

**BEFORE THE PUBLIC UTILITIES COMMISSION  
OF THE STATE OF CALIFORNIA**

Application of SOUTHERN CALIFORNIA GAS COMPANY for Authorization to (1) Obtain Long-term Debt Capital Not to Exceed the Equivalent of U.S \$1,500,000,000; (2) Include Certain Features in Debt Securities or Enter into Certain Derivative Transactions; (3) Hedge Issuances of Debt Securities and Preferred or Preference Securities; and (4) Take All Other Necessary, Related Actions.

**APPLICATION OF  
SOUTHERN CALIFORNIA GAS COMPANY (U 904 G)**

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Pursuant to Articles 5 and 6 of Chapter 4, Part 1, Division 1 of the Public Utilities Code and Rules 33 and 34 of the Rules of Practice and Procedure of the California Public Utilities Commission (the “Commission”), Southern California Gas Company (“SoCalGas” or “Applicant”) requests authorization from the Commission:

(1) To issue first mortgage bonds, debentures, overseas indebtedness, foreign securities, medium-term notes, or other evidences of its indebtedness; to enter into long-term loans; and engage in accounts receivable financings (collectively, "Debt Securities") in an aggregate principal amount not to exceed \$1,500,000,000 of debt capital. SoCalGas' management or board of directors will determine the principal amount and the terms and conditions of each issue of Debt Securities according to market conditions at the time of sale.

(2) To include certain features in SoCalGas Debt Securities or to enter into certain derivative transactions related to underlying debt, as necessary, to improve the terms and conditions of SoCalGas' debt portfolio and lower SoCalGas' cost of money for the benefit of ratepayers.

(3) To hedge, when appropriate, existing or planned issuances of Debt and Preferred or Preference Securities.

(4) To take all other necessary and related actions as described in Section XII.

Applicant also requests that the additional features associated with the Debt Securities requested in this Application be similarly authorized for the unused authority previously granted in Commission Decisions (“D.”) 06-07-012, D.96-09-036, and D.09-09-046. The authorization requested in this Application is in addition to the unused authority previously granted in those prior Commission decisions.

## **I. INTRODUCTION**

SoCalGas is requesting additional long-term financing authority at this time to fund its capital expenditure plans and also to provide new debt authority for new issuances that will be required for \$250 million of long-term debt that matures in 2014. Schedules II, III, and IV in the attached Prepared Direct Testimony of Garry G. Yee reflect SoCalGas’ annual long-term debt maturities over a three-year forecast horizon. SoCalGas anticipates substantial infrastructure investments required to deploy its gas advanced metering equipment pursuant to the Commission’s D.10-04-027, in addition to construction associated with its Pipeline Safety Enhancement Plan (“PSEP”).

Deployment of SoCalGas’ Advanced Meter project began in October 2012 and will have construction budgets ranging from \$130 to \$180 million in years 2013-2015.

SoCalGas filed its PSEP in August 2011 proposing a comprehensive plan in two phases to enhance pipeline safety and cover 3,750 miles of transmission pipelines.<sup>1</sup> Phase 1 is focused on populated areas and would be implemented over a ten-year period (through 2022). Phase 2 would cover unpopulated areas and would be filed in detail at a later date. The total estimated cost of the ten-year Phase 1 plan is \$3.1 billion in fully allocated costs. SoCalGas has requested authority for Phase 1A funding through 2015 and has requested approval of a balancing account mechanism to recover an estimated fully allocated cost of \$1.5 billion, of which \$1.4 billion is capital. A final decision regarding SoCalGas’ pending PSEP proposal is expected in second quarter 2013, and this Application does not prejudge or presume any decision on that proposal.

## **II. BACKGROUND**

SoCalGas’ existing financing authority was granted by the Commission: (1) on September 4, 1996, in D.96-09-036 (authorization to issue long-term debt capital of \$600 million

and preferred or preference stock of \$100 million); (2) on July 10, 2003, in D.03-07-008 (authorization to obtain long-term debt capital of \$715 million); (3) on July 20, 2006, in D.06-07-012 (authorization to issue long-term debt capital of \$400 million and preferred stock of \$100 million); and (4) on September 24, 2009, in D.09-09-046 (authorization to issue up to \$800 million of long-term debt). As of the date of this Application, against the authority granted in D.96-09-036, SoCalGas has issued all of the \$600 million of long-term debt capital and no preferred or preference stock. Against the authority granted in D.03-07-008, SoCalGas has issued all of the \$715 million of long-term debt capital. Against the authority granted in D.06-07-012, SoCalGas has issued all of the \$400 million of long-term debt capital and none of the preferred or preference stock. Against the authority granted in D.09-09-046, SoCalGas has issued \$418 million of long-term debt. Stated in terms of remaining unused authority, SoCalGas has existing unused authority to issue \$200 million in preferred or preference stock from D.96-09-036 and D.06-07-012, and \$382 million in long-term debt from D.09-09-046. The table below summarizes this previously Authorized, Used, and Unused Authority:

Summary of Authorized, Used & Unused Long-Term Debt & Preferred Stock Authority

As of December 10, 2012

(\$ Millions)	\$ Amount	\$ Amount	\$ Amount
Decision No.	Authorized in Decision	Used	Unused
<b>Preferred Stock:</b>			
96-09-036	\$100.0	\$0.0	\$100.0
06-07-012	<u>100.0</u>	<u>0.0</u>	<u>100.0</u>
Total Preferred Stock	<u>200.0</u>	<u>0.0</u>	<u>200.0</u>
<b>Long-Term Debt:</b>			
96-09-036	600.0	600.0	0.0
03-07-008	715.0	715.0	0.0
06-07-012	400.0	400.0	0.0
09-09-046	<u>800.0</u>	<u>418.0</u>	<u>382.0</u>
Total Long-Term Debt	<u>\$2,515.0</u>	<u>\$2,133.0</u>	<u>\$382.0</u>

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<sup>1</sup> SoCalGas' PSEP was filed jointly with San Diego Gas & Electric Company (SDG&E). Because this Application only addresses financing authority for SoCalGas, the details of SDG&E's PSEP are not specifically addressed.

### **III. USE OF PROCEEDS**

SoCalGas intends to apply the net proceeds from the proposed debt financings to reimburse its treasury for monies expended or to be expended for: (i) the expansion and betterment of utility plant as described in Section I; and (ii) the discharge of its indebtedness or debt to be retired at maturity. Further detail on these uses is included in Schedules I and III of the attached Prepared Direct Testimony of Garry G. Yee.

### **IV. DESCRIPTION OF DEBT SECURITIES**

The following describes the types of Debt Securities that may be issued. Optional features designed to enhance the terms and conditions of the Debt Securities are described in Section V of this Application. SoCalGas is requesting the same types of Debt Securities requested in its last financing application (A.09-03-009) and approved by the Commission in D.09-09-046.

In general, each series of Debt Securities is expected to have a maturity of between one year and 100 years. Medium-term notes are expected to have a maturity of between twelve months and 40 years.

