December 31, 2015(1)
	(unaudited)	
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable – trade	\$ 330	\$422
Accounts payable – other	72	76
Income taxes payable	—	3
Accrued compensation and benefits	119	160
Regulatory balancing accounts – net overcollected	146	34
Current portion of long-term debt	1	9
Customer deposits	76	76
Reserve for Aliso Canyon costs	73	274
Other	182	184
Total current liabilities	999	1,238
Long-term debt	2,982	2,481
Deferred credits and other liabilities:		
Customer advances for construction	101	103
Pension obligation, net of plan assets	765	716
Deferred income taxes	1,643	1,532
Deferred investment tax credits	12	14
Regulatory liabilities arising from removal obligations	1,136	1,145
Asset retirement obligations	1,714	1,354
Deferred credits and other	433	372
Total deferred credits and other liabilities	5,804	5,236
Commitments and contingencies (Note 11)		
Shareholders' equity:		
Preferred stock	22	22
Common stock (100 million shares authorized; 91 million shares outstanding; no par value)	866	866
Retained earnings	2,493	2,280
Accumulated other comprehensive income (loss)	(18	) (19)
Total shareholders' equity	3,363	3,149
Total liabilities and shareholders' equity	\$ 13,148	\$ 12,104

(1) Derived from audited financial statements.

See Notes to Condensed Financial Statements.

SOUTHERN CALIFORNIA GAS COMPANY
 CONDENSED STATEMENTS OF CASH FLOWS
 (Dollars in millions)

	Nine months ended September 30, 2016 2015 (unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$199	\$277
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	355	342
Deferred income taxes and investment tax credits	52	98
Impairment losses	23	—
Other	(22)	(18)
Net change in other working capital components	135	48
Insurance receivable for Aliso Canyon costs	(339)	—
Changes in other assets	2	(57)
Changes in other liabilities	4	—
Net cash provided by operating activities	409	690
CASH FLOWS FROM INVESTING ACTIVITIES		
Expenditures for property, plant and equipment	(949)	(946)
Increase in loans to affiliate, net	(1)	(250)
Net cash used in investing activities	(950)	(1,196)
CASH FLOWS FROM FINANCING ACTIVITIES		
Preferred dividends paid	(1)	(1)
Issuances of long-term debt	499	599
Payments on long-term debt	(3)	—
Decrease in short-term debt, net	—	(50)
Other	(4)	(4)
Net cash provided by financing activities	491	544
(Decrease) increase in cash and cash equivalents	(50)	38
Cash and cash equivalents, January 1	58	85
Cash and cash equivalents, September 30	\$8	\$123
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest payments, net of amounts capitalized	\$60	\$53
Income tax payments, net	35	11
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Accrued capital expenditures	\$150	\$172
Dividends declared but not paid	—	50
See Notes to Condensed Financial Statements.		

SEMPRA ENERGY AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. GENERAL

PRINCIPLES OF CONSOLIDATION

Sempra Energy

Sempra Energy's Condensed Consolidated Financial Statements include the accounts of Sempra Energy, a California-based Fortune 500 energy-services holding company, and its consolidated subsidiaries and variable interest entities (VIEs). Sempra Energy's principal operating units are

San Diego Gas & Electric Company (SDG&E) and Southern California Gas Company (SoCalGas), which are separate, reportable segments;

Sempra International, which includes our Sempra South American Utilities and Sempra Mexico reportable segments; and

Sempra U.S. Gas & Power, which includes our Sempra Renewables and Sempra Natural Gas reportable segments. We provide descriptions of each of our segments in Note 12.

We refer to SDG&E and SoCalGas collectively as the California Utilities, which do not include the utilities in our Sempra International and Sempra U.S. Gas & Power operating units. As we discuss below and in Note 3, Sempra U.S. Gas & Power sold its natural gas distribution utilities in September 2016. Sempra Global is the holding company for most of our subsidiaries that are not subject to California utility regulation. All references in these Notes to "Sempra International," "Sempra U.S. Gas & Power" and their respective reportable segments are not intended to refer to any legal entity with the same or similar name.

Our Sempra Mexico segment includes the operating companies of our subsidiary, Infraestructura Energética Nova, S.A.B. de C.V. (IEnova), as well as certain holding companies and risk management activity. We discuss IEnova further in Note 1 of the Notes to Consolidated Financial Statements in our Annual Report on Form 10-K for the year ended December 31, 2015 (the Annual Report), which includes the combined reports for Sempra Energy, SDG&E and SoCalGas.

Sempra Energy uses the equity method to account for investments in affiliated companies over which we have the ability to exercise significant influence, but not control. We discuss our investments in unconsolidated entities in Notes 3 and 4 herein and in Notes 3, 4 and 10 of the Notes to Consolidated Financial Statements in the Annual Report.

SDG&E

SDG&E's Condensed Consolidated Financial Statements include its accounts and the accounts of a VIE of which SDG&E is the primary beneficiary, as we discuss in Note 5 under "Variable Interest Entities." SDG&E's common stock is wholly owned by Enova Corporation, which is a wholly owned subsidiary of Sempra Energy.

SoCalGas

SoCalGas' common stock is wholly owned by Pacific Enterprises, which is a wholly owned subsidiary of Sempra Energy.

BASIS OF PRESENTATION

This is a combined report of Sempra Energy, SDG&E and SoCalGas. We provide separate information for SDG&E and SoCalGas as required. References in this report to "we," "our" and "Sempra Energy Consolidated" are to Sempra Energy and its consolidated entities, unless otherwise indicated by the context. We have eliminated intercompany accounts and transactions within the consolidated financial statements of each reporting entity.

Throughout this report, we refer to the following as Condensed Consolidated Financial Statements and Notes to Condensed Consolidated Financial Statements when discussed together or collectively:

the Condensed Consolidated Financial Statements and related Notes of Sempra Energy and its subsidiaries and VIEs, the Condensed Consolidated Financial Statements and related Notes of SDG&E and its VIE, and the Condensed Financial Statements and related Notes of SoCalGas.

We have prepared the Condensed Consolidated Financial Statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) and in accordance with the interim-period-reporting requirements of Form 10-Q. Results of operations for interim periods are not necessarily indicative of results for the entire year. We evaluated events and transactions that occurred after September 30, 2016 through the date the financial statements were issued and, in the opinion of management, the accompanying statements reflect all adjustments necessary for a fair presentation. These adjustments are only of a normal, recurring nature.

All December 31, 2015 balance sheet information in the Condensed Consolidated Financial Statements has been derived from our audited 2015 Consolidated Financial Statements in the Annual Report. Certain information and note disclosures normally included in annual financial statements prepared in accordance with U.S. GAAP have been condensed or omitted pursuant to the interim-period-reporting provisions of U.S. GAAP and the Securities and Exchange Commission.

We describe our significant accounting policies in Note 1 of the Notes to Consolidated Financial Statements in the Annual Report. We follow the same accounting policies for interim reporting purposes.

You should read the information in this Quarterly Report in conjunction with the Annual Report.

Regulated Operations

Sempra South American Utilities has controlling interests in two electric distribution utilities in South America, Chilquinta Energía S.A. (Chilquinta Energía) in Chile and Luz del Sur S.A.A. (Luz del Sur) in Peru, and their subsidiaries. Sempra Mexico owns Ecogas México, S. de R.L. de C.V. (Ecogas), a natural gas distribution utility in northern Mexico. The California Utilities and Ecogas prepare their financial statements in accordance with U.S. GAAP provisions governing rate-regulated operations, as we discuss in Note 1 of the Notes to Consolidated Financial Statements in the Annual Report. Sempra Natural Gas owned Mobile Gas Service Corporation (Mobile Gas) in southwest Alabama and Willmut Gas Company (Willmut Gas) in Mississippi until they were sold in September 2016, as we discuss in Note 3. Mobile Gas and Willmut Gas also prepared their financial statements in accordance with U.S. GAAP provisions governing rate-regulated operations.

Certain business activities at IEnova are regulated by the Comisión Reguladora de Energía (or CRE, the Energy Regulatory Commission) and meet the regulatory accounting requirements of U.S. GAAP. Pipeline projects currently under construction by IEnova that meet the regulatory accounting requirements of U.S. GAAP record the impact of allowance for funds used during construction (AFUDC) related to equity. We discuss AFUDC in Note 5 below and in Note 1 of the Notes to Consolidated Financial Statements in the Annual Report.

NOTE 2. NEW ACCOUNTING STANDARDS

We describe below recent pronouncements that have had or may have a significant effect on our financial statements. We do not discuss recent pronouncements that are not anticipated to have an impact on or are unrelated to our financial condition, results of operations, cash flows or disclosures.

SEMPRA ENERGY, SDG&E AND SOCALGAS

Accounting Standards Update (ASU) 2014-09, "Revenue from Contracts with Customers," ASU 2015-14, "Deferral of the Effective Date," ASU 2016-08, "Principal versus Agent Considerations (Reporting Revenue Gross versus Net)," ASU 2016-10, "Identifying Performance Obligations and Licensing," and ASU 2016-12, "Narrow-Scope Improvements and Practical Expedients": ASU 2014-09 provides accounting guidance for the recognition of revenue from contracts with customers and affects all entities that enter into contracts to provide goods or services to their customers. The guidance also provides a model for the measurement and recognition of gains and losses on the sale of certain nonfinancial assets, such as property and equipment, including real estate. This guidance must be adopted using either a full retrospective approach for all periods presented in the period of adoption or a modified retrospective approach. Amending ASU 2014-09, ASU 2016-08 clarifies the implementation guidance on principal versus agent considerations, ASU 2016-10 clarifies the determination of whether a good or service is separately identifiable from other promises and revenue recognition related to licenses of intellectual property, and ASU 2016-12 provides guidance on transition, collectability, noncash consideration, and the presentation of sales and other similar taxes. ASU 2015-14 defers the effective date of ASU 2014-09 by one year for all entities and permits early adoption on a limited basis. For public entities, ASU 2014-09 is effective for fiscal years beginning after December 15, 2017, with

early adoption permitted for fiscal years beginning after December 15, 2016, and is effective for interim periods in the year of adoption. We plan to adopt ASU 2014-09 on January 1, 2018 and are currently evaluating the transition method and the effect on our ongoing financial reporting. As part of our

evaluation, we continue to actively monitor outstanding issues currently being addressed by the American Institute of Certified Public Accountants' Revenue Recognition Working Group and the Financial Accounting Standards Board's Transition Resource Group, since conclusions reached by these groups may impact our application of these ASU's. ASU 2016-01, "Recognition and Measurement of Financial Assets and Financial Liabilities": In addition to the presentation and disclosure requirements for financial instruments, ASU 2016-01 requires entities to measure equity investments not accounted for under the equity method at fair value and recognize changes in fair value in net income. Entities will no longer be able to use the cost method of accounting for equity securities. However, for equity investments without readily determinable fair values, entities may elect a measurement alternative that will allow those investments to be recorded at cost, less impairment, and adjusted for subsequent observable price changes. Upon adoption, entities must record a cumulative-effect adjustment to the balance sheet as of the beginning of the first reporting period in which the standard is adopted. The guidance on equity securities without readily determinable fair values will be applied prospectively to all equity investments that exist as of the date of adoption of the standard. For public entities, ASU 2016-01 is effective for fiscal years beginning after December 15, 2017. We will adopt ASU 2016-01 on January 1, 2018 as required and do not expect it to materially affect our financial condition, results of operations or cash flows. We will make the required changes to our disclosures upon adoption.

ASU 2016-02, "Leases": ASU 2016-02 requires entities to include substantially all leases on the balance sheet by requiring the recognition of right-of-use assets and lease liabilities for all leases. Entities may elect to exclude from the balance sheet those leases with a maximum possible term of less than 12 months. For lessees, a lease is classified as finance or operating, and the asset and liability are initially measured at the present value of the lease payments. For lessors, accounting for leases is largely unchanged from previous U.S. GAAP, other than certain changes to align lessor accounting to specific changes made to lessee accounting and ASU 2014-09. ASU 2016-02 also requires qualitative disclosures along with specific quantitative disclosures for both lessees and lessors.

For public entities, ASU 2016-02 is effective for fiscal years beginning after December 15, 2018, with early adoption permitted, and is effective for interim periods in the year of adoption. The standard requires lessees and lessors to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. The modified retrospective approach includes optional practical expedients that may be elected, which would allow entities to continue to account for leases that commence before the effective date of the standard in accordance with previous U.S. GAAP unless the lease is modified, except for the lessee requirement to recognize right-of-use assets and lease liabilities for all operating leases on the balance sheet at the reporting date. We are currently evaluating the effect of the standard on our ongoing financial reporting, and have not yet selected the year in which we will adopt the standard.

ASU 2016-05, "Effect of Derivative Contract Novations on Existing Hedge Accounting Relationships": ASU 2016-05 provides clarification that a change in the counterparty to a derivative instrument that has been designated as a hedging instrument does not, in and of itself, require dedesignation of that hedging relationship provided that all other hedge accounting criteria continue to be met. ASU 2016-05 may be adopted prospectively or using a modified retrospective approach. We prospectively adopted ASU 2016-05 on January 1, 2016, and it did not affect our financial condition, results of operations or cash flows.

ASU 2016-09, "Improvements to Employee Share-Based Payment Accounting": ASU 2016-09 is intended to simplify several aspects of the accounting for employee share-based payment transactions. Under ASU 2016-09, excess tax benefits and tax deficiencies are required to be recorded in earnings, and the requirement to reclassify excess tax benefits from operating to financing activities on the statement of cash flows has been eliminated. ASU 2016-09 also allows entities to withhold taxes up to the maximum individual statutory tax rate without resulting in liability classification of the award and clarifies that cash payments made to taxing authorities in connection with withheld shares should be classified as financing activities in the statement of cash flows. Additionally, the standard provides for an accounting policy election to either continue to estimate forfeitures or account for them as they occur. For public entities, ASU 2016-09 is effective for fiscal years beginning after December 15, 2016, with early adoption permitted, and is effective for interim periods in the year of adoption.

We early adopted the provisions of ASU 2016-09 during the three months ended September 30, 2016, with an effective date of January 1, 2016. Upon adoption:

Sempra Energy, SDG&E and SoCalGas recognized a cumulative-effect adjustment to retained earnings and a deferred tax asset as of January 1, 2016 of \$107 million, \$23 million and \$15 million, respectively, for previously unrecognized excess tax benefits from share-based compensation.

Sempra Energy, SDG&E and SoCalGas recognized earnings consisting of excess tax benefits on the Condensed Consolidated Statements of Operations of \$34 million, \$7 million and \$4 million, respectively, in the nine months ended September 30, 2016, all of which related to the three months ended March 31, 2016. The \$34 million was previously recorded in Sempra Energy Shareholders' Equity in Common Stock prior to adoption of ASU 2016-09. The \$34 million of excess tax benefits from share-based compensation for Sempra Energy related to the three months ended March 31, 2016 was previously classified as a financing activity on Sempra Energy's Condensed Consolidated Statement of Cash Flows. As now required, the \$34 million of excess tax benefits for Sempra Energy, as well as the \$7 million for SDG&E and \$4 million for

SoCalGas, are included in Cash Flows From Operating Activities on the Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2016. This amendment was adopted prospectively, and therefore, we have not adjusted the Condensed Consolidated Statements of Cash Flows for the prior period presented.

As a result of the provision to recognize excess tax benefits in earnings, these benefits are no longer included in the calculation of diluted earnings per share (EPS) effective January 1, 2016. The weighted-average number of common shares outstanding for diluted EPS increased by 75 thousand shares for the three months ended March 31, 2016 and 98 thousand shares and 89 thousand shares for the three months and six months ended June 30, 2016, respectively.

We discuss the impact further in Note 5 under “Earnings Per Share.”

Upon adoption of ASU 2016-09, we elected to continue estimating the number of awards expected to be forfeited and adjusting our estimate on an ongoing basis. All other provisions of ASU 2016-09 did not impact our financial condition, results of operations or cash flows.

ASU 2016-13, “Measurement of Credit Losses on Financial Instruments”: ASU 2016-13 changes how entities will measure credit losses for most financial assets and certain other instruments. The standard introduces an “expected credit loss” impairment model that requires immediate recognition of estimated credit losses expected to occur over the remaining life of most financial assets measured at amortized cost, including trade and other receivables, loan commitments and financial guarantees. ASU 2016-13 also requires use of an allowance to record estimated credit losses on available-for-sale debt securities and expands disclosure requirements regarding an entity’s assumptions, models and methods for estimating the credit losses.

For public entities, ASU 2016-13 is effective for fiscal years beginning after December 15, 2019, with early adoption permitted for fiscal years beginning after December 15, 2018. We are currently evaluating the year in which we will adopt the standard and its effect on our ongoing financial reporting.

ASU 2016-15, “Classification of Certain Cash Receipts and Cash Payments”: ASU 2016-15 provides guidance on how certain cash receipts and cash payments are to be presented and classified in the statement of cash flows in order to reduce diversity in practice.

For public entities, ASU 2016-15 is effective for fiscal years beginning after December 15, 2017, with early adoption permitted, and is effective for interim periods in the year of adoption. An entity that elects early adoption must adopt all of the amendments in the same period. Entities must apply the guidance retrospectively to all periods presented, but may apply it prospectively if retrospective application would be impracticable. We are currently evaluating the year in which we will adopt the standard and its effect on our ongoing financial reporting.

NOTE 3. ACQUISITION AND DIVESTITURE ACTIVITY

We consolidate assets acquired and liabilities assumed as of the purchase date and include earnings from acquisitions in consolidated earnings after the purchase date.

ACQUISITIONS

Sempra Mexico

Gasoductos de Chihuahua S. de R.L. de C.V. (GdC)

Background and Financing. In July 2015, IEnova entered into an agreement to purchase Petróleos Mexicanos’ (or PEMEX, the Mexican state-owned oil company) 50-percent interest in GdC. GdC develops and operates energy infrastructure in Mexico. On September 21, 2016, IEnova received approval for the acquisition from Mexico’s Comisión Federal de Competencia Económica (COFECE or Mexican Competition Commission). On September 26, 2016, IEnova completed the acquisition of PEMEX’s 50-percent interest in GdC for a purchase price of \$1.144 billion (exclusive of \$66 million of cash and cash equivalents acquired), plus the assumption of \$364 million of long-term debt, increasing IEnova’s ownership interest in GdC to 100 percent. GdC became a consolidated subsidiary of IEnova on this date. Prior to the acquisition date, IEnova owned 50 percent of GdC and accounted for its interest as an equity method investment.

The assets involved in the acquisition include three natural gas pipelines, an ethane pipeline, and a liquid petroleum gas pipeline and associated storage terminal. The transaction excludes the Los Ramones Norte pipeline, in which IEnova will continue holding an indirect 25-percent ownership interest through GdC’s interest in Ductos y Energéticos del Norte, S. de R.L. de C.V. (DEN). As of the acquisition date, IEnova continues to hold a 50-percent interest in

DEN through GdC and accounts for it as an equity method

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investment. PEMEX continues to hold its 50-percent interest in DEN, which enables us to have an ongoing relationship with PEMEX for joint development of new projects in the future.

We paid \$1.078 billion in cash (\$1.144 billion purchase price less \$66 million of cash and cash equivalents acquired), which was funded using interim financing provided by Sempra Global through a \$1.150 billion bridge loan to IEnova. Sempra Global funded the transaction using commercial paper borrowings. On October 19, 2016, IEnova completed a private follow-on offering of its common stock in the U.S. and outside of Mexico and a concurrent public common stock offering in Mexico, which generated net proceeds of approximately \$1.57 billion or 29.86 billion Mexican pesos (based on an exchange rate of 18.96 pesos to 1.00 U.S. dollar as of October 13, 2016). IEnova used a portion of the proceeds from the offerings to fully repay the Sempra Global bridge loan in October 2016. We discuss the offerings in Note 13.

Purchase Price Allocation. We accounted for this business combination using the acquisition method of accounting whereby the total fair value of the business acquired is allocated to identifiable assets acquired and liabilities assumed based on respective fair values, with any excess recognized as goodwill at the Sempra Mexico reportable segment. We expect the GdC acquisition to have strategic benefits, including opportunities for asset optimization and expansion into areas such as the transportation and storage of refined products; and a larger platform and presence in Mexico to participate in energy sector reform, reflecting the value of goodwill recognized. None of the goodwill is expected to be deductible in Mexico or the United States for income tax purposes.

The following table summarizes the total fair value of the business combination and the values of the assets acquired and liabilities assumed at the date of acquisition:

PURCHASE

PRICE

ALLOCATION –

GdC

(Dollars in
millions)

September
26, 2016

Fair
value
of
business
combination:

Cash
consideration
(fair
value \$ 1,144
of
total
consideration)

Fair 1,144
value
of
equity
interest
in
GdC
immediately
prior
to

acquisition
 Total
 fair
 value \$ 2,288
 of
 business
 combination

Recognized
 amounts
 of
 identifiable
 assets
 acquired
 and
 liabilities
 assumed:

Cash
 and \$ 66
 cash
 equivalents

Accounts
 receivable(1)

Other
 current 6
 assets

Property,
 plant 1,248
 and
 equipment

Other
 noncurrent
 assets

Accounts
 payable (11)

Due
 to (3)
 unconsolidated
 affiliates

Current
 portion
 of (49)
 long-term
 debt

Fixed-price
 contracts
 and (6)
 other

derivatives,
 current
 (20)

Other
current
liabilities

Long-term debt	(315))
Asset retirement obligations	(6))
Deferred income taxes	(8))
Fixed-price contracts and other derivatives, noncurrent	(19))
Other noncurrent liabilities	(11))

Total identifiable net assets

Goodwill	1,175	
----------	-------	--

Total fair value of business combination

	\$ 2,288	
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(1) We expect acquired accounts receivable to be substantially realizable in cash. Accounts receivable are net of negligible collection allowances.

Gain on Remeasurement of Equity Method Investment. Our results in the three months and nine months ended September 30, 2016, include a pretax gain of \$617 million (\$432 million after-tax) for the excess of the acquisition-date fair value of Sempra Mexico's previously held equity interest in GdC over the carrying value of that interest, included as Remeasurement of Equity Method Investment on the Sempra Energy Condensed Consolidated Statements of Operations. We used a market approach to measure the acquisition-date fair value of IEnova's equity interest in GdC immediately prior to the business acquisition. We discuss non-recurring fair value measures and the associated accounting impact of the GdC acquisition in Note 8.

Valuation of GdC's Assets and Liabilities. Based on the nature of the Mexico regulatory environment and the oversight surrounding the establishment and maintenance of rates that GdC charges for services on its assets, GdC applies the guidance under the provisions of U.S. GAAP governing rate-regulated operations. Therefore, when determining the fair value of the acquired assets and liabilities

assumed, we considered the effect of regulation on a market participant's view of the highest and best use of the assets, in particular for the fair value of GdC's property, plant and equipment (PP&E). Under U.S. GAAP, regulation is viewed as being a characteristic (restriction) of a regulated entity's PP&E, and the impact of regulation is considered a fundamental input to measuring the fair value of PP&E in a business combination involving a regulated business. As a regulated business will generally earn a return of its costs and a reasonable return on its invested capital, but nothing more, the value of a regulated business is the value of its invested capital.

Under this premise, the fair value of the PP&E of a regulated business is generally assumed to be equivalent to carrying value for financial reporting purposes. Management has concluded that the carrying value of GdC's PP&E is representative of fair value.

We applied an income approach, specifically the discounted cash flow method, to measure the fair value of debt and derivatives. We valued debt by discounting future debt payments by a market yield and we valued derivatives by discounting the future interest payments under the fixed and floating rates using current market data.

For substantially all other assets and liabilities, our analysis indicates that historical carrying value approximates fair value due to their short-term nature.

Impact on Operating Results. We incurred acquisition costs of \$2 million in the three months and nine months ended September 30, 2016, and \$1 million in the three months and nine months ended September 30, 2015. These costs are included in Operation and Maintenance Expense on the Sempra Energy Condensed Consolidated Statements of Operations.

For the three months and nine months ended September 30, 2016, the Sempra Energy Condensed Consolidated Statements of Operations include \$3 million of revenues and \$1 million of losses (after noncontrolling interest) from GdC since the September 26, 2016 date of acquisition.

The following table presents the pro forma results for the three months and nine months ended September 30, 2016 and 2015. The pro forma financial information combines the historical results of operations of Sempra Energy and GdC as though the acquisition occurred on January 1, 2015. The pro forma information is not necessarily indicative of results that would have been achieved had the business been combined during the periods presented or the results that we will experience going forward.

PRO FORMA

INFORMATION – SEMPRA ENERGY CONSOLIDATED

(Dollars in millions)

	Three months ended		Nine months ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Revenues	\$2,545	\$2,545	\$7,529	\$7,708
Net income	308	308	744	1,550
Earnings	255	255	685	1,280

The pro forma information above assumes:

the related IEnova equity offerings, discussed above and in Note 13, occurred on January 1, 2015, which results in a change in Sempra Energy's noncontrolling interest in IEnova from 18.9 percent to 33.6 percent for all periods presented;

the proceeds from the IEnova equity offerings were used to fund the acquisition, instead of the bridge loan that was provided by Sempra Global to IEnova, therefore interest expense on the commercial paper borrowings supporting the bridge loan is excluded for all periods presented;

equity earnings, net of income tax, from GdC that were previously included in Sempra Energy's results have been excluded for all periods presented;

the gain related to the remeasurement of our previously held equity interest in GdC has been included in the nine months ended September 30, 2015, and accordingly, the three months and nine months ended September 30, 2016

were adjusted to exclude the gain; and acquisition-related transaction costs have been included in the nine months ended September 30, 2015, and accordingly, the three months and nine months ended September 30, 2016 were adjusted to exclude them. Most of Sempra Mexico's operations, including GdC, use the U.S. dollar as their functional currency.

