PACIFIC ENTERPRISES INC
Form 10-Q
August 10, 2001

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)
[..X..] Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended.......................................June 30, 2001

Or

[.....] Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from ________________ to _________________

Commission File Number	Name of Registrant as specified in its charter	State of Incorporation	IRS Employer Identification Number
1-40	Pacific Enterprises	California	94-0743670
1-1402	Southern California Gas Company	California	95-1240705

555 West Fifth Street, Los Angeles, California 90013
(Address of principal executive offices) (Zip Code)

Registrants' telephone number, including area code (213) 244-1200

No Change
Former name, former address and former fiscal year, if changed since last report

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Sections 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes...X... No......

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

Common Stock outstanding:

Pacific Enterprises	Wholly owned by Sempra Energy
Southern California Gas Company	Wholly owned by Pacific Enterprises

PACIFIC ENTERPRISES AND SUBSIDIARIES
STATEMENTS OF CONSOLIDATED INCOME
Dollars in millions

	Three Months Ended June 30,	
	2001	2000
Operating Revenues	$ 927	$630
Operating Expenses		
Cost of natural gas distributed	533	264
Operating and maintenance	201	168
Depreciation and amortization	67	67
Income taxes	38	44
Other taxes and franchise payments	25	22
Total operating expenses	864	565
Operating Income	63	65
Other Income and (Deductions)		
Interest income	12	20
Allowance for equity funds used during construction	1	1
Regulatory interest - net	(1)	(5)
Taxes on non-operating income	(3)	(2)
Preferred dividends of subsidiaries	(1)	(1)
Other - net	2	2
Total	10	15
Income Before Interest Charges	73	80
Interest Charges		
Long-term debt	16	16
Other	8	15
Allowance for borrowed funds used during construction	--	--
Total	24	31
Net Income	49	49
Preferred Dividend Requirements	1	1
Earnings Applicable to Common Shares	$ 48	$ 48

See notes to Consolidated Financial Statements.

PACIFIC ENTERPRISES AND SUBSIDIARIES
STATEMENTS OF CONSOLIDATED INCOME
Dollars in millions

	Six Months Ended June 30,	
	2001	2000
Operating Revenues	$2,475	$1,328
Operating Expenses		
Cost of natural gas distributed	1,684	610

Operating and maintenance	389	318
Depreciation and amortization	132	131
Income taxes	80	88
Other taxes and franchise payments	59	50
Total operating expenses	2,344	1,197
Operating Income	131	131
Other Income and (Deductions)		
Interest income	29	28
Allowance for equity funds used during construction	2	1
Regulatory interest - net	(6)	(5)
Taxes on non-operating income	(5)	(4)
Preferred dividends of subsidiaries	(1)	(1)
Other - net	(2)	2
Total	17	21
Income Before Interest Charges	148	152
Interest Charges		
Long-term debt	33	35
Other	17	17
Allowance for borrowed funds used during construction	(1)	(1)
Total	49	51
Net Income	99	101
Preferred Dividend Requirements	2	2
Earnings Applicable to Common Shares	$ 97	$ 99

See notes to Consolidated Financial Statements.

PACIFIC ENTERPRISES AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
Dollars in millions

	Balance at	
	June 30, 2001	December 31, 2000
ASSETS		
Property, plant and equipment	$6,442	$6,337
Accumulated depreciation	(3,693)	(3,571)
Property, plant and equipment - net	2,749	2,766
Current assets		
Cash and cash equivalents	531	205
Accounts receivable - trade	296	589
Accounts receivable - other	5	83
Due from affiliate	--	214
Deferred income taxes	74	43
Fixed price contracts and other derivatives	474	--
Inventories	74	67

Other	26	84
Total current assets	1,480	1,285
Other assets		
Regulatory assets	92	108
Due from affiliates	413	617
Fixed price contracts and other derivatives	232	--
Other	78	52
Total other assets	815	777
Total assets	$5,044	$4,828

See notes to Consolidated Financial Statements.