With the exception of first mortgage bonds and long-term loans (both defined below), each issue of Debt Securities may be issued under an indenture or a supplement to an existing indenture to be delivered to the trustee for such issue. The indenture or supplemental indenture would set forth the terms and conditions of each issue of Debt Securities.

A. Secured debt. Secured debt may be secured by a lien on property or through other credit-enhancement arrangements described in Section V, below.

First mortgage bonds (“FMBs”) will be issued in accordance with SoCalGas’ trust indenture dated October 1, 1940, as amended and supplemented and which heretofore has been filed with the Commission. The supplemental indenture delivered in connection with each new series of first mortgage bonds will be in a form consistent with supplemental indentures previously filed with the Commission.

Secured debt may be sold to either domestic or foreign investors. It may be sold to underwriters who in turn will offer the secured debt to investors, or it may be sold directly to investors either with or without the assistance of a private placement agent. Secured debt may be registered with the Securities and Exchange Commission (“SEC”), depending on the method of offering and sale, and may be listed on a stock exchange.

In certain instances, SoCalGas may enter into contractual agreements whereby a third party will provide appropriate credit facilities as security for a secured debt issue. The cost of the credit facilities will be included in determining the issue's overall cost.

B. Unsecured debt (“debentures”). Debentures may be sold to either domestic or foreign investors. They may be sold to underwriters who in turn will offer the debentures to investors, or they may be sold directly to investors either with or without the assistance of a placement agent. Debentures may be registered with the SEC and may be listed on a stock exchange. Unsecured debt may be senior or subordinated.

C. Foreign capital markets. Debt Securities issued by SoCalGas in foreign capital markets may be denominated in, or proceeds from their sale received in, United States (“U.S.”) dollars or in other currencies. International bond issuance is commonly separated into two categories, U.S.-pay and foreign-pay. The U.S.-pay international bond market consists primarily of Eurodollar bonds, which are issued and traded outside of the U.S. and denominated in U.S. dollars. The foreign-pay, or simply foreign, bond market describes issues sold in a country outside of the U.S. in the local currency.

Certain circumstances may make international borrowing attractive to a U.S. utility. Competition among global investment banks may create low-cost offshore funding opportunities. Foreign bond markets may have a better appetite for a particular debt security than domestic markets. Finally, a domestic utility may find international markets more accessible during a time when domestic bond markets are not.

To reduce or eliminate the risk of currency fluctuations, SoCalGas may engage in currency swaps (defined below) or other arrangements.

D. Medium-term notes. Medium-term notes (“MTNs”) are a form of debt that may be offered on a continuous or periodic basis. Generally, MTNs are non-callable, unsecured, senior debt securities with investment-grade credit ratings. Like corporate debt, MTNs can carry either fixed or variable rates of interest, can be sold overseas, and can be backed with certain issuer assets, like accounts receivable. MTNs differ primarily from bonds in their distribution process. MTNs are sold to investors by banks and broker-dealers on what is known as a “best-efforts” basis: in contrast to a bond underwriting, the agent in an MTN offering has no obligation to buy the notes and the issuer is not guaranteed funds. Many MTN programs permit the borrower to

bypass financial intermediaries altogether and sell debt directly to investors. Finally, unlike corporate bonds, which are typically sold in large, discrete offerings, MTNs are usually sold in small amounts either on a continuous or an intermittent basis.

E. Direct long-term loans. SoCalGas may enter into long-term loans, Debt Securities with a maturity of greater than one year, pursuant to a line of credit with banks, insurance companies, or other financial institutions. SoCalGas may enter into loans when it finds that interest rates or other circumstances make it attractive to do so.

F. Accounts-receivable financing. SoCalGas may issue Debt Securities secured by a pledge, sale or assignment of its accounts receivable. SoCalGas anticipates that the transactions would be structured to be a true sale for bankruptcy purposes, a sale for financial reporting, and debt for tax purposes although other structures may be developed using accounts receivable as security or collateral. Because an accounts receivable financing would be an encumbrance on utility properties to the extent that accounts receivable are considered to be utility property, SoCalGas requests authorization under Public Utilities Code Section 851 to mortgage and encumber utility property.

G. Variable-rate debt. SoCalGas anticipates that from time to time the cost of SoCalGas debt may be reduced by issuing variable-rate Debt Securities. A variable-rate Debt Security includes, but is not limited to, Debt Securities bearing interest based on the prime rate of banks, bankers' acceptances, Euro-commercial paper, or some other referenced interest rate. A variable-rate Debt Security may also be a Debt Security for which investors possess a series of periodic, mandatory put options which require SoCalGas to repurchase all or a portion of the Debt Securities, and which may be coupled with a remarketing obligation by SoCalGas of the repurchased Debt Security. Certain variable-rate Debt Securities require credit support, such as bank lines. These bank lines may be in the form of a short-term or long-term bank line agreement. Since these credit facilities are an integral part of the variable-rate debt issuance, such facilities (and any borrowing thereunder) should not be considered by the Commission to count against existing short-term debt authorizations.

H. “Fall-away” mortgage bonds. SoCalGas may wish to issue debt that is initially secured and subsequently convertible into unsecured debt, known as “fall-away bonds.” These senior notes are initially secured under their indenture by collateral FMBs issued in equal

principal amount under the existing 1940 first mortgage indenture and delivered to the fall-away indenture trustee. Subsequent to the redemption or maturity of all outstanding FMBs (other than the collateral FMBs held by the fall-away indenture trustee) the fall-away bonds will become unsecured general obligations of SoCalGas. The fall-away bonds' indenture will contain a negative pledge clause, which provides that the newly-unsecured obligations will be secured equally with any secured bonds that may be issued in the future.

I. Subordinated debt. SoCalGas may issue subordinated debt securities, which will be junior in right of payment to its senior unsecured and secured indebtedness.

## **V. DEBT SECURITY ENHANCEMENTS**

SoCalGas hereby requests authorization to include certain features in its Debt Securities or enter into certain derivative transactions related to underlying debt. Such measures would be taken when appropriate to improve the terms and conditions of SoCalGas' Debt Securities and to lower the overall cost of money for the benefit of the ratepayers. SoCalGas is requesting the same type of security enhancements requested in SoCalGas' last financing application (A.09-03-009) and approved by the Commission in D.09-09-046.

A. Put options. SoCalGas anticipates that from time to time the cost of its Debt Securities may be reduced by the inclusion of a put option. This feature grants to a Debt Security owner the right to require SoCalGas to repurchase all or a portion of that holder's securities, commonly referred to as "putting" the security back to the company. Debt holders are willing to accept a lower interest rate in exchange for the protection against rising interest rates offered by the put option.

B. Call options. SoCalGas anticipates that from time to time it may retain the right to retire, fully or partially, a Debt Security before the scheduled maturity date. This is commonly referred to as "calling" the Security. The chief benefit of such a feature is that it permits SoCalGas, should market rates fall, to replace the bond issue with a lower-cost issue, thus producing a positive net benefit to ratepayers.