Sempra Renewables

In July 2016, Sempra Renewables acquired a 100-percent interest in the Apple Blossom Wind project, a 100-megawatt (MW) wind farm currently under construction in Huron County, Michigan, for a total purchase price of \$22 million. Sempra Renewables paid \$18 million in cash on the July 1, 2016 acquisition date and anticipates paying the remaining \$4 million on achievement of certain construction milestones in the fourth quarter of 2016. The wind farm has a 15-year power purchase agreement with Consumers Energy that will commence upon commercial operation, expected in late 2017.

In March 2015, Sempra Renewables invested \$8 million to acquire a 100-percent interest in the Black Oak Getty Wind project, a 78-MW wind farm currently under construction in Stearns County, Minnesota. The wind farm has a 20-year power purchase agreement with Minnesota Municipal Power Agency that will commence upon commercial operation, expected in late 2016.

PENDING ACQUISITION

Sempra Mexico

On September 5, 2016, IEnova entered into an agreement to acquire 100 percent of the equity interests in the Ventika I and Ventika II (collectively, Ventika) wind power generation facilities for an estimated purchase price of \$852 million, which includes the assumption of approximately \$477 million of existing debt, subject to normal adjustments at closing. Ventika is a 252-MW wind farm located in Nuevo Leon, Mexico, which began commercial operations in April 2016. All of Ventika's generation capacity is contracted under 20-year, U.S. dollar-denominated power purchase agreements with five private off-takers. We expect the acquisition to be completed in the fourth quarter of 2016, subject to the satisfaction of customary closing conditions, including receipt of approval from the COFECE. The acquisition will be partially funded through debt financing at IEnova and a portion of the proceeds from the IEnova equity offerings that we discuss in Note 13.

ASSETS HELD FOR SALE

We classify assets as held for sale when management approves and commits to a formal plan to actively market an asset for sale and we expect the sale to close within the next 12 months. Upon classifying an asset as held for sale, we record the asset at the lower of its carrying value or its estimated fair value reduced for selling costs.

Sempra Mexico

In February 2016, management approved a plan to market and sell Sempra Mexico's Termoeléctrica de Mexicali (TdM), a 625-MW natural gas-fired power plant located in Mexicali, Baja California, Mexico. As a result, we stopped depreciating the plant and classified it as held for sale.

In connection with the sales process, in September 2016, Sempra Mexico obtained market information indicating that the fair value of TdM may be less than its carrying value. After performing an analysis of the information, Sempra Mexico reduced the carrying value of TdM by recognizing a noncash impairment charge of \$131 million (\$111 million after-tax) in the three months and nine months ended September 30, 2016 in Impairment Losses on Sempra Energy's Condensed Consolidated Statements of Operations. We discuss non-recurring fair value measures and the associated accounting impact on TdM in Note 8.

In connection with classifying TdM as held for sale, we recognized \$32 million in income tax expense in the first half of 2016 for a deferred Mexican income tax liability related to the excess of carrying value over the tax basis. As a result of reducing the carrying value of TdM in the third quarter of 2016, we reduced the deferred Mexican income tax liability by \$31 million. As the Mexican income tax on this basis difference is based on current carrying value, foreign exchange rates and inflation, such amount could change in future periods until the date of sale. We expect to complete the sale in the first half of 2017.

At September 30, 2016, the carrying amounts of the major classes of assets and related liabilities held for sale associated with TdM are as follows:

ASSETS HELD FOR SALE AT SEPTEMBER

30, 2016

(Dollars in millions)

	Termoeléctrica de Mexicali
Cash and cash equivalents	\$ 1
Inventories	8
Other current assets	25
Deferred income taxes	5
Other assets	22
Property, plant and equipment, net	120
Total assets held for sale	\$ 181
Accounts payable	\$ 1
Other current liabilities	7
Asset retirement obligations	4
Other liabilities	23
Total liabilities held for sale	\$ 35

DIVESTITURES

Sempra Natural Gas

EnergySouth Inc.

In April 2016, Sempra Natural Gas signed a definitive agreement to sell 100 percent of the outstanding equity of EnergySouth Inc. (EnergySouth), the parent company of Mobile Gas and Willmut Gas, to Spire Inc., formerly The Laclede Group, Inc. On September 12, 2016, Sempra Natural Gas completed the sale for cash proceeds of \$318 million, net of \$2 million cash sold, with the buyer assuming debt of \$67 million. We recognized a pretax gain on the sale of \$130 million (\$78 million after-tax) in the three months and nine months ended September 30, 2016, in Gain on Sale of Assets on Sempra Energy's Condensed Consolidated Statements of Operations. As we discuss in Note 11, litigation and any associated liabilities and insurance receivable at Mobile Gas were retained by Mobile Gas at the close of the transaction. On September 12, 2016, Sempra Natural Gas deconsolidated EnergySouth.

The following table summarizes the deconsolidation:

DECONSOLIDATION

OF SUBSIDIARY

(Dollars in millions)

EnergySouth
Inc.

Proceeds

from

sale, \$ 304

net of

transaction

costs

Cash (2)

Inventories (3)

Other

current (14)

assets

Regulatory (12)

assets

Goodwill (17)

Other assets (53)
 Property, plant and equipment, net (199)
 Accounts payable 12
 Other current liabilities 13
 Long-term debt 67
 Deferred income taxes 36
 Regulatory liabilities 23
 Asset retirement obligations 11
 Other liabilities 18
 Gain on sale of business(1) \$ 130

Included in Gain on Sale of Assets on Sempra Energy's Condensed Consolidated Statements of Operations.

Investment in Rockies Express Pipeline LLC

In March 2016, Sempra Natural Gas entered into an agreement to sell its 25-percent interest in Rockies Express Pipeline LLC (Rockies Express) to a subsidiary of Tallgrass Development, LP for cash consideration of \$440 million, subject to adjustment at closing. The transaction closed in May 2016 for total cash proceeds of \$443 million.

At the date of the agreement, the carrying value of Sempra Natural Gas' investment in Rockies Express was \$484 million. Following the execution of the agreement, Sempra Natural Gas measured the fair value of its equity method investment at \$440 million, and recognized a \$44 million (\$27 million after-tax) impairment in Equity Earnings, Before Income Tax, on the Sempra Energy Condensed Consolidated Statement of Operations in the first quarter of 2016. We discuss non-recurring fair value measures and the associated accounting impact on our investment in Rockies Express in Note 8.

In the second quarter of 2016, Sempra Natural Gas permanently released pipeline capacity that it held with Rockies Express and others, as we discuss in Note 11.

Mesquite Power Plant

In April 2015, Sempra Natural Gas sold the remaining 625-MW block of the Mesquite Power plant, together with a related power sales contract, for net cash proceeds of \$347 million. We recognized a pretax gain on the sale of \$61 million (\$36 million after-tax), included in Gain on Sale of Assets on the Sempra Energy Condensed Consolidated Statements of Operations for the nine months ended September 30, 2015.

NOTE 4. INVESTMENTS IN UNCONSOLIDATED ENTITIES

We provide additional information concerning our equity method investments in Note 3 above and in Notes 3 and 4 of the Notes to Consolidated Financial Statements in the Annual Report.

SEMPRA MEXICO

As we discuss in Note 3, on September 26, 2016, IEnova completed the acquisition of the remaining 50-percent interest in GdC and GdC became a consolidated subsidiary. Prior to the acquisition date, IEnova owned 50 percent of GdC and accounted for its interest as an equity method investment. As of the acquisition date, IEnova accounts for GdC's 50-percent interest in DEN as an equity method investment.

In June 2016, Infraestructura Marina del Golfo (IMG), a joint venture between IEnova and a subsidiary of TransCanada Corporation (TransCanada), was awarded the right to build, own and operate the Sur de Texas – Tuxpan natural gas pipeline by the Federal Electricity Commission (Comisión Federal de Electricidad, or CFE). IEnova has a 40-percent interest in the project and TransCanada owns the remaining 60-percent interest. The project is expected to be completed in late 2018 and is fully contracted under a 25-year natural gas transportation service contract with the CFE. During the nine months ended September 30, 2016, Sempra Mexico invested cash of \$56 million in the joint venture.

SEMPRA RENEWABLES

Sempra Renewables invested cash of \$18 million in its joint ventures during both the nine months ended September 30, 2016 and 2015.

SEMPRA NATURAL GAS

Sempra Natural Gas capitalized \$36 million of interest during both the nine months ended September 30, 2016 and 2015 related to its investment in Cameron LNG Holdings, LLC (Cameron LNG JV), which has not commenced planned principal operations. In addition, during the nine months ended September 30, 2015, Sempra Natural Gas invested cash of \$10 million in the joint venture.

In May 2016, Sempra Natural Gas sold its 25-percent interest in Rockies Express, as we discuss in Note 3. In April 2015, Sempra Natural Gas invested \$113 million of cash in Rockies Express to repay project debt that matured in early 2015.

GUARANTEES

We discuss guarantees that we have provided in Note 4 of the Notes to Consolidated Financial Statements in the Annual Report. These guarantees have a maximum aggregate amount of \$4.5 billion and an aggregate carrying value of \$58 million at September 30, 2016.

NOTE 5. OTHER FINANCIAL DATA

INVENTORIES

The components of inventories by segment are as follows:

INVENTORY BALANCES

(Dollars in millions)

	Natural gas		Liquefied natural gas		Materials and supplies		Total	
	September 30, 2016	December 31, 2015	September 30, 2016	December 31, 2015	September 30, 2016	December 31, 2015	September 30, 2016	December 31, 2015
SDG&E	\$1	\$ 6	\$ —	\$ —	\$72	\$ 69	\$73	\$ 75
SoCalGas(1)	24	49	—	—	53	30	77	79
Sempra South American Utilities	—	—	—	—	46	30	46	30
Sempra Mexico	—	—	4	3	2	10	6	13
Sempra Renewables	—	—	—	—	3	3	3	3
Sempra Natural Gas	94	94	3	3	—	1	97	98
Sempra Energy Consolidated	\$119	\$ 149	\$ 7	\$ 6	\$176	\$ 143	\$302	\$ 298

(1) At both September 30, 2016 and December 31, 2015, SoCalGas' natural gas inventory for core customers is net of an inventory loss related to the Aliso Canyon natural gas leak, which we discuss in Note 11.

Temporary LIFO Liquidation

The California Utilities value natural gas inventory using the last-in first-out (LIFO) method. As inventories are sold, differences between the LIFO valuation and the estimated replacement cost are reflected in customer rates. These differences are generally temporary, but may become permanent. For interim periods, temporary LIFO liquidation represents the difference between the carrying value of natural gas inventory withdrawn from storage during the period for delivery to customers and the projected cost of the replacement of that inventory by year end. At September 30, 2016, temporary LIFO liquidation of \$8 million is recorded in Other Assets on the Sempra Energy and SoCalGas Condensed Consolidated Balance Sheets. SoCalGas estimates that by December 31, 2016, temporary LIFO liquidation may not be replenished, and may result in a permanent LIFO liquidation of approximately \$10 million to \$15 million. This change in natural gas cost would be recovered in rates.

GOODWILL

We discuss goodwill in Note 1 of the Notes to Consolidated Financial Statements in the Annual Report.

Changes in the carrying amount of goodwill on the Sempra Energy Consolidated Balance Sheets are as follows:

GOODWILL

(Dollars in millions)

	Sempra South American Utilities	Sempra Mexico	Sempra Natural Gas	Total
Balance at December 31, 2015	\$ 72	\$ 25	\$ 72	\$ 169
Acquisition of business	—	1,375	—	1,375

Sale of business	—	(72)	(72)
Foreign currency translation(1)	—	—	28
Balance at September 30, 2016	\$ 750	\$ 1,400	\$ —
			\$ 2,150

We record the offset of this fluctuation to Other Comprehensive Income (Loss).

In September 2016, Sempra Mexico recorded goodwill of \$1,375 million in connection with the acquisition of GdC, and Sempra Natural Gas reduced goodwill by \$72 million in connection with the sale of EnergySouth. We discuss this acquisition and divestiture in Note 3.

VARIABLE INTEREST ENTITIES

We consolidate a VIE if we are the primary beneficiary of the VIE. Our determination of whether we are the primary beneficiary is based on qualitative and quantitative analyses, which assess the purpose and design of the VIE; the nature of the VIE's risks and the risks we absorb; the power to direct activities that most significantly impact the economic performance of the VIE; and the obligation to absorb losses or right to receive benefits that could be significant to the VIE.

SDG&E

SDG&E's power procurement is subject to reliability requirements that may require SDG&E to enter into various power purchase arrangements which include variable interests. SDG&E evaluates the respective entities to determine if variable interests exist and, based on the qualitative and quantitative analyses described above, if SDG&E, and thereby Sempra Energy, is the primary beneficiary.

Tolling Agreements

SDG&E has agreements under which it purchases power generated by facilities for which it supplies all of the natural gas to fuel the power plant (i.e., tolling agreements). SDG&E's obligation to absorb natural gas costs may be a significant variable interest. In addition, SDG&E has the power to direct the dispatch of electricity generated by these facilities. Based upon our analysis, the ability to direct the dispatch of electricity may have the most significant impact on the economic performance of the entity owning the generating facility because of the associated exposure to the cost of natural gas, which fuels the plants, and the value of electricity produced. To the extent that SDG&E (1) is obligated to purchase and provide fuel to operate the facility, (2) has the power to direct the dispatch, and (3) purchases all of the output from the facility for a substantial portion of the facility's useful life, SDG&E may be the primary beneficiary of the entity owning the generating facility. SDG&E determines if it is the primary beneficiary in these cases based on a qualitative approach in which we consider the operational characteristics of the facility, including its expected power generation output relative to its capacity to generate and the financial structure of the entity, among other factors. If we determine that SDG&E is the primary beneficiary, SDG&E and Sempra Energy consolidate the entity that owns the facility as a VIE.

Otay Mesa VIE

SDG&E has an agreement to purchase power generated at the Otay Mesa Energy Center (OMEC), a 605-MW generating facility. In addition to tolling, the agreement provides SDG&E with the option to purchase OMEC at the end of the contract term in 2019, or upon earlier termination of the purchased-power agreement, at a predetermined price subject to adjustments based on performance of the facility. If SDG&E does not exercise its option, under certain circumstances, it may be required to purchase the power plant at a predetermined price, which we refer to as the put option.

The facility owner, Otay Mesa Energy Center LLC (OMEC LLC), is a VIE (Otay Mesa VIE), of which SDG&E is the primary beneficiary. SDG&E has no OMEC LLC voting rights, holds no equity in OMEC LLC and does not operate OMEC. In addition to the risks absorbed under the tolling agreement, SDG&E absorbs separately through the put option a significant portion of the risk that the value of Otay Mesa VIE could decline. Accordingly, SDG&E and Sempra Energy have consolidated Otay Mesa VIE. Otay Mesa VIE's equity of \$50 million at September 30, 2016 and \$53 million at December 31, 2015 is included on the Condensed Consolidated Balance Sheets in Other Noncontrolling Interests for Sempra Energy and in Noncontrolling Interest for SDG&E.

OMEC LLC has a loan outstanding of \$307 million at September 30, 2016, the proceeds of which were used for the construction of OMEC. The loan is with third party lenders and is secured by OMEC's property, plant and equipment. SDG&E is not a party to the loan agreement and does not have any additional implicit or explicit financial responsibility to OMEC LLC. The loan fully matures in April 2019 and bears interest at rates varying with market rates. In addition, OMEC LLC has entered into interest rate swap agreements to moderate its exposure to interest rate changes. We provide additional information concerning the interest rate swaps in Note 7.

The Condensed Consolidated Statements of Operations of Sempra Energy and SDG&E include the following amounts associated with Otay Mesa VIE. The amounts are net of eliminations of transactions between SDG&E and Otay Mesa VIE. The captions in the table below generally correspond to SDG&E's Condensed Consolidated Statements of

Operations.

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AMOUNTS ASSOCIATED WITH OTAY MESA VIE

(Dollars in millions)

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Operating expenses				
Cost of electric fuel and purchased power	\$(28)	\$(27)	\$(62)	\$(66)
Operation and maintenance	4	3	23	13
Depreciation and amortization	8	7	25	19
Total operating expenses	(16)	(17)	(14)	(34)
Operating income	16	17	14	34
Interest expense	(5)	(5)	(15)	(14)
Income (loss) before income taxes/Net income (loss)	11	12	(1)	20
(Earnings) losses attributable to noncontrolling interest	(11)	(12)	1	(20)
Earnings attributable to common shares	\$—	\$—	\$—	\$—

SDG&E has determined that no contracts, other than the one relating to Otay Mesa VIE mentioned above, result in SDG&E being the primary beneficiary of a variable interest entity at September 30, 2016. In addition to the tolling agreements described above, other variable interests involve various elements of fuel and power costs, and other components of cash flow expected to be paid to or received by our counterparties. In most of these cases, the expectation of variability is not substantial, and SDG&E generally does not have the power to direct activities that most significantly impact the economic performance of the other VIEs. If our ongoing evaluation of these VIEs were to conclude that SDG&E becomes the primary beneficiary and consolidation by SDG&E becomes necessary, the effects are not expected to significantly affect the financial position, results of operations, or liquidity of SDG&E. In addition, SDG&E is not exposed to losses or gains as a result of these other VIEs, because all such variability would be recovered in rates. We provide additional information about power purchase agreements with peaker plant facilities that are VIEs of which SDG&E is not the primary beneficiary in Note 15 of the Notes to Consolidated Financial Statements in the Annual Report.

We provide additional information regarding Otay Mesa VIE in Note 1 of the Notes to Consolidated Financial Statements in the Annual Report.

Sempra Natural Gas

Sempra Energy's equity method investment in Cameron LNG JV is a VIE principally due to contractual provisions that transfer certain risks to customers. Sempra Energy is not the primary beneficiary because we do not have the power to direct the most significant activities of Cameron LNG JV. We will continue to evaluate Cameron LNG JV for any changes that may impact our determination of the primary beneficiary. The carrying value of our investment in Cameron LNG JV, including amounts recognized in Accumulated Other Comprehensive Income (Loss) (AOCI) related to interest-rate cash flow hedges at Cameron LNG JV, was \$838 million at September 30, 2016 and \$983 million at December 31, 2015. Our maximum exposure to loss includes the carrying value of our investment and the guarantees discussed above in Note 4 and in Note 4 of the Notes to Consolidated Financial Statements in the Annual Report.

Other Variable Interest Entities

Sempra Energy's other operating units also enter into arrangements which could include variable interests. We evaluate these arrangements and applicable entities based on the qualitative and quantitative analyses described above. Certain of these entities are service companies that are VIEs. As the primary beneficiary of these service companies, we consolidate them; however, their financial statements are not material to the financial statements of Sempra Energy. In all other cases, we have determined that these contracts are not variable interests in a VIE and

therefore are not subject to the U.S. GAAP requirements concerning the consolidation of VIEs.

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PENSION AND OTHER POSTRETIREMENT BENEFITS

Net Periodic Benefit Cost

The following three tables provide the components of net periodic benefit cost:

NET PERIODIC BENEFIT COST – SEMPRA ENERGY

CONSOLIDATED

(Dollars in millions)

	Pension benefits		Other postretirement benefits	
	Three months ended September 30,			
	2016	2015	2016	2015
Service cost	\$26	\$27	\$ 4	\$ 5
Interest cost	40	38	9	10
Expected return on assets	(41)	(42)	(17)	(17)
Amortization of:				
Prior service cost (credit)	2	3	—	(1)
Actuarial loss (gain)	10	9	(1)	—
Settlements	—	4	—	—
Regulatory adjustment	(28)	(27)	5	4
Total net periodic benefit cost	\$9	\$12	\$—	\$ 1

	Nine months ended September 30,			
	2016	2015	2016	2015
Service cost	\$81	\$86	\$ 15	\$ 19
Interest cost	120	116	31	33
Expected return on assets	(124)	(130)	(52)	(51)
Amortization of:				
Prior service cost (credit)	8	8	—	(2)
Actuarial loss (gain)	23	28	(1)	—
Settlements	—	4	—	—
Regulatory adjustment	(84)	(86)	9	4
Total net periodic benefit cost	\$24	\$26	\$ 2	\$ 3

NET PERIODIC BENEFIT COST – SDG&E

(Dollars in millions)

	Pension benefits		Other postretirement benefits	
	Three months ended September 30,			
	2016	2015	2016	2015
Service cost	\$7	\$6	\$ 1	\$ 1
Interest cost	10	9	2	2
Expected return on assets	(12)	(14)	(3)	(2)
Amortization of:				
Actuarial loss	2	3	—	—
Regulatory adjustment	(7)	(3)	—	(1)
Total net periodic benefit cost	\$—	\$ 1	\$—	\$—

	Nine months ended			
	September 30,			
	2016	2015	2016	2015
Service cost	\$22	\$22	\$ 3	\$ 5
Interest cost	31	29	6	6
Expected return on assets	(37)	(41)	(8)	(8)
Amortization of:				
Prior service cost	1	1	2	2
Actuarial loss (gain)	7	7	(1)	—
Regulatory adjustment	(22)	(15)	(2)	(5)
Total net periodic benefit cost	\$2	\$3	\$ —	\$ —

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NET PERIODIC BENEFIT COST – SOCALGAS

(Dollars in millions)

	Pension benefits		Other postretirement benefits	
	Three months ended September 30,			
	2016	2015	2016	2015
Service cost	\$16	\$17	\$4	\$3
Interest cost	26	25	7	8
Expected return on assets	(26)	(25)	(15)	(14)
Amortization of:				
Prior service cost (credit)	3	2	(1)	(2)
Actuarial loss	3	5	—	—
Regulatory adjustment	(21)	(24)	5	5
Total net periodic benefit cost	\$1	\$—	\$—	\$—

	Nine months ended September 30,			
	2016	2015	2016	2015
Service cost	\$51	\$55	\$11	\$13
Interest cost	76	74	24	26
Expected return on assets	(78)	(79)	(43)	(42)
Amortization of:				
Prior service cost (credit)	7	6	(3)	(6)
Actuarial loss	8	16	—	—
Regulatory adjustment	(62)	(71)	11	9
Total net periodic benefit cost	\$2	\$1	\$—	\$—

Benefit Plan Contributions

The following table shows our year-to-date contributions to pension and other postretirement benefit plans and the amounts we expect to contribute in 2016:

BENEFIT PLAN CONTRIBUTIONS

(Dollars in millions)

	Sempra Energy SDG&E SoCalGas Consolidated		
Contributions through September 30, 2016:			
Pension plans	\$ 24	\$ 2	\$ 1
Other postretirement benefit plans	3	—	1
Total expected contributions in 2016:			
Pension plans	\$ 124	\$ 7	\$ 73
Other postretirement benefit plans	6	2	1

RABBI TRUST

In support of its Supplemental Executive Retirement, Cash Balance Restoration and Deferred Compensation Plans, Sempra Energy maintains dedicated assets, including a Rabbi Trust and investments in life insurance contracts, which totaled \$439 million and \$464 million at September 30, 2016 and December 31, 2015, respectively.

EARNINGS PER SHARE

The following table provides EPS computations for the three months and nine months ended September 30, 2016 and 2015. Basic EPS is calculated by dividing earnings attributable to common stock by the weighted-average number of

common shares outstanding for the period. 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)

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2016	2015	2016	2015
Numerator:				
Earnings/Income attributable to common shares	\$622	\$ 248	\$991	\$ 980
Denominator:				
Weighted-average common shares outstanding for basic EPS(1)	250,388	248,432	250,073	248,090
Dilutive effect of stock options, restricted stock awards and restricted stock units(2)	2,019	2,592	1,903	2,575
Weighted-average common shares outstanding for diluted EPS(2)	252,407	251,024	251,976	250,665
Earnings per share:				
Basic	\$2.48	\$ 1.00	\$ 3.96	\$ 3.95
Diluted	2.46	0.99	3.93	3.91

Includes 572 and 504 average fully vested restricted stock units held in our Deferred Compensation Plan for the three months ended September 30, 2016 and 2015, respectively, and 565 and 486 of such units for the nine months ended September 30, 2016 and 2015, respectively. These fully vested restricted stock units are included in weighted-average common shares outstanding for basic EPS because there are no conditions under which the corresponding shares will not be issued.

Reflects the prospective adoption of ASU 2016-09 as of January 1, 2016, as we discuss in Note 2. Prior to the adoption, the dilutive effect of stock options, restricted stock awards and restricted stock units was reduced by excess tax benefits assumed to be used to repurchase shares on the open market.

The potentially dilutive impact from stock options, restricted stock awards (RSAs) and restricted stock units (RSUs) is calculated under the treasury stock method. Under this method, proceeds based on the exercise price and unearned compensation are assumed to be used to repurchase shares on the open market at the average market price for the period, reducing the number of potential new shares to be issued and sometimes causing an antidilutive effect. The computation of diluted EPS excludes 2,426 RSUs for the nine months ended September 30, 2016 because to include them would be antidilutive for the period. However, these RSUs could potentially dilute basic EPS in the future. There were no antidilutive RSUs for the three months ended September 30, 2016, and there were no antidilutive stock options or RSAs for the three months and nine months ended September 30, 2016. There were no antidilutive RSUs, stock options or RSAs for the three months and nine months ended September 30, 2015.

Prior to adoption of ASU 2016-09 as of January 1, 2016, which we discuss in Note 2, excess tax benefits were also assumed to be used to repurchase shares on the open market when applying the treasury stock method. The excess tax benefits are tax deductions we would receive upon the assumed exercise of stock options and assumed vesting of RSAs and RSUs in excess of the deferred income taxes we recorded related to the compensation expense on such stock options, awards and units. Tax shortfalls occur when the assumed tax deductions are less than recorded deferred income taxes. Upon adoption of ASU 2016-09, as a result of the provision to recognize excess tax benefits and shortfalls in earnings, these benefits and shortfalls are no longer included in the calculation of diluted EPS beginning January 1, 2016.