PACIFIC ENTERPRISES AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
Dollars in millions

	Balance at	
	June 30, 2001	December 31, 2000
CAPITALIZATION AND LIABILITIES		
Capitalization		
Common Stock	$1,282	$1,282
Retained earnings	72	165
Accumulated other comprehensive income (loss)	--	(1)
Total common equity	1,354	1,446
Preferred stock	80	80
Long-term debt	821	821
Total capitalization	2,255	2,347
Current liabilities		
Accounts payable - trade	421	368
Accounts payable - other	53	43
Regulatory balancing accounts - net	233	463
Income taxes payable	29	50
Dividends and interest payable	28	28
Current portion of long-term debt	120	120
Due to affiliates	163	365
Regulatory liabilities arising from fixed price contracts and other derivatives	410	--
Other	306	300
Total current liabilities	1,763	1,737
Deferred credits and other liabilities		
Customer advances for construction	16	16
Post-retirement benefits other than pensions	93	97
Deferred income taxes	226	224

Deferred investment tax credits	51	53
Regulatory liabilities	30	--
Regulatory liabilities arising from fixed price contracts and other derivatives	232	--
Deferred credits and other liabilities	358	334
Preferred stock of subsidiary	20	20
Total deferred credits and other liabilities	1,026	744
Contingencies and commitments (Note 2)		
Total liabilities and shareholders' equity	$5,044	$4,828

See notes to Consolidated Financial Statements.

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

	Six Months Ended June 30, 2001	Six Months Ended June 30, 2000
Cash Flows from Operating Activities		
Net income	$ 99	$ 101
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	132	131
Deferred income taxes and investment tax credits	8	33
Other - net	47	24
Net changes in other working capital components	134	233
Net cash provided by operating activities	420	522
Cash Flows from Investing Activities		
Capital expenditures	(114)	(86)
Loans repaid by (paid to) affiliates	215	(317)
Other - net	--	14
Net cash provided by (used in) investing activities	101	(389)
Cash Flows from Financing Activities		
Common dividends paid	(190)	--
Preferred dividends paid	(2)	(2)
Other	(3)	--
Net cash used in financing activities	(195)	(2)
Increase in cash and cash equivalents	326	131
Cash and cash equivalents, January 1	205	11
Cash and cash equivalents, June 30	$ 531	$ 142

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION
Cash paid during the year for:

Income tax payments - net	$ 130	$ 71
Interest payments, net of amounts capitalized	$ 49	$ 78

See notes to Consolidated Financial Statements.

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

	Three Months Ended June 30,	
	2001	2000
Operating Revenues	$ 927	$ 630
Expenses		
Cost of natural gas distributed	533	264
Operation and maintenance	198	167
Depreciation and amortization	67	67
Income taxes	38	43
Other taxes and franchise payments	26	22
Total operating expenses	862	563
Operating Income	65	67
Other Income and (Deductions)		
Interest income	7	7
Allowance for equity funds used during construction	1	1
Regulatory interest - net	(1)	(5)
Taxes on non-operating income	(2)	(2)
Total	5	1
Income Before Interest Charges	70	68
Interest Charges		
Long-term debt	16	18
Other	6	2
Total	22	20
Net Income	48	48
Preferred Dividend Requirements	1	1
Earnings Applicable to Common Shares	$ 47	$ 47

See notes to Consolidated Financial Statements.

SOUTHERN CALIFORNIA GAS COMPANY AND SUBSIDIARIES

STATEMENTS OF CONSOLIDATED INCOME
Dollars in millions

	Six Months Ended June 30, 2001	Six Months Ended June 30, 2000
Operating Revenues	$2,475	$1,328
Expenses		
Cost of natural gas distributed	1,684	610
Operating and maintenance	384	317
Depreciation and amortization	132	131
Income taxes	82	87
Other taxes and franchise payments	59	50
Total operating expenses	2,341	1,195
Operating Income	134	133
Other Income and (Deductions)		
Interest income	16	11
Allowance for equity funds used during construction	2	1
Regulatory interest - net	(6)	(5)
Taxes on non-operating income	(4)	(4)
Other - net	(1)	--
Total	7	3
Income Before Interest Charges	141	136
Interest Charges		
Long-term debt	33	35
Other	9	4
Allowance for borrowed funds used during construction	(1)	(1)
Total	41	38
Net Income	100	98
Preferred Dividend Requirements	1	1
Earnings Applicable to Common Shares	$ 99	$ 97

See notes to Consolidated Financial Statements.