C. Sinking funds. SoCalGas anticipates that from time to time the cost of SoCalGas Debt Securities may be reduced by the use of a sinking fund. A sinking fund typically operates in one of two ways: (1) SoCalGas may set aside a sum of money periodically so that, at the maturity date of the bond issue, there is a pool of cash available to redeem the issue, or (2) SoCalGas may periodically redeem a specified portion of the bond issue. Typically, SoCalGas

would have the right to meet its sinking fund obligations in the latter fashion by either calling a certain number of bonds or purchasing the bonds in the open market.

D. Interest rate swaps. An interest rate swap is a contractual agreement between two parties to exchange a series of payments for a stated period. In a typical interest rate swap, one party pays the other fixed-rate interest while, in turn, the other pays floating-rate interest, both payment obligations being based on a notional principal amount (i.e., no principal is exchanged). Swaps are generally used to reduce either fixed-rate or floating-rate costs, or to convert fixed-rate borrowing to floating.

E. Swaptions. Swaption contracts give the right to enter into a swap agreement (or to exit a swap) under specified terms and conditions. The swaption's strike price, maturity, size and structure can be tailored to suit a party's particular needs. Corporate treasurers use swaptions to hedge an existing or anticipated exposure while retaining the ability to benefit from an advantageous change in interest rates, which is a benefit ultimately realized by SoCalGas ratepayers in a lower cost of debt.

F. Caps and collars. In order to reduce ratepayers' exposure to interest rate risk on variable-rate securities, SoCalGas may negotiate some type of maximum rate, usually called a cap. In that case, even if variable rates increase above the cap (or "ceiling") rate, SoCalGas would only pay the ceiling rate. In addition to the ceiling rate, sometimes a counterparty will desire a "floor" rate. In the event that the variable rate falls below the floor rate, SoCalGas would pay the floor rate. The combination of a floor and a ceiling rate is called an interest-rate collar because SoCalGas' interest expense is restricted to a band negotiated by SoCalGas and the counterparty.

G. Currency swaps. A currency swap is an arrangement in which one party agrees to make periodic payments in its domestic currency, based on either fixed or floating interest rates, to a counterparty which in turn makes periodic payments to the first party in a different currency. The payments are based on principal amounts that are exchanged at the initiation of the swap and re-exchanged at maturity. Currency swaps are useful in the management of exchange risk and will be used when necessary to hedge exposures created by Debt Securities denominated in foreign currencies.

H. Credit enhancements. SoCalGas may obtain credit enhancements for Debt Securities,

such as letters of credit, standby bond purchase agreements, surety bonds or insurance policies, or other credit support arrangements. Such credit enhancements may be included to reduce interest costs or improve other credit terms; and the cost of such credit enhancements would be included in the cost of the Debt Securities.

I. Capital replacement. SoCalGas may specify that it intends to replace Debt Securities when redeemed with replacement securities having similar, or more equity-like, characteristics. Capital replacement refers to an issuer's declaration of intent, or in some cases its covenant, to replace debt securities with new securities that receive similar or better rating-agency equity credit.

J. Interest deferral. SoCalGas may issue subordinated Debt Securities that permit discretionary interest payment deferral during an extension period. The extension period may specify a period wherein the issuer is not required to take any action. The deferral period shall not extend beyond the maturity date of the series of debt securities. SoCalGas may be obligated to pay any such accrued interest at the end of the extension period; however, in certain cases, claims for deferred payments may be waived in part or in whole.

K. Special-purpose entity transactions. In some instances it may be advantageous for SoCalGas to guarantee the securities of a special-purpose entity ("SPE"). The SPE would be a subsidiary or other affiliate of SoCalGas (including a limited partnership, a limited liability company or a business trust) and would issue securities and commit the proceeds from the issuance thereof to SoCalGas. Although the structure of an actual transaction may vary, generally the SPE would issue long-term debt securities to the investment community, either for cash or in exchange for existing SoCalGas securities. The securities may be guaranteed by SoCalGas in order to obtain better rates and/or terms. The guarantee may cover any accrued and unpaid distributions on the securities, the redemption price and any repurchase obligations as well as the liquidation preference. The proceeds of the issuance by the SPE would be loaned to SoCalGas through the issuance of Debt Securities featuring terms and conditions specified by SoCalGas at the time of issuance. This type of transaction can result in SoCalGas obtaining external capital which qualifies as having equity-like characteristics for the credit rating agencies but which SoCalGas can treat as debt for tax purposes.

L. Delayed drawdown. SoCalGas may enter long-term loans or issue debt securities where the full principal amount is not borrowed immediately, but over time in a series of disbursements which draw down the funding over a period of time.

## **VI. HEDGING THE PLANNED ISSUANCE OF SECURITIES**

Under certain circumstances, SoCalGas may wish to hedge the issuance of Debt Securities. For instance, compliance with legal, regulatory, and administrative matters may preclude SoCalGas from acting on a low-cost funding opportunity during a time of market volatility. Conversely, SoCalGas may have an immediate need for funds, but be reluctant to fix its cost at prevailing interest rates. Issuance-hedging strategies grant the ability to enter financial markets at times when interest rates or other circumstances appear most favorable. In this Application, SoCalGas is requesting authority for the same types of issuance hedges as requested in its last financing application (A.09-03-009) and granted by the Commission in D.09-09-046.

A. “Price today, fund later” strategies. These hedges allow SoCalGas to lock in today’s interest rate and issue securities at some later date

1. Treasury lock. This approach is used to lock in the Treasury component of SoCalGas’ borrowing cost. SoCalGas can delay securities issuance and capture the current Treasury yield by selling short Treasury securities (i.e., selling Treasury securities that it does not own) of a maturity comparable to that of the contemplated debt security. If interest rates rise, SoCalGas will cover its short Treasury position at a profit, which will be offset by the higher interest cost of the newly-issued securities; if interest rates decline, SoCalGas will cover its short Treasury position at a loss, but this will be offset by the lower cost on the newly-issued securities.

2. Treasury options. The purchase of Treasury put options is an alternative to the Treasury lock. In this transaction, SoCalGas would purchase put options entitling it to sell Treasury securities of a maturity comparable to that of the contemplated security issuance at a specified yield (the “strike yield”) at any time before the option’s expiration date. If interest rates rise above the put’s strike yield, SoCalGas will exercise the put and the resulting profit offsets the increased cost of borrowing. If interest rates decline, SoCalGas will let the option expire worthless and issue securities at prevailing lower rates.

3. Interest rate swaps. A forward-starting interest rate swap allows SoCalGas to delay a securities issuance and capture current yields. As the fixed-rate payer in an interest rate

swap, SoCalGas hedges its borrowing cost: if interest rates rise, unwinding the swap at a profit offsets higher borrowing costs. Conversely, if rates decline, lower borrowing costs offset the loss caused by unwinding the swap.

B. “Fund today, price later” strategies. These hedges allow SoCalGas to fund immediately and price the securities at some future date.

1. Long hedge. This approach allows SoCalGas to issue now and capture its current credit spread, but leave the all-in cost of the securities issue open. SoCalGas establishes a long hedge by issuing securities today and investing the proceeds in Treasury securities of a comparable maturity. If interest rates subsequently decline, the gain in the value of the Treasury portfolio will compensate SoCalGas for the lost opportunity to finance at lower rates. On the other hand, if rates rise, the interest expense savings realized by issuing immediately will be offset by the decline in value of the Treasury portfolio. Thus, the Treasury component of SoCalGas’ effective borrowing cost will be determined by the Treasury rates prevailing when it chooses to unwind the hedge; the credit spread is determined at the time of issuance.