Our performance-based RSUs include awards that vest at the end of three-year (for awards granted during or after 2015) or four-year performance periods based on Sempra Energy's total return to shareholders relative to that of specified market indices (Total Shareholder Return or TSR RSUs) or based on the compound annual growth rate of

Sempra Energy's EPS (EPS RSUs). The comparative market indices for the TSR RSUs are the Standard & Poor's (S&P) 500 Utilities Index and the S&P 500 Index. We primarily use long-term analyst consensus growth estimates for S&P 500 Utilities Index peer companies to develop our EPS RSU targets. TSR RSUs represent the right to receive from zero to 1.5 shares (2.0 shares for awards granted during or after 2014) of Sempra Energy common stock if performance targets are met. EPS RSUs represent the right to receive from zero to 2.0 shares of Sempra Energy common stock if performance targets are met. If performance falls between the targets specified for each performance metric, we calculate the payout using linear interpolation. Participants also receive additional shares for dividend equivalents on shares subject to RSUs, which are deemed reinvested to purchase additional units that become subject to the same vesting conditions as the RSUs to which the dividends relate. We discuss performance-based RSU awards further in Note 8 of the Notes to Consolidated Financial Statements in our Annual Report.

Our RSAs, which are solely service-based, and those RSUs that are service-based or issued in connection with certain other performance goals represent the right to receive up to 1.0 share if the service requirements or certain other vesting conditions are met. These RSAs and RSUs have the same dividend equivalent rights as the performance-based RSUs described above. We include RSAs and these RSUs in potential dilutive shares at 100 percent, subject to the application of the treasury stock method. We include our TSR

RSUs and EPS RSUs in potential dilutive shares at zero to up to 200 percent to the extent that they currently meet the performance requirements for vesting, subject to the application of the treasury stock method. Due to market fluctuations of both Sempra Energy stock and the comparative indices, dilutive TSR RSU shares may vary widely from period-to-period. If it were assumed that performance goals for all performance-based RSUs were met at maximum levels and if the treasury stock method were not applied to any of our RSAs or RSUs, the incremental potential dilutive shares would be 2,273,102 and 2,001,020 for the three months ended September 30, 2016 and 2015, respectively, and 2,406,512 and 2,047,656 for the nine months ended September 30, 2016 and 2015, respectively.

SHARE-BASED COMPENSATION

We discuss our share-based compensation plans in Note 8 of the Notes to Consolidated Financial Statements in the Annual Report. We recorded share-based compensation expense, net of income taxes, of \$7 million for each of the three months ended September 30, 2016 and 2015, and \$20 million and \$22 million for the nine months ended September 30, 2016 and 2015, respectively. Pursuant to our Sempra Energy share-based compensation plans, Sempra Energy's compensation committee granted 373,070 TSR RSUs, 94,760 EPS RSUs and 95,876 service-based RSUs during the nine months ended September 30, 2016, primarily in January.

During the nine months ended September 30, 2016, IEnova issued 378,367 RSUs from the IEnova 2013 Long-Term Incentive Plan, under which awards are cash settled at vesting based on the price of IEnova common stock.

CAPITALIZED FINANCING COSTS

Capitalized financing costs include capitalized interest costs and AFUDC related to both debt and equity financing of construction projects. We capitalize interest costs incurred to finance capital projects and interest on equity method investments that have not commenced planned principal operations.

The following table shows capitalized financing costs for the three months and nine months ended September 30, 2016 and 2015.

CAPITALIZED FINANCING COSTS

(Dollars in millions)

	Three months ended September 30, 2016		Nine months ended September 30, 2015	
Sempra Energy Consolidated:				
AFUDC related to debt	\$ 7	\$ 6	\$ 22	\$ 19
AFUDC related to equity	29	26	86	84
Other capitalized interest	26	18	64	52
Total Sempra Energy Consolidated	\$ 62	\$ 50	\$ 172	\$ 155
SDG&E:				
AFUDC related to debt	\$ 4	\$ 3	\$ 12	\$ 10
AFUDC related to equity	11	9	35	27
Total SDG&E	\$ 15	\$ 12	\$ 47	\$ 37
SoCalGas:				
AFUDC related to debt	\$ 3	\$ 3	\$ 10	\$ 9
AFUDC related to equity	10	10	30	29
Other capitalized interest	1	1	1	1
Total SoCalGas	\$ 14	\$ 14	\$ 41	\$ 39

COMPREHENSIVE INCOME

The following tables present the changes in AOCI by component and amounts reclassified out of AOCI to net income, excluding amounts attributable to noncontrolling interests:

CHANGES IN ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS) BY COMPONENT(1)

SEMPRA ENERGY CONSOLIDATED

(Dollars in millions)

	Foreign currency translation adjustments	Financial instruments	Pension and other postretirement benefits	Total accumulated other comprehensive income (loss)
	Three months ended September 30, 2016 and 2015			
2016:				
Balance as of June 30, 2016	\$ (503)	\$ (264)	\$ (85)	\$ (852)
Other comprehensive (loss) income before reclassifications	(28)	8	—	(20)
Amounts reclassified from accumulated other comprehensive income	—	5	2	7
Net other comprehensive (loss) income	(28)	13	2	(13)
Balance as of September 30, 2016	\$ (531)	\$ (251)	\$ (83)	\$ (865)
2015:				
Balance as of June 30, 2015	\$ (427)	\$ (86)	\$ (83)	\$ (596)
Other comprehensive loss before reclassifications	(92)	(79)	—	(171)
Amounts reclassified from accumulated other comprehensive income	—	1	5	6
Net other comprehensive (loss) income	(92)	(78)	5	(165)
Balance as of September 30, 2015	\$ (519)	\$ (164)	\$ (78)	\$ (761)
	Nine months ended September 30, 2016 and 2015			
2016:				
Balance as of December 31, 2015	\$ (582)	\$ (137)	\$ (87)	\$ (806)
Other comprehensive income (loss) before reclassifications	51	(122)	—	(71)
Amounts reclassified from accumulated other comprehensive income	—	8	4	12
Net other comprehensive income (loss)	51	(114)	4	(59)
Balance as of September 30, 2016	\$ (531)	\$ (251)	\$ (83)	\$ (865)
2015:				
Balance as of December 31, 2014	\$ (322)	\$ (90)	\$ (85)	\$ (497)
Other comprehensive loss before reclassifications	(197)	(76)	—	(273)
Amounts reclassified from accumulated other comprehensive income	—	2	7	9
Net other comprehensive (loss) income	(197)	(74)	7	(264)
Balance as of September 30, 2015	\$ (519)	\$ (164)	\$ (78)	\$ (761)

(1) All amounts are net of income tax, if subject to tax, and exclude noncontrolling interests.

CHANGES IN ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS) BY
COMPONENT(1)

SOUTHERN CALIFORNIA GAS COMPANY

(Dollars in Millions)

	Financial instruments	Pension and other retirement benefits	Total accumulated other comprehensive income (loss)
	Three months ended September 30, 2016 and 2015		
2016:			
Balance as of June 30, 2016	\$(14)	\$ (5)	\$ (19)
Amounts reclassified from accumulated other comprehensive income	1	—	1
Net other comprehensive income	1	—	1
Balance as of September 30, 2016	\$(13)	\$ (5)	\$ (18)
2015:			
Balance as of June 30 and September 30, 2015	\$(14)	\$ (4)	\$ (18)
	Nine months ended September 30, 2016 and 2015		
2016:			
Balance as of December 31, 2015	\$(14)	\$ (5)	\$ (19)
Amounts reclassified from accumulated other comprehensive income	1	—	1
Net other comprehensive income	1	—	1
Balance as of September 30, 2016	\$(13)	\$ (5)	\$ (18)
2015:			
Balance as of December 31, 2014 and September 30, 2015	\$(14)	\$ (4)	\$ (18)

(1) All amounts are net of income tax, if subject to tax, and exclude noncontrolling interests.

RECLASSIFICATIONS OUT OF ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

(Dollars in millions)

Details about accumulated other comprehensive income (loss) components	Amounts reclassified from accumulated other comprehensive income (loss) Three months ended		Affected line item on Condensed Consolidated Statements of Operations
	2016	2015	
Sempra Energy Consolidated:			
Financial instruments:			
Interest rate and foreign exchange instruments	\$ 4	\$ 5	Interest Expense
Interest rate instruments	3	3	Equity Earnings, Before Income Tax
Interest rate and foreign exchange instruments	7	—	Remeasurement of Equity Method Investment
Interest rate and foreign exchange instruments	(2)	—	Equity Earnings, Net of Income Tax
Commodity contracts not subject to rate recovery	—	(3)	Revenues: Energy-Related Businesses
Total before income tax	12	5	
	(3)	(1)	Income Tax Expense
Net of income tax	9	4	
	(4)	(3)	Earnings Attributable to Noncontrolling Interests
	\$ 5	\$ 1	
Pension and other postretirement benefits:			
Amortization of actuarial loss	\$ 4	\$ 7	See note (1) below
	(2)	(2)	Income Tax Expense
Net of income tax	\$ 2	\$ 5	
Total reclassifications for the period, net of tax	\$ 7	\$ 6	
SDG&E:			
Financial instruments:			
Interest rate instruments	\$ 3	\$ 3	Interest Expense
	(3)	(3)	(Earnings) Losses Attributable to Noncontrolling Interest
Total reclassifications for the period, net of tax	\$ —	\$ —	
SoCalGas:			
Financial instruments:			
Interest rate instruments	\$ 1	\$ —	Interest Expense
Total reclassifications for the period, net of tax	\$ 1	\$ —	

(1) Amounts are included in the computation of net periodic benefit cost (see "Pension and Other Postretirement Benefits" above).

RECLASSIFICATIONS OUT OF ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

(Dollars in millions)

Details about accumulated other comprehensive income (loss) components	Amounts reclassified from accumulated other comprehensive income (loss) Nine months ended September 30, 2016 2015		Affected line item on Condensed Consolidated Statements of Operations
Sempra Energy Consolidated:			
Financial instruments:			
Interest rate and foreign exchange instruments	\$ 11	\$ 14	Interest Expense
Interest rate instruments	8	9	Equity Earnings, Before Income Tax
Interest rate and foreign exchange instruments	7	—	Remeasurement of Equity Method Investment
Interest rate and foreign exchange instruments	4	—	Equity Earnings, Net of Income Tax
Commodity contracts not subject to rate recovery	(7)	(10)	Revenues: Energy-Related Businesses
Total before income tax	23	13	
	(4)	(1)	Income Tax Expense
Net of income tax	19	12	
	(11)	(10)	Earnings Attributable to Noncontrolling Interests
	\$ 8	\$ 2	
Pension and other postretirement benefits:			
Amortization of actuarial loss	\$ 8	\$ 11	See note (1) below
	(4)	(4)	Income Tax Expense
Net of income tax	\$ 4	\$ 7	
Total reclassifications for the period, net of tax	\$ 12	\$ 9	
SDG&E:			
Financial instruments:			
Interest rate instruments	\$ 9	\$ 9	Interest Expense
	(9)	(9)	(Earnings) Losses Attributable to Noncontrolling Interest
Total reclassifications for the period, net of tax	\$ —	\$ —	
SoCalGas:			
Financial instruments:			
Interest rate instruments	\$ 1	\$ —	Interest Expense
Total reclassifications for the period, net of tax	\$ 1	\$ —	

(1) Amounts are included in the computation of net periodic benefit cost (see “Pension and Other Postretirement Benefits” above).

For the three months and nine months ended September 30, 2016 and 2015, Other Comprehensive Income (Loss) (OCI), excluding amounts attributable to noncontrolling interests, at SDG&E was negligible.

SHAREHOLDERS' EQUITY AND NONCONTROLLING INTERESTS

The following tables provide reconciliations of changes in Sempra Energy's, SDG&E's and SoCalGas' shareholders' equity and noncontrolling interests for the nine months ended September 30, 2016 and 2015.

SHAREHOLDERS' EQUITY AND NONCONTROLLING INTERESTS – SEMPRA ENERGY

CONSOLIDATED

(Dollars in millions)

	Sempra Energy shareholders' equity	Non- controlling interests(1)	Total equity
Balance at December 31, 2015	\$ 11,809	\$ 770	\$12,579
Cumulative-effect adjustment from change in accounting principle	107	—	107
Comprehensive income	933	117	1,050
Preferred dividends of subsidiary	(1	) —	(1)
Share-based compensation expense	38	—	38
Common stock dividends declared	(565	) —	(565)
Issuances of common stock	80	—	80
Repurchases of common stock	(55	) —	(55)
Equity contributed by noncontrolling interests	—	2	2
Distributions to noncontrolling interests	—	(44	) (44)
Balance at September 30, 2016	\$ 12,346	\$ 845	\$13,191
Balance at December 31, 2014	\$ 11,326	\$ 774	\$12,100
Comprehensive income	717	56	773
Preferred dividends of subsidiary	(1	) —	(1)
Share-based compensation expense	39	—	39
Common stock dividends declared	(520	) —	(520)
Issuances of common stock	82	—	82
Repurchases of common stock	(74	) —	(74)
Tax benefit related to share-based compensation	56	—	56
Equity contributed by noncontrolling interest	—	1	1
Distributions to noncontrolling interests	—	(60	) (60)
Balance at September 30, 2015	\$ 11,625	\$ 771	\$12,396

(1) Noncontrolling interests include the preferred stock of SoCalGas and other noncontrolling interests as listed in the table below under "Other Noncontrolling Interests."

SHAREHOLDER'S EQUITY AND NONCONTROLLING INTEREST – SDG&E

(Dollars in millions)

	SDG&E shareholder's equity	Non- controlling interest	Total equity
Balance at December 31, 2015	\$ 5,223	\$ 53	\$5,276
Cumulative-effect adjustment from change in accounting principle	23	—	23
Comprehensive income	419	3	422
Common stock dividends declared	(175	) —	(175)
Equity contributed by noncontrolling interest	—	1	1
Distributions to noncontrolling interest	—	(7	) (7)
Balance at September 30, 2016	\$ 5,490	\$ 50	\$5,540
Balance at December 31, 2014	\$ 4,932	\$ 60	\$4,992
Comprehensive income	443	20	463
Common stock dividends declared	(150) —	(150)

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Distributions to noncontrolling interest	—	(16)	(16)
Balance at September 30, 2015	\$ 5,225	\$ 64	\$5,289

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SHAREHOLDERS' EQUITY – SOCALGAS

(Dollars in millions)

	SoCalGas shareholders' equity
Balance at December 31, 2015	\$ 3,149
Cumulative-effect adjustment from change in accounting principle	15
Comprehensive income	200
Preferred stock dividends declared	(1)
Balance at September 30, 2016	\$ 3,363
Balance at December 31, 2014	\$ 2,781
Comprehensive income	277
Preferred stock dividends declared	(1)
Common stock dividends declared	(50)
Balance at September 30, 2015	\$ 3,007

Ownership interests that are held by owners other than Sempra Energy and SDG&E in subsidiaries or entities consolidated by them are accounted for and reported as noncontrolling interests. As a result, noncontrolling interests are reported as a separate component of equity on the Condensed Consolidated Balance Sheets. Earnings or losses attributable to noncontrolling interests are separately identified on the Condensed Consolidated Statements of Operations, and comprehensive income or loss attributable to noncontrolling interests is separately identified on the Condensed Consolidated Statements of Comprehensive Income (Loss).

Preferred Stock

At Sempra Energy, the preferred stock of SoCalGas is presented as a noncontrolling interest and preferred stock dividends are charges against income related to noncontrolling interests. We provide additional information concerning preferred stock in Note 11 of the Notes to Consolidated Financial Statements in the Annual Report.

Other Noncontrolling Interests

At September 30, 2016 and December 31, 2015, we reported the following noncontrolling ownership interests held by others (not including preferred shareholders) recorded in Other Noncontrolling Interests in Total Equity on Sempra Energy's Condensed Consolidated Balance Sheets:

OTHER NONCONTROLLING INTERESTS

(Dollars in millions)

	Percent ownership held by others			
	September 30, 2016	December 31, 2015	September 30, 2016	December 31, 2015
SDG&E:				
Otay Mesa VIE	100	% 100	% \$ 50	\$ 53
Sempra South American Utilities:				
Chilquinta Energía subsidiaries(1)	23.1 – 43.4	23.5 – 43.4	22	21
Luz del Sur	16.4	16.4	171	164
Tecsur	9.8	9.8	4	4
Sempra Mexico:				
IEnova(2)	18.9	18.9	537	468
Sempra Natural Gas:				
Bay Gas Storage Company, Ltd.	9.1	9.1	26	25
Liberty Gas Storage, LLC	23.3	23.2	14	14
Southern Gas Transmission Company	49.0	49.0	1	1
Total Sempra Energy			\$ 825	\$ 750

(1)

Chilquinta Energía has four subsidiaries with noncontrolling interests held by others. Percentage range reflects the highest and lowest ownership percentages among these subsidiaries.

(2) On October 19, 2016, IEnova completed follow-on equity offerings that increased the 18.9 percent ownership held by others to 33.6 percent, as we discuss in Note 13.

Sempra Renewables

Sempra Renewables entered into a membership interest purchase agreement with a financial institution to form a portfolio tax equity partnership that includes Copper Mountain Solar 4, Mesquite Solar 2 and Mesquite Solar 3 (the tax equity portfolio). Under the purchase agreement, the formation of the portfolio tax equity partnership is subject to conditions precedent, including funding dates that correspond to each project's completion. In July 2016, Sempra Renewables received the first funding in the form of a \$78 million cash deposit, which has been recorded in Deferred Credits and Other on Sempra Energy's Condensed Consolidated Balance Sheet at September 30, 2016. We expect the final funding date under the purchase agreement and formation of the portfolio tax equity partnership to occur in December 2016.

Sempra Renewables also entered into a membership interest purchase agreement with a financial institution to form a tax equity partnership involving the Black Oak Getty Wind project. The final funding date under the purchase agreement and formation of the tax equity partnership are subject to conditions precedent that we expect to occur in December 2016.

Sempra Renewables will continue to consolidate the tax equity portfolio and the Black Oak Getty Wind project. After the final funding dates, Sempra Renewables will report noncontrolling interests representing the financial institutions' respective membership interests in the tax equity partnerships.

TRANSACTIONS WITH AFFILIATES

Amounts due from and to unconsolidated affiliates at Sempra Energy Consolidated, SDG&E and SoCalGas are as follows:

AMOUNTS DUE FROM (TO) UNCONSOLIDATED AFFILIATES

(Dollars in millions)

	September 30, 2016	December 31, 2015
Sempra Energy Consolidated:		
Total due from various unconsolidated affiliates - current	\$ 8	\$ 6
Sempra South American Utilities(1):		
Eletrans S.A. and Eletrans II S.A.:		
4% Note(2)	\$ 83	\$ 72
Other related party receivables	1	—
Sempra Mexico(1):		
Affiliate of joint venture with DEN:		
Note due November 13, 2017(3)	3	3
Note due November 14, 2018(3)	43	42
Note due November 14, 2018(3)	35	34
Note due November 14, 2018(3)	8	8
Energía Sierra Juárez:		
Note due June 15, 2018(4)	14	24
Sempra Natural Gas:		
Cameron LNG JV	8	3
Total due from unconsolidated affiliates - noncurrent	\$ 195	\$ 186
Total due to various unconsolidated affiliates - current	\$ (9)	\$ (14)
SDG&E:		
Sempra Energy(5)	\$ 88	\$ —
Other affiliates	—	1
Total due from unconsolidated affiliates - current	\$ 88	\$ 1
Sempra Energy	\$ —	\$ (34)
SoCalGas	(5)	(13)
Other affiliates	(5)	(8)
Total due to unconsolidated affiliates - current	\$ (10)	\$ (55)
Income taxes due from Sempra Energy(6)		
SoCalGas:		
Sempra Energy(7)	\$ 30	\$ 35
SDG&E	5	13
Total due from unconsolidated affiliates - current	\$ 35	\$ 48
Income taxes due from Sempra Energy(6)	\$ 16	\$ 1

(1) Amounts include principal balances plus accumulated interest outstanding.

U.S. dollar-denominated loan, at a fixed interest rate with no stated maturity date, to provide project financing for

(2) the construction of transmission lines at Eletrans S.A. and Eletrans II S.A., both of which are joint ventures of Chilquinta Energía.

(3)

U.S. dollar-denominated loan, at a variable interest rate based on a 30-day LIBOR plus 450 basis points (5.03 percent at September 30, 2016), to finance the Los Ramones Norte pipeline project.

(4) U.S. dollar-denominated loan, at a variable interest rate based on a 30-day LIBOR plus 637.5 basis points (6.91 percent at September 30, 2016), to finance the first phase of the Energía Sierra Juárez wind project, which is a joint venture of IEnova.

(5) At September 30, 2016, net receivable included outstanding advances to Sempra Energy of \$107 million at an interest rate of 0.60 percent.

(6) SDG&E and SoCalGas are included in the consolidated income tax return of Sempra Energy and are allocated income tax expense from Sempra Energy in an amount equal to that which would result from each company having always filed a separate return.

(7) At September 30, 2016, net receivable included outstanding advances to Sempra Energy of \$51 million at an interest rate of 0.57 percent. At December 31, 2015, net receivable included outstanding advances to Sempra Energy of \$50 million at an interest rate of 0.11 percent.

Revenues and cost of sales from unconsolidated affiliates are as follows:

REVENUES AND COST OF SALES
FROM UNCONSOLIDATED
AFFILIATES

(Dollars in millions)

	Three months ended September 30, 2016		Nine months ended September 30, 2015	
REVENUES				
Sempra Energy Consolidated	\$ 5	\$ 6	\$ 15	\$ 22
SDG&E	2	3	5	8
SoCalGas	21	19	56	55
COST OF SALES				
Sempra Energy Consolidated	\$ 10	\$ 29	\$ 60	\$ 78
SDG&E	16	15	46	33

Guarantees

Sempra Energy has provided guarantees to certain of its solar and wind farm joint ventures and entered into completion guarantees related to the financing of the Cameron LNG JV project, as we discuss above in Note 4 and in Note 4 of the Notes to Consolidated Financial Statements in the Annual Report.

OTHER INCOME, NET

Other Income, Net on the Condensed Consolidated Statements of Operations consists of the following:

OTHER INCOME, NET

(Dollars in millions)

	Three months ended September 30, 2016		Nine months ended September 30, 2015	
Sempra Energy Consolidated:				
Allowance for equity funds used during construction	\$29	\$26	\$86	\$84
Investment gains (losses)(1)	9	(12)	29	(5)
Losses on interest rate and foreign exchange instruments, net	(11)	(4)	(23)	(7)
Foreign currency transaction losses	(2)	(3)	(9)	(6)
Sale of other investments	1	2	3	8
Electrical infrastructure relocation income(2)	1	—	4	4
Regulatory interest, net(3)	1	1	4	3
Sundry, net	(2)	2	4	7
Total	\$26	\$12	\$98	\$88
SDG&E:				
Allowance for equity funds used during construction	\$11	\$9	\$35	\$27
Regulatory interest, net(3)	—	1	3	3
Sundry, net	—	(2)	—	(4)
Total	\$11	\$8	\$38	\$26
SoCalGas:				
Allowance for equity funds used during construction	\$10	\$10	\$30	\$29
Regulatory interest, net(3)	1	—	1	—
Sundry, net	(3)	(2)	(7)	(4)
Total	\$8	\$8	\$24	\$25

Represents investment gains (losses) on dedicated assets in support of our executive retirement and deferred (1) compensation plans. These amounts are partially offset by corresponding changes in compensation expense related to the plans.

(2) Income at Luz del Sur associated with the relocation of electrical infrastructure.

(3) Interest on regulatory balancing accounts.

INCOME TAXES

INCOME TAX EXPENSE (BENEFIT) AND EFFECTIVE

INCOME TAX RATES

(Dollars in millions)

	Income tax expense		Effective income tax rate		Income tax expense (benefit)		Effective income tax rate	
	Three months ended September 30, 2016		September 30, 2015					
Sempra Energy Consolidated	\$282	29	%	\$15	6	%		
SDG&E	91	32		75	29			
SoCalGas	21	100		(20)	71			

	Nine months ended September					
	30,			2015		
	2016			2015		
Sempra Energy Consolidated	\$284	21	%	\$276	22	%
SDG&E	204	33		217	32	
SoCalGas	75	27		91	25	

Sempra Energy, SDG&E and SoCalGas record income taxes for interim periods utilizing a forecasted effective tax rate anticipated for the full year, as required by U.S. GAAP. The income tax effect of items that can be reliably forecasted is factored into the forecasted effective tax rate, and the impact is recognized proportionately over the year. Items that cannot be reliably forecasted (e.g., resolution of prior years' income tax items, remeasurement of deferred tax asset valuation allowances, Mexican currency translation and inflation adjustments, deferred income tax benefits associated with impairment of a book investment and certain impacts of regulatory matters) are recorded in the interim period in which they actually occur, which can result in variability in the effective income tax rate.