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

Balance at

	June 30, 2001	December 31, 2000
ASSETS		
Utility plant - at original cost	$6,419	$6,314
Accumulated depreciation	(3,678)	(3,557)
Utility plant - net	2,741	2,757
Current assets		
Cash and cash equivalents	531	205
Accounts receivable - trade	296	589
Accounts receivable - other	5	83
Due from affiliates	--	214
Deferred income taxes	74	74
Fixed price contracts and other derivatives	474	--
Inventories	74	67
Other	25	80
Total current assets	1,479	1,312
Other assets		
Regulatory assets	--	12
Fixed price contracts and other derivatives	232	--
Other	58	35
Total other assets	290	47
Total assets	$4,510	$4,116

See notes to Consolidated Financial Statements.

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

	Balance at	
	June 30, 2001	December 31, 2000
CAPITALIZATION AND LIABILITIES		
Capitalization		
Common stock	$ 835	$ 835
Retained earnings	362	453
Accumulated other comprehensive income (loss)	--	(1)
Total common equity	1,197	1,287
Preferred stock	22	22
Long-term debt	821	821
Total capitalization	2,040	2,130

Current liabilities		
Accounts payable - trade	421	368
Accounts payable - other	53	44
Regulatory balancing accounts - net	233	463
Income taxes payable	29	90
Interest payable	26	26
Current portion of long-term debt	120	120
Regulatory liabilities arising from fixed price contracts and other derivatives	410	--
Other	327	300
Total current liabilities	1,619	1,411
Deferred credits and other liabilities		
Customer advances for construction	16	16
Deferred income taxes	326	314
Deferred investment tax credits	51	53
Regulatory liabilities	30	--
Regulatory liabilities arising from fixed price contracts and other derivatives	232	--
Deferred credits and other liabilities	196	192
Total deferred credits and other liabilities	851	575
Contingencies and commitments (Note 2)		
Total liabilities and shareholders' equity	$4,510	$4,116

See notes to Consolidated Financial Statements.

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

	Six Months Ended June 30,	
	2001	2000
Cash Flows from Operating Activities		
Net income	$100	$ 98
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	132	131
Deferred income taxes and investment tax credits	10	26
Other - net	22	25
Net changes in other working capital components	134	269
Net cash provided by operating activities	398	549
Cash Flows from Investing Activities		
Capital expenditures	(114)	(86)
Loan repaid by (paid to) affiliate	233	(231)
Net cash provided by (used in) investing activities	119	(317)
Cash Flows from Financing Activities - dividends paid	(191)	(101)

Increase in cash and cash equivalents	326	131
Cash and cash equivalents, January 1	205	11
	----	----
Cash and cash equivalents, June 30	$531	$142
	====	====
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the year for:		
Income tax payments - net	$137	$ 72
	====	====
Interest payments, net of amounts capitalized	$ 41	$ 40
	====	====

See notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL

This Quarterly Report on Form 10-Q is that of Pacific Enterprises (PE or the Company) and of Southern California Gas Company (SoCalGas)(collectively the companies). PE's common stock is wholly owned by Sempra Energy, a California-based Fortune 500 energy services company. SoCalGas' common stock is wholly owned by PE. The financial statements herein are, in one case, the Consolidated Financial Statements of PE and its subsidiary, SoCalGas, and, in the second case, the Consolidated Financial Statements of SoCalGas and its subsidiaries.

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

The companies'significant accounting policies are described in the notes to Consolidated Financial Statements in the companies' 2000 Annual Report. The same accounting policies are followed for interim reporting purposes.