2. Treasury options. The purchase of Treasury call options is an alternative to the long hedge. With this approach, SoCalGas would issue securities today and purchase call options on Treasury securities of a comparable maturity. Such a call option allows the holder to purchase Treasury securities at a specified yield (the “strike yield”) anytime before the expiration date. If rates decline below the strike yield, exercising the option produces a gain used to offset the interest cost of the securities issued today. If interest rates rise above the strike yield, the option will expire unexercised. In this case SoCalGas benefits from the lower borrowing rate.

3. Interest rate swaps. A forward-starting interest rate swap allows SoCalGas to issue securities immediately and benefit from a subsequent fall in interest rates. As the floating-rate payer in an interest rate swap, SoCalGas hedges its borrowing cost: if interest rates decline, unwinding the swap at a profit will compensate SoCalGas for the lost opportunity to finance at lower rates. Conversely, if rates rise, the interest expense savings realized by issuing immediately will be offset by the loss caused by unwinding the swap.

## VII. COMPLIANCE WITH THE NEW FINANCING RULE

In D.12-06-015 (R.11-03-007), the Commission adopted the Utility Long-Term Debt Financing Rule (the “Financing Rule”), replacing the Competitive Bidding Rule that had previously governed the issuance of Debt Securities.

In accordance with the Financing Rule, SoCalGas intends to (a) prudently issue debt consistent with market standards with the goal of achieving the lowest long-term cost of capital for ratepayers, (b) determine the financing term of its debt issues with due regard for its financial condition and requirements, (c) use its best efforts to encourage, assist, and include Women-, Minority-, Disabled Veteran-Owned Business Enterprises (“WMDVBEs”) in various types of underwriting roles on Debt Securities offerings, (d) utilize Debt Security Enhancements only in connection with Debt Securities financings, and (e) adhere to the Financing Rule’s restrictions on the use of swap and hedging transactions.

Additionally, SoCalGas will comply with the debt-issuance reporting requirements defined in General Order 24-C, also established in D.12-06-015.

## **VIII. FEES**

A fee of \$631,000 will be payable under Public Utilities Code Section 1902(b) upon the Commission’s approval of the authorization requested in this application. The calculation of the fee is shown in Schedule XII to the served Prepared Direct Testimony of Garry G. Yee.

## **IX. STATUTORY AND PROCEDURAL REQUIREMENTS**

### **A. Compliance with Rule 2.1**

In accordance with Rule 2.1 of the Commission’s Rules of Practice and Procedure, Applicant provides the following information concerning the proposed category for the proceeding, need for hearing, the issues to be considered, and a proposed schedule.

#### **1. Proposed Category of Proceeding – Rules 2.1(c) and 7.1(a)**

Applicant proposes to categorize this Application as a “ratesetting” proceeding within the meaning of Rules 1.3(e).

#### **2. Need for Hearing and Proposed Schedule – Rules 2.1(c) and 7.1(a)**

Applicant believes that no hearing is necessary in this proceeding. *Ex parte* grant of the authorizations sought herein at the earliest possible date will permit Applicant to proceed with its proposed financings in an expeditious manner. Such expeditious treatment will, in turn, allow Applicant to pursue its utility objectives in a timely and cost-effective manner to the benefit of ratepayers. In order to expedite the processing of this Application, Applicant will serve Prepared Direct Testimony of Garry G. Yee that provides additional schedules containing information pertaining to the authorizations requested in this application beyond that information normally required by the Commission’s Rules 33 and 34 and Public Utilities Code Sections 816-830. If,

however, the Commission finds that a public hearing is necessary, Applicant requests that such hearing be conducted as soon as practicable. Applicant is prepared to proceed with any necessary hearing. Applicant proposes the following procedural schedule:

<u>ACTION</u>	<u>DATE</u>
Application filed	December 10, 2012
Protests filed, if any	30 days after notice of filing on Daily Calendar (approx. January 9, 2013)
ALJ Draft Decision	February 22, 2013
Comments on Draft Decision	March 14, 2013
Final Commission Decision	April 2013

The issues in this proceeding are whether Applicant should be authorized, pursuant to and consistent with Public Utilities Code Sections 816-830, to issue the securities described herein with the features described herein. Applicant is unaware of any specific objections any party might raise to any of these issues.

**B. Statutory Authority – Rule 2.1**

This Application is filed pursuant to Sections 816-830 and 851 of the California Public Utilities Code, and complies with the applicable orders of the Commission and the Commission's Rules of Practice and Procedure.

**C. Legal Name and Correspondence – Rule 2.1(a) & (b)**

The exact legal name of Applicant is "Southern California Gas Company." Applicant's principal place of business is located at 555 West 5th Street, Los Angeles, California 90013-1011, where its telephone number is (213) 244-1200. Applicant is a public utility engaged primarily in the purchase, distribution, transportation and sale of natural gas throughout most of southern California and portions of central California. It supplies natural gas to 20 million end-use customers throughout a 23,000 square-mile service territory including the City of Los Angeles. Applicant also transports gas to about 1,300 noncore customers (utility electric generation, wholesale, large commercial, industrial and off-system customers). Applicant owns underground storage reservoirs, natural gas transmission pipelines, compressor plants, distribution pipelines, services and appurtenant meters, metering and regulating stations, booster

stations, office buildings, general shops, warehouses for materials and supplies, and other property necessary in the conduct of its business.

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**D. Articles of Incorporation – Rule 2.2**

Applicant is a corporation duly organized and validly existing under the laws of the State of California. SoCalGas previously filed a certified copy of its Restated Articles of Incorporation with A.98-10-012 and is incorporated herein by reference.

**E. Proxy Statement – Rule 3.5**

A copy of SoCalGas' most recent proxy statement, dated May 1, 2012, was mailed to the Commission on May 2, 2012 and is incorporated herein by reference.

**F. Description of Property and Equipment – Rule 3.5**

A general description of SoCalGas' property and equipment was previously filed with this Commission on May 31, 2004, in connection with SoCalGas' A.04-05-008 and is incorporated herein by reference. Applicant's original cost of utility plant, together with the related reserves for depreciation and amortization, is shown on the balance sheet included in Attachment A.

**G. Balance Sheet and Income Statement – Rule 2.3**

Applicant's balance sheet and its related statements of income and retained earnings as of June 30, 2012 are attached hereto as Attachment B.

**H. Capitalization**

Applicant's regulatory capitalization as of June 30, 2012 is provided in Attachment C.

**I. Service – Rule 1.9**

This Application is being served on the parties identified on the attached Certificate of Service.

**X. ATTACHMENTS**

Attachments A through C, described below, are a part of, and incorporated into, this Application:

Attachment A: A statement of account of the original cost and depreciation reserve attributable to Applicant's property and equipment.

Attachment B: Applicant's most recent balance sheet, income statement, and other miscellaneous financial statements.