For SDG&E and SoCalGas, the California Public Utilities Commission (CPUC) requires flow-through rate-making treatment for the current income tax benefit or expense arising from certain property-related and other temporary differences between the treatment for financial reporting and income tax, which will reverse over time. Under the regulatory accounting treatment required for these flow-through temporary differences, deferred income tax assets and liabilities are not recorded to deferred income tax expense, but rather to a regulatory asset or liability, which impacts the current effective income tax rate. As a result, changes in the relative size of these items compared to pretax income, from period to period, can cause variations in the effective income tax rate. The following items are subject to flow-through treatment:

repairs expenditures related to a certain portion of utility plant assets

the equity portion of AFUDC

a portion of the cost of removal of utility plant assets

utility self-developed software expenditures

depreciation on a certain portion of utility plant assets

state income taxes

The AFUDC related to equity recorded for regulated construction projects at Sempra Mexico is also subject to flow-through treatment.

The final decision in the 2016 General Rate Case (2016 GRC) issued by the CPUC in June 2016 affecting the California Utilities requires the establishment of a two-way income tax expense memorandum account for SDG&E and SoCalGas to track any revenue variances resulting from certain differences arising between the income tax expense forecasted in the 2016 GRC and the income tax expense incurred from 2016 through 2018. The variances to be tracked include tax expense differences relating to

net revenue changes,

mandatory tax law, tax accounting, tax procedural, or tax policy changes, and

elective tax law, tax accounting, tax procedural, or tax policy changes.

The account will remain open, and the balance in the account will be reviewed in subsequent GRC proceedings, until the CPUC decides to close the account. We believe the future disposition of these tracked balances may result in refunds being directed to ratepayers to the extent tax expense incurred is lower than forecasted tax expense in the GRC process as a result of certain flow-through item deductions, as described above, or other items. We discuss the memo account further in Note 10.

Differences arising from the forecasted amounts will be tracked in the two-way income tax expense tracking account, except for the equity portion of AFUDC, which is not subject to taxation. We expect that certain amounts recorded in the tracking account may give rise to regulatory assets or liabilities until the CPUC disposes with the account. The CPUC tracking account does not affect the recovery of income tax expense in Federal Energy Regulatory Commission (FERC) formulaic rates.

In the third quarter of 2016, we adopted ASU 2016-09 with an effective date of January 1, 2016. ASU 2016-09 requires excess tax benefits and tax deficiencies related to employee share-based payment transactions to be recorded in earnings, instead of in shareholders' equity. We discuss the impact of adopting the provisions of this standard in Note 2.

We provide additional information about our accounting for income taxes in Notes 1 and 6 of the Notes to Consolidated Financial Statements in the Annual Report.

NOTE 6. DEBT AND CREDIT FACILITIES

LINES OF CREDIT

At September 30, 2016, Sempra Energy Consolidated had an aggregate of \$4.3 billion in three primary committed lines of credit for Sempra Energy, Sempra Global and the California Utilities to provide liquidity and to support commercial paper, the principal terms of which we describe below. Available unused credit on these lines at September 30, 2016 was approximately \$2.0 billion. Our foreign operations have additional general purpose credit facilities aggregating \$1.1 billion at September 30, 2016. Available unused credit on these lines totaled \$429 million at September 30, 2016.

Sempra Energy

Sempra Energy has a \$1 billion, five-year syndicated revolving credit agreement expiring in October 2020. On September 30, 2016, an additional lender was added to the facility. Citibank, N.A. serves as administrative agent for the syndicate of, now, 21 lenders, and no single lender has greater than a 7-percent share.

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Borrowings bear interest at benchmark rates plus a margin that varies with 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 September 30, 2016, Sempra Energy was in compliance with this and all other financial covenants under the credit facility. The facility also provides for issuance of up to \$400 million of letters of credit on behalf of Sempra Energy with the amount of borrowings otherwise available under the facility reduced by the amount of outstanding letters of credit.

At September 30, 2016, Sempra Energy had no outstanding borrowings or letters of credit supported by the facility.

Sempra Global

Sempra Global has a five-year syndicated revolving credit agreement expiring in October 2020. On September 30, 2016, an additional lender was added to the facility, and the borrowing capacity increased from \$2.21 billion to \$2.34 billion. Citibank, N.A. serves as administrative agent for the syndicate of, now, 21 lenders, and no single lender has greater than a 7-percent share.

Sempra Energy guarantees Sempra Global's obligations under the credit facility. Borrowings bear interest at benchmark rates plus a margin that varies with 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 September 30, 2016, Sempra Energy was in compliance with this and all other financial covenants under the credit facility.

At September 30, 2016, Sempra Global had \$2.26 billion of commercial paper outstanding supported by the facility and \$79 million of available unused credit on the line.

California Utilities

SDG&E and SoCalGas have a combined \$1 billion, five-year syndicated revolving credit agreement expiring in October 2020. On September 30, 2016, an additional lender was added to the facility. JPMorgan Chase Bank, N.A. serves as administrative agent for the syndicate of, now, 21 lenders, and no single lender has greater than a 7-percent share. The agreement permits each utility to individually borrow up to \$750 million, subject to a combined limit of \$1 billion 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 \$250 million for both utilities. The amount of borrowings otherwise available under the facility is reduced by the amount of outstanding letters of credit.

Borrowings bear interest at benchmark rates plus a margin that varies with 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. At September 30, 2016, the California Utilities were in compliance with this and all other financial covenants under the credit facility.

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 September 30, 2016, SDG&E had \$54 million of commercial paper outstanding and SoCalGas had no outstanding borrowings supported by the facility. Available unused credit on the line at September 30, 2016 was \$696 million and \$750 million at SDG&E and SoCalGas, respectively, subject to the \$1 billion maximum combined credit limit.

Sempra South American Utilities

Sempra South American Utilities has Peruvian Sol- and Chilean Peso-denominated credit facilities with a borrowing capacity of \$506 million U.S. dollar equivalent. The credit facilities were entered into to finance working capital and for general corporate purposes. The Peruvian facilities require a debt to equity ratio of no more than 170 percent. At September 30, 2016, Sempra South American Utilities was in compliance with this financial covenant under the credit facilities. At September 30, 2016, Sempra South American Utilities had outstanding borrowings against the Peruvian facilities of \$140 million, expiring between 2016 and 2019, bank guarantees of \$16 million, and \$236 million of available unused credit. There were no outstanding borrowings at September 30, 2016 under the \$114 million Chilean facility.

Sempra Mexico

IEnova has a \$600 million, five-year revolving credit agreement expiring in August 2020. The lenders are Banco Santander (México), S.A., Institución de Banca Múltiple, Grupo Financiero Santander México, Banco Nacional de

Mexico, S.A. Integrante del Grupo Financiero Banamex, The Bank of Tokyo - Mitsubishi UFJ, LTD., The Bank of Nova Scotia and Sumitomo Mitsui Banking Corporation. At September 30, 2016, IEnova had \$521 million of outstanding borrowings supported by the facility, and available unused credit on the line was \$79 million.

WEIGHTED AVERAGE INTEREST RATES

The weighted average interest rates on the total short-term debt at Sempra Energy Consolidated were 1.19 percent and 1.09 percent at September 30, 2016 and December 31, 2015, respectively. The weighted average interest rates on total short-term debt at SDG&E were 1.06 percent and 1.01 percent at September 30, 2016 and December 31, 2015, respectively.

LONG-TERM DEBT

Sempra Energy

In October 2016, Sempra Energy publicly offered and sold \$500 million of 1.625-percent, fixed-rate notes maturing in 2019. Sempra Energy used the proceeds from this offering to repay outstanding commercial paper.

SDG&E

In May 2016, SDG&E publicly offered and sold \$500 million of 2.50-percent first mortgage bonds maturing in 2026. SDG&E used the proceeds from the offering to redeem, prior to a scheduled maturity in 2027, \$105 million aggregate principal amount of 5-percent, tax-exempt industrial development revenue bonds, to repay outstanding commercial paper and for other general corporate purposes.

SoCalGas

In June 2016, SoCalGas publicly offered and sold \$500 million of 2.60-percent first mortgage bonds maturing in 2026. SoCalGas used the proceeds from the offering to repay outstanding commercial paper and for other general corporate purposes.

Sempra South American Utilities

In July 2016, Luz del Sur publicly offered and sold \$50 million of corporate bonds at 6.50 percent maturing in 2025.

Sempra Mexico

In September 2016, IEnova completed the acquisition of PEMEX's 50-percent interest in GdC, as we discuss in Note 3. Pursuant to the agreement, IEnova assumed \$364 million of long-term debt, of which \$49 million is classified as current at September 30, 2016. Principal and interest payments are due quarterly each year, and the loan fully matures in December 2026. The loan bears interest equal to London Interbank Offered Rate (LIBOR) plus a spread of 2 percent to 2.75 percent, which varies over the term of the loan. To moderate exposure to interest rate and associated cash flow variability, GdC entered into floating-to-fixed interest rate swaps for the full loan amount, resulting in an all-in fixed rate of 2.63 percent plus the corresponding spread. The loan is collateralized by the TDF S. de R.L. de C.V. liquid petroleum gas pipeline and the San Fernando natural gas pipeline, which are wholly owned projects at GdC. The loan agreement contains various covenants, including maintaining a certain interest coverage ratio and a minimum members' equity during the term of the loan. At September 30, 2016, GdC was in compliance with these financial covenants.

Sempra Natural Gas

In September 2016, Sempra Natural Gas completed the sale of EnergySouth, the parent company of Mobile Gas and Willmut Gas. Sempra Natural Gas received \$318 million, net of \$2 million cash sold, in cash proceeds and the buyer assumed debt of \$67 million, which included \$20 million of 4.14-percent first mortgage bonds and \$42 million of 5-percent first mortgage bonds at Mobile Gas, and \$5 million of 3.1-percent notes at Willmut Gas. We discuss the sale of EnergySouth in Note 3.

INTEREST RATE SWAPS

We discuss our fair value interest rate swaps and interest rate swaps to hedge cash flows in Note 7.

NOTE 7. DERIVATIVE FINANCIAL INSTRUMENTS

We use derivative instruments primarily to manage exposures arising in the normal course of business. Our principal exposures are commodity market risk, benchmark interest rate risk and foreign exchange rate exposures. 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 (1) that could lead to declines in anticipated revenues or increases in anticipated expenses, or (2) 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 included in the tables below.

In certain cases, we apply the normal purchase or sale exception to derivative instruments 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.

In all other cases, we record derivatives at fair value on the Condensed 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 California 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 (loss) (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 Condensed Consolidated Statements of Cash Flows.

HEDGE ACCOUNTING

We may designate a derivative as a cash flow hedging instrument if it effectively converts anticipated cash flows associated with revenues or expenses to a fixed dollar amount. We may utilize cash flow hedge accounting for derivative commodity instruments, foreign currency 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 the future cash flows of a given 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 instrument 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, as follows:

The California Utilities use energy derivatives, both natural gas and electricity, for the benefit of customers, with the objective of managing price risk and basis risks, and stabilizing and lowering natural gas and electricity costs. These derivatives include fixed price natural gas and electricity positions, options, and basis risk instruments, which are either exchange-traded or over-the-counter financial instruments, or bilateral physical transactions. This activity is governed by risk management and transacting activity plans that have been filed with and approved by the CPUC. Natural gas and electricity 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 Condensed 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 that 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, which are recoverable in rates, are recorded in Cost of Electric Fuel and Purchased Power on the Condensed Consolidated Statements of Operations.

Sempra Mexico, Sempra Natural Gas, and Sempra Renewables may use natural gas and electricity derivatives, as appropriate, to optimize the earnings of their assets which support the following businesses: liquefied natural gas (LNG), natural gas transportation and storage, and power generation. Gains and losses associated with undesignated derivatives are recognized in Energy-Related Businesses Revenues or in Cost of Natural Gas, Electric Fuel and Purchased Power on the Condensed Consolidated Statements of Operations. Certain of these derivatives may also be designated as cash flow hedges. Sempra Mexico also uses natural gas energy derivatives with the objective of managing price risk and lowering natural gas prices at its Mexican

distribution operations. These derivatives, which are recorded as commodity costs that are offset by regulatory account balances and recovered in rates, are recognized in Cost of Natural Gas on the Condensed Consolidated Statements of Operations.

From time to time, our various businesses, including the California Utilities, may use other energy derivatives to hedge exposures such as the price of vehicle fuel.

We summarize net energy derivative volumes at September 30, 2016 and December 31, 2015 as follows:

NET ENERGY DERIVATIVE VOLUMES

(Quantities in millions)

Segment and Commodity	Unit of measure	September 30, 2016	December 31, 2015
California Utilities:			
SDG&E:			
Natural gas	MMBtu(1)	56	70
Electricity	MWh(2)	4	1
Congestion revenue rights	MWh	46	36
SoCalGas – natural gas	MMBtu	2	1
Energy-Related Businesses:			
Sempra Natural Gas – natural gas	MMBtu	35	43

(1) Million British thermal units

(2) Megawatt hours

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

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, typically designated as cash flow hedges, to lock in interest rates on outstanding debt or in anticipation of future financings.

Interest rate derivatives are utilized by the California Utilities as well as by other Sempra Energy subsidiaries and joint ventures. Interest rate derivatives are generally accounted for as hedges, and although the California 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 energy derivatives. Separately, Otay Mesa VIE has entered into interest rate swap agreements, designated as cash flow hedges, to moderate its exposure to interest rate changes.

At September 30, 2016 and December 31, 2015, the net notional amounts of our interest rate derivatives, excluding joint ventures, were:

INTEREST RATE DERIVATIVES

(Dollars in millions)

	September 30, 2016	December 31, 2015
	Notional debt	Notional debt
	Maturities	Maturities
Sempra Energy Consolidated:		
Cash flow hedges(1)(2)	\$753 2016-2028	\$384 2016-2028
Fair value hedges	— —	300 2016
SDG&E:		

Cash flow hedge(1) 307 2016-2019 315 2016-2019

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

(2) At September 30, 2016, includes GdC, which was previously a joint venture and excluded from this table.

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FOREIGN CURRENCY DERIVATIVES

We utilize cross-currency swaps to hedge exposure related to Mexican peso-denominated debt at our Mexican subsidiaries and joint ventures. These cash flow hedges exchange our Mexican-peso denominated principal and interest payments into the U.S. dollar and swap Mexican variable interest rates for U.S. fixed interest rates. From time to time, Sempra Mexico and its joint ventures may use other foreign currency derivatives to hedge exposures related to cash flows associated with revenues from contracts denominated in Mexican pesos that are indexed to the U.S. dollar.

We are also exposed to exchange rate movements at our Mexican subsidiaries and joint ventures, which have U.S. dollar denominated cash balances, receivables, payables and debt (monetary assets and liabilities) that give rise to Mexican currency exchange rate movements for Mexican income tax purposes. They also have deferred income tax assets and liabilities denominated in the Mexican peso, which must be translated to U.S. dollars for financial reporting purposes. In addition, monetary assets and liabilities and certain nonmonetary assets and liabilities are adjusted for Mexican inflation for Mexican income tax purposes. We utilize foreign currency derivatives as a means to manage the risk of exposure to significant fluctuations in our income tax expense and equity earnings from these impacts. In January 2016 and September 2016, we entered into foreign currency derivatives with notional amounts totaling \$550 million and \$914 million, respectively.

At September 30, 2016 and December 31, 2015, the net notional amounts of our foreign currency derivatives, excluding joint ventures, were:

FOREIGN CURRENCY DERIVATIVES

(Dollars in millions)

	September 30, 2016	December 31, 2015
	Notional amount	Notional amount
Sempra Energy Consolidated:		
Cross-currency swaps	\$408 2016-2023	\$408 2016-2023
Other foreign currency derivatives ⁽¹⁾	1,481 2016-2018	— —

(1) At September 30, 2016, includes GdC, which was previously a joint venture and excluded from this table.

In addition, Sempra South American Utilities uses foreign currency derivatives at its subsidiaries and joint ventures as a means to manage foreign currency rate risk. We discuss these derivatives at Chilquinta Energía's Eletrans joint venture investment in Note 4 of the Notes to Consolidated Financial Statements in the Annual Report.

FINANCIAL STATEMENT PRESENTATION

The Condensed Consolidated Balance Sheets reflect the offsetting of net derivative positions and cash collateral with the same counterparty when a legal right of offset exists. The following tables provide the fair values of derivative instruments on the Condensed Consolidated Balance Sheets at September 30, 2016 and December 31, 2015, including the amount of cash collateral receivables that were not offset, as the cash collateral is in excess of liability positions.

DERIVATIVE INSTRUMENTS ON THE CONDENSED CONSOLIDATED BALANCE SHEETS

(Dollars in millions)

	September 30, 2016			
	Current assets: Fixed-price contracts and other derivatives(1)	Other assets: Sundry derivatives(1)	Current liabilities: Fixed-price contracts and other derivatives(2)	Deferred credits and other liabilities: Fixed-price contracts and other derivatives
Sempra Energy Consolidated:				
Derivatives designated as hedging instruments:				
Interest rate and foreign exchange instruments(3)	\$3	\$ —	\$ (20)	\$ (224)
Commodity contracts not subject to rate recovery	—	—	(4)	—
Derivatives not designated as hedging instruments:				
Foreign exchange instruments	2	—	(25)	—
Commodity contracts not subject to rate recovery	122	25	(128)	(17)
Associated offsetting commodity contracts	(114)	(15)	114	15
Associated offsetting cash collateral	—	(2)	17	2
Commodity contracts subject to rate recovery	11	86	(59)	(165)
Associated offsetting commodity contracts	(5)	(1)	5	1
Associated offsetting cash collateral	—	—	12	17
Net amounts presented on the balance sheet	19	93	(88)	(371)
Additional cash collateral for commodity contracts not subject to rate recovery	15	—	—	—
Additional cash collateral for commodity contracts subject to rate recovery	19	—	—	—
Total(4)	\$53	\$ 93	\$ (88)	\$ (371)
SDG&E:				
Derivatives designated as hedging instruments:				
Interest rate instruments(3)	\$—	\$ —	\$ (13)	\$ (18)
Derivatives not designated as hedging instruments:				
Commodity contracts subject to rate recovery	8	86	(55)	(165)
Associated offsetting commodity contracts	(3)	(1)	3	1
Associated offsetting cash collateral	—	—	12	17
Net amounts presented on the balance sheet	5	85	(53)	(165)
Additional cash collateral for commodity contracts not subject to rate recovery	1	—	—	—
Additional cash collateral for commodity contracts subject to rate recovery	17	—	—	—
Total(4)	\$23	\$ 85	\$ (53)	\$ (165)
SoCalGas:				
Derivatives not designated as hedging instruments:				
Commodity contracts subject to rate recovery	\$3	\$ —	\$ (4)	\$ —
Associated offsetting commodity contracts	(2)	—	2	—
Net amounts presented on the balance sheet	1	—	(2)	—
Additional cash collateral for commodity contracts	1	—	—	—

not subject to rate recovery

Additional cash collateral for commodity contracts	2	—	—	—
subject to rate recovery				
Total	\$4	\$ —	\$ (2)	\$ —

(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.

(4) Normal purchase contracts previously measured at fair value are excluded.

DERIVATIVE INSTRUMENTS ON THE CONDENSED CONSOLIDATED BALANCE SHEETS

(Dollars in millions)

	December 31, 2015			
	Current assets: Fixed-price contracts and other derivatives(1)	Other assets: Sundry derivatives(1)	Current liabilities: Fixed-price contracts and other derivatives(2)	Deferred credits and other liabilities: Fixed-price contracts and other derivatives
Sempra Energy Consolidated:				
Derivatives designated as hedging instruments:				
Interest rate and foreign exchange instruments(3)	\$4	\$ 1	\$ (15)	\$ (156)
Commodity contracts not subject to rate recovery	13	—	—	—
Derivatives not designated as hedging instruments:				
Commodity contracts not subject to rate recovery	245	32	(239)	(21)
Associated offsetting commodity contracts	(232)	(20)	232	20
Associated offsetting cash collateral	(6)	—	4	—
Commodity contracts subject to rate recovery	28	49	(61)	(64)
Associated offsetting commodity contracts	(2)	(2)	2	2
Associated offsetting cash collateral	—	—	28	26
Net amounts presented on the balance sheet	50	60	(49)	(193)
Additional cash collateral for commodity contracts not subject to rate recovery	2	—	—	—
Additional cash collateral for commodity contracts subject to rate recovery	28	—	—	—
Total(4)	\$80	\$ 60	\$ (49)	\$ (193)
SDG&E:				
Derivatives designated as hedging instruments:				
Interest rate instruments(3)	\$—	\$ —	\$ (14)	\$ (23)
Derivatives not designated as hedging instruments:				
Commodity contracts not subject to rate recovery	—	—	(1)	—
Associated offsetting cash collateral	—	—	1	—
Commodity contracts subject to rate recovery	27	49	(60)	(64)
Associated offsetting commodity contracts	(2)	(2)	2	2
Associated offsetting cash collateral	—	—	28	26
Net amounts presented on the balance sheet	25	47	(44)	(59)
Additional cash collateral for commodity contracts not subject to rate recovery	1	—	—	—
Additional cash collateral for commodity contracts subject to rate recovery	27	—	—	—
Total(4)	\$53	\$ 47	\$ (44)	\$ (59)
SoCalGas:				
Derivatives not designated as hedging instruments:				
Commodity contracts not subject to rate recovery	\$—	\$ —	\$ (1)	\$ —
Associated offsetting cash collateral	—	—	1	—
Commodity contracts subject to rate recovery	1	—	(1)	—

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Net amounts presented on the balance sheet	1	—	(1)	—
Additional cash collateral for commodity contracts subject to rate recovery	1	—	—		—
Total	\$2	\$ —	\$ (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.

(4) Normal purchase contracts previously measured at fair value are excluded.

The effects of derivative instruments designated as hedges on the Condensed Consolidated Statements of Operations and in OCI and AOCI for the three months and nine months ended September 30 were:

FAIR VALUE HEDGE IMPACTS

(Dollars in millions)

	Location	Pretax gain (loss) on derivatives recognized in earnings		
		Three months ended September 30, 2016	Nine months ended September 30, 2015	
Sempra Energy Consolidated:				
Interest rate instruments	Interest Expense	\$-\$ 1	\$ 3	\$ 5
Interest rate instruments	Other Income, Net	—	(2)	(2)
Total(1)		\$-\$ 1	\$ 1	\$ 3

There was no hedge ineffectiveness in either the three months or nine months ended September 30, 2016 or 2015.

(1) All other changes in the fair value of the interest rate swap agreements are exactly offset by changes in the fair value of the underlying long-term debt and are recorded in Other Income, Net.

CASH FLOW HEDGE IMPACTS

(Dollars in millions)

	Pretax gain (loss) recognized in OCI		Location	Pretax (loss) gain reclassified from AOCI into earnings	
	Three months ended September 30, 2016	2015		Three months ended September 30, 2016	2015
Sempra Energy Consolidated:					
Interest rate and foreign exchange instruments(1)	\$(16)	\$(10)	Interest Expense	\$(4)	\$(5)
Interest rate instruments	17	(134)	Equity Earnings, Before Income Tax	(3)	(3)
Interest rate and foreign exchange instruments	—	—	Remeasurement of Equity Method Investment	(7)	—
Interest rate and foreign exchange instruments	13	—	Equity Earnings, Net of Income Tax	2	—
Commodity contracts not subject to rate recovery	2	6	Revenues: Energy- Related Businesses	—	3
Total(2)	\$16	\$(138)		\$(12)	\$(5)
SDG&E:					
Interest rate instruments(1)(2)	\$2	\$(4)	Interest Expense	\$(3)	\$(3)
SoCalGas:					

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	Nine months ended September 30,		Location	Nine months ended September 30,	
	2016	2015		2016	2015
Interest rate instruments(2)	\$—	\$—	Interest Expense	\$(1)	\$—
Sempra Energy Consolidated:					
Interest rate and foreign exchange instruments(1)	\$(26)	\$(22)	Interest Expense	\$(11)	\$(14)
Interest rate instruments	(190)	(123)	Equity Earnings, Before Income Tax	(8)	(9)
Interest rate and foreign exchange instruments	—	—	Remeasurement of Equity Method Investment	(7)	—
Interest rate and foreign exchange instruments	(20)	—	Equity Earnings, Net of Income Tax	(4)	—
Commodity contracts not subject to rate recovery	(2)	6	Revenues: Energy-Related Businesses	7	10
Total(2)	\$(238)	\$(139)		\$(23)	\$(13)
SDG&E:					
Interest rate instruments(1)(2)	\$(5)	\$(9)	Interest Expense	\$(9)	\$(9)
SoCalGas:					
Interest rate instruments(2)	\$—	\$—	Interest Expense	\$(1)	\$—

(1) Amounts include Otay Mesa VIE. All of SDG&E's interest rate derivative activity relates to Otay Mesa VIE.

(2) Amounts include negligible hedge ineffectiveness in the three months and nine months ended September 30, 2016 and 2015.

For Sempra Energy Consolidated, we expect that losses of \$21 million, which are net of income tax benefit, that are currently recorded in AOCI (including \$12 million in noncontrolling interests, substantially all of which is related to Otay Mesa VIE at SDG&E) related to cash flow hedges will be reclassified into earnings during the next twelve months as the hedged items affect earnings. SoCalGas expects that negligible losses, net of income tax benefit, that are currently recorded in AOCI 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 into earnings depend on the interest rates in effect when derivative contracts mature.

For all forecasted transactions, the maximum remaining term over which we are hedging exposure to the variability of cash flows at September 30, 2016 is approximately 12 years and 3 years for Sempra Energy Consolidated and SDG&E, respectively. The maximum remaining term for which we are hedging exposure to the variability of cash flows at our equity method investees is 19 years.