Information in this Quarterly Report is unaudited and should be read in conjunction with the companies' 2000 Annual Report and March 31, 2001 Quarterly Report on Form 10-Q.

As described in the notes to Consolidated Financial Statements in the companies' 2000 Annual Report, SoCalGas accounts for the economic effects of regulation on utility operations in accordance with Statement of Financial Accounting Standards No. 71, "Accounting for the Effects of Certain Types of Regulation" (SFAS No. 71).

2. MATERIAL CONTINGENCIES

NATURAL GAS INDUSTRY RESTRUCTURING

The companies' 2000 annual reports discuss various proposals and actions related to this topic. As discussed therein, no significant impacts on the companies are expected when the various issues are finalized. This case is currently being held by the CPUC indefinitely.

LITIGATION

A 2000 lawsuit, which seeks class-action certification, alleges that Sempra Energy, SoCalGas, SDG&E and El Paso Energy Corp. acted to drive up the price of natural gas for Californians by agreeing to stop a pipeline project that would have brought new and less-expensive natural gas supplies into California. Management believes the allegations are without merit.

Except for the above, neither the Company nor its subsidiaries are party to, nor is their property the subject of, any material pending legal proceedings other than routine litigation incidental to their businesses. Management believes that these matters will not have a material adverse effect on the Company's results of operations, financial condition or liquidity.

QUASI-REORGANIZATION

In 1993, PE divested its merchandising operations and most of its oil and gas exploration and production business. In connection with the divestitures, PE effected a quasi-reorganization for financial reporting purposes effective December 31, 1992. Management believes the remaining balances of the liabilities established in connection with the quasi-reorganization are adequate.

3. COMPREHENSIVE INCOME

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

	Pacific Enterprises				SoCalGas			
	Three-month periods ended June 30,		Six-month periods ended June 30,		Three-month periods ended June 30,		Six-month periods ended June 30,	
(Dollars in millions)	2001	2000	2001	2000	2001	2000	2001	2000
Net income	$ 49	$ 49	$ 99	$101	$ 48	$ 48	$100	$ 98
Change in unrealized gain on marketable securities	--	(12)	--	21	--	(12)	--	21
Minimum pension liability adjustments	1	--	1	2	1	--	1	2
Comprehensive income	$ 50	$ 37	$100	$124	$ 49	$ 36	$101	$121

4. FINANCIAL INSTRUMENTS

Adoption of SFAS 133

Effective January 1, 2001, the Company adopted Statement of Financial

Accounting Standards (SFAS) No. 133 "Accounting for Derivative Instruments and Hedging Activities" as amended by SFAS No. 138 "Accounting for Certain Derivative Instruments and Certain Hedging Activities." As amended, SFAS 133 requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position, measure those instruments at fair value and recognize changes in the fair value of derivatives in earnings in the period of change unless the derivative qualifies as an effective hedge that offsets certain exposures.

On January 1, 2001, $982 million in current assets, $1.1 billion in noncurrent assets, and $4 million in current liabilities were recorded as of January 1, 2001, in the Consolidated Balance Sheet as fixed-priced contracts and other derivatives. Due to the regulatory environment in which SoCalGas operates, regulatory assets and liabilities were established to the extent that derivative gains and losses are recoverable or payable through future rates. The effect on earnings was minimal. The ongoing effects will depend on future market conditions and the Company's hedging activities.

Market Risk

The companies' policy is to use derivative financial instruments to manage its exposure to fluctuations in interest rates and energy prices. Transactions involving these financial instruments are with credit-worthy firms and major exchanges. The use of these instruments exposes the Company to market and credit risk which may at times be concentrated with certain counterparties, although counterparty nonperformance is not anticipated.

Energy Derivatives

SoCalGas utilizes derivative financial instruments to reduce exposure to unfavorable changes in energy prices which are subject to significant and often volatile fluctuation. Derivative financial instruments are comprised of futures, forwards, swaps, options and long-term delivery contracts. These contracts allow SoCalGas to predict with greater certainty the effective prices to be received and delivered to their customers.