Attachment C: Applicant's adjusted capitalization at June 30, 2012.

**XI. TESTIMONIES TO BE SERVED**

The following testimonies will be served to support this Application:

- Prepared Direct Testimony of Garry G. Yee providing information concerning Applicant's request for financing authority, especially as to capital spending needs.
- Prepared Direct Testimony of Gary H. Hayes to support Applicant's request for financing authority, especially as to the particular Debt Securities for which authorization is sought.

**XII. REQUESTED AUTHORIZATIONS**

WHEREFORE, Applicant respectfully requests that the Commission issue its Order herein, *ex parte*, providing specifically<sup>2</sup> for the following authorizations to SoCalGas and findings:

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<sup>2</sup> Assuming the Commission approves the authorizations requested in this Application, it is extremely important that the language in the Commission's Order mirror the language set forth in this section. It will be the Ordering Paragraphs that financial institutions and their representatives will scrutinize for confirmation that Applicant has sufficient regulatory authority for issuance of the Debt Securities addressed herein.

1. To issue first mortgage bonds, debentures, overseas indebtedness, foreign securities, medium-term notes; to enter into long-term loans; or to issue other evidences of its indebtedness; and engage in accounts-receivable financings (collectively, "Debt Securities"), in an aggregate principal amount not to exceed \$1,500,000,000 of debt capital. The principal amount and the terms and conditions of each issue of Debt Securities will be determined by SoCalGas' management and/or board of directors according to market conditions at the time of sale.

2. To include certain features in SoCalGas Debt Securities or to enter into certain derivative transactions related to underlying debt, as necessary, to improve the terms and conditions of SoCalGas' debt portfolio and lower SoCalGas' cost of money for the benefit of ratepayers.

3. To hedge, when appropriate, planned issuances of Debt and Preferred and Preference Securities, within reasonable limits established in the New Financing Rule.

4. Specifically finding, as required by Section 818 of the Public Utilities Code, that in the opinion of the Commission, the money, property or labor to be procured or paid for by such issues is reasonably required for the purposes so specified, and that, except as otherwise permitted in the order in the case of bonds, notes, or other evidences of indebtedness, such purposes are not, in whole or in part, reasonably chargeable to operating expenses or to income.

5. Providing that the authority granted in such Order shall be effective upon payment of the fee prescribed in Sections 1904(b) and 1904.1 of the Public Utilities Code of \$631,000.

6. Providing that the authority granted in such Order shall be in addition to the authority granted in D.96-09-036, D.06-07-012, and D.09-09-046.

7. Providing that the additional features associated with the Debt Securities granted in such Order be similarly authorized for the unused authority previously granted in D.96-09-036, D.06-07-012, and D.09-09-046.

8. Granting such additional authorizations as this Commission may deem appropriate.

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DATED at San Diego, California, this 10th day of December, 2012.

Respectfully submitted,

Southern California Gas Company

By: */s/ Lee Schavrien*  
Lee Schavrien  
Senior Vice President  
Finance, Regulatory & Legislative Affairs

DATED at Los Angeles, California, this 10th day of December, 2012.

By: /s/ John R. Ellis  
JOHN R. ELLIS

Attorney for:  
SOUTHERN CALIFORNIA GAS COMPANY  
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E-mail: jellis@semprautilities.com

## **VERIFICATION**

I am Senior Vice President – Finance, Regulatory & Legislative Affairs of SOUTHERN CALIFORNIA GAS COMPANY, the Applicant herein, and am authorized to make this verification on its behalf, and am informed and believe and thereupon allege that the statements contained in the foregoing Application are true to the best of my knowledge.

I declare under penalty of perjury that the foregoing is true and correct to the best of my knowledge.

Executed on December 10, 2012 in San Diego, California.

By: /s/ Lee Schavrien  
Lee Schavrien  
Senior Vice President  
Finance, Regulatory & Legislative Affairs

## **Attachment A**

### **COST OF PROPERTY AND DEPRECIATION RESERVE**

June 30, 2012

# SOUTHERN CALIFORNIA GAS COMPANY

Plant Investment and Accumulated Depreciation

As of June 30, 2012

ACCOUNT NUMBER	DESCRIPTION	ORIGINAL COSTS	ACCUMULATED RESERVE	NET BOOK VALUE
<b>INTANGIBLE ASSETS</b>				
301	Organization	\$ 76,457	\$ -	\$ 76,457
302	Franchise and Consents	\$ 562,893	\$ -	\$ 562,893
	Total Intangible Assets	<u>\$ 639,350</u>	<u>0</u>	<u>\$ 639,350</u>
<b>PRODUCTION:</b>				
325	Other Land Rights	\$ 15,321	\$ -	\$ 15,321
330	Prd Gas Wells Const	\$ 5,461,473	\$ -	\$ 5,461,473
331	Prd Gas Wells Eqp	\$ 454,718	\$ (55)	\$ 454,663
332	Field LInes	\$ 1,731,111	\$ -	\$ 1,731,111
334	FldMeas&RegStnEquip	\$ 536,249	\$ -	\$ 536,249
336	Prf Eqpt	\$ 485,415	\$ -	\$ 485,415
	Total Production	<u>\$ 8,684,286</u>	<u>(55)</u>	<u>\$ 8,684,231</u>
<b>UNDERGROUND STORAGE:</b>				
350	Land	\$ 4,539,484	\$ -	\$ 4,539,484
350SR	Storage Rights	\$ 17,935,798	\$ (17,314,857)	\$ 620,941
350RW	Rights-of-Way	\$ 25,354	\$ (14,331)	\$ 11,024
351	Structures and Improvements	\$ 40,319,390	\$ (19,248,822)	\$ 21,070,568
352	Wells	\$ 270,575,847	\$ (159,795,932)	\$ 110,779,916
353	Lines	\$ 95,478,626	\$ (93,759,330)	\$ 1,719,295
354	Compressor Station and Equipment	\$ 126,268,388	\$ (64,443,108)	\$ 61,825,280
355	Measuring And Regulator Equipment	\$ 6,142,455	\$ (1,466,920)	\$ 4,675,535
356	Purification Equipment	\$ 117,681,559	\$ (63,429,834)	\$ 54,251,725
357	Other Equipment	\$ 26,262,160	\$ (5,962,685)	\$ 20,299,475
	Total Underground Storage	<u>\$ 705,229,060</u>	<u>(425,435,817)</u>	<u>\$ 279,793,243</u>
<b>TRANSMISSION PLANT- OTHER:</b>				
365	Land	\$ 2,862,523	\$ -	\$ 2,862,523
365LRTS	Land Rights	\$ 21,672,628	\$ (14,405,922)	\$ 7,266,705
366	Structures and Improvements	\$ 34,207,060	\$ (20,779,055)	\$ 13,428,005
367	Mains	\$ 1,186,631,076	\$ (543,527,052)	\$ 643,104,025
368	Compressor Station and Equipment	\$ 180,998,526	\$ (103,505,588)	\$ 77,492,938
369	Measuring And Regulator Equipment	\$ 59,978,610	\$ (25,048,064)	\$ 34,930,546
371	Other Equipment	\$ 4,026,224	\$ (2,499,884)	\$ 1,526,340
	Total Transmission Plant	<u>\$ 1,490,376,647</u>	<u>(709,765,564)</u>	<u>\$ 780,611,082</u>
<b>DISTRIBUTION PLANT:</b>				
374	Land	\$ 28,448,895	\$ -	\$ 28,448,895
374LRTS	Land Rights	\$ 2,733,253	\$ (12,264)	\$ 2,720,989
375	Structures and Improvements	\$ 226,820,665	\$ (62,618,658)	\$ 164,202,006
376	Mains	\$ 3,187,429,067	\$ (1,863,387,228)	\$ 1,324,041,839
378	Measuring And Regulator Equipment	\$ 74,279,644	\$ (53,729,527)	\$ 20,550,117
380	Services	\$ 2,131,477,250	\$ (1,741,794,165)	\$ 389,683,085
381	Meters	\$ 436,392,385	\$ (120,743,456)	\$ 315,648,929
382	Meter Installation	\$ 266,537,796	\$ (141,053,528)	\$ 125,484,268
383	House Regulators	\$ 124,243,835	\$ (52,458,170)	\$ 71,785,664
387	Other Equipment	\$ 26,612,676	\$ (20,746,816)	\$ 5,865,860
	Total Distribution Plant	<u>\$ 6,504,975,465</u>	<u>\$ (4,056,543,812)</u>	<u>\$ 2,448,431,652</u>
<b>GENERAL PLANT:</b>				
389	Land	\$ 1,342,839	\$ -	\$ 1,342,839
389LRTS	Land Rights	\$ 74,300	\$ -	\$ 74,300
390	Structures and Improvements	\$ 164,660,727	\$ (125,652,300)	\$ 39,008,427
391	Office Furniture and Equipment	\$ 556,505,387	\$ (226,034,389)	\$ 330,470,997
392	Transportation Equipment	\$ 633,320	\$ 63,700	\$ 697,020
393	Stores Equipment	\$ 93,665	\$ (22,169)	\$ 71,495
394	Shop and Garage Equipment	\$ 51,513,749	\$ (23,513,183)	\$ 28,000,565
395	Laboratory Equipment	\$ 5,696,790	\$ (3,551,086)	\$ 2,145,704
396	Construction Equipment	\$ 12,901	\$ 14,553	\$ 27,454
397	Communication Equipments	\$ 85,320,008	\$ (26,757,723)	\$ 58,562,285
398	Miscellaneous Equipment	\$ 3,329,778	\$ 534,483	\$ 3,864,261
	Total General Plant	<u>\$ 869,183,463</u>	<u>(404,918,114)</u>	<u>\$ 464,265,349</u>
	Grand Total	<u>\$ 9,579,088,271</u>	<u>\$ (5,596,663,362)</u>	<u>\$ 3,982,424,908</u>