The effects of derivative instruments not designated as hedging instruments on the Condensed Consolidated Statements of Operations for the three months and nine months ended September 30 were:

UNDESIGNATED DERIVATIVE IMPACTS

(Dollars in millions)

	Location	Pretax (loss) gain on derivatives recognized in earnings			
		Three months ended September 30,		Nine months ended September 30,	
		2016	2015	2016	2015
Sempra Energy Consolidated:					
Foreign exchange instruments	Other Income, Net	\$(11)	\$(4)	\$(23)	\$(7)
Foreign exchange instruments	Equity Earnings, Net of Income Tax	1	(3)	3	(4)
Commodity contracts not subject to rate recovery	Revenues: Energy-Related Businesses	3	21	(26)	33
Commodity contracts not subject to rate recovery	Operation and Maintenance	—	(2)	1	(1)
Commodity contracts subject to rate recovery	Cost of Electric Fuel and Purchased Power	(118)	(27)	(90)	(100)
Commodity contracts subject to rate recovery	Cost of Natural Gas	—	—	(2)	1
Total		\$(125)	\$(15)	\$(137)	\$(78)
SDG&E:					
Commodity contracts subject to rate recovery	Operation and Maintenance	\$—	\$(1)	\$—	\$(1)
Commodity contracts subject to rate recovery	Cost of Electric Fuel and Purchased Power	(118)	(27)	(90)	(100)
Total		\$(118)	\$(28)	\$(90)	\$(101)
SoCalGas:					
Commodity contracts not subject to rate recovery	Operation and Maintenance	\$—	\$(1)	\$—	\$—
Commodity contracts subject to rate recovery	Cost of Natural Gas	—	—	(2)	1
Total		\$—	\$(1)	\$(2)	\$1

CONTINGENT FEATURES

For Sempra Energy Consolidated and SDG&E, certain of our derivative instruments contain credit limits which vary depending on our credit ratings. Generally, these provisions, if applicable, may reduce our credit limit if a specified credit rating agency reduces our ratings. In certain cases, if our credit ratings 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 Consolidated, the total fair value of this group of derivative instruments in a net liability position is \$6 million at each of September 30, 2016 and December 31, 2015. At September 30, 2016, if the credit ratings of Sempra Energy were reduced below investment grade, \$8 million of additional assets could be required to be posted as collateral for these derivative contracts.

For SDG&E, the total fair value of this group of derivative instruments in a net liability position at September 30, 2016 and December 31, 2015 is \$3 million and \$5 million, respectively. At September 30, 2016, if the credit ratings of SDG&E were reduced below investment grade, \$5 million of additional assets could be required to be posted as collateral for these derivative contracts.

For Sempra Energy Consolidated, SDG&E 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 contracts. Such additional assurance, if needed, is not material and is not included in the amounts above.

NOTE 8. FAIR VALUE MEASUREMENTS

We discuss the valuation techniques and inputs we use to measure fair value and the definition of the three levels of the fair value hierarchy in Note 1 of the Notes to Consolidated Financial Statements in the Annual Report.

Recurring Fair Value Measures

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 at September 30, 2016 and December 31, 2015. 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. We have not changed the valuation techniques or types of inputs we use to measure recurring fair values during the nine months ended September 30, 2016.

The fair value of commodity derivative assets and liabilities is presented in accordance with our netting policy, as we discuss in Note 7 under “Financial Statement Presentation.”

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 at September 30, 2016 and December 31, 2015 in the tables below include the following:

Nuclear decommissioning trusts reflect the assets of SDG&E’s nuclear decommissioning trusts, excluding cash balances. A third party trustee values the trust assets using prices from a pricing service based on a market approach. We validate these prices by comparison to prices from other independent data sources. Equity and certain debt securities are valued using quoted prices listed on nationally recognized securities exchanges or based on closing prices reported in the active market in which the identical security is traded (Level 1). Other debt securities are valued based on yields that are currently available for comparable securities of issuers with similar credit ratings (Level 2). For commodity contracts, interest rate derivatives and foreign exchange instruments, we primarily use a market approach with market participant assumptions to value these derivatives. Market participant assumptions include those about risk, and the risk inherent in the inputs to the valuation techniques. These inputs can be readily observable, market corroborated, or generally unobservable. We have exchange-traded derivatives that are valued based on quoted prices in active markets for the identical instruments (Level 1). We also may have other commodity derivatives that are valued using industry standard models that consider quoted forward prices for commodities, time value, current market and contractual prices for the underlying instruments, volatility factors, and other relevant economic measures (Level 2). Level 3 recurring items relate to CRRs and long-term, fixed-price electricity positions at SDG&E, as we discuss below under “Level 3 Information.”

Rabbi Trust investments include marketable securities that we value using a market approach based on closing prices reported in the active market in which the identical security is traded (Level 1). These investments in marketable securities were negligible at both September 30, 2016 and December 31, 2015.

There were no transfers into or out of Level 1, Level 2 or Level 3 for Sempra Energy Consolidated, SDG&E or SoCalGas during the periods presented.

RECURRING FAIR VALUE MEASURES – SEMPRA ENERGY CONSOLIDATED

(Dollars in millions)

	Fair value at September 30, 2016				
	Level 1	Level 2	Level 3	Netting(1)	Total
Assets:					
Nuclear decommissioning trusts:					
Equity securities	\$607	\$—	\$—	\$ —	\$607
Debt securities:					
Debt securities issued by the U.S. Treasury and other U.S. government corporations and agencies	48	52	—	—	100
Municipal bonds	—	161	—	—	161
Other securities	—	188	—	—	188
Total debt securities	48	401	—	—	449
Total nuclear decommissioning trusts(2)	655	401	—	—	1,056
Interest rate and foreign exchange instruments	—	5	—	—	5
Commodity contracts not subject to rate recovery	—	18	—	13	31
Commodity contracts subject to rate recovery	—	1	90	19	110
Total	\$655	\$425	\$90	\$ 32	\$1,202
Liabilities:					
Interest rate and foreign exchange instruments	\$—	\$269	\$—	\$ —	\$269
Commodity contracts not subject to rate recovery	19	1	—	(19)	1
Commodity contracts subject to rate recovery	1	40	177	(29)	189
Total	\$20	\$310	\$177	\$ (48)	\$459
Fair value at December 31, 2015					
	Level 1	Level 2	Level 3	Netting(1)	Total
Assets:					
Nuclear decommissioning trusts:					
Equity securities	\$619	\$—	\$—	\$ —	\$619
Debt securities:					
Debt securities issued by the U.S. Treasury and other U.S. government corporations and agencies	47	44	—	—	91
Municipal bonds	—	156	—	—	156
Other securities	—	182	—	—	182
Total debt securities	47	382	—	—	429
Total nuclear decommissioning trusts(2)	666	382	—	—	1,048
Interest rate and foreign exchange instruments	—	5	—	—	5
Commodity contracts not subject to rate recovery	22	16	—	(4)	34
Commodity contracts subject to rate recovery	—	1	72	28	101
Total	\$688	\$404	\$72	\$ 24	\$1,188
Liabilities:					
Interest rate and foreign exchange instruments	\$—	\$171	\$—	\$ —	\$171
Commodity contracts not subject to rate recovery	5	3	—	(4)	4
Commodity contracts subject to rate recovery	—	68	53	(54)	67
Total	\$5	\$242	\$53	\$ (58)	\$242

- (1) Includes the effect of the contractual ability to settle contracts under master netting agreements and with cash collateral, as well as cash collateral not offset.
- (2) Excludes cash balances and cash equivalents.

RECURRING FAIR VALUE MEASURES – SDG&E

(Dollars in millions)

	Fair value at September 30, 2016				
	Level 1	Level 2	Level 3	Netting(1)	Total
Assets:					
Nuclear decommissioning trusts:					
Equity securities	\$607	\$—	\$—	\$ —	\$607
Debt securities:					
Debt securities issued by the U.S. Treasury and other U.S. government corporations and agencies	48	52	—	—	100
Municipal bonds	—	161	—	—	161
Other securities	—	188	—	—	188
Total debt securities	48	401	—	—	449
Total nuclear decommissioning trusts(2)	655	401	—	—	1,056
Commodity contracts not subject to rate recovery	—	—	—	1	1
Commodity contracts subject to rate recovery	—	—	90	17	107
Total	\$655	\$401	\$90	\$ 18	\$1,164

Liabilities:

Interest rate instruments	\$—	\$31	\$—	\$ —	\$31
Commodity contracts subject to rate recovery	—	39	177	(29)	187
Total	\$—	\$70	\$177	\$ (29)	\$218

Fair value at December 31, 2015

	Level 1	Level 2	Level 3	Netting(1)	Total
	Assets:				
Nuclear decommissioning trusts:					
Equity securities	\$619	\$—	\$—	\$ —	\$619
Debt securities:					
Debt securities issued by the U.S. Treasury and other U.S. government corporations and agencies	47	44	—	—	91
Municipal bonds	—	156	—	—	156
Other securities	—	182	—	—	182
Total debt securities	47	382	—	—	429
Total nuclear decommissioning trusts(2)	666	382	—	—	1,048
Commodity contracts not subject to rate recovery	—	—	—	1	1
Commodity contracts subject to rate recovery	—	—	72	27	99
Total	\$666	\$382	\$72	\$ 28	\$1,148

Liabilities:

Interest rate instruments	\$—	\$37	\$—	\$ —	\$37
Commodity contracts not subject to rate recovery	1	—	—	(1)	—
Commodity contracts subject to rate recovery	—	67	53	(54)	66
Total	\$1	\$104	\$53	\$ (55)	\$103

(1) Includes the effect of the contractual ability to settle contracts under master netting agreements and with cash collateral, as well as cash collateral not offset.

(2) Excludes cash balances and cash equivalents.

RECURRING FAIR VALUE MEASURES – SOCALGAS

(Dollars in millions)

	Fair value at September 30, 2016				
	Level 1	Level 2	Level 3	Netting(1)	Total
Assets:					
Commodity contracts not subject to rate recovery	\$—	\$ —	\$ —	— \$ 1	\$ 1
Commodity contracts subject to rate recovery	—	1	—	2	3
Total	\$—	\$ 1	\$ —	— \$ 3	\$ 4
Liabilities:					
Commodity contracts subject to rate recovery	\$1	\$ 1	\$ —	—	\$ 2
Total	\$1	\$ 1	\$ —	—	\$ 2
Fair value at December 31, 2015					
	Level 1	Level 2	Level 3	Netting(1)	Total
Assets:					
Commodity contracts subject to rate recovery	\$—	\$ 1	\$ —	— \$ 1	\$ 2
Total	\$—	\$ 1	\$ —	— \$ 1	\$ 2
Liabilities:					
Commodity contracts not subject to rate recovery	\$1	\$ —	\$ —	— (1)	\$ —
Commodity contracts subject to rate recovery	—	1	—	—	1
Total	\$1	\$ 1	\$ —	— (1)	\$ 1

(1) Includes the effect of the contractual ability to settle contracts under master netting agreements and with cash collateral, as well as cash collateral not offset.

Level 3 Information

The following table sets forth reconciliations of changes in the fair value of congestion revenue rights (CRRs) and long-term, fixed-price electricity positions classified as Level 3 in the fair value hierarchy for Sempra Energy Consolidated and SDG&E:

LEVEL 3 RECONCILIATIONS

(Dollars in millions)

	Three months ended September 30,	
	2016	2015
Balance as of July 1	\$24	\$42
Realized and unrealized losses	(145)	(49)
Settlements	34	43
Balance as of September 30	\$(87)	\$36
Change in unrealized losses relating to instruments still held at September 30	\$(114)	\$(8)
	Nine months ended September 30,	
	2016	2015

Balance as of January 1	\$19	\$107
Realized and unrealized losses	(138)	(103)
Allocated transmission instruments	—	1
Settlements	32	31
Balance as of September 30	\$(87)	\$36
Change in unrealized losses relating to instruments still held at September 30	\$(111)	\$(54)

SDG&E's Energy and Fuel Procurement department, in conjunction with SDG&E's finance group, is responsible for determining the appropriate fair value methodologies used to value and classify CRRs and long-term, fixed-price electricity positions on an ongoing basis. Inputs used to determine the fair value of CRRs and fixed-price electricity positions are reviewed and compared with market conditions to determine reasonableness. SDG&E expects all costs related to these instruments to be recoverable through customer rates. As such, there is no impact to earnings from changes in the fair value of these instruments.

CRRs are recorded at fair value based almost entirely on the most current auction prices published by the California Independent System Operator (CAISO), an objective source. Annual auction prices are published once a year, typically in the middle of November, and remain in effect for the following year. The impact associated with discounting is negligible. Because auction prices are a less observable input, these instruments are classified as Level 3. The fair value of these instruments is derived from auction price differences between two locations. From January 1, 2016 to December 31, 2016, the auction prices range from \$(24) per MWh to \$10 per MWh at a given location, and from January 1, 2015 to December 31, 2015, the auction prices ranged from \$(16) per MWh to \$8 per MWh at a given location. Positive values between two locations represent expected future reductions in congestion costs, whereas negative values between two locations represent expected future charges. Valuation of our CRRs is sensitive to a change in auction price. If auction prices at one location increase (decrease) relative to another location, this could result in a higher (lower) fair value measurement. We summarize CRR volumes in Note 7.

Long-term, fixed-price electricity positions that are valued using significant unobservable data are classified as Level 3 because the contract terms relate to a delivery location or tenor for which observable market rate information is not available. The fair value of the net electricity positions classified as Level 3 is derived from a discounted cash flow model using market electricity forward price inputs. At September 30, 2016, these electricity forward prices range from \$19.20 per MWh to \$58.50 per MWh. A significant increase or decrease in market electricity forward prices would result in a significantly higher or lower fair value, respectively. We summarize long-term, fixed-price electricity position volumes in Note 7.

Realized gains and losses associated with CRRs and long-term electricity positions, which are recoverable in rates, are recorded in Cost of Electric Fuel and Purchased Power on the Condensed Consolidated Statements of Operations. Unrealized gains and losses are recorded as regulatory assets and liabilities and therefore also do not affect earnings.

Fair Value of Financial Instruments

The fair values of certain of our financial instruments (cash, temporary investments, accounts and notes receivable, current amounts due to/from unconsolidated affiliates, dividends and accounts payable, short-term debt and customer deposits) approximate their carrying amounts because of the short-term nature of these instruments. Investments in life insurance contracts that we hold in support of our Supplemental Executive Retirement, Cash Balance Restoration and Deferred Compensation Plans are carried at cash surrender values, which represent the amount of cash that could be realized under the contracts. The following table provides the carrying amounts and fair values of certain other financial instruments that are not recorded at fair value on the Condensed Consolidated Balance Sheets at September 30, 2016 and December 31, 2015:

FAIR VALUE OF FINANCIAL INSTRUMENTS

(Dollars in millions)

	September 30, 2016				
	Carrying amount	Fair value			Total
		Level 1	Level 2	Level 3	
Sempra Energy Consolidated:					
Due from unconsolidated affiliates(1)	\$ 180	\$-\$91	\$ 81	\$ 172	
Total long-term debt(2)(3)	14,149	—15,335	532	15,867	
Preferred stock of subsidiary	20	—26	—	26	
SDG&E:					
Total long-term debt(3)(4)	\$4,656	\$-\$5,024	\$ 307	\$ 5,331	
SoCalGas:					
Total long-term debt(5)	\$3,009	\$-\$3,323	\$—	\$ 3,323	
Preferred stock	22	—28	—	28	

	December 31, 2015				
	Carrying amount	Fair value			Total
		Level 1	Level 2	Level 3	
Sempra Energy Consolidated:					
Noncurrent due from unconsolidated affiliates(1)	\$ 175	\$-\$97	\$ 69	\$ 166	
Total long-term debt(2)(3)	13,761	—13,985	648	14,633	
Preferred stock of subsidiary	20	—23	—	23	
SDG&E:					
Total long-term debt(3)(4)	\$4,304	\$-\$4,355	\$ 315	\$ 4,670	
SoCalGas:					
Total long-term debt(5)	\$2,513	\$-\$2,621	\$—	\$ 2,621	
Preferred stock	22	—25	—	25	

(1) Excluding accumulated interest outstanding of \$15 million and \$11 million at September 30, 2016 and December 31, 2015, respectively.

Before reductions for unamortized discount (net of premium) and debt issuance costs of \$108 million and \$107 million at September 30, 2016 and December 31, 2015, respectively, and excluding build-to-suit and capital lease (2) obligations of \$385 million and \$387 million at September 30, 2016 and December 31, 2015, respectively. We discuss our long-term debt in Note 6 above and in Note 5 of the Notes to Consolidated Financial Statements in the Annual Report.

(3) Level 3 instruments include \$307 million and \$315 million at September 30, 2016 and December 31, 2015, respectively, related to Otay Mesa VIE.

Before reductions for unamortized discount and debt issuance costs of \$46 million and \$43 million at (4) September 30, 2016 and December 31, 2015, respectively, and excluding capital lease obligations of \$241 million and \$244 million at September 30, 2016 and December 31, 2015, respectively.

Before reductions for unamortized discount and debt issuance costs of \$27 million and \$24 million at (5) September 30, 2016 and December 31, 2015, respectively, and excluding capital lease obligations of \$1 million at both September 30, 2016 and December 31, 2015, respectively.

We determine the fair value of certain noncurrent amounts due from unconsolidated affiliates, long-term debt and preferred stock based on a market approach using quoted market prices for identical or similar securities in thinly-traded markets (Level 2). We value other noncurrent amounts due from unconsolidated affiliates of Sempra South American Utilities using a perpetuity approach based on the obligation's fixed interest rate, the absence of a

stated maturity date and a discount rate reflecting local borrowing costs (Level 3). We value other long-term debt using an income approach based on the present value of estimated future cash flows discounted at rates available for similar securities (Level 3).

We provide the fair values for the securities held in the nuclear decommissioning trust funds related to the San Onofre Nuclear Generating Station (SONGS) in Note 9 below.

Non-Recurring Fair Value Measures – Sempra Energy Consolidated
Sempra Mexico

GdC. On September 26, 2016, IEnova completed the acquisition of PEMEX's 50-percent interest in GdC, increasing its ownership interest to 100 percent. As a result of IEnova obtaining control over GdC, in the three months and nine months ended September 30, 2016, Sempra Mexico recognized a pretax gain of \$617 million (\$432 million after-tax) for the excess of the acquisition-date fair value of its previously held equity interest in GdC (\$1.144 billion) over the carrying value of that interest (\$520 million) and losses reclassified from AOCI (\$7 million), included as Remeasurement of Equity Method Investment on Sempra Energy's Condensed Consolidated Statements of Operations. The valuation technique used to measure the acquisition-date fair value of our equity interest in GdC immediately prior to the business acquisition was based on the fair value of the entire business combination (\$2.288 billion) less the fair value of the consideration paid (\$1.144 billion, the equity sale price). We considered use of the equity sale price to be a market participant input that is a Level 2 measurement in the fair value hierarchy. We discuss the GdC acquisition in Note 3.

TdM. In February 2016, management approved a plan to market and sell its TdM natural gas-fired power plant, and it was classified as held for sale on the Sempra Energy Condensed Consolidated Balance Sheet, as we discuss in Note 3. In September 2016, we received market information that indicated that the fair value of TdM may be less than its carrying value. As a result, after performing an analysis of the information, Sempra Mexico reduced the carrying value of TdM by recognizing a noncash impairment charge of \$131 million (\$111 million after-tax) in the three months and nine months ended September 30, 2016 in Impairment Losses on the Sempra Energy Condensed Consolidated Statements of Operations. Market values resulting from a third party bidding process are considered to be Level 2 inputs in the fair value hierarchy.

Sempra Natural Gas

Rockies Express. As we discuss in Note 3, in March 2016, Sempra Natural Gas agreed to sell its 25-percent interest in Rockies Express for cash consideration of \$440 million, subject to adjustment at closing. The transaction closed in May 2016. In March 2016, we recorded a noncash impairment of our investment in Rockies Express of \$44 million (\$27 million after-tax). The charge is included in Equity Earnings, Before Income Tax, on the Sempra Energy Condensed Consolidated Statement of Operations for the nine months ended September 30, 2016. We considered the sale price for our equity interest in Rockies Express to be a market participants' view of the total value of Rockies Express and measured the fair value of our investment based on the equity sale price. Use of this market participant input as the indicator of fair value is a Level 2 measurement in the fair value hierarchy.

The following table summarizes significant inputs impacting our non-recurring fair value measures:

NON-RECURRING FAIR VALUE MEASURES – SEMPRA ENERGY CONSOLIDATED

(Dollars in millions)

	Estimated fair value	Valuation technique	Fair value hierarchy	% of fair value measurement	Inputs used to develop measurement	Range of inputs
TdM	\$ 145	(1) Market approach	Level 2	100%	Purchase price offers	100%
Investment in GdC	\$ 1,144	(2) Market approach	Level 2	100%	Equity sale price	100%
Investment in Rockies Express	\$ 440	(3) Market approach	Level 2	100%	Equity sale price	100%

(1) At measurement date of September 29, 2016. At September 30, 2016, TdM has a carrying value of \$146 million, reflecting subsequent business activity, and is classified as held for sale.

(2) At measurement date of September 26, 2016, immediately prior to acquiring a 100-percent ownership interest in GdC.

(3) At measurement date of March 29, 2016. On May 9, 2016, Sempra Natural Gas sold its equity interest in Rockies Express.

NOTE 9. SAN ONOFRE NUCLEAR GENERATING STATION (SONGS)

SDG&E has a 20-percent ownership interest in SONGS, a nuclear generating facility near San Clemente, California, which ceased operations in June 2013. On June 6, 2013, after an extended outage beginning in 2012, Southern California Edison Company (Edison), the majority owner and operator of SONGS, notified SDG&E that it had reached a decision to permanently retire SONGS and seek approval from the Nuclear Regulatory Commission (NRC) to start the decommissioning activities for the entire facility. SONGS is subject to the jurisdiction of the NRC and the CPUC.

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

SONGS Steam Generator Replacement Project

As part of the Steam Generator Replacement Project, the steam generators were replaced in SONGS Units 2 and 3, and the Units returned to service in 2010 and 2011, respectively. Both Units were shut down in early 2012 after a water leak occurred in the Unit 3 steam generator. Edison concluded that the leak was due to unexpected wear from

tube-to-tube contact. At the time the leak was identified, Edison also inspected and tested Unit 2 and subsequently found unexpected tube wear in Unit 2's steam generator. These issues with the steam generators ultimately resulted in Edison's decision to permanently retire SONGS.

The replacement steam generators were designed and provided by Mitsubishi Heavy Industries, Ltd., Mitsubishi Nuclear Energy Systems, Inc., and Mitsubishi Heavy Industries America, Inc. (collectively MHI). In July 2013, SDG&E filed a lawsuit against MHI seeking to recover damages SDG&E has incurred and will incur related to the design defects in the steam generators. In October 2013,

Edison instituted binding arbitration proceedings against MHI seeking damages as well. SDG&E is participating in the arbitration as a claimant and respondent. The arbitration hearing concluded in April 2016, and a decision could come as early as this year. We discuss these proceedings in Note 11.

Settlement Agreement to Resolve the CPUC's Order Instituting Investigation (OII) into the SONGS Outage (SONGS OII)

In November 2012, in response to the outage, the CPUC issued the SONGS OII, which was intended to determine the ultimate recovery of the investment in SONGS and the costs incurred since the commencement of this outage, including purchased replacement power costs, which are typically recovered through the Energy Resource Recovery Account (ERRA).

In April 2014, SDG&E filed with the CPUC in the SONGS OII proceeding a Settlement Agreement, along with Edison, The Utility Reform Network (TURN), the CPUC Office of Ratepayer Advocates (ORA) and two other intervenors who joined the Settlement Agreement (collectively, the Settling Parties).

In September 2014, the Settling Parties executed an Amended and Restated Settlement Agreement (Amended Settlement Agreement), which amended the Settlement Agreement, and in November 2014, the CPUC issued a final decision approving the Amended Settlement Agreement. The Amended Settlement Agreement does not affect on-going or future proceedings before the NRC, or litigation or arbitration related to potential future recoveries from third parties (except for the allocation to ratepayers of any recoveries as described below) or proceedings addressing decommissioning activities and costs. We discuss the terms of the Amended Settlement Agreement and related filings in Note 13 of the Notes to Consolidated Financial Statements in the Annual Report.

In April 2015, a petition for modification (PFM) was filed with the CPUC by Alliance for Nuclear Responsibility (A4NR), an intervenor in the SONGS OII proceeding, asking the CPUC to set aside its decision approving the Amended Settlement Agreement and reopen the SONGS OII proceeding. In June 2015, TURN, a party to the Amended Settlement Agreement, filed a response supporting the A4NR petition. TURN does not question the merits of the Amended Settlement Agreement, but is concerned that certain allegations regarding Edison raised by A4NR have undermined the public's confidence in the regulatory process. SDG&E has responded that TURN's concerns regarding public perception do not impact the reasonableness of the Amended Settlement Agreement and are insufficient to overturn it.

In August 2015, ORA, also a party to the Amended Settlement Agreement, filed a PFM with the CPUC, withdrawing its support for the Amended Settlement Agreement and asking the CPUC to reopen the SONGS OII proceeding. The ORA does not question the merits of the Amended Settlement Agreement, but is concerned with the CPUC's approach toward disclosures concerning Edison ex parte communications with the CPUC. SDG&E responded that the ORA's PFM is insufficient to overturn the Amended Settlement Agreement, because the ORA fails to make a case that the Amended Settlement Agreement is no longer in the public interest.

In May 2016, the CPUC issued a ruling reopening the record of the OII to address the issue of whether the Amended Settlement Agreement is reasonable and in the public interest. In accordance with the ruling, Edison and SDG&E filed separate reports with the CPUC in June 2016 on the Amended Settlement Agreement and the status of its implementation, and filed separate legal briefs in July 2016 asserting that the Amended Settlement Agreement is reasonable and in the public interest.