Due to the regulatory environment in which SoCalGas operates, regulatory assets and liabilities are established to the extent that derivative gains and losses are recoverable or payable through future rates. As such, SoCalGas does not apply hedge accounting to energy derivatives. However, such contracts continue to be effective in achieving the risk management objectives for which they were intended.

Accounting for Derivative Activities

At June 30, 2001, $474 million in current assets and $232 million in noncurrent assets were recorded in the Consolidated Balance Sheet as fixed priced contracts and other derivatives. Regulatory assets and liabilities were established to the extent that derivative gains and losses are recoverable or payable through future rates. As such, $64 million in regulatory balancing accounts (i.e., overcollections), $410 million in current regulatory liabilities, and $232 million in noncurrent regulatory liabilities were recorded in the Consolidated Balance Sheet as of June 30, 2001.

Fair Value

The fair value of the Company's derivative financial instruments (fixed-priced contracts and other derivatives) is not materially different from their carryings amounts. The fair values of fixed-priced contracts and other derivatives were estimated based on quoted market prices. Information regarding the fair value of the Company's non-derivative financial instruments is provided in Note 8 of the notes to Consolidated Financial Statements in the 2000 Annual Report on Form 10-K.

ITEM 2.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with the financial statements contained in this Form 10-Q and Management's Discussion and Analysis of Financial Condition and Results of Operations contained in the companies' 2000 Annual Report.

INFORMATION REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains statements that are not historical fact and constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. The words "estimates," "believes," "expects," "anticipates," "plans," "intends," "may," "would" and "should" or similar expressions, or discussions of strategy or of plans are intended to identify forward-looking statements. Forward-looking statements are not guarantees of performance. They involve risks, uncertainties and assumptions. Future results may differ materially from those expressed in these forward-looking statements.

Forward-looking statements are necessarily based upon various assumptions involving judgments with respect to the future and other risks, including, among others, local, regional, national and international economic, competitive, political, legislative and regulatory conditions and developments; actions by the CPUC, the California Legislature, and the FERC; the financial condition of other investor-owned utilities; capital market conditions, inflation rates, interest rates and exchange rates; energy markets, including the timing and extent of changes in commodity prices; weather conditions and conservation efforts; business, regulatory and legal decisions; the pace of deregulation of retail natural gas and electricity delivery; the timing and success of business development efforts; and other uncertainties -- all of which are difficult to predict and many of which are beyond the control of the Company. Readers are cautioned not to rely unduly on any forward-looking statements and are urged to review and consider carefully the risks, uncertainties and other factors which affect the Company's business described in this quarterly report and other reports filed by the Company from time to time with the Securities and Exchange Commission.

See also "Factors Influencing Future Performance" below.

CAPITAL RESOURCES AND LIQUIDITY

Cash and cash equivalents at June 30, 2001 are available for investment in utility plant, the retirement of debt and other corporate purposes. Major changes in cash flows not described elsewhere are described below.

CASH FLOWS FROM OPERATING ACTIVITIES

For the six-month period ended June 30, 2001, the decrease in cash flows from operations compared to the corresponding period in 2000 was primarily due to the decrease in overcollected regulatory balancing accounts and lower accrued income taxes in 2001 reflecting tax payments made during the first quarter of 2001 (none were made during the same period in 2000) offset by the decrease in SoCalGas' trade accounts receivable due to seasonality.

CASH FLOWS FROM INVESTING ACTIVITIES

Capital expenditures for property, plant and equipment are estimated to be $300 million for the full year 2001 and are being financed primarily by internally generated funds. Construction, investment and financing programs are continuously reviewed and revised in response to changes in competition, customer growth, inflation, customer rates, the cost of capital, and environmental and regulatory requirements.

During the second quarter of 2001, SoCalGas announced plans to add 11 percent more capacity to its transmission system by the end of the year. The expansion will help meet increased demand for natural gas from new and existing electric generation projects in Southern California.