## **Attachment B**

### BALANCE SHEET, INCOME STATEMENT, & FINANCIAL STATEMENTS

June 30, 2012

**SOUTHERN CALIFORNIA GAS COMPANY  
SUMMARY OF EARNINGS  
SIX MONTHS ENDED JUNE 30, 2012  
(DOLLARS IN MILLIONS)**

<u>Line No.</u>	<u>Item</u>	<u>Amount</u>
1	Operating Revenue	\$1,598
2	Operating Expenses	<u>1,469</u>
3	Net Operating Income	<u><u>\$129</u></u>
4	Weighted Average Rate Base	\$3,107
5	Rate of Return*	8.68%

\*Authorized Cost of Capital

**SOUTHERN CALIFORNIA GAS COMPANY  
BALANCE SHEET  
ASSETS AND OTHER DEBITS  
JUNE 30, 2012**

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1. UTILITY PLANT		2012
101	UTILITY PLANT IN SERVICE	\$10,210,120,775
102	UTILITY PLANT PURCHASED OR SOLD	-
105	PLANT HELD FOR FUTURE USE	-
106	COMPLETED CONSTRUCTION NOT CLASSIFIED	-
107	CONSTRUCTION WORK IN PROGRESS	399,288,725
108	ACCUMULATED PROVISION FOR DEPRECIATION OF UTILITY PLANT	(4,123,706,359)
111	ACCUMULATED PROVISION FOR AMORTIZATION OF UTILITY PLANT	(42,351,240)
117	GAS STORED-UNDERGROUND	<u>56,641,990</u>
TOTAL NET UTILITY PLANT		<u>6,499,993,891</u>
2. OTHER PROPERTY AND INVESTMENTS		
121	NONUTILITY PROPERTY	129,272,965
122	ACCUMULATED PROVISION FOR DEPRECIATION AND AMORTIZATION OF NONUTILITY PROPERTY	(102,812,030)
123	INVESTMENTS IN SUBSIDIARY COMPANIES	-
124	OTHER INVESTMENTS	122
125	SINKING FUNDS	-
128	OTHER SPECIAL FUNDS	<u>2,000,000</u>
TOTAL OTHER PROPERTY AND INVESTMENTS		<u>28,461,057</u>

Data from SPL as of August 29, 2012.

**SOUTHERN CALIFORNIA GAS COMPANY**  
**BALANCE SHEET**  
**ASSETS AND OTHER DEBITS**  
**JUNE 30, 2012**

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**3. CURRENT AND ACCRUED ASSETS**

	2012
131 CASH	10,885,866
132 INTEREST SPECIAL DEPOSITS	-
134 OTHER SPECIAL DEPOSITS	-
135 WORKING FUNDS	92,275
136 TEMPORARY CASH INVESTMENTS	1,000,000
141 NOTES RECEIVABLE	-
142 CUSTOMER ACCOUNTS RECEIVABLE	330,355,111
143 OTHER ACCOUNTS RECEIVABLE	21,928,867
144 ACCUMULATED PROVISION FOR UNCOLLECTIBLE ACCOUNTS	(6,585,653)
145 NOTES RECEIVABLE FROM ASSOCIATED COMPANIES	299,905,080
146 ACCOUNTS RECEIVABLE FROM ASSOCIATED COMPANIES	5,299,005
151 FUEL STOCK	-
152 FUEL STOCK EXPENSE UNDISTRIBUTED	-
154 PLANT MATERIALS AND OPERATING SUPPLIES	25,671,534
155 MERCHANDISE	1,551
156 OTHER MATERIALS AND SUPPLIES	-
163 STORES EXPENSE UNDISTRIBUTED	318,517
164 GAS STORED	17,862,204
165 PREPAYMENTS	10,785,556
171 INTEREST AND DIVIDENDS RECEIVABLE	3,630,932
173 ACCRUED UTILITY REVENUES	-
174 MISCELLANEOUS CURRENT AND ACCRUED ASSETS	9,009,357
175 DERIVATIVE INSTRUMENT ASSETS	3,945,000
176 LONG TERM PORTION OF DERIVATIVE ASSETS - HEDGES	-
 TOTAL CURRENT AND ACCRUED ASSETS	<u>734,105,202</u>

**4. DEFERRED DEBITS**

181 UNAMORTIZED DEBT EXPENSE	6,248,372
182 UNRECOVERED PLANT AND OTHER REGULATORY ASSETS	1,176,958,460
183 PRELIMINARY SURVEY & INVESTIGATION CHARGES	-
184 CLEARING ACCOUNTS	341,316
185 TEMPORARY FACILITIES	-
186 MISCELLANEOUS DEFERRED DEBITS	30,026,980
188 RESEARCH AND DEVELOPMENT	-
189 UNAMORTIZED LOSS ON REACQUIRED DEBT	14,916,674
190 ACCUMULATED DEFERRED INCOME TAXES	115,672,060
191 UNRECOVERED PURCHASED GAS COSTS	-
 TOTAL DEFERRED DEBITS	<u>1,344,163,862</u>

TOTAL ASSETS AND OTHER DEBITS

\$ 8,606,724,012

Data from SPL as of August 29, 2012.

