SEMPRA ENERGY
Form 10-Q
August 04, 2016

UNITED STATES
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, 2016
	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 No.	Exact Name of Registrants as Specified in their Charters, Address and Telephone Number	States of Incorporation	I.R.S. Employer Identification Nos.	Former name, former address and former fiscal year, if changed since last report
1-14201	SEMPRA ENERGY 488 8th Avenue San Diego, California	California	33-0732627	No change

	92101 (619)696-2000			
1-03779	SAN DIEGO GAS & ELECTRIC COMPANY 8326 Century Park Court San Diego, California 92123 (619)696-2000	California	95-1184800	No change
1-01402	SOUTHERN CALIFORNIA GAS COMPANY 555 West Fifth Street Los Angeles, California 90013 (213)244-1200	California	95-1240705	No change

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 X 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	[X]	[ ]	[ ]	[ ]
San Diego Gas & Electric Company	[ ]	[ ]	[X]	[ ]
Southern California Gas Company	[ ]	[ ]	[X]	[ ]

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 July 29, 2016:

Sempra Energy	249,801,432 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," "proposed," "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;
- 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; 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 gasses, 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;
- failure to obtain regulatory approval for projects required to enhance safety and reliability;
- 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;
- 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 of 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 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 June 30,		Six months ended June 30,	
	2016	2015	2016	2015
	(unaudited)			
REVENUES				
Utilities	$1,994	$2,133	$4,436	$4,555
Energy-related businesses	162	234	342	494
Total revenues	2,156	2,367	4,778	5,049
EXPENSES AND OTHER INCOME				
Utilities:				
Cost of natural gas	(183)	(239)	(494)	(585)
Cost of electric fuel and purchased power	(561)	(498)	(1,076)	(979)
Energy-related businesses:				
Cost of natural gas, electric fuel and purchased power	(62)	(73)	(118)	(171)
Other cost of sales	(226)	(42)	(261)	(77)
Operation and maintenance	(727)	(713)	(1,428)	(1,371)

Depreciation and amortization	(314)	(307)	(642)	(610)
Franchise fees and other taxes	(96)	(96)	(207)	(203)
Plant closure adjustment				21
Gain on sale of assets		62		62
Equity earnings (losses), before income tax	14	27	(8)	46
Other income, net	23	37	72	76
Interest income	6	10	12	17
Interest expense	(142)	(139)	(285)	(273)
(Loss) income before income taxes and equity earnings of certain unconsolidated subsidiaries	(112)	396	343	1,002
Income tax benefit (expense)	106	(98)	(36)	(261)
Equity earnings, net of income tax	33	22	50	37

Net income	27	320	357	778
Earnings attributable to noncontrolling interests	(10)	(24)	(21)	(45)
Preferred dividends of subsidiary	(1)	(1)	(1)	(1)
Earnings	$16	$295	$335	$732
Basic earnings per common share	$0.06	$1.19	$1.34	$2.95
Weighted-average number of shares outstanding, basic (thousands)	250,096	248,108	249,915	247,916
Diluted earnings per common share	$0.06	$1.17	$1.33	$2.91
Weighted-average number of shares outstanding, diluted (thousands)	251,938	251,491	251,686	251,264
Dividends declared per share of common stock	$0.75	$0.70	$1.51	$1.40

See Notes to Condensed Consolidated

Financial Statements.

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

	Sempra Energy shareholders' equity				
	Pretax amount	Income tax benefit (expense)	Net-of-tax amount	Noncontrolling interests (after-tax)	Total
	Three months ended June 30, 2016 and 2015 (unaudited)				
2016:					
Net (loss) income	$ (89)	$ 106	$ 17	$ 10	$ 27
Other comprehensive income (loss):					
Foreign currency translation adjustments	11		11		11
Financial instruments	(78)	35	(43)	1	(42)
Pension and other postretirement benefits	2	(1)	1		1
Total other comprehensive (loss) income	(65)	34	(31)	1	(30)
Comprehensive (loss) income	(154)	140	(14)	11	(3)
Preferred dividends of subsidiary	(1)		(1)		(1)
Comprehensive (loss) income,					