Accounting and Financial Impacts

Through December 31, 2015 and September 30, 2016, the cumulative after-tax loss from plant closure recorded by Sempra Energy and SDG&E is \$125 million, including a reduction in the after-tax loss of \$13 million recorded in the first quarter of 2015. The remaining regulatory asset for the expected recovery of SONGS costs, consistent with the Amended Settlement Agreement, is \$195 million (\$45 million current and \$150 million long-term) at September 30, 2016 and is recorded on the Condensed Consolidated Balance Sheets in Other Current Assets and Regulatory Assets Noncurrent, respectively, at Sempra Energy, and in Regulatory Assets Current and Other Regulatory Assets Noncurrent, respectively, at SDG&E. The amortization period prescribed for the regulatory asset is 10 years, which commenced in January 2015 following the CPUC's final decision approving the Amended Settlement Agreement in November 2014.

Settlement with Nuclear Electric Insurance Limited (NEIL)

NEIL insures domestic and international nuclear utilities for the costs associated with interruptions, damages, decontaminations and related nuclear risks. In October 2015, the SONGS co-owners (Edison, SDG&E and the City of Riverside) reached an agreement with NEIL to resolve all of SONGS' insurance claims arising out of the failures of the replacement steam generators for a total payment by NEIL of \$400 million, SDG&E's share of which is \$80 million. Pursuant to the terms of the SONGS OII Amended Settlement Agreement, after reimbursement of legal fees and a 5-percent allocation to shareholders, the net proceeds of \$75 million were allocated to ratepayers through ERRAs. We discuss NEIL further in Note 11.

Nuclear Decommissioning and Funding

As a result of Edison's decision to permanently retire SONGS Units 2 and 3, Edison has begun the decommissioning phase of the plant. We discuss the process of decommissioning SONGS and oversight by the NRC in Note 13 of the Notes to Consolidated Financial Statements in the Annual Report.

In accordance with state and federal requirements and regulations, SDG&E has assets held in trusts, referred to as the Nuclear Decommissioning Trusts (NDT), to fund decommissioning costs for SONGS Units 1, 2 and 3.

Decommissioning of Unit 1, removed from service in 1992, is largely complete. The remaining work will be done when Units 2 and 3 are decommissioned. At September 30, 2016, the fair value of SDG&E's NDT assets was \$1.1 billion. Except for the use of funds for the planning of decommissioning activities or NDT administrative costs, CPUC approval is required for SDG&E to access the NDT assets to fund SONGS decommissioning costs for Units 2 and 3. In April 2016, the CPUC adopted a decision approving a total decommissioning cost estimate for SONGS Units 2 and 3 of \$4.411 billion (in 2014 dollars), of which SDG&E's share is \$899 million. The decision also approves an annual advice letter request process for SDG&E to request trust fund disbursements for decommissioning costs based on a forecast for 2016 and thereafter. Disbursements from the trust will then be made up to this annual forecast amount as decommissioning expenses are incurred. All disbursements will be subject to future refund until a reasonableness review of the actual decommissioning costs is conducted, which would be no less frequently than every three years. SDG&E has received authorization from the CPUC to access trust funds for SONGS decommissioning costs of up to \$218 million for 2013 through 2016 (forecasted). The total of \$218 million includes \$37 million authorized for withdrawal that is pending satisfactory clarification by final settlement of unresolved spent fuel storage costs with the U.S. Department of Energy (DOE) or clarification by the Internal Revenue Service (IRS) that certain spent fuel costs and other costs are eligible decommissioning costs, payable from qualified nuclear decommissioning trusts. We are uncertain as to when such settlement or clarification will be obtained.

We discuss the NDT and matters related to its funding and the funding of decommissioning costs by the NDT further in Note 13 of the Notes to Consolidated Financial Statements in the Annual Report. We discuss matters related to spent nuclear fuel in Note 11.

Nuclear Decommissioning Trusts

The amounts collected in rates for SONGS' decommissioning are invested in the NDT, which is comprised of externally managed trust funds. Amounts held by the trusts are invested in accordance with CPUC regulations. These trusts are presented on the Sempra Energy and SDG&E Condensed 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 NDT. We provide additional fair value disclosures for the NDT in Note 8.

NUCLEAR DECOMMISSIONING TRUSTS

(Dollars in millions)

	Cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
At September 30, 2016:				
Debt securities:				
Debt securities issued by the U.S. Treasury and other				
U.S. government corporations and agencies(1)	\$95	\$ 5	\$ —	\$ 100
Municipal bonds(2)	150	11	—	161
Other securities(2)	183	9	(4)	188
Total debt securities	428	25	(4)	449
Equity securities	188	422	(3)	607
Cash and cash equivalents	12	—	—	12
Total	\$628	\$ 447	\$ (7)	\$ 1,068
At December 31, 2015:				
Debt securities:				
Debt securities issued by the U.S. Treasury and other				
U.S. government corporations and agencies	\$89	\$ 2	\$ —	\$ 91
Municipal bonds	148	8	—	156
Other securities	194	1	(13)	182
Total debt securities	431	11	(13)	429
Equity securities	214	412	(7)	619
Cash and cash equivalents	15	—	—	15
Total	\$660	\$ 423	\$ (20)	\$ 1,063

(1)Maturity dates are 2017-2065.

(2)Maturity dates are 2016-2115.

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

SALES OF SECURITIES

(Dollars in millions)

	Three months ended September 30, 2016		Nine months ended September 30, 2015	
Proceeds from sales(1)	\$282	\$210	\$486	\$431
Gross realized gains	24	18	32	24
Gross realized losses	(3)	(6)	(14)	(13)

(1)Excludes securities that are held to maturity.

Net unrealized gains (losses) are included in Regulatory Liabilities Arising from Removal Obligations on Sempra Energy's and SDG&E's Condensed Consolidated Balance Sheets. We determine the cost of securities in the trusts on the basis of specific identification.

NOTE 10. CALIFORNIA UTILITIES' REGULATORY MATTERS

We discuss regulatory matters affecting our California Utilities in Note 14 of the Notes to Consolidated Financial Statements in the Annual Report, and provide updates to those discussions and details of any new matters below.

JOINT MATTERS**CPUC General Rate Case (GRC)**

The CPUC uses a general rate case proceeding to set sufficient rates to allow the California Utilities to recover their reasonable cost of operations and maintenance and to provide the opportunity to realize their authorized rates of return on their investment.

The California Utilities filed their 2016 General Rate Case (2016 GRC) applications in November 2014. In September 2015, the California Utilities filed settlement agreements with the CPUC to resolve all material matters related to the proceeding, except for the revenue requirement implications of certain income tax benefits associated with flow-through tax repair deductions, discussed below. The settlement agreements were with eight of eleven intervening parties.

In June 2016, the CPUC issued a final decision in the 2016 GRC. The final decision (2016 GRC FD) adopts substantially all of the terms of the settlement agreements entered into between SDG&E and SoCalGas and eight of the eleven intervening parties in the 2016 GRC. The 2016 GRC FD adopts two revenue requirement changes, the first of which, relating to the extension of bonus depreciation, is the only significant change to the settlement agreements. The second revenue requirement adjustment relates to income tax benefits associated with flow-through repair deductions (the settling parties did not reach agreement on this second matter). With these adjustments, the final decision adopts a 2016 revenue requirement of \$1.791 billion for SDG&E, which is \$20 million less than the \$1.811 billion proposed in the settlement agreements. For SoCalGas, the final decision's adjustments result in a 2016 revenue requirement of \$2.204 billion, which is \$15 million less than the \$2.219 billion proposed in the settlement agreements. The 2016 GRC FD also requires certain refunds to be paid to customers and establishes a two-way income tax expense memorandum account, each discussed below.

Consistent with the settlement agreements, the 2016 GRC FD adopts subsequent annual escalation of the adopted revenue requirements by 3.5 percent for years 2017 and 2018 and continuation of the Z-Factor mechanism for qualifying cost recovery. The Z-Factor mechanism allows the California Utilities to seek cost recovery of significant cost increases, under certain unforeseen circumstances, incurred between GRC filings, subject to a \$5 million deductible per event. Also, the 2016 GRC FD denies a separate agreement between the ORA and the California Utilities requesting a four-year GRC period and instead adopts a three-year GRC period (through 2018).

The California Utilities recorded revenues in the first quarter of 2016 based on levels authorized for 2015 under the 2012 GRC, because a final decision in the 2016 GRC was not issued by March 31, 2016. The 2016 GRC FD is effective retroactive to January 1, 2016, and the California Utilities recorded the retroactive impacts in the second quarter of 2016. For SoCalGas and SDG&E, these amounts include an incremental after-tax earnings impact of \$12 million and \$9 million, respectively, related to the first quarter of 2016. The adopted revenue requirements associated with the seven-month period through July 2016 will be recovered in rates over a 17-month period, beginning August 2016. At September 30, 2016, SoCalGas is reporting on its Condensed Balance Sheet a regulatory asset of \$58 million, with \$12 million as noncurrent, representing retroactive revenue from the 2016 GRC FD from January 1 through June 30, 2016 to be recovered in rates through December 2017. At September 30, 2016, SDG&E is reporting on its Condensed Consolidated Balance Sheet a regulatory asset of \$25 million, with \$5 million as noncurrent, representing retroactive revenue from the 2016 GRC FD from January 1 through June 30, 2016 to be recovered in rates through December 2017.

The 2016 GRC FD results in certain accounting impacts associated with the income tax repairs deduction matter. In general, the 2016 GRC FD considers that the income tax benefits obtained from income tax repairs deductions exceeded amounts forecasted by the California Utilities from 2011 to 2015, and that they were attributed to shareholders during that time. The 2016 GRC FD reallocates the economic benefit of this tax deduction forecasting difference to ratepayers. Accordingly, revenues corresponding to income tax repair deductions that exceeded forecasted amounts relating to 2015, which have been tracked in memorandum accounts, are ordered to be refunded to

customers. The 2015 estimated amounts in the memorandum accounts totaled \$72 million for SoCalGas and \$37 million for SDG&E. Pursuant to this refund requirement, SoCalGas and SDG&E recorded regulatory liabilities for these amounts, resulting in after-tax charges to earnings of \$43 million and \$22 million, respectively, in the second quarter of 2016 (summarized below). In addition, the 2016 GRC FD reduced rate base by \$38 million at SoCalGas and \$55 million at SDG&E. The corresponding reductions in the 2016 revenue requirement will be \$5 million at SoCalGas and \$7 million at SDG&E (which reductions are included in the adopted 2016 revenue requirement amounts described above). The rate base reductions reallocate to ratepayers the economic benefits associated with tax repair deductions that were previously provided to the shareholders for the period of 2012-2014 for

SoCalGas and 2011-2014 for SDG&E. The rate base reductions do not result in an impairment of any of our reported assets, but will impact our revenues and earnings prospectively.

The 2016 GRC FD also requires us to notify the CPUC if the 2012-2015 repairs deductions estimated in this GRC are different from the actual repairs deductions for SDG&E and SoCalGas. SoCalGas and SDG&E recorded regulatory liabilities of \$11 million and \$15 million, respectively, related to 2012-2014, resulting in after-tax charges to earnings for these differences of \$6 million and \$9 million in the second quarter of 2016 for SoCalGas and SDG&E, respectively (summarized below). In the third quarter of 2016, SDG&E and SoCalGas completed their 2015 calendar year tax returns, and final tax deductions associated with tax repair benefits to be refunded to ratepayers associated with the 2015 memo account are lower than the amounts estimated in 2015. Accordingly, the amounts to be refunded decreased by \$5 million for SDG&E and \$19 million for SoCalGas. In October 2016, SDG&E and SoCalGas filed a regulatory account update with the CPUC to reflect their final total 2015 repair allowance deductions of \$32 million and \$53 million, respectively. After recording the related income tax effect and corresponding regulatory revenue adjustments for income tax purposes, there was no net impact to earnings from the adjustments to the 2015 tax repairs deductions recorded in the third quarter of 2016. Accordingly, the earnings impacts in the table below are also the impacts in the nine months ended September 30, 2016.

Following is a summary of immediate earnings impacts from the 2016 GRC FD recorded in the second quarter of 2016:

EARNINGS IMPACTS FROM THE 2016 GRC FD RECORDED IN THE SECOND QUARTER OF 2016

(Dollars in millions)

	SoCalGas		SDG&E	
	Pretax earnings (charge)	After-tax earnings (charge)	Pretax earnings (charge)	After-tax earnings (charge)
Retroactive revenue requirement increase for the first quarter of 2016	\$20	\$ 12	\$15	\$ 9
Adjustments to revenue related to tax repairs deductions:				
2015 memorandum account balance	\$(72)	\$(43)	\$(37)	\$(22)
True-up of 2012-2014 estimates to actuals	(11)	(6)	(15)	(9)
Total	\$(83)	\$(49)	\$(52)	\$(31)

In July 2016, SDG&E, SoCalGas and the parties to the settlement agreements filed a joint motion indicating their agreement to accept the CPUC's adjustments to the original settlements with one additional change. The settlement parties agree that SDG&E and SoCalGas will retain the right to seek further review and modification of the bonus depreciation adjustment made by the CPUC, so that SDG&E and/or SoCalGas can pursue relief in the form of full or partial restoration of the total revenue requirements reflected in the original settlement agreements. We expect CPUC action on the joint motion in 2016 or 2017.

Finally, the 2016 GRC FD requires the establishment of a two-way income tax expense memorandum account to track any revenue differences resulting from differences between the income tax expense forecasted in the GRC and the income tax expense incurred by the California Utilities from 2016 through 2018. The differences tracked are to specifically include tax expense differences relating to net revenue changes;

mandatory tax law, tax accounting, tax procedural, or tax policy changes; and elective tax law, tax accounting, tax procedural, or tax policy changes.

The account will remain open, and the balance in the account will be reviewed in subsequent GRC proceedings, until the CPUC decides to close the account. In July 2016, to address the implementation of the 2016 GRC FD, the California Utilities filed an advice letter to establish a two-way memorandum account to track revenue requirement differences resulting from the differences in the income tax expense forecasted in the GRC proceedings of SDG&E

and SoCalGas and the income tax expense incurred by them during the GRC period. Starting in the second quarter of 2016, SoCalGas and SDG&E are recording liabilities associated with tracking the differences in the income tax expense forecasted in the GRC proceedings and the income tax expense incurred, which for the three months and nine months ended September 30, 2016 resulted in after-tax charges to earnings of \$2 million (\$4 million pretax) and \$11 million (\$19 million pretax), respectively, for SoCalGas and negligible amounts for SDG&E.

Natural Gas Pipeline Operations Safety Assessments

In June 2014, the CPUC issued a final decision addressing SDG&E's and SoCalGas' Pipeline Safety Enhancement Plan (PSEP). Specifically, the decision determined the following for Phase 1 of the program:

approved the utilities' model for implementing PSEP;

approved a process, including a reasonableness review, to determine the amount that the utilities will be authorized to recover from ratepayers for the interim costs incurred through the date of the final decision to implement PSEP, which is recorded in regulatory accounts authorized by the CPUC;

approved balancing account treatment, subject to a reasonableness review, for incremental costs yet to be incurred to implement PSEP; and

established the criteria to determine the amounts that would not be eligible for cost recovery, including:

certain costs incurred or to be incurred searching for pipeline test records,

the cost of pressure testing pipelines installed after July 1, 1961 for which the company has not found sufficient records of testing, and

any undepreciated balances for pipelines installed after 1961 that were replaced due to insufficient documentation of pressure testing.

As a result of this decision, SoCalGas recorded an after-tax earnings charge of \$5 million in 2014 for costs incurred in prior periods that were no longer subject to recovery. After taking the amounts disallowed for recovery into consideration, as of September 30, 2016, SDG&E and SoCalGas have recorded PSEP costs of \$18 million and \$212 million, respectively, in the CPUC-authorized regulatory account.

In July 2014, the ORA and TURN filed a joint application for rehearing of the CPUC's June 2014 final decision. In March 2015, the CPUC issued a decision denying the ORA's and TURN's second request for rehearing, but keeping the record open to admit additional evidence on the limited issue of pressure testing or replacing pipelines installed between January 1, 1956 and July 1, 1961. The ORA and TURN allege that the CPUC made a legal error in directing that ratepayers, not shareholders, be responsible for the costs associated with testing or replacing transmission pipelines that were installed between January 1, 1956 and July 1, 1961 for which the California Utilities do not have a record of a pressure test. In December 2015, the CPUC issued a final decision finding that ratepayers should not bear the costs associated with pressure testing subject pipelines, or, if replaced, ratepayers should bear neither the average cost of pressure testing nor the undepreciated balance of abandoned pipelines. In January 2016, SoCalGas and SDG&E jointly filed a request with the CPUC seeking rehearing of its December 2015 decision. In May 2016, the CPUC issued a decision denying the request for rehearing. Through September 30, 2016, the after-tax disallowed costs for SoCalGas and SDG&E are \$3.6 million and \$0.5 million, respectively.

In October 2014, SDG&E and SoCalGas filed a petition with the CPUC requesting authority to begin to recover PSEP costs from customers in the year in which the costs are incurred, subject to refund pending the results of a reasonableness review by the CPUC, instead of recovery of such costs in a subsequent year.

In August 2016, the CPUC issued a final decision authorizing SoCalGas and SDG&E to recover, subject to refund pending reasonableness reviews, the revenue requirements associated with 50 percent of their incurred PSEP Phase 1 costs recorded to regulatory accounts; file two reasonableness review applications for Phase 1 projects completed through 2017; file a Phase 2 revenue requirement forecast application for costs to be incurred in 2017 and 2018; and include in their 2019 GRC applications, and any future GRCs, all other PSEP costs not the subject of prior applications.

In December 2014, SDG&E and SoCalGas filed an application with the CPUC for recovery of \$0.1 million and \$46 million, respectively, in costs recorded in the regulatory account through June 11, 2014. In June 2015, SDG&E and SoCalGas agreed to remove certain projects from the filing and defer their review to future proceedings when the projects are fully completed. The ORA, TURN and the Southern California Generation Coalition (SCGC) have recommended disallowances related to completed projects, as well as facilities build-out costs, de-scoped projects, and project management and consulting costs. The CPUC issued a proposed decision in September 2016, revised in October 2016, finding the costs associated with completed projects reasonable and approving \$0.1 million and \$33.1 million of the total costs requested by SDG&E and SoCalGas, respectively. The proposed decision does not approve approximately \$2 million in insurance-related costs, but allows SDG&E and SoCalGas to seek recovery at a later date. A final decision is expected in the fourth quarter of 2016.

In September 2016, SoCalGas and SDG&E filed a joint application with the CPUC for reasonableness review and rate recovery of costs of certain pipeline safety projects completed by June 30, 2015 and recorded in their authorized regulatory accounts. The total costs submitted for review are \$180.5 million for SoCalGas and \$14.9 million for

SDG&E, SoCalGas and SDG&E expect a decision from the CPUC in 2017.

SDG&E MATTERS

Wildfire Claims Cost Recovery

In September 2015, SDG&E filed an application with the CPUC requesting rate recovery of an estimated \$379 million in costs related to the October 2007 wildfires that have been recorded to the Wildfire Expense Memorandum Account (WEMA). These costs represent

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a portion of the estimated total of \$2.4 billion in costs and legal fees that SDG&E has incurred to resolve third-party damage claims arising from the October 2007 wildfires. The requested amount of \$379 million is the net estimated cost incurred by SDG&E after deductions for insurance reimbursement (\$1.1 billion), third party settlement recoveries (\$824 million) and allocations to FERC-jurisdictional rates (\$80 million), and reflects a voluntary 10 percent shareholder contribution applied to the net WEMA balance (\$42 million). SDG&E requested a CPUC decision by the end of 2016 and is proposing to recover the costs in rates over a six- to ten-year period. In April 2016, the CPUC issued a ruling establishing the scope and schedule for the proceeding, which will be managed in two phases. Phase 1 will address SDG&E's operational and management prudence surrounding the 2007 wildfires. Phase 2 will address whether SDG&E's actions and decision-making in connection with settling legal claims in relation to the wildfires were reasonable. In October 2016, intervening parties submitted Phase 1 testimony raising various concerns with SDG&E's operations and management prior to and during the 2007 wildfires. Participating parties asked that the CPUC reject SDG&E's request for cost recovery. Evidentiary hearings in Phase 1 are scheduled to be held in January 2017, with a final decision scheduled to be issued in the second half of 2017. The procedural schedule for Phase 2 will be determined after Phase 1 is concluded.

In September 2015, the presiding judge assigned by the FERC to SDG&E's annual Electric Transmission Formula Rate filing (TO4 Formula Cycle 2) issued an initial decision and an order on summary judgment that authorized SDG&E to recover all of the costs incurred and allocated to SDG&E's FERC-regulated operations, including \$23.1 million of costs associated with the 2007 wildfires. In October 2015, the CPUC filed a request for rehearing of the FERC's September 2015 order, which requested abeyance of SDG&E's request to recover 2007 wildfire damage expenses. In April 2016, the FERC affirmed its findings in the September 2015 order and denied the CPUC's request for rehearing. The FERC decision finalizes SDG&E's base transmission revenue requirement and the recovery of \$23.1 million of wildfire damage expenses allocated to SDG&E's FERC-regulated operations.

We provide additional information about wildfire litigation costs and their recovery in Note 11.

SONGS

We discuss regulatory and other matters related to SONGS in Note 9.

SOCALGAS MATTERS

Aliso Canyon Turbine Replacement Project

In September 2016, SoCalGas received a citation from the CPUC alleging non-compliance with environmental mitigation measures outlined in the final environmental impact report for the Aliso Canyon Turbine Replacement Project. In particular, the allegations assert that SoCalGas failed to properly implement and maintain mitigation measures prescribed in the project's Storm Water Pollution Prevention Plan, which is designed primarily to protect overall water quality and to minimize erosion and sedimentation during construction. Additionally, the CPUC alleges that SoCalGas crews repeatedly encroached upon a nesting bird buffer zone during construction. As a result of procedural matters, the CPUC re-issued the citation on October 26, 2016. The fines associated with the citation are approximately \$700,000. SoCalGas is in the process of evaluating the citation and its options in response to the citation.

Aliso Canyon Natural Gas Storage Facility

We discuss various regulatory matters regarding the Aliso Canyon natural gas storage facility and leak in Note 11.

Natural Gas Procurement

In June 2016, SoCalGas filed an application for a gas cost incentive mechanism award of \$5 million for natural gas procured for its core customers during the 12-month period ended March 31, 2016. The CPUC's current schedule calls for a decision in the first half of 2017.

CALIFORNIA UTILITIES — MAJOR PROJECTS

We discuss the California Utilities' major projects in detail in Note 14 of the Notes to Consolidated Financial Statements in the Annual Report, and provide updates to those discussions and details in the tables below.

MAJOR PROJECTS – UPDATES

Joint Utilities Projects Southern Gas System Reliability Project (North-South Pipeline)

In July 2016, the CPUC issued a final decision which denies the California Utilities' request for a permit to construct. In June 2016, SoCalGas recorded an after-tax impairment charge of \$13 million for the development costs it had invested in the project. The pretax charge of \$22 million is included in Impairment Losses on Sempra Energy's and SoCalGas' Condensed Consolidated Statements of Operations for the nine months ended September 30, 2016. We expect to make a filing to the CPUC seeking recovery of all or a portion of these costs.

Pipeline Safety & Reliability Project

SDG&E and SoCalGas filed an amended application with the CPUC in March 2016 providing detailed analysis and testimony supporting the proposed project. The revised request also presents additional information on the costs and benefits of project alternatives, safety evaluation and compliance analysis, and statutory and procedural requirements. SDG&E and SoCalGas seek approval to construct the proposed project, estimated at a cost of \$633 million, and authority to recover the associated revenue requirement in rates.

SDG&E Projects Cleveland National Forest (CNF) Transmission Projects

In May 2016, the CPUC issued a final decision granting SDG&E a permit to construct. The project will be installed at an estimated cost of \$680 million: \$470 million for the various transmission-level facilities and \$210 million for associated distribution-level facilities, including distribution circuits and additional undergrounding required by the final environmental impact statement.

In July 2016, the Cleveland National Forest Foundation and the Protect Our Communities Foundation filed a joint application for rehearing of the final decision.

Sycamore-Peñasquitos Transmission Project

In October 2016, the CPUC issued a final decision granting SDG&E a Certificate of Public Convenience and Necessity (CPCN) to construct the project, with a cost cap of \$260 million.

South Orange County

Reliability

Enhancement

CPUC issued its final environmental impact report (EIR) for the project in April 2016. The EIR concluded that an alternative project is considered environmentally superior to SDG&E's proposal. The final EIR states that the CPUC is not required to adopt the environmentally superior alternative if there are overriding considerations in favor of another alternative. The CPUC will consider the findings in determining whether to approve SDG&E's proposed project or an alternative to it.

In September 2016, draft and alternate decisions were issued by the Administrative Law Judge (ALJ) and Assigned Commissioner. The ALJ decision rejects SDG&E's proposed project and grants a CPCN to construct the project identified as environmentally superior in the final EIR. The Assigned Commissioner decision determines that the environmentally superior project is infeasible and, given overriding considerations, grants SDG&E a CPCN to construct its proposed project with a project cost cap of \$381 million.

Final CPUC decision expected in fourth quarter of 2016.

Energy

Storage

Projects

In August 2016, the CPUC approved SDG&E's request to own and operate two energy storage projects totaling 37.5 MW. The purpose of the two projects is to enhance electric reliability in the San Diego service territory.

Expected completion in the first quarter of 2017.

NOTE 11. COMMITMENTS AND CONTINGENCIES

LEGAL PROCEEDINGS

We accrue losses for a legal proceeding when it is probable that a loss has been incurred and the amount 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 amounts accrued, may exceed applicable insurance coverage and could materially adversely affect our business, cash flows, results of operations, financial condition and prospects. Unless otherwise indicated, we are unable to estimate reasonably possible losses in excess of any amounts accrued.