CASH FLOWS FROM FINANCING ACTIVITIES

For the six-month period ended June 30, 2001, cash flows from financing activities decreased from the corresponding period in 2000 due primarily to an increase in common dividends paid during 2001.

On June 6, 2001 the Company remarketed $81 million of debt of the Company's Employee Stock Ownership Plan (ESOP) as 7.375 percent fixed-interest-rate debt due May 3, 2004.

On February 9, 2001, SoCalGas' $200 million credit line expired and was replaced on February 27, 2001, with a $170 million, one-year agreement. This agreement bears interest at various rates based on market rates and SoCalGas' credit rating. On April 18, 2001, PE entered into a $500-million revolving line of credit which bears interest at various rates based on market rates and PE's credit rating.

RESULTS OF OPERATIONS

The Company's net income remained flat for the three-month and six-month periods ended June 30, 2001, compared to the same periods in 2000.

Seasonality

SoCalGas' natural gas sales volumes generally are higher in the winter due to heating demands, although that difference is lessening as the use of natural gas to fuel electric generation increases.

The table below summarizes natural gas volumes and revenues by customer class for the six-month periods ended June 30, 2001 and 2000.

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

	Gas Sales		Transportation & Exchange		Total	
	Volumes	Revenue	Volumes	Revenue	Volumes	Revenue
2001:						
Residential	151	$1,598	1	$ 3	152	$1,601
Commercial and industrial	49	445	122	93	171	538
Electric generation plants	--	--	188	47	188	47
Wholesale	--	--	90	18	90	18
	200	$2,043	401	$161	601	2,204
Balancing accounts and other						271
Total						$2,475
2000:						
Residential	136	$1,016	2	$ 8	138	$1,024
Commercial and industrial	44	282	160	124	204	406
Utility electric generation	--	--	99	38	99	38
Wholesale	--	--	74	26	74	26
	180	$1,298	335	$196	515	1,494
Balancing accounts and other						(166)
Total						$1,328

The increase in natural gas revenues was primarily due to higher natural gas prices.

The increase in the cost of natural gas distributed was primarily due to higher natural gas prices. Under the current regulatory framework, the cost of natural gas is passed on to customers without markup and changes in core-market natural gas prices do not affect net income since, as explained more fully in the 2000 Annual Report, current or future core customer rates normally recover the actual cost of natural gas on a substantially concurrent basis.

FACTORS INFLUENCING FUTURE PERFORMANCE

Performance of the companies in the near future will depend primarily on the ratemaking and regulatory process, electric and natural gas industry restructuring, and the changing energy marketplace. These factors are discussed in this section and in Note 2 of the notes to Consolidated Financial Statements.

Performance-Based Regulation (PBR)

To promote efficient operations and improved productivity and to move away from reasonableness reviews and disallowances, the CPUC has been directing utilities to use PBR. PBR has replaced the general rate case and certain other regulatory proceedings for the California utilities. Under PBR, regulators require future income potential to be tied to achieving or exceeding specific performance and productivity goals, as well as cost reductions, rather than relying solely on expanding utility plant in a market where a utility already has a highly developed infrastructure.

SoCalGas' PBR mechanism is in effect through December 31, 2002, at which time the mechanisms will be updated. That update is described in the Company's 2000 Annual Report. The PBR and Cost of Service (COS) cases for SoCalGas and SDG&E are both due to be filed on December 21, 2001. However, under the MOU described in Note 2, both SoCalGas' and SDG&E's PBR/COS cases would be delayed such that the resulting rates would be effective in 2004 instead of 2003, if this portion of the MOU is approved by the CPUC.

Cost of Capital

For 2001, SoCalGas is authorized to earn a rate of return on common equity (ROE) of 11.6 percent and a 9.49 percent return on rate base (ROR), the same as in 2000 and 1999, unless interest-rate changes are large enough to trigger an automatic adjustment as discussed in the companies' 2000 annual reports.