after preferred dividends of subsidiary	$ (155)	$ 140	$ (15)	$ 11	$ (4)
2015:					
Net income	$ 394	$ (98)	$ 296	$ 24	$ 320
Other comprehensive income (loss):					
Foreign currency translation adjustments	(43)		(43)	(5)	(48)
Financial instruments	95	(36)	59	6	65
Pension and other postretirement benefits	2	(1)	1		1
Total other comprehensive income	54	(37)	17	1	18
Comprehensive income	448	(135)	313	25	338
Preferred dividends of subsidiary	(1)		(1)		(1)
Comprehensive income, after preferred dividends of subsidiary	$ 447	$ (135)	$ 312	$ 25	$ 337

Six months ended June 30, 2016 and 2015 (unaudited)					
2016:					
Net income	$ 372	$ (36)	$ 336	$ 21	$ 357
Other comprehensive income					

(loss):					
Foreign currency translation adjustments	79		79	5	84
Financial instruments	(237)	110	(127)	(4)	(131)
Pension and other postretirement benefits	4	(2)	2		2
Total other comprehensive (loss) income	(154)	108	(46)	1	(45)
Comprehensive income	218	72	290	22	312
Preferred dividends of subsidiary	(1)		(1)		(1)
Comprehensive income, after preferred dividends of subsidiary	$217	$72	$289	$22	$311
2015:					
Net income	$994	$(261)	$733	$45	$778
Other comprehensive income (loss):					
Foreign currency translation adjustments	(105)		(105)	(13)	(118)
Financial instruments	6	(2)	4	1	5
Pension and other postretirement benefits	4	(2)	2		2
Total other comprehensive	(95)	(4)	(99)	(12)	(111)

loss					
Comprehensive income	899	(265)	634	33	667
Preferred dividends of subsidiary	(1)		(1)		(1)
Comprehensive income, after preferred dividends of subsidiary	$898	$(265)	$633	$33	$666

See Notes to Condensed Consolidated Financial Statements.

SEMPRA ENERGY
CONDENSED CONSOLIDATED BALANCE SHEETS
(Dollars in millions)

	June 30, 2016 (unaudited)	December 31, 2015(1)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 616	$403
Restricted cash	17	27
Accounts receivable – trade, net	994	1,283
Accounts receivable – other	140	190
Due from unconsolidated affiliates	6	6
Income taxes receivable	36	30
Inventories	270	298
Regulatory balancing accounts – undercollected	336	307
Fixed-price contracts and other derivatives	65	80
Assets held for sale	654	
Other	207	267
Total current assets	3,341	2,891
Other assets:		
Restricted cash	18	20
Due from unconsolidated affiliates	192	186
Regulatory assets	3,353	3,273
Nuclear decommissioning trusts	1,103	1,063
Investments	2,267	2,905
Goodwill	786	819

Other intangible assets	399	404
Dedicated assets in support of certain benefit plans	436	464
Insurance receivable for Aliso Canyon costs	679	325
Sundry	806	761
Total other assets	10,039	10,220
Property, plant and equipment:		
Property, plant and equipment	39,756	38,200
Less accumulated depreciation and amortization	(10,261)	(10,161)
Property, plant and equipment, net ($372 and $383 at June 30, 2016 and December 31, 2015, respectively, related to VIE)	29,495	28,039
Total assets	$ 42,875	$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)