**SOUTHERN CALIFORNIA GAS COMPANY**  
**BALANCE SHEET**  
**LIABILITIES AND OTHER CREDITS**  
**JUNE 30, 2012**

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**5. PROPRIETARY CAPITAL**

	2012
201 COMMON STOCK ISSUED	(834,888,907)
204 PREFERRED STOCK ISSUED	(21,551,075)
207 PREMIUM ON CAPITAL STOCK	-
208 OTHER PAID-IN CAPITAL	-
210 GAIN ON RETIRED CAPITAL STOCK	(9,722)
211 MISCELLANEOUS PAID-IN CAPITAL	(31,306,680)
214 CAPITAL STOCK EXPENSE	143,261
216 UNAPPROPRIATED RETAINED EARNINGS	(1,295,853,385)
219 ACCUMULATED OTHER COMPREHENSIVE INCOME	<u>20,396,115</u>
 TOTAL PROPRIETARY CAPITAL	 <u>(2,163,070,393)</u>

**6. LONG-TERM DEBT**

221 BONDS	(1,300,000,000)
224 OTHER LONG-TERM DEBT	(12,475,533)
225 UNAMORTIZED PREMIUM ON LONG-TERM DEBT	-
226 UNAMORTIZED DISCOUNT ON LONG-TERM DEBT	<u>2,198,895</u>
 TOTAL LONG-TERM DEBT	 <u>(1,310,276,638)</u>

**7. OTHER NONCURRENT LIABILITIES**

227 OBLIGATIONS UNDER CAPITAL LEASES - NONCURRENT	(1,730,093)
228.2 ACCUMULATED PROVISION FOR INJURIES AND DAMAGES	(118,365,078)
228.3 ACCUMULATED PROVISION FOR PENSIONS AND BENEFITS	(831,924,521)
228.4 ACCUMULATED MISCELLANEOUS OPERATING PROVISIONS	-
230 ASSET RETIREMENT OBLIGATIONS	<u>(1,199,051,864)</u>
 TOTAL OTHER NONCURRENT LIABILITIES	 <u>(2,151,071,556)</u>

Data from SPL as of August 29, 2012.

**SOUTHERN CALIFORNIA GAS COMPANY**  
**BALANCE SHEET**  
**LIABILITIES AND OTHER CREDITS**  
**JUNE 30, 2012**

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**8. CURRENT AND ACCRUED LIABILITIES**

	2012
231 NOTES PAYABLE	-
232 ACCOUNTS PAYABLE	(285,267,168)
233 NOTES PAYABLE TO ASSOCIATED COMPANIES	-
234 ACCOUNTS PAYABLE TO ASSOCIATED COMPANIES	(8,710,554)
235 CUSTOMER DEPOSITS	(76,038,649)
236 TAXES ACCRUED	38,060,095
237 INTEREST ACCRUED	(12,792,701)
238 DIVIDENDS DECLARED	(323,265)
241 TAX COLLECTIONS PAYABLE	(13,536,495)
242 MISCELLANEOUS CURRENT AND ACCRUED LIABILITIES	(97,288,481)
243 OBLIGATIONS UNDER CAPITAL LEASES - CURRENT	(5,261,235)
244 DERIVATIVE INSTRUMENT LIABILITIES	(1,510,870)
245 DERIVATIVE INSTRUMENT LIABILITIES - HEDGES	-
 TOTAL CURRENT AND ACCRUED LIABILITIES	 (462,669,323)

**9. DEFERRED CREDITS**

252 CUSTOMER ADVANCES FOR CONSTRUCTION	(89,330,199)
253 OTHER DEFERRED CREDITS	(111,421,178)
254 OTHER REGULATORY LIABILITIES	(1,507,998,901)
255 ACCUMULATED DEFERRED INVESTMENT TAX CREDITS	(21,547,798)
257 UNAMORTIZED GAIN ON REACQUIRED DEBT	-
281 ACCUMULATED DEFERRED INCOME TAXES - ACCELERATED	-
282 ACCUMULATED DEFERRED INCOME TAXES - PROPERTY	(631,535,659)
283 ACCUMULATED DEFERRED INCOME TAXES - OTHER	<u>(157,802,367)</u>
 TOTAL DEFERRED CREDITS	 (2,519,636,102)

TOTAL LIABILITIES AND OTHER CREDITS      \$ (8,606,724,012)

Data from SPL as of August 29, 2012.

**SOUTHERN CALIFORNIA GAS COMPANY**  
**STATEMENT OF INCOME AND RETAINED EARNINGS**  
**SIX MONTHS ENDED JUNE 30, 2012**

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**1. UTILITY OPERATING INCOME**

400	OPERATING REVENUES	1,598,428,816
401	OPERATING EXPENSES	1,094,644,284
402	MAINTENANCE EXPENSES	73,215,036
403-7	DEPRECIATION AND AMORTIZATION EXPENSES	177,197,384
408.1	TAXES OTHER THAN INCOME TAXES	41,501,775
409.1	INCOME TAXES	57,988,783
410.1	PROVISION FOR DEFERRED INCOME TAXES	58,296,970
411.1	PROVISION FOR DEFERRED INCOME TAXES - CREDIT	(32,123,472)
411.4	INVESTMENT TAX CREDIT ADJUSTMENTS	(1,213,154)
411.6	GAIN FROM DISPOSITION OF UTILITY PLANT	-
411.7	LOSS FROM DISPOSITION OF UTILITY PLANT	-
	TOTAL OPERATING REVENUE DEDUCTIONS	<u>1,469,507,606</u>
	NET OPERATING INCOME	128,921,210