RELATIONSHIP WITH NON-UTILITY SUBSIDIARIES

CPUC Investigation of Energy-Utility Holding Companies

The CPUC has initiated an investigation into the relationship between California's investor-owned utilities and their parent holding companies. Among the matters to be considered in the investigation are utility dividend policies and practices and obligations of the holding companies to provide financial support for utility operations.

NEW ACCOUNTING STANDARDS

Effective January 1, 2001, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 133 "Accounting for Derivative Instruments and Hedging Activities" as amended by SFAS No. 138 "Accounting for Certain Derivative Instruments and Certain Hedging Activities." The adoption of this new standard on January 1, 2001, did not have a material impact on the Company's earnings. For further information regarding the Company's implementation of SFAS 133, see Note 4 above.

In July 2001 the Financial Accounting Standards Board approved three statements, SFAS 141 "Business Combinations," SFAS 142 "Goodwill and Other Intangible Assets" and SFAS 143 " Accounting for Asset Retirement Obligations." SFAS 141 provides guidance on the accounting for a business combination at the date the combination is completed. It requires the use of the purchase method of accounting for all business combinations initiated after June 30, 2001. The pooling-of-interest method is eliminated. SFAS 142 provides guidance on how to account for goodwill and other intangible assets after the acquisition is complete. Goodwill and certain other intangible assets will no longer be amortized and will be tested in the aggregate for impairment at least annually. Goodwill will not be tested on an acquisition-by-acquisition basis. SFAS 142 applies to existing goodwill and other intangible assets, beginning with fiscal years starting after December 15, 2001. SFAS 143 requires entities to record the fair value of a liability for an asset retirement obligation in the period in which it is incurred. When the liability is initially recorded, the entity capitalizes a cost by increasing the carrying amount of the related long-lived asset. Over time, the liability is accreted to its present value each period, and the capitalized cost is depreciated over the useful life of the related asset. Upon settlement of the liability, an entity either settles the obligation for its recorded amount or incurs a gain or loss upon settlement. The effect of these standards on the Company's Consolidated Financial Statements has not yet been determined.

ITEM 3. MARKET RISK

There have been no significant changes in the risk issues affecting the Company subsequent to those discussed in the Annual Report for 2000. As noted in that report, SoCalGas may, at times, be exposed to limited market risk in its natural gas purchase, sale and storage activities as a result of activities under SoCalGas' Gas Cost Incentive Mechanism. The risk is managed within the parameters of the Company's market-risk management and trading framework. However, to lessen the impact on customers from the recent unprecedented natural gas price volatility at the California border, during the first quarter of 2001, SoCalGas began hedging a larger portion of its customer natural gas requirements than in the past. As of March 31, 2001, the Value at Risk (VaR) of the hedges was $1.8 million. During the second quarter of 2001, the gas hedging activity at SoCalGas was sharply reduced and, as of June 30, 2001, the VaR of the hedges was $0.6 million. This represents the 50-percent shareholder portion under the PBR mechanism and excludes the 50-percent portion subject to rate recovery. In addition, certain fixed price contracts that traditionally have not been considered derivatives, but now meet the derivative definition under SFAS 133 (see "New Accounting Standards" above), are excluded from the above-mentioned VaR amounts due to the offsetting regulatory asset or liability also recorded by the Company.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Except as otherwise described in this report, neither the Company nor its subsidiaries are party to, nor is their property the subject of, any material pending legal proceedings other than routine litigation incidental to their businesses.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

Exhibit 12 - Computation of ratios

12.1 Computation of Ratio of Earnings to Fixed Charges of PE.

12.2 Computation of Ratio of Earnings to Fixed Charges of SoCalGas.

(b) Reports on Form 8-K

There were no reports on Form 8-K filed after March 31, 2001.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrants have duly cause this report to be signed on their behalf by the undersigned thereunto duly authorized.

PACIFIC ENTERPRISES
(Registrant)

Date: August 9, 2001 By: /s/ F. H. Ault

F. H. Ault
Sr. Vice President and Controller

SOUTHERN CALIFORNIA GAS COMPANY
(Registrant)

By: /s/ E.A. Guiles

E.A. Guiles
President

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