	June 30, 2016 (unaudited)	December 31, 2015(1)
LIABILITIES AND EQUITY		
Current liabilities:		
Short-term debt	$ 1,777	$ 622
Accounts payable – trade	1,140	1,133
Accounts payable – other	101	142
Due to unconsolidated affiliates	8	14
Dividends and interest payable	314	303
Accrued compensation and benefits	289	423
Regulatory balancing accounts – overcollected	120	34
Current portion of long-term debt	907	907
Fixed-price contracts and other derivatives	54	56
Customer deposits	150	153
Reserve for Aliso Canyon costs	117	274
Liabilities held for sale	222	
Other	481	551
Total current liabilities	5,680	4,612
Long-term debt ($298 and $303 at June 30, 2016 and December 31, 2015, respectively, related to VIE)	13,178	13,134

Deferred credits and other liabilities:		
Customer advances for construction	152	149
Pension and other postretirement benefit plan obligations, net of plan assets	1,171	1,152
Deferred income taxes	3,071	3,157
Deferred investment tax credits	32	32
Regulatory liabilities arising from removal obligations	2,891	2,793
Asset retirement obligations	2,491	2,126
Fixed-price contracts and other derivatives	262	240
Deferred credits and other	1,384	1,176
Total deferred credits and other liabilities	11,454	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 June 30, 2016 and December 31, 2015, respectively; no par value)	2,681	2,621
Retained earnings	9,952	9,994
Accumulated other comprehensive income (loss)	(852)	(806)
Total Sempra Energy shareholders' equity	11,781	11,809
Preferred stock of subsidiary	20	20
Other noncontrolling interests	762	750
Total equity	12,563	12,579
Total liabilities and equity	$ 42,875	$ 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)

	Six months ended June 30,	
	2016	2015
	(unaudited)	

CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$357	$778
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	642	610
Deferred income taxes and investment tax credits	(42)	203
Gain on sale of assets		(62)
Plant closure adjustment		(21)
Equity earnings	(42)	(83)
Fixed-price contracts and other derivatives	41	
Other	33	(8)
Net change in other working capital	167	(116)

components		
Insurance receivable for Aliso Canyon costs	(354)	
Changes in other assets	(67)	(89)
Changes in other liabilities	147	7
Net cash provided by operating activities	882	1,219
CASH FLOWS FROM INVESTING ACTIVITIES		
Expenditures for property, plant and equipment	(2,006)	(1,466)
Expenditures for investments and acquisition of business	(46)	(161)
Proceeds from sale of assets	443	347
Distributions from investments	12	9
Purchases of nuclear	(206)	(229)

decommissioning and other trust assets		
Proceeds from sales by nuclear decommissioning and other trusts	204	221
Increases in restricted cash	(32)	(34)
Decreases in restricted cash	44	49
Advances to unconsolidated affiliates	(9)	(20)
Repayments of advances to unconsolidated affiliates	9	74
Other	(6)	9
Net cash used in investing activities	(1,593)	(1,201)
CASH FLOWS FROM FINANCING ACTIVITIES		
Common dividends paid	(335)	(308)
Preferred dividends paid	(1)	(1)

by subsidiary		
Issuances of common stock	29	31
Repurchases of common stock	(54)	(66)
Issuances of debt (maturities greater than 90 days)	1,384	1,547
Payments on debt (maturities greater than 90 days)	(986)	(846)
Increase (decrease) in short-term debt, net	865	(339)
Net distributions to noncontrolling interests	(10)	(14)
Tax benefit related to share-based compensation	34	52
Other	(10)	(6)
Net cash provided by financing activities	916	50

Effect of exchange rate changes on cash and cash equivalents	8	(2)
Increase in cash and cash equivalents	213	66
Cash and cash equivalents, January 1	403	570
Cash and cash equivalents, June 30	$616	$636

See Notes to Condensed Consolidated Financial Statements.

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

Six months ended June 30,

	2016	2015
	(unaudited)	
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest payments, net of amounts capitalized	$ 279	$ 260
Income tax payments, net of refunds	73	72
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Acquisition of business:		
Assets acquired	$	$ 10
Liabilities assumed		(2)
Accrued purchase price		(6)
Cash paid	$	$ 2
Accrued capital expenditures	$ 541	$ 302
Financing of build-to-suit property		39
Redemption of	79	

industrial development bonds		
Common dividends issued in stock	27	27
Dividends declared but not paid	195	178

See Notes to Condensed Consolidated Financial Statements.