At September 30, 2016, Sempra Energy's accrued liabilities for legal proceedings, including associated legal fees and costs of litigation, on a consolidated basis, were \$23 million. At September 30, 2016, accrued liabilities for legal proceedings were \$21 million for SDG&E and \$1 million for SoCalGas. Amounts for Sempra Energy and SoCalGas include \$1 million for matters related to the Aliso Canyon natural gas leak, which we discuss below.

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' (Cox) fiber optic cable came into contact with an SDG&E power line "causing an arc and starting the fire." A September 2008 staff report issued by the CPUC's Consumer Protection and Safety Division, now known as the Safety and Enforcement 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.

Numerous parties 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. They asserted 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 property damages resulting from a wildfire ignited by power lines. SDG&E has resolved almost all of these lawsuits. One Superior Court case remains in which the plaintiff is challenging the dismissal of her lawsuit and an appeal is likely. Only one appeal remains pending after judgment in the trial court. SDG&E does not expect additional plaintiffs to file lawsuits given the applicable statutes of limitation, but could receive additional settlement demands and damage estimates from the remaining plaintiff until the case is resolved. SDG&E establishes reserves for the wildfire litigation as information becomes available and amounts are estimable.

SDG&E has concluded that it is probable that it will be permitted to recover in rates a substantial portion of the costs incurred to resolve wildfire claims in excess of its liability insurance coverage and the amounts recovered from third parties. Accordingly, at September 30, 2016, Sempra Energy and SDG&E have recorded assets of \$356 million in Other Regulatory Assets (long-term) on their Condensed Consolidated Balance Sheets, including \$354 million related to CPUC-regulated operations, which represents the amount substantially equal to the aggregate amount it has paid and reserved for payment for the resolution of wildfire claims and related costs in excess of its liability insurance coverage and amounts recovered from third parties. On September 25, 2015, SDG&E filed an application with the CPUC seeking authority to recover these costs, as we discuss in Note 10. Should SDG&E conclude that recovery in rates is no longer probable, SDG&E will record a charge against earnings at the time such conclusion is reached. If SDG&E had concluded that the recovery of regulatory assets related to CPUC-regulated operations was no longer probable or was less than currently estimated at September 30, 2016, the resulting after-tax charge against earnings would have been up to approximately \$210 million. A failure to obtain substantial or full recovery of these costs from customers, or any negative assessment of the likelihood of recovery, would likely have a material adverse effect on Sempra Energy's and SDG&E's results of operations and cash flows.

We provide additional information about excess wildfire claims cost recovery and related CPUC actions in Note 14 of the Notes to Consolidated Financial Statements in the Annual Report and discuss how we assess the probability of

recovery of our regulatory assets in Note 1 of the Notes to Consolidated Financial Statements in the Annual Report.

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Smart Meters Patent Infringement Lawsuit

In October 2011, SDG&E was sued by a Texas design and manufacturing company in Federal District Court, Southern District of California, and later transferred to the Federal District Court, Western District of Oklahoma as part of Multi-District Litigation (MDL) proceedings, alleging that SDG&E's recently installed smart meters infringed certain patents. The meters were purchased from a third party vendor that has agreed to defend and indemnify SDG&E. The lawsuit sought injunctive relief and recovery of unspecified amounts of damages. The third party vendor has settled the lawsuit without cost to SDG&E, and a dismissal was entered in federal court on July 20, 2016.

Lawsuit Against Mitsubishi Heavy Industries, Ltd.

On July 18, 2013, SDG&E filed a lawsuit in the Superior Court of California in the County of San Diego against Mitsubishi Heavy Industries, Ltd., Mitsubishi Nuclear Energy Systems, Inc., and Mitsubishi Heavy Industries America, Inc. (collectively MHI). The lawsuit seeks to recover damages SDG&E has incurred and will incur related to the design defects in the steam generators MHI provided to the SONGS nuclear power plant. The lawsuit asserts a number of causes of action, including fraud, based on the representations MHI made about its qualifications and ability to design generators free from defects of the kind that resulted in the permanent shutdown of the plant and further seeks to set aside the contractual limitation of damages that MHI has asserted. On July 24, 2013, MHI removed the lawsuit to the United States District Court for the Southern District of California and on August 8, 2013, MHI moved to stay the proceeding pending resolution of the dispute resolution process involving MHI and Edison arising from their contract for the purchase and sale of the steam generators. On October 16, 2013, Edison initiated an arbitration proceeding against MHI seeking damages stemming from the failure of the replacement steam generators. In late December 2013, MHI answered and filed a counterclaim against Edison. On March 14, 2014, MHI's motion to stay the United States District Court proceeding was granted with instructions that require the parties to allow SDG&E to participate in the ongoing Edison/MHI arbitration. As a result, SDG&E participated in the arbitration as a claimant and respondent. The arbitration hearing concluded at the end of April 2016, and a decision could come as early as this year.

Rim Rock Wind Farm

In 2011, the CPUC and FERC approved SDG&E's estimated \$285 million tax equity investment in a wind farm project and its purchase of renewable energy credits from that project. SDG&E's contractual obligations to both invest in the Rim Rock wind farm and to purchase renewable energy credits from the wind farm under the power purchase agreement were subject to the satisfaction of certain conditions which, if not achieved, would allow SDG&E to terminate the power purchase agreement and not make the investment.

In December 2013, SDG&E and the project developer began litigating claims against each other regarding whether the project developer had timely satisfied all contractual conditions necessary to trigger SDG&E's obligations to invest in the project and purchase renewable energy credits. On February 11, 2016, SDG&E, the project developer and several of the project developer's parent and affiliated entities entered into a settlement agreement, which was approved by the CPUC in July 2016 and all related lawsuits were dismissed. Under the settlement agreement, among other things, the parties agreed to terminate the tax equity investment arrangement, continue the power purchase agreement for the wind farm generation and release all claims against each other, while generally continuing the other elements of the 2011 approved decision. The settlement agreement will result in a \$39 million credit to ratepayers.

SoCalGas

Aliso Canyon Natural Gas Storage Facility Gas Leak

On October 23, 2015, SoCalGas discovered a leak at one of its injection and withdrawal wells, SS25, at its Aliso Canyon natural gas storage facility, located in the northern part of the San Fernando Valley in Los Angeles County. The Aliso Canyon facility has been operated by SoCalGas since 1972. SS25 is more than one mile away from and 1,200 feet above the closest homes. It is one of more than 100 injection and withdrawal wells at the storage facility. Stopping the Leak, and Local Community Mitigation Efforts. SoCalGas worked closely with several of the world's leading experts to stop the leak, including planning and obtaining all necessary approvals for drilling relief wells. On February 18, 2016, the California Department of Conservation's Division of Oil, Gas, and Geothermal Resources (DOGGR) confirmed that the well was permanently sealed.

Pursuant to a stipulation and court order, SoCalGas provided temporary relocation support to residents in the nearby community who requested it before the well was permanently sealed. In connection with the temporary relocation support, on April 27, 2016, the Los Angeles County Superior Court (Superior Court) issued an order extending the relocation support term pending the completion of the Los Angeles County Department of Public Health's (DPH) indoor testing. Following the release of the results of the DPH's indoor testing of certain homes in the Porter Ranch community, which concluded that indoor conditions did not present a long-term health

risk and that it was safe for residents to return home, the Superior Court issued an order on May 20, 2016, as supplemented by the Superior Court on May 25, 2016, ruling that: (1) currently relocated residents be given the choice to request residence cleaning, to be performed according to the DPH's proposed protocol and at SoCalGas' expense, and (2) the relocation program for currently relocated residents would terminate. SoCalGas completed the cleaning program, and the relocation program ended July 24, 2016.

Apart from the Superior Court order, on May 13, 2016, the DPH also issued a directive that SoCalGas professionally clean (in accordance with the proposed protocol prepared by the DPH) the homes of all residents located within the Porter Ranch Neighborhood Council boundary, or who participated in the relocation program, or who are located within a five mile radius of the Aliso Canyon natural gas storage facility and have experienced symptoms from the natural gas leak (the Directive). SoCalGas contends that the Directive is invalid and unenforceable and has filed a petition for writ of mandate to set aside the Directive.

The total costs incurred to remediate and stop the leak and to mitigate local community impacts are significant and may increase, and to the extent not covered by insurance (including any costs in excess of applicable policy limits), or if there were to be significant delays in receiving insurance recoveries, such costs could have a material adverse effect on SoCalGas' and Sempra Energy's cash flows, financial condition and results of operations.

Cost Estimates and Accounting Impact. As of September 30, 2016, SoCalGas recorded estimated costs of \$763 million related to the leak. Of this amount, approximately 70 percent is for the temporary relocation program (including cleaning costs and certain labor costs) and approximately 20 percent is for efforts to control the well, stop the leak, stop or reduce the emissions, and the estimated cost of the root cause analysis being conducted to determine the cause of the leak. The remaining portion of the \$763 million includes legal costs incurred to defend litigation, the value of lost gas, the costs to mitigate the actual natural gas released, and other costs. As the value of lost gas reflects the current replacement cost, the value may fluctuate until such time as replacement gas is purchased and injected into storage. SoCalGas made a commitment in December 2015 to mitigate the actual natural gas released and has been working on a plan to accomplish the mitigation. SoCalGas adjusts its estimated total liability associated with the leak as additional information becomes available. During the third quarter of 2016, the increase in the estimated costs of \$46 million was primarily based on the increased scope and duration of the root cause analysis effort, which is controlled by DOGGR, as well as the claims recovery process associated with the relocation program. The \$763 million represents management's best estimate of these costs related to the leak. Of these costs, a substantial portion has been paid and \$73 million is recorded as Reserve for Aliso Canyon Costs as of September 30, 2016 on SoCalGas' and Sempra Energy's Condensed Consolidated Balance Sheets for amounts expected to be paid after September 30, 2016.

As of September 30, 2016, we recorded the expected recovery of the costs described in the immediately preceding paragraph related to the leak of \$664 million as Insurance Receivable for Aliso Canyon Costs on SoCalGas' and Sempra Energy's Condensed Consolidated Balance Sheets. This amount is net of insurance retentions and \$94 million of insurance proceeds we received in the second and third quarters of 2016 related to control of well expenses and temporary relocation costs. If we were to conclude that this receivable or a portion of it was no longer probable of recovery from insurers, some or all of this receivable would be charged against earnings, which would have a material adverse effect on SoCalGas' and Sempra Energy's financial condition, results of operations and cash flows.

The above amounts do not include any unsettled damage awards, restitution, or any civil, administrative or criminal fines, costs or other penalties that may be imposed, as it is not possible to predict the outcome of any criminal or civil proceeding or any administrative action in which such damage awards, restitution or civil or criminal fines, costs or other penalties could be imposed, and any such amounts, if awarded or imposed, cannot be reasonably estimated at this time. In addition, the above amounts do not include the cost to clean additional homes pursuant to the DPH Directive, future legal costs necessary to defend litigation and other potential costs that we currently do not anticipate incurring or that we cannot reasonably estimate.

In March 2016, the CPUC issued a decision directing SoCalGas to establish a memorandum account to prospectively track its authorized revenue requirement and all revenues that it receives for its normal, business-as-usual costs to own and operate the Aliso Canyon gas storage field. The CPUC will determine at a later time whether, and to what extent, the tracked revenues may be refunded to ratepayers. Pursuant to the CPUC's decision, SoCalGas filed an advice letter

requesting to establish a memorandum account to track all business-as-usual costs to own and operate the Aliso Canyon storage field, which has been protested by intervening parties. In July 2016, SoCalGas filed a supplemental advice letter that replaced the term “actual costs” with “normal, business as usual” before each reference to costs. In September 2016, the supplemental filing was approved and made effective as of March 17, 2016, the date of the decision directing the establishment of the account.

Insurance. Excluding directors and officers liability insurance, we have four kinds of insurance policies that together provide between \$1.2 billion to \$1.4 billion in insurance coverage, depending on the nature of the claims. We cannot predict all of the potential categories of costs or the total amount of costs that we may incur as a result of the leak. In reviewing each of our policies, and subject to various policy limits, exclusions and conditions, based upon what we know as of the filing date of this report, we believe that our insurance policies collectively should cover the following categories of costs: the costs incurred for temporary relocation (including cleaning costs and certain labor costs), costs to address the leak and stop or reduce emissions, the root cause analysis being conducted to determine the cause of the leak, the value of lost natural gas and costs incurred to mitigate the actual natural gas released, the costs

associated with litigation and claims by nearby residents and businesses, the cost to clean additional homes as directed by the DPH, and, in some circumstances depending on their nature and manner of assessment, fines and penalties. We have been communicating with our insurance carriers and, as discussed above, we have received insurance payments for control of well costs and temporary relocation costs. We intend to pursue the full extent of our insurance coverage for the costs we have incurred or may incur. There can be no assurance that we will be successful in obtaining insurance coverage for these costs under the applicable policies, and to the extent we are not successful, it could result in a material charge against the earnings of SoCalGas and Sempra Energy.

Our estimate as of September 30, 2016 of \$763 million of certain costs in connection with the Aliso Canyon storage facility leak may rise significantly as more information becomes available, and to the extent not covered by insurance (including any costs in excess of applicable policy limits), or if there were to be significant delays in receiving insurance recoveries, such costs could have a material adverse effect on SoCalGas' and Sempra Energy's cash flows, financial condition and results of operations. In addition, any costs not included in the \$763 million estimate could be material, and to the extent not covered by insurance (including any costs in excess of applicable policy limits), could have a material adverse effect on SoCalGas' and Sempra Energy's cash flows, financial condition and results of operations.

Governmental Investigations and Civil and Criminal Litigation. Various governmental agencies, including the DOGGR, DPH, South Coast Air Quality Management District (SCAQMD), California Air Resources Board (CARB), Los Angeles Regional Water Quality Control Board (RWQCB), California Division of Occupational Safety and Health (DOSH), CPUC, Pipeline and Hazardous Materials Safety Administration (PHMSA), U.S. Environmental Protection Agency (EPA), Los Angeles County District Attorney's Office and California Attorney General's Office, are investigating this incident. Other federal agencies (e.g., the U.S. Departments of Energy (DOE) and Interior (DOI)) also are investigating the incident as part of the joint interagency task force discussed below. On January 25, 2016, the DOGGR and CPUC selected Blade Energy Partners (Blade) to conduct an independent analysis under their supervision and to be funded by SoCalGas to investigate the technical root cause of the Aliso Canyon gas leak. We expect the root cause analysis to be completed in the first half of 2017, but the timing is under the control of Blade, the DOGGR and the CPUC.

As of November 1, 2016, 212 lawsuits, including over 12,000 plaintiffs, have been filed in the Los Angeles County Superior Court against SoCalGas, some of which have also named Sempra Energy. These various lawsuits assert causes of action for negligence, negligence per se, strict liability, property damage, fraud, public and private nuisance (continuing and permanent), trespass, inverse condemnation, fraudulent concealment, unfair business practices and loss of consortium, among other things, and additional litigation may be filed against us in the future related to this incident. A complaint alleging violations of Proposition 65 was also filed. Many of these complaints seek class action status, compensatory and punitive damages, civil penalties, injunctive relief, costs of future medical monitoring and attorneys' fees. All of these cases, other than a matter brought by the Los Angeles County District Attorney, the federal securities class action and the four shareholder derivative actions discussed below, are coordinated before a single court in the Los Angeles County Superior Court for pretrial management.

In addition to the lawsuits described above, a federal securities class action alleging violation of the federal securities laws has been filed against Sempra Energy and certain of its officers and directors in the United States District Court for the Southern District of California, and four shareholder derivative actions alleging breach of fiduciary duties have been filed against certain officers and directors of Sempra Energy and/or SoCalGas, one in the San Diego County Superior Court, one in the United States District Court for the Southern District of California, and two in the Los Angeles County Superior Court.

Pursuant to the parties' agreement, the Los Angeles County Superior Court ordered that the individual and business entity plaintiffs (other than the Proposition 65 case, the federal securities class action and the shareholder derivative actions), would proceed by filing consolidated master complaints. Accordingly, on July 25, 2016, the individuals and business entities asserting tort claims filed a Consolidated Case Complaint for Individual Actions through which their separate lawsuits will be managed for pretrial purposes. The consolidated complaint asserts causes of action for negligence, negligence per se, private and public nuisance (continuing and permanent), trespass, inverse condemnation, strict liability, negligent and intentional infliction of emotional distress, fraudulent concealment and

loss of consortium against SoCalGas, with certain causes also naming Sempra Energy. The consolidated complaint seeks compensatory and punitive damages for personal injuries, property damage and diminution in property value, a temporary injunction, costs of future medical monitoring, and attorneys' fees.

On August 8, 2016, also pursuant to the coordination proceeding, a Consolidated Property Class Action Complaint on behalf of a putative class of persons and businesses who own or lease real property within a five-mile radius of the well was filed against SoCalGas and Sempra Energy. The complaint asserts claims for strict liability for ultra-hazardous activities, negligence, negligence per se, trespass, permanent and continuing public and private nuisance, violation of the California Unfair Competition Law and inverse condemnation, and seeks compensatory, statutory and punitive damages, injunctive relief and attorneys' fees.

Also on August 8, 2016, a Consolidated Class Action Business Complaint was filed against SoCalGas and Sempra Energy on behalf of a putative class of all persons and entities conducting business within five miles of the Aliso Canyon facility. The complaint asserts claims for strict liability for ultra-hazardous activities, negligence, negligent interference with prospective economic advantage and

violation of the California Unfair Competition Law, and seeks compensatory, statutory and punitive damages, injunctive relief and attorneys' fees.

Three complaints have also been filed by public entities, as follows. These lawsuits are included in the coordinated proceedings in the Los Angeles County Superior Court. On August 8, 2016, the California Attorney General, acting in her independent capacity and on behalf of the people of the State of California and the CARB, together with the Los Angeles City Attorney, filed a third amended complaint on behalf of the people of the State of California against SoCalGas alleging public nuisance, violation of the California Unfair Competition Law, violations of California Health and Safety Code sections 41700, prohibiting discharge of air contaminants that cause annoyance to the public, and 25510, requiring reporting of the release of hazardous material, as well as California Government Code section 12607 for equitable relief for the protection of natural resources. The complaint seeks an order for injunctive relief, to abate the public nuisance, and to impose civil penalties.

The SCAQMD filed a complaint against SoCalGas seeking civil penalties for alleged violations of several nuisance-related statutory provisions arising from the leak and delays in stopping the leak. That suit seeks up to \$250,000 in civil penalties for each day the violations occurred. On July 13, 2016, the SCAQMD amended its complaint to seek a declaration that SoCalGas is required to pay the costs of a longitudinal study of the health of persons exposed to the gas leak.

On July 25, 2016, the County of Los Angeles, on behalf of itself and the people of the State of California, filed a complaint against SoCalGas in the Los Angeles County Superior Court for public nuisance, unfair competition, breach of franchise agreement, breach of lease, and damages. This suit alleges that the four natural gas storage fields operated or formerly operated by SoCalGas in Los Angeles County require safety upgrades, including the installation of sub-surface safety shut-off valves on every well. It additionally alleges that SoCalGas failed to comply with the DPH Directive. It seeks preliminary and permanent injunctive relief, civil penalties, and damages for the County's costs to respond to the leak, as well as punitive damages and attorneys' fees.

Separately, on February 2, 2016, the Los Angeles County District Attorney's Office filed a misdemeanor criminal complaint against SoCalGas seeking penalties and other remedies for alleged failure to provide timely notice of the leak pursuant to California Health and Safety Code section 25510(a), Los Angeles County Code section 12.56.030, and Title 19 California Code of Regulations section 2703(a), and for allegedly violating California Health and Safety Code section 41700 prohibiting discharge of air contaminants that cause annoyance to the public. On February 16, 2016, SoCalGas pled not guilty to the complaint. On September 13, 2016, SoCalGas entered a plea of no contest to the notice charge under Health and Safety Code section 25510(a) and agreed to pay the maximum fine of \$75,000, penalty assessments of approximately \$232,500, and up to \$4 million in operational commitments, reimbursement and assessments in exchange for the District Attorney's Office moving to dismiss the remaining counts at sentencing and settling the complaint. The sentencing hearing is currently scheduled for November 29, 2016, at which we expect the court to rule on the motion to dismiss and determine whether to enter judgment on the notice count pursuant to the plea agreement. On October 18, 2016, certain plaintiffs in the separate civil cases filed a "Victims' Request for Withdrawal of Plea Agreement" seeking to have the court order the withdrawal of the no contest plea or permit a restitution hearing on the nuisance count (SoCalGas pled not guilty to the nuisance count, which under the plea agreement is to be dismissed at sentencing). SoCalGas is implementing the operational commitments pursuant to the terms of the settlement agreement, and we expect that upon completion of those commitments and all other obligations of SoCalGas under the settlement agreement, the District Attorney will move to dismiss the remaining counts at the sentencing hearing.

The costs of defending against these civil and criminal lawsuits and cooperating with these investigations, and any damages, restitution, and civil and criminal fines, costs and other penalties, if awarded or imposed, as well as the costs of mitigating the actual natural gas released, could be significant and to the extent not covered by insurance (including any costs in excess of applicable policy limits), or if there were to be significant delays in receiving insurance recoveries, could have a material adverse effect on SoCalGas' and Sempra Energy's cash flows, financial condition and results of operations.

Governmental Orders, Additional Regulation and Reliability. On January 6, 2016, the Governor of the State of California issued the Governor's Order proclaiming a state of emergency to exist in Los Angeles County due to the

natural gas leak at the Aliso Canyon facility. The Governor's Order directs the following:

Protecting Public Health and Safety: State agencies will: continue the prohibition against SoCalGas injecting any gas into the Aliso Canyon storage facility until a comprehensive review, utilizing independent experts, of the safety of the storage wells and the air quality of the surrounding community is completed; expand real-time monitoring of emissions in the surrounding community; convene an independent panel of scientific and medical experts to review public health concerns stemming from the natural gas leak and evaluate whether additional measures are needed to protect public health; and take all actions necessary to ensure the continued reliability of natural gas and electricity supplies in the coming months during the moratorium on gas injections into the Aliso Canyon storage facility.

Ensuring Accountability: The CPUC will ensure that SoCalGas covers costs related to the natural gas leak and its response, while protecting ratepayers; and CARB will develop a program to fully mitigate the leak's emissions of methane by March 31, 2016, with such program to be funded by SoCalGas.

Strengthening Oversight: The DOGGR will promulgate emergency regulations for gas storage facility operators throughout the state, requiring: at least daily inspection of gas storage well heads using gas leak detection technology such as infrared imaging; ongoing verification of the mechanical integrity of all gas storage wells; ongoing measurement of annular gas pressure or annular gas flow within wells; regular testing of all safety valves used in wells; minimum and maximum pressure limits for each gas storage facility in the state; and a comprehensive risk management plan for each facility that evaluates and prepares for risks, including corrosion potential of pipes and equipment. Additionally, the DOGGR, CPUC, CARB and California Energy Commission (CEC) will submit to the Governor's Office a report that assesses the long-term viability of natural gas storage facilities in California. SoCalGas made a commitment in December 2015 to mitigate the actual natural gas released from the leak and has been working on a plan to accomplish the mitigation. On March 31, 2016, pursuant to the Governor's Order, the CARB issued its Aliso Canyon Methane Leak Climate Impacts Mitigation Program, which sets forth its recommended approach to achieve full mitigation of the emissions from the Aliso Canyon natural gas leak. The CARB program states that full mitigation requires that the program generate reductions in short-lived climate pollutants and other greenhouse gases at least equivalent to that amount and that the appropriate global warming potential to be used in deriving the amount of reductions required is a 20-year term rather than the 100-year term the CARB and other state and federal agencies use in regulating emissions, resulting in a target of approximately 9,000,000 metric tons of carbon dioxide equivalent. CARB's program also provides that all of the mitigation is to occur in California over the next five to ten years without the use of allowances or offsets.

On October 21, 2016, CARB issued its final report, Determination of Total Methane Emissions from the Aliso Canyon Natural Gas Leak Incident. The report documents the CARB staff's determination of the total methane emissions and the amount needed for full mitigation of the climate impacts. CARB concluded that the incident resulted in total emissions from 90,350 to 108,950 metric tons of methane. CARB also asserted that to fully mitigate the greenhouse gas impacts of the leak, the upper bound of the estimate should be used, and therefore SoCalGas should mitigate 109,000 metric tons of methane. We have not agreed with CARB's estimate of methane released and continue to work with CARB on the mitigation plan.

On January 23, 2016, the Hearing Board of the SCAQMD ordered SoCalGas to, among other things: stop all injections of natural gas except as directed by the CPUC, withdraw the maximum amount of natural gas feasible in a contained and safe manner, subject to orders of the CPUC, and permanently seal the well once the leak has ceased; continuously monitor the well site with infrared cameras until 30 days after the leak has ceased; provide the public with daily air monitoring data collected by SoCalGas; provide the SCAQMD with certain natural gas injection, withdrawal and emissions data from the Aliso Canyon facility; prepare and submit to the SCAQMD for its approval an enhanced leak detection and reporting well inspection program for the Aliso Canyon facility; provide the SCAQMD with funding to develop a continuous air monitoring plan for the Aliso Canyon facility and the nearby schools and community; prepare and submit to the SCAQMD for its approval an air quality notification plan to provide notice to SCAQMD, other public agencies and the nearby community in the event of a future reportable release; and provide the SCAQMD with funding to conduct an independent health study on the potential impacts of exposure on the constituents of the natural gas released from the facility, as well as any odor suppressants used to mitigate odors from the leaking well. SoCalGas has fulfilled its obligations under all of the conditions set forth in the Abatement Order to the satisfaction of the SCAQMD and its Hearing Board, with the exception of the condition that SoCalGas agree to fund the reasonable costs of a study of the health impacts of the leak. While SoCalGas tendered an offer to fund the reasonable costs of a health study and a proposed scope of work for the study, SCAQMD responded that this offer was not acceptable. To date, SCAQMD has not tendered a proposed scope of work or costs to SoCalGas for payment. As described above, SCAQMD amended its civil complaint against SoCalGas to seek a declaration that SoCalGas is required to pay the costs of a longitudinal study of the health of persons exposed to the gas leak. At a September 17, 2016 status hearing, the Hearing Board scheduled a status report hearing on January 18, 2017 regarding the progress of compliance with the health study condition and whether to extend the order, which is set to expire on January 31, 2017.