**2. OTHER INCOME AND DEDUCTIONS**

415	REVENUE FROM MERCHANDISING, JOBBING AND CONTRACT WORK	-
417	REVENUES FROM NONUTILITY OPERATIONS	-
417.1	EXPENSES OF NONUTILITY OPERATIONS	(64,117)
418	NONOPERATING RENTAL INCOME	196,544
418.1	EQUITY IN EARNINGS OF SUBSIDIARIES	-
419	INTEREST AND DIVIDEND INCOME	(60,500)
419.1	ALLOWANCE FOR OTHER FUNDS USED DURING CONSTRUCTION	12,128,231
421	MISCELLANEOUS NONOPERATING INCOME	(435,286)
421.1	GAIN ON DISPOSITION OF PROPERTY	259,817
	TOTAL OTHER INCOME	<u>12,024,689</u>
425	MISCELLANEOUS AMORTIZATION	-
426	MISCELLANEOUS OTHER INCOME DEDUCTIONS	<u>(2,779,222)</u>
		(2,779,222)
408.2	TAXES OTHER THAN INCOME TAXES	(65,240)
409.2	INCOME TAXES	15,778,862
410.2	PROVISION FOR DEFERRED INCOME TAXES	(2,015,879)
411.2	PROVISION FOR DEFERRED INCOME TAXES - CREDIT	1,346,261
420	INVESTMENT TAX CREDITS	-
	TOTAL TAXES ON OTHER INCOME AND DEDUCTIONS	<u>15,044,004</u>
	TOTAL OTHER INCOME AND DEDUCTIONS	<u>24,289,471</u>
	INCOME BEFORE INTEREST CHARGES	153,210,681
	NET INTEREST CHARGES*	<u>33,694,807</u>
	NET INCOME	<u>\$119,515,874</u>

\*NET OF ALLOWANCE FOR BORROWED FUNDS USED DURING CONSTRUCTION. (\$2,012,532)

**SOUTHERN CALIFORNIA GAS COMPANY  
STATEMENT OF INCOME AND RETAINED EARNINGS  
SIX MONTHS ENDED JUNE 30, 2012**

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**3. RETAINED EARNINGS**

RETAINED EARNINGS AT BEGINNING OF PERIOD, AS PREVIOUSLY REPORTED	\$1,326,984,043
NET INCOME (FROM PRECEDING PAGE)	119,515,874
DIVIDEND TO PARENT COMPANY	(150,000,000)
DIVIDENDS DECLARED - PREFERRED STOCK	(646,532)
OTHER RETAINED EARNINGS ADJUSTMENT	<hr/> -
RETAINED EARNINGS AT END OF PERIOD	<u>\$1,295,853,385</u>

**SOUTHERN CALIFORNIA GAS COMPANY**  
**FINANCIAL STATEMENT**  
**JUNE 30, 2012**

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(a) Amounts and Kinds of Stock Authorized:

Preferred Stock	160,000	shares	Par Value \$4,000,000
Preferred Stock	840,000	shares	Par Value \$21,000,000
Preferred Stock	5,000,000	shares	Without Par Value
Preference Stock	5,000,000	shares	Without Par Value
Common Stock	100,000,000	shares	Without Par Value

Amounts and Kinds of Stock Outstanding:

**PREFERRED STOCK**

6.0%	79,011	shares	\$1,975,275
6.0%	783,032	shares	19,575,800

**COMMON STOCK**

91,300,000 shares 834,888,907

(b) Terms of Preferred Stock:

Full information as to this item is given in connection with Application No. 96-09-046, to which references are hereby made.

(c) Brief Description of Mortgage:

Full information as to this item is given in Application No. 09-09-046 to which reference is hereby made.

(d) Number and Amount of Bonds Authorized and Issued:

	Nominal Date of Issue	Par Value		Interest Paid in 2011
		Authorized and Issued	Outstanding	
<b>First Mortgage Bonds:</b>				
4.80% Series GG, due 2012	10-02-02	250,000,000	250,000,000	12,000,000
5.45% Series HH, due 2018	10-14-03	250,000,000	250,000,000	13,625,000
5.75% Series KK, due 2035	11-18-05	250,000,000	250,000,000	14,375,000
5.50% Series LL, due 2014	11-21-08	250,000,000	250,000,000	13,750,000
5.125% Series MM, due 2040	11-18-10	300,000,000	300,000,000	15,246,875
<b>Other Long-Term Debt</b>				
4.750% SFr. Foreign Interest Payment Securities	05-14-06	7,877,038	7,475,533	355,091
5.67% Medium-Term Note, due 2028	01-15-98	5,000,000	5,000,000	283,500

**SOUTHERN CALIFORNIA GAS COMPANY**  
**FINANCIAL STATEMENT**  
**JUNE 30, 2012**

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<u>Other Indebtedness:</u> Commercial Paper & ST Bank Loans	Date of <u>Issue</u> 11/10	Date of <u>Maturity</u> 10/14	Interest <u>Rate</u> Various	<u>Outstanding</u> 0	Interest Paid <u>2011</u> \$0
--	----------------------------------	-------------------------------------	------------------------------------	-------------------------	-------------------------------------

Amounts and Rates of Dividends Declared:

The amounts and rates of dividends during the past five fiscal years are as follows:

Preferred Stock	Shares Outstanding @ 12-31-11	Dividends Declared				
		2007	2008	2009	2010	2011
6.0%	79,011	\$118,516	\$118,516	\$118,517	\$118,517	\$118,517
6.0%	783,032	1,174,548	1,174,548	1,174,548	1,174,548	1,174,548
	<u>862,043</u>	<u>\$1,293,064</u>	<u>\$1,293,064</u>	<u>\$1,293,065</u>	<u>\$1,293,065</u>	<u>\$1,293,065</u>

  

<u>Common Stock</u>						
Amount	\$250,000,000	\$200,000,000		\$0	\$100,000,000	\$50,000,000 [1]

A balance sheet and a statement of income and retained earnings of Applicant for the six months ended June 30, 2012 are attached hereto.

[1] Southern California Gas Company dividend to parent company, Sempra Energy.

## **Attachment C**

### **REGULATORY CAPITALIZATION**

June 30, 2012

**ATTACHMENT C**  
**Southern California Gas Company Total Regulatory Capitalization**  
**June 30, 2012**  
**(\$ Millions)**

<b>No.</b>	<b>Interest %</b>		<b>Maturity</b>	<b>Principal (\$ millions)</b>
	<b>31-Mar</b>	<b>Bond</b>		
1	4.800%	Series GG	10/01/12	250.0
2	5.450%	Series HH	04/15/18	250.0
3	5.750%	Series KK	11/15/35	250.0
4	5.500%	Series LL	03/15/14	250.0
5	5.125%	Series MM	11/15/40	<u>300.0</u>
<b>Total First Mortgage Bonds</b>				<b>1,300.0</b>
<b>Other Long-Term Debt</b>				
6	4.750%	Swiss Francs	05/14/16	7.5
7	5.670%	Medium Term Note	01/18/28	<u>5.0</u>
<b>Total Other Long-Term Debt</b>				<b>12.5</b>
<b>Long-Term Debt before Unamortized premiums, issue expenses &amp; loss on reacquired debt net of tax</b>				<b>1,312.5</b>
Unamortized discount less premium				(2.2)
Unamortized issued expense				(6.2)
Unamortized loss on reacquired debt net of tax				<u>(10.8)</u>
<b>Long-Term Debt net of Unamortized premiums, issue expenses &amp; loss on reacquired debt net of tax</b>				<b>1,293.3</b>
<b>Equity Capital</b>				
Common Stock Equity				<b>2,141.5</b>
Preferred Stock Equity				<u>21.6</u>
<b>Total Equity</b>				<b>2,163.1</b>
<b>Total Regulatory Capitalization</b>				<b><u>3,456.4</u></b>