SAN DIEGO GAS & ELECTRIC COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Dollars in millions)

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
	(unaudited)			
Operating revenues				
Electric	$897	$874	$1,740	$1,679
Natural gas	95	98	243	259
Total operating revenues	992	972	1,983	1,938
Operating expenses				
Cost of electric fuel and purchased power	314	251	562	479
Cost of natural gas	25	31	64	85
Operation and maintenance	266	255	512	472
Depreciation and amortization	158	149	317	294
Franchise fees and other taxes	59	59	122	120
Plant closure adjustment				(21)
Total operating expenses	822	745	1,577	1,429
Operating income	170	227	406	509
Other income, net	13	9	27	18
Interest expense	(48)	(52)	(96)	(104)
Income before income taxes	135	184	337	423
Income tax expense	(48)	(54)	(120)	(142)
Net income	87	130	217	281
Losses (earnings) attributable to noncontrolling interest	13	(4)	12	(8)

Earnings attributable to common shares	$100	$126	$229	$273

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 June 30, 2016 and 2015 (unaudited)				
2016:					
Net income (loss)	$148	$ (48)	$ 100	$ (13)	$87
Other comprehensive income (loss):					
Financial instruments				1	1
Total other comprehensive income				1	1
Comprehensive income (loss)	$148	$ (48)	$ 100	$ (12)	$88
2015:					
Net income	$180	$ (54)	$ 126	$ 4	$130
Other comprehensive income (loss):					
Financial instruments				3	3
Total other comprehensive income				3	3
Comprehensive income	$180	$ (54)	$ 126	$ 7	$133

	Six months ended June 30, 2016 and 2015 (unaudited)				
2016:					
Net income (loss)	$349	$(120)	$229	$(12)	$217
Other comprehensive income (loss):					
Financial instruments				(1)	(1)
Total other comprehensive loss				(1)	(1)
Comprehensive income (loss)	$349	$(120)	$229	$(13)	$216
2015:					
Net income	$415	$(142)	$273	$8	$281
Other comprehensive income (loss):					
Financial instruments				1	1
Total other comprehensive income				1	1
Comprehensive income	$415	$(142)	$273	$9	$282

See Notes to Condensed Consolidated Financial Statements.

SAN DIEGO GAS & ELECTRIC COMPANY
CONDENSED CONSOLIDATED BALANCE SHEETS
(Dollars in millions)

	June 30, 2016 (unaudited)	December 31, 2015(1)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 8	$ 20
Restricted cash	17	23
Accounts receivable – trade, net	310	331
Accounts receivable – other	14	17
Due from unconsolidated affiliates	163	1
Income taxes receivable	33	1
Inventories	71	75
Regulatory balancing accounts – net undercollected	336	307
Regulatory assets	93	107
Fixed-price contracts and other derivatives	39	53
Other	42	69
Total current assets	1,126	1,004
Other assets:		
Restricted cash	3	
Deferred taxes recoverable in rates	938	914
Other regulatory assets	933	977
Nuclear decommissioning trusts	1,103	1,063
Sundry	335	301
Total other assets	3,312	3,255
Property, plant and equipment:		
Property, plant and equipment	17,000	16,458
Less accumulated depreciation and amortization	(4,399)	(4,202)
Property, plant and equipment, net ($372 and $383 at June 30, 2016 and December 31, 2015, respectively, related to VIE)	12,601	12,256
Total assets	$ 17,039	$ 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)