On April 1, 2016, the Secretary of the DOE and PHMSA jointly announced the formation of an Interagency Task Force on Natural Gas Storage Safety in response to the leak at Aliso Canyon to assess and make recommendations on

best practices, response plans and safe operation of gas storage facilities. On June 22, 2016, President Obama signed the “Protecting our Infrastructure of Pipelines and Enhancing Safety Act of 2016” or the “PIPES Act of 2016.” Among other things, the PIPES Act: (1) requires PHMSA to issue, within two years of passage, “minimum safety standards for underground natural gas storage facilities;” (2) imposes a “user fee” on underground storage facilities as needed to implement the safety standards; (3) grants PHMSA authority to issue emergency orders and impose emergency restrictions, prohibitions and safety measures on owners and operators of gas or hazardous liquid pipeline facilities without prior notice or an opportunity for hearing, if the Secretary of Energy determines that an unsafe condition or practice, or a combination of unsafe conditions and practices, constitutes or is causing an imminent hazard; and (4) directs the Secretary of Energy to establish an Aliso Canyon Task Force comprised of representatives from the Department of Transportation (DOT), Department of Health and Human Services, EPA, DOI, Department of Commerce, FERC and representatives of state and local governments, as deemed appropriate by the Secretary and the Administrator. The Act expressly allows states to adopt more stringent standards for intrastate underground natural gas storage facilities if such standards are compatible with the minimum standards prescribed under the PIPES Act.

On October 18, 2016, the Interagency Task Force issued its report and recommendations. Overall, the report finds that “while incidents at U.S. underground natural gas storage facilities are rare, the potential consequences of those incidents can be significant and require additional actions to ensure safe and reliable operation over the long term.” In particular, the report recommends that PHMSA adopt as a preliminary set of safety regulations the requirements set out in American Petroleum Institute (API) Recommended Practice 1171, Functional Integrity of Natural Gas Storage in Depleted Hydrocarbon Reservoirs and Aquifer Reservoirs. The report further provides 44 specific recommendations to industry, federal, state, and local regulators and governments intended to reduce the likelihood of future leaks and minimize the impacts of any that occur. We are reviewing the report and recommendations, which may result in additional regulations.

PHMSA, DOGGR, SCAQMD, EPA and CARB have each commenced separate rulemaking proceedings to adopt further regulations covering natural gas storage facilities and injection wells. Regulations issued by DOGGR following the Governor’s Order, as well as California Senate Bill 380, enacted on May 10, 2016, California Senate Bill 887, enacted on September 26, 2016, and California Senate Bill 888, enacted on September 23, 2016, are discussed below. Additional hearings in the State Legislature, as well as with various other federal and state regulatory agencies, have been or are expected to be scheduled, additional legislation has been proposed in the State Legislature, and additional laws, orders, rules and regulations may be adopted. The Los Angeles County Board of Supervisors has formed a task force to review and potentially implement new, more stringent land use (zoning) requirements and associated regulations and enforcement protocols for oil and gas activities, including natural gas storage field operations. Such new requirements could materially affect new or modified uses of the Aliso Canyon and other natural gas storage fields located in the County, including review under the California Environmental Quality Act and mitigation of environmental impacts associated with new and modified uses of the fields.

Higher operating costs and additional capital expenditures incurred by SoCalGas as a result of new laws, orders, rules and regulations arising out of this incident could be significant and may not be recoverable in customer rates, and SoCalGas’ and Sempra Energy’s cash flows, financial condition and results of operations may be materially adversely affected by any such new laws, orders, rules and regulations.

On June 10, 2016, DOSH issued four citations to SoCalGas alleging violations of various regulations, including that SoCalGas failed to ensure that testing and inspection of well casing and tubing at the Aliso Canyon storage facility complied with testing and inspection requirements, with total penalties of \$60,800. On June 27, 2016, SoCalGas filed an appeal of all four citations on the grounds that no violations of the cited regulations occurred, the citations are all preempted by federal law, the citations were not issued in a timely manner, and two of the citations are duplicative. Adoption of SB 380. The California legislature enacted and the Governor signed Senate Bill (SB) 380, which among other things: (1) continues the prohibition against SoCalGas injecting any natural gas into the Aliso Canyon natural gas storage facility until a comprehensive review of the safety of the gas storage wells at the facility is completed in accordance with regulations adopted by the DOGGR, the State Oil and Gas Supervisor has made a safety determination and other required findings, at least one public hearing has been held in the affected community, and the Executive Director of the CPUC has issued a concurring letter regarding the Supervisor’s determination of safety; (2) requires that all gas storage wells returning to service shall only inject or produce gas through the interior metal tubing and not through the annulus between the tubing and the well casing, which will result in diminished field production capability; (3) requires the CPUC, in consultation with various governmental agencies and other entities, to determine the range of working gas necessary in Aliso Canyon to ensure safety and reliability for the region and just and reasonable rates in California and publish a report that includes such range and the number of wells and associated injection and production capacity required; (4) requires seeking public comments on the report either through written comments or a workshop; and (5) requires the CPUC, no later than July 1, 2017, to open a proceeding to determine the feasibility of minimizing or eliminating use of the Aliso Canyon natural gas storage facility, while still maintaining energy and electric reliability for the region, and to consult with various governmental agencies and other entities in making its determination.

As required by SB 380, on June 28, 2016, the CPUC published the report, Aliso Canyon Working Gas Inventory, Production Capacity, Injection Capacity, and Well Availability for Summer 2016 Reliability (SB 380 Report), which incorporates, and is based on the findings of, the Aliso Canyon Risk Assessment Technical Report which was

prepared by the staff of the CAISO, CEC, Los Angeles Department of Water and Power (LADWP), SoCalGas and the CPUC. In that report, among other things, the CPUC determined that SoCalGas would need a withdrawal capacity of 1.119 billion cubic feet (Bcf) per day to meet the reliability needs of customers. In addition, the CPUC directed SoCalGas to keep 17 specified wells that have completed the Phase I testing required by DOGGR available for reliability-related withdrawals. On September 28, 2016, the CPUC authorized SoCalGas to isolate and remove from service the 17 wells that had been kept available for reliability-related withdrawals, so long as SoCalGas maintains a minimum daily withdrawal capacity of 8.6 million cubic feet (MMcf) per hour or 207 MMcf per day at Aliso Canyon. Adoption of SB 887. The California legislature enacted and the Governor signed SB 887, which establishes a framework for revising State regulations over natural gas storage wells in California. Among other things, the statute directs: (1) CARB, in consultation with any local air district and DOGGR, to develop a natural gas storage facility monitoring program that includes continuous monitoring of the ambient concentration of natural gas to identify natural gas leaks and the presence of natural gas emissions in the atmosphere; (2)

DOGGR, in consultation with CARB, to determine by regulation what constitutes a reportable leak from a gas storage well and the timeframe for reporting those leaks; (3) DOGGR to perform random onsite inspections of some gas storage wells annually and post the results on its website; (4) the operator of a gas storage well to develop and maintain a comprehensive gas storage well training and mentoring program for those employees whose job duties involve the safety of operations and maintenance of gas storage wells and associated equipment; and (5) the operator of a natural gas storage well to submit to DOGGR for review and approval a comprehensive set of data and information, including, among other things, data to demonstrate stored gas will be confined to an approved zone, a risk management plan and a natural gas leak prevention and response plan.

Adoption of SB 888. The California legislature enacted and the Governor signed SB 888, which requires that a penalty assessed against a gas corporation by the CPUC pursuant to the Public Utilities Act with regard to a natural gas storage facility leak must at least equal the amount necessary to fully offset the impact on the climate from the greenhouse gases emitted by the leak, as determined by CARB. The statute further requires the CPUC to consider the extent to which the gas corporation has mitigated or is in the process of mitigating the impact on the climate from greenhouse gas emissions resulting from the leak.

Natural Gas Storage Operations. SoCalGas estimates that approximately 57 Bcf of natural gas was delivered to customers from an initial starting point of approximately 77 Bcf of gas in storage on October 23, 2015 at the Aliso Canyon facility. SoCalGas completed its measurement of the natural gas lost from the leak and calculated that approximately 4.62 Bcf of natural gas was released from the Aliso Canyon natural gas storage facility as a result of the leak. In January 2016, the CPUC directed SoCalGas to retain a minimum of 15 Bcf of working natural gas to help ensure reliability of the system, with withdrawals permitted only to meet reliability needs under a limited set of circumstances. Effective February 5, 2016, the DOGGR issued Emergency Regulations that amended the California Code of Regulations to require all underground natural gas storage facility operators, including SoCalGas, to take further steps to help ensure the safety of their gas storage operations. On July 8, 2016, DOGGR issued a Discussion Draft of new permanent regulations for all storage fields in California.

Natural gas withdrawn from storage is important for service reliability during peak demand periods, including peak electric generation needs in the summer and heating needs in the winter. Aliso Canyon, with a storage capacity of 86 Bcf, is the largest SoCalGas storage facility and an important element of SoCalGas' delivery system. Aliso Canyon represents 63 percent of SoCalGas' owned natural gas storage inventory capacity. SoCalGas has not injected natural gas into Aliso Canyon since October 25, 2015, in accordance with the Governor's Order, but in conflict with the CPUC's reliability-based direction, which requires injections to reach higher inventory levels prior to the winter season. On March 4, 2016, the DOGGR issued Order 1109, Order to Take Specific Actions Regarding Aliso Canyon Gas Storage Facility (Safety Review Testing Regime). On April 7, 2016, SoCalGas announced its safety framework to comply with the DOGGR Order 1109, which consists of phased testing for each of the active injection wells in the Aliso Canyon storage facility. SoCalGas will continue this moratorium on further injections until all required approvals have been obtained.

On November 1, 2016, SoCalGas submitted a request to DOGGR to resume injection operations at the Aliso Canyon storage facility. Under SB 380, before authorizing the commencement of injections at the facility, DOGGR must hold a public meeting in the affected community to provide the public an opportunity to comment on the safety review findings, and the CPUC must concur with DOGGR's safety determination in writing.

On April 5, 2016, four energy agencies—the CPUC, CEC, CAISO, and LADWP—issued an Aliso Canyon Action Plan to Preserve Gas and Electric Reliability for the Los Angeles Basin. In their Action Plan, the agencies recognized that Aliso Canyon is critical to meeting peak demand in both winter and summer. To help mitigate concerns about natural gas service reliability to customers, including related impacts on natural gas-fueled power generation, SoCalGas, SDG&E and 24 customer organizations filed a settlement agreement with the CPUC on April 29, 2016 regarding procedures to help deal with service reliability issues. The procedures, which address supply shortages and surpluses using temporarily modified Operational Flow Order (OFO) tariff provisions, were approved by the CPUC on June 9, 2016, and will be in place through no later than November 30, 2016. There can be no assurance that these measures will prevent gas curtailments or power outages.

If the Aliso Canyon facility were to be taken out of service for any meaningful period of time, it could result in an impairment of the facility, significantly higher than expected operating costs and/or additional capital expenditures, and natural gas reliability and electric generation could be jeopardized. At September 30, 2016, the Aliso Canyon facility has a net book value of \$491 million, including \$217 million of construction work in progress for the project to construct a new compression station. Any significant impairment of this asset could have a material adverse effect on SoCalGas' and Sempra Energy's results of operations for the period in which it is recorded. Higher operating costs and additional capital expenditures incurred by SoCalGas may not be recoverable in customer rates, and SoCalGas' and Sempra Energy's results of operations, cash flows and financial condition may be materially adversely affected.

Other

SoCalGas, along with Monsanto Co., Solutia, Inc., Pharmacia Corp. and Pfizer, Inc., are defendants in seven Los Angeles County Superior Court lawsuits filed beginning in April 2011 seeking recovery of unspecified amounts of damages, including punitive

damages, as a result of plaintiffs' exposure to PCBs (polychlorinated biphenyls). The lawsuits allege plaintiffs were exposed to PCBs not only through the food chain and other various sources but from PCB-contaminated natural gas pipelines owned and operated by SoCalGas. This contamination allegedly caused plaintiffs to develop cancer and other serious illnesses. Plaintiffs assert various bases for recovery, including negligence and products liability. SoCalGas has settled six of the seven lawsuits for an amount that is not significant.

Sempra Mexico

Permit Challenges and Property Disputes

Sempra Mexico has been engaged in a long-running land dispute relating to property adjacent to its Energía Costa Azul LNG terminal near Ensenada, Mexico. Ownership of the adjacent property is not required by any of the environmental or other regulatory permits issued for the operation of the terminal. A claimant to the adjacent property has nonetheless asserted that his health and safety are endangered by the operation of the facility, and filed an action in the Federal Court challenging the permits. In February 2011, based on a complaint by the claimant, the municipality of Ensenada opened an administrative proceeding and sought to temporarily close the terminal based on claims of irregularities in municipal permits issued six years earlier. This attempt was promptly countermanded by Mexican federal and Baja California state authorities. No terminal permits or operations were affected as a result of these proceedings or events and the terminal has continued to operate normally. In the second quarter of 2014, the municipality of Ensenada dismissed the administrative proceeding. In the second quarter of 2015, the Administrative Court of Baja California confirmed the municipality of Ensenada's ruling and dismissed the proceeding. In September 2016, the Federal Court dismissed the lawsuit in which the permits were challenged.

The claimant also filed complaints in the federal Agrarian Court challenging the refusal of the Secretaría de la Reforma Agraria (now the Secretaría de Desarrollo Agrario, Territorial y Urbano, or SEDATU) in 2006 to issue a title to him for the disputed property. In November 2013, the Agrarian Court ordered that SEDATU issue the requested title and cause it to be registered. Both SEDATU and Sempra Mexico challenged the ruling, due to lack of notification of the underlying process. Both challenges are pending to be resolved by a Federal Court. Sempra Mexico expects additional proceedings regarding the claims, although such proceedings are not related to the permit challenges referenced above.

The property claimant also filed a lawsuit in July 2010 against Sempra Energy in Federal District Court in San Diego seeking compensatory and punitive damages as well as the earnings from the Energía Costa Azul LNG terminal based on his allegations that he was wrongfully evicted from the adjacent property and that he has been harmed by other allegedly improper actions. In September 2015, the Court granted Sempra Energy's motion for summary judgment and closed the case. In October 2015, the claimant filed a notice of appeal of the summary judgment and an earlier order dismissing certain of his causes of action.

Additionally, several administrative challenges are pending in Mexico before the Mexican environmental protection agency (SEMARNAT) and the Federal Tax and Administrative Courts seeking revocation of the environmental impact authorization (EIA) issued to Energía Costa Azul in 2003. These cases generally allege that the conditions and mitigation measures in the EIA are inadequate and challenge findings that the activities of the terminal are consistent with regional development guidelines. The Mexican Supreme Court decided to exercise jurisdiction over one such case, and in March 2014, issued a resolution denying the relief sought by the plaintiff on the grounds its action was not timely presented. A similar administrative challenge seeking to revoke the port concession for our marine operations at our Energía Costa Azul LNG terminal was filed with and rejected by the Mexican Communications and Transportation Ministry. In April 2015, the Federal court confirmed the Mexican Communications and Transportation Ministry's ruling denying the request to revoke the port concession and decided in favor of Energía Costa Azul.

Two real property cases have been filed against Energía Costa Azul in which the plaintiffs seek to annul the recorded property titles for parcels on which the Energía Costa Azul LNG terminal is situated and to obtain possession of different parcels that allegedly sit in the same place; one of these cases was dismissed in September 2013 at the direction of the state appellate court. A third complaint was served in April 2013 seeking to invalidate the contract by which Energía Costa Azul purchased another of the terminal parcels, on the grounds the purchase price was unfair. Sempra Mexico expects further proceedings on the remaining two matters.

In 2015, the Yaqui tribe, with the exception of the BÁCUM community, granted its consent and a right of way easement agreement for the construction of the Guaymas-El Oro segment that crosses its territory. Representatives of the BÁCUM community filed an amparo claim in Mexican Federal Court demanding the right to withhold consent for the project, the stoppage of work in the Yaqui territory and damages. The judge granted a suspension order that prohibited the construction through the BÁCUM community territory only. As a result, IEnova has been delayed in the construction of approximately 14 kilometers of the Guaymas-El Oro segment of IEnova's Sonora Pipelines that pass through territory of the Yaqui tribe. While IEnova continues to seek the consent of the BÁCUM community, it intends to continue construction along such route. IEnova may reroute the pipeline, however, if the circumstances so warrant. Efforts to obtain consent or reroute the pipeline could cause added expense and delays in completion of the pipeline. There can be no assurance that the CFE will agree to extend the deadline for commercial operations or provide payment of transportation services in the event of such delay.

Sempra Natural Gas

Beginning in April 2012, a series of lawsuits were filed against Mobile Gas in Mobile County Circuit Court alleging that in the first half of 2008 Mobile Gas spilled tert-butyl mercaptan, an odorant added to natural gas for safety reasons, in Eight Mile, Alabama. Under the terms of the agreement to sell the outstanding equity of EnergySouth, the parent company of Mobile Gas, as discussed in Note 3, this litigation and any associated liabilities and insurance receivable were retained by Mobile Gas at the close of the transaction in September 2016.

Other Litigation

Sempra Energy holds a noncontrolling interest in RBS Sempra Commodities LLP (RBS Sempra Commodities), a limited liability partnership in the process of being liquidated. The Royal Bank of Scotland plc (RBS), our partner in the joint venture, was notified by the United Kingdom's Revenue and Customs Department (HMRC) that it was investigating value-added tax (VAT) refund claims made by various businesses in connection with the purchase and sale of carbon credit allowances. HMRC advised RBS that it had determined that it had grounds to deny such claims by RBS related to transactions by RBS Sempra Energy Europe (RBS SEE), a former indirect subsidiary of RBS Sempra Commodities that was sold to JP Morgan. HMRC asserted that RBS was not entitled to reduce its VAT liability by VAT paid during 2009 because RBS knew or should have known that certain vendors in the trading chain did not remit their own VAT to HMRC. In September 2012, HMRC issued a protective assessment of £86 million for the VAT paid in connection with these transactions. In October 2014, RBS filed a Notice of Appeal of the September 2012 assessment with the First-tier Tribunal. As a condition of the appeal, RBS was required to pay the assessed amount. The payment also stops the accrual of interest that could arise should it ultimately be determined that RBS has a liability for some of the tax. RBS has asserted that HMRC's assessment was time-barred. The First-Tier Tribunal held a preliminary hearing on the time-bar issue in September 2016, but has not yet issued its decision. In June 2015, liquidators for three companies that engaged in carbon credit trading via chains that included a company that RBS SEE traded with directly filed a claim in the High Court of Justice against RBS and RBS Sempra Commodities alleging that RBS Sempra Commodities' and RBS SEE's participation in transactions involving the sale and purchase of carbon credits resulted in the companies' incurring VAT liability they were unable to pay. In October 2015, the liquidators' counsel filed an amended claim adding seven additional trading companies to the claim and asserting damages of £146 million for all 10 companies. Additionally, the claimants dropped RBS Sempra Commodities LLP as a defendant, adding the successor to RBS SEE and JP Morgan, Mercuria Energy Europe Trading Limited (Mercuria), in its stead. JP Morgan has notified us that Mercuria has sought indemnity for the claim, and JP Morgan has in turn sought indemnity from us. Our remaining balance in RBS Sempra Commodities is accounted for under the equity method. The investment balance of \$67 million at September 30, 2016 reflects remaining distributions expected to be received from the partnership as it is liquidated. The timing and amount of distributions may be impacted by these matters. We discuss RBS Sempra Commodities further in Note 4 of the Notes to Consolidated Financial Statements in the Annual Report.

In August 2007, the U.S. Court of Appeals for the Ninth Circuit issued a decision reversing and remanding certain FERC orders declining to provide refunds regarding short-term bilateral sales up to one month in the Pacific Northwest for the January 2000 to June 2001 time period. In December 2010, the FERC approved a comprehensive settlement previously reached by Sempra Energy and RBS Sempra Commodities with the State of California. The settlement resolved all issues with regard to sales between the California Department of Water Resources and Sempra Commodities in the Pacific Northwest, but potential claims may exist regarding sales in the Pacific Northwest between Sempra Commodities and other parties. The FERC is in the process of addressing these potential claims on remand. Pursuant to the agreements related to the formation of RBS Sempra Commodities, we have indemnified RBS for any liability from the final resolution of these matters. Pursuant to our agreement with the Noble Group Ltd., one of the buyers of RBS Sempra Commodities' businesses, we have also indemnified Noble Americas Gas & Power Corp. and its affiliates for all losses incurred by such parties resulting from these proceedings as related to Sempra Commodities.

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

CONTRACTUAL AND OTHER COMMITMENTS

We discuss below significant changes in the first nine months of 2016 to contractual commitments discussed in Notes 1 and 15 of the Notes to Consolidated Financial Statements in the Annual Report.

Natural Gas Contracts

Sempra Natural Gas' natural gas purchase and transportation commitments have decreased by \$224 million since December 31, 2015, primarily due to payments on existing contracts and changes in forward natural gas prices in the first nine months of 2016. Net future payments are expected to decrease by \$168 million in 2016, increase by \$2 million in 2017 and decrease by \$17 million in 2018, \$20 million in 2019, \$8 million in 2020 and \$13 million thereafter compared to December 31, 2015.

In the second quarter of 2016, Sempra Natural Gas permanently released pipeline capacity that it held with Rockies Express and others. The effect of the permanent capacity releases resulted in a pretax charge of \$206 million (\$123 million after-tax), which is included in Other Cost of Sales on the Sempra Energy Condensed Consolidated Statement of Operations in the nine months ended September 30, 2016. The charge represents an acceleration of costs that would otherwise have been recognized over the duration of the contracts. In connection with the capacity releases, Sempra Natural Gas has recorded \$44 million in Other Current Liabilities and \$106 million in Deferred Credits and Other on the Sempra Energy Condensed Consolidated Balance Sheet at September 30, 2016, representing the amounts by which Sempra Natural Gas' obligation to make future capacity payments is expected to exceed proceeds generated from the permanent capacity releases.

LNG Purchase Agreement

Sempra Natural Gas has a purchase agreement for the supply of LNG to the Energía Costa Azul terminal. The agreement is priced using a predetermined formula based on natural gas market indices. Although this contract specifies a number of cargoes to be delivered, under its terms, the customer may divert certain cargoes, which would reduce amounts paid under the contracts by Sempra Natural Gas.

Sempra Natural Gas' commitment under the LNG purchase agreement, reflecting changes in forward prices since December 31, 2015 and actual transactions for the first nine months of 2016, is expected to decrease by \$306 million in 2016, increase by \$41 million in 2017, and decrease by \$18 million in 2018, \$59 million in 2019, \$98 million in 2020 and \$542 million thereafter (through contract termination in 2029) compared to December 31, 2015. These amounts are based on forward prices of the index applicable to the contract from 2016 to 2028 and an estimated one percent escalation in 2029. The LNG commitment amounts above are based on the requirement for Sempra Natural Gas to accept the maximum possible delivery of cargoes under the agreement. Actual LNG purchases in the current and prior years have been significantly lower than the maximum amounts possible due to the customer electing to divert cargoes as allowed by the agreement.

Purchased-Power Contracts

SDG&E's commitments under purchased-power contracts have increased by \$526 million since December 31, 2015, primarily due to the settlement agreement for the Rim Rock Wind Farm, discussed above. Net future payments are expected to increase by \$19 million in 2016, \$56 million in 2017, \$57 million each year in 2018 through 2020 and \$280 million thereafter compared to December 31, 2015.

In July 2016, the Ministry of Energy and Mines in Peru amended the basis upon which tolling fees are billed for transmission connection from the generator to the distributor. Prior to the change in law, tolling fees were based on contracted capacity. As a result of the change in law, tolling fees are now based on coincident peak demand. At December 31, 2015, Sempra South American Utilities' commitments under purchased-power contracts included \$1.4 billion of tolling fees that were fixed and determinable. These tolling fees are now variable based on customers' coincident peak demand.

Construction and Development Projects

In connection with the acquisition of GdC in September 2016, as we discuss in Note 3, contractual commitments for ongoing maintenance services at Sempra Mexico increased by \$180 million. The future payments for these contractual commitments are expected to be \$4 million in 2016, \$15 million each year in 2017 and 2018, \$16 million each year in 2019 and 2020, and \$114 million thereafter.

Asset Retirement Obligations

Contractual commitments for asset retirement obligations at SDG&E, SoCalGas and Sempra Energy Consolidated increased by \$26 million, \$316 million and \$342 million, respectively, since December 31, 2015, primarily for natural gas assets, as a result of updated cost studies completed for the 2016 GRC filing. We discuss the 2016 GRC in Note 10.

Guarantees

We discuss guarantees related to Sempra Energy in Note 4 above and in Note 15 of the Notes to Consolidated Financial Statements in the Annual Report.

NUCLEAR INSURANCE