	June 30, 2016 (unaudited)	December 31, 2015(1)
LIABILITIES AND EQUITY		
Current liabilities:		
Short-term debt	$ 54	$ 168
Accounts payable	375	377
Due to unconsolidated affiliates	190	55
Interest payable	40	39
Accrued compensation and benefits	77	129
Accrued franchise fees	31	66
Current portion of long-term debt	191	50
Asset retirement obligations	63	99
Fixed-price contracts and other derivatives	37	51
Customer deposits	72	72
Other	88	101
Total current liabilities	1,218	1,207
Long-term debt ($298 and $303 at June 30, 2016 and December 31, 2015, respectively, related to VIE)	4,681	4,455
Deferred credits and other liabilities:		
Customer advances for construction	50	46
Pension and other postretirement benefit plan obligations, net of plan assets	221	212
Deferred income taxes	2,523	2,472
Deferred investment tax credits	20	19
Regulatory liabilities arising from removal obligations	1,743	1,629
Asset retirement obligations	765	729
Fixed-price contracts and other derivatives	98	106
Deferred credits and other	406	364
Total deferred credits and other liabilities	5,826	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	3,947	3,893
Accumulated other comprehensive income (loss)	(8)	(8)
Total SDG&E shareholder's equity	5,277	5,223
Noncontrolling interest	37	53
Total equity	5,314	5,276
Total liabilities and equity	$ 17,039	$ 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)

	Six months ended June 30,	
	2016	2015
	(unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$217	$281
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	317	294
Deferred income taxes and investment tax credits	26	103
Plant closure adjustment		(21)
Fixed-price contracts and other derivatives	(1)	(2)
Other	(21)	(9)
Net change in other working capital components		(40)
Changes in other assets	(39)	(59)
Changes in other liabilities	9	3
Net cash provided by operating activities	508	550
CASH FLOWS FROM INVESTING ACTIVITIES		
Expenditures for property, plant and equipment	(602)	(600)
Purchases of nuclear decommissioning trust assets	(203)	(227)
Proceeds from sales by nuclear decommissioning trusts	204	221
Increases in restricted cash	(21)	(19)
Decreases in restricted cash	24	19
Increase in loans to affiliate	(172)	
Net cash used in investing activities	(770)	(606)
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuances of debt (maturities greater than 90 days)	498	388
Payments on debt (maturities greater than 90 days)	(128)	(105)
Decrease in short-term debt, net	(114)	(206)
Capital distributions made by VIE	(3)	(6)
Other	(3)	
Net cash provided by financing activities	250	71
(Decrease) increase in cash and cash equivalents	(12)	15
Cash and cash equivalents, January 1	20	8
Cash and cash equivalents, June 30	$8	$23
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest payments, net of amounts capitalized	$92	$99
Income tax payments, net	125	99

SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES

Dividends declared but not paid	$175	$
Accrued capital expenditures	124	118

See Notes to Condensed Consolidated Financial Statements.

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

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
	(unaudited)			
Operating revenues	$617	$780	$1,650	$1,828
Operating expenses				
Cost of natural gas	147	196	400	463
Operation and maintenance	339	346	666	660
Depreciation and amortization	112	113	234	226
Franchise fees and other taxes	30	31	67	65
Total operating expenses	628	686	1,367	1,414
Operating (loss) income	(11)	94	283	414
Other income, net	6	9	16	17
Interest income		3		3
Interest expense	(24)	(19)	(46)	(38)
(Loss) income before income taxes	(29)	87	253	396
Income tax benefit (expense)	29	(16)	(58)	(111)
Net income		71	195	285
Preferred dividend requirements	(1)	(1)	(1)	(1)
(Losses) earnings attributable to common shares	$(1)	$70	$194	$284

See Notes to Condensed Financial Statements.

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

	Pretax amount	Income tax benefit (expense)	Net-of-tax amount
	Three months ended June 30, 2016 and 2015 (unaudited)		
2016:			
Net loss/Comprehensive loss	$(29)	$ 29	$
2015:			

Net income/Comprehensive income	$87	$ (16)	$ 71

	Six months ended June 30, 2016 and 2015 (unaudited)		
2016:			
Net income/Comprehensive income	$253	$(58)	$195
2015:			
Net income/Comprehensive income	$396	$(111)	$285

See Notes to Condensed Financial Statements.

SOUTHERN CALIFORNIA GAS COMPANY
CONDENSED BALANCE SHEETS
(Dollars in millions)

	June 30, 2016 (unaudited)	December 31, 2015(1)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 211	$ 58
Accounts receivable – trade, net	337	635
Accounts receivable – other	82	99
Due from unconsolidated affiliates	7	48
Income taxes receivable	6	
Inventories	44	79
Regulatory assets	8	7
Other	35	40
	730	966

Total current assets		
Other assets:		
Regulatory assets arising from pension obligations	732	699
Other regulatory assets	717	636
Insurance receivable for Aliso Canyon costs	679	325
Sundry	252	207
Total other assets	2,380	1,867
Property, plant and equipment:		
Property, plant and equipment	14,910	14,171
Less accumulated depreciation and amortization	(4,934)	(4,900)
Property, plant and equipment, net	9,976	9,271
Total assets	$ 13,086	$ 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)

	June 30, 2016 (unaudited)	December 31, 2015(1)
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable – trade	$ 277	$ 422
Accounts payable – other	63	76
Due to unconsolidated affiliate	25	
Income taxes payable		3
Accrued compensation and benefits	123	160
Regulatory balancing accounts – net overcollected	130	34
Current portion of long-term debt	1	9
Customer deposits	72	76
Reserve for	117	274

Aliso Canyon costs		
Other	181	184
Total current liabilities	979	1,238
Long-term debt	2,981	2,481
Deferred credits and other liabilities:		
Customer advances for construction	102	103
Pension obligation, net of plan assets	749	716
Deferred income taxes	1,637	1,532
Deferred investment tax credits	12	14
Regulatory liabilities arising from removal obligations	1,149	1,145
Asset retirement obligations	1,697	1,354
Deferred credits and other	437	372
Total deferred credits and other liabilities	5,783	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	2,474	2,280
Accumulated other comprehensive income (loss)	(19)	(19)
Total shareholders' equity	3,343	3,149
Total liabilities and shareholders' equity	$ 13,086	$ 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)

Six months ended June 30,

	2016 (unaudited)		2015	
CASH FLOWS FROM OPERATING ACTIVITIES				
Net income	$	195	$	285
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization		234		226
Deferred income taxes and investment tax credits		32		76
Other		7		(15)
Net change in other working capital components		190		(58)
Insurance receivable for Aliso Canyon costs		(354)		
Changes in other assets		(54)		(30)
Changes in other liabilities		12		(1)
Net cash provided by operating activities		262		483
CASH FLOWS FROM INVESTING ACTIVITIES				
Expenditures for property, plant and equipment		(650)		(603)
Decrease (increase) in loans to affiliate, net		50		(279)
Net cash used in investing activities		(600)		(882)
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)		(3)
Net cash provided by financing activities		491		545
Increase in cash and cash equivalents		153		146
Cash and cash equivalents, January 1		58		85
Cash and cash equivalents, June 30	$	211	$	231
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION				

Interest payments, net of amounts capitalized	$	43	$	36
Income tax payments, net		35		14
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING ACTIVITY				
Accrued capital expenditures	$	140	$	143

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. 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 June 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 Natural Gas owns Mobile Gas Service Corporation (Mobile Gas) in southwest Alabama and Willmut Gas Company (Willmut Gas) in Mississippi, and Sempra Mexico owns Ecogas México, S. de R.L. de C.V. (Ecogas) in northern Mexico, all natural gas distribution utilities. The California Utilities, Mobile Gas, Willmut Gas, 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.

Pipeline projects currently under construction by IEnova that are both regulated by the Comisión Reguladora de Energía (or CRE, the Energy Regulatory Commission) and 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 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 are currently evaluating the effect of the standards on our ongoing financial reporting and have not yet selected the timing of adoption or our transition method.

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 value 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 are currently evaluating the full effect of the standard on our ongoing financial reporting, and have not yet concluded as to whether we will elect an early adoption. If we early adopt in 2016, we will recognize a $34 million tax benefit in earnings, which is currently recorded in Shareholders' Equity, related to the six months ended June 30, 2016, and a benefit to retained earnings as of January 1, 2016 of approximately $107 million, both associated with the provision in ASU 2016-09 to recognize all excess tax benefits related to share-based compensation.

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 effect of the standard on our ongoing financial reporting.

NOTE 3. ACQUISITION AND DIVESTITURE ACTIVITY

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

ACQUISITIONS

Sempra Renewables

In July 2016, Sempra Renewables invested $22 million to acquire a 100-percent interest in the Apple Blossom Wind project, a 100-megawatt (MW) wind farm currently under development in Huron County, Michigan. 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

IEnova and Petróleos Mexicanos (or PEMEX, the Mexican state-owned oil company) are 50-50 partners in the joint venture Gasoductos de Chihuahua S. de R.L. de C.V. (GdC). GdC develops and operates energy infrastructure in Mexico. On July 31, 2015, IEnova entered into an agreement to purchase PEMEX's 50-percent interest in GdC. The assets involved in the acquisition included three natural gas pipelines, an ethane pipeline, and a liquid petroleum gas pipeline and associated storage terminal.

In December 2015, Mexico's Comisión Federal de Competencia Económica (COFECE or Mexican Competition Commission) objected to the transaction based upon previous antitrust rulings on PEMEX's indirect ownership of two of the assets, the TDF S. de R.L. de C.V. liquid petroleum gas pipeline (TDF Pipeline) and the San Fernando natural gas pipeline (San Fernando Pipeline), included in the acquisition as proposed. COFECE specified that these assets must be offered by PEMEX in a competitive bidding process as a prerequisite for approval of any transaction involving these two assets. COFECE's decision did not object to IEnova's acquisition of the assets on a market concentration basis.

In July 2016, IEnova announced that the parties reached an agreement to restructure the transaction to allow PEMEX to satisfy the conditions imposed by the COFECE to hold the TDF Pipeline and San Fernando Pipeline for sale in an open bidding process. The open bidding process was held in July 2016 and ended with no bidders participating. Subject to final approval by the COFECE, IEnova expects to acquire GdC's assets consistent with the original agreement, including the TDF and San Fernando pipelines, for a purchase price of approximately $1.1 billion. Also consistent with the original agreement, we expect the transaction to exclude the Los Ramones Norte pipeline that is owned under a separate joint venture with GdC, PEMEX, BlackRock and First Reserve, keeping IEnova's interest in the pipeline at the current 25 percent. We expect the transaction to close in the third quarter of 2016. The transaction remains subject to the satisfactory completion of the Mexican antitrust review and customary closing conditions, and may require further approvals from other Mexican authorities.

IEnova currently accounts for its 50-percent interest in GdC as an equity method investment. At closing, GdC will become a wholly owned, consolidated subsidiary of IEnova. We anticipate that we will recognize a noncash gain associated with the remeasurement of our equity interest in GdC upon consummation of the transaction; however, as the assets to be included in the transaction are not yet confirmed and the valuation of such assets is not finalized, we are unable to reasonably estimate the gain at this time.

Sempra Energy has committed to provide interim financing to close the transaction. We expect to ultimately finance the acquisition with a combination of debt and equity at IEnova based on market conditions.

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.

The following table summarizes the carrying amounts of the major classes of assets and related liabilities held for sale at June 30, 2016, and we discuss each group of assets below.

ASSETS HELD FOR SALE
AT JUNE 30, 2016
(Dollars in millions)

	Termoeléctrica de Mexicali	EnergySouth Inc.
	$ 1	$ 1

Cash and cash equivalents		
Inventories	8	3
Other current assets	21	13
Regulatory assets		12
Goodwill		72
Other assets	17	53
Property, plant and equipment, net	250	203
Total assets held for sale	$ 297	$ 357
Accounts payable	$ 1	$ 9
Other current liabilities	6	12
Long-term debt		67
Deferred income taxes	13	38
Regulatory liabilities		22
Asset retirement obligations	4	12
Other liabilities	19	19
Total liabilities held for sale	$ 43	$ 179

Sempra Mexico

Termoeléctrica de Mexicali

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 classifying TdM as held for sale, we recognized expense of $3 million ($2 million after noncontrolling interests) and $32 million ($26 million after noncontrolling interests) in the three months and six months ended June 30, 2016, respectively, in Income Tax Expense on Sempra Energy's Condensed Consolidated Statements of Operations for a deferred Mexican income tax liability related to the excess of carrying value over the tax basis. 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 considered the estimated fair value of the plant, less costs to sell, and determined that no adjustment to carrying value was required. In estimating fair value, we used both a market approach and discounted cash flow valuation techniques. In the event that the estimated sales price, less transaction costs, is less than the carrying value, or updated market information indicates fair value may be less than carrying value, we would recognize a loss in our results of operations at that time. We expect to complete the sale in the second half of 2016.

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. We expect to receive cash proceeds of approximately $323 million, subject to normal adjustments at closing, and the buyer will assume existing debt of approximately $67 million. Litigation at Mobile Gas, discussed in Note 11, will be retained by Mobile Gas at the close of the transaction. The transaction is subject to customary regulatory approvals. In addition, the State of Missouri Public Service Commission (MPSC) in July 2016 opened an investigation into whether the transaction will have any effect on Missouri ratepayers and is subject to MPSC's jurisdiction. We expect the sale to close in 2016.

DIVESTITURES

Sempra Natural Gas

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. 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 (Losses), 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 our Condensed Consolidated Statements of Operations for the three months and six months ended June 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

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.

SEMPRA RENEWABLES

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

SEMPRA NATURAL GAS

Sempra Natural Gas capitalized $24 million of interest during both the six months ended June 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 six months ended June 30, 2015, Sempra Natural Gas invested cash of $3 million in the joint venture and accrued $7 million for a project capital call due and subsequently paid in July 2015. 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, which have a maximum aggregate amount of $4.5 billion, in Note 4 of the Notes to Consolidated Financial Statements in the Annual Report. These guarantees have an aggregate carrying value of $63 million at June 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	
	June 30, 2016	December 31, 2015	June 30, 2016	December 31, 2015	June 30, 2016	December 31, 2015	June 30, 2016	December 31, 2015
SDG&E	$ 1	$ 6	$ —	$ —	$ 70	$ 69	$ 71	$ 75
SoCalGas(1)	—	49	—	—	44	30	44	79
Sempra South American Utilities	—	—	—	—	43	30	43	30
Sempra Mexico	—	—	7	3	2	10	9	13
Sempra Renewables	—	—	—	—	3	3	3	3
Sempra Natural Gas	96	94	4	3	—	1	100	98
Sempra Energy Consolidated	$ 97	$ 149	$ 11	$ 6	$ 162	$ 143	$ 270	$ 298

(1) At both June 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.

GOODWILL

We discuss goodwill in Note 1 of the Notes to Consolidated Financial Statements in the Annual Report. The decrease in goodwill from $819 million at December 31, 2015 to $786 million at June 30, 2016 is due to the reclassification of EnergySouth goodwill at Sempra Natural Gas to assets held for sale, offset by foreign currency translation at Sempra South American Utilities. We record the offset of the fluctuation from foreign currency translation in Other Comprehensive Income (Loss).

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 upon 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 $37 million at June 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 $310 million at June 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.

AMOUNTS ASSOCIATED WITH OTAY MESA VIE
(Dollars in millions)

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Operating expenses				
Cost of electric fuel and purchased power	$(17)	$(21)	$(34)	$(39)
Operation and maintenance	15	6	19	10
Depreciation and amortization	10	6	17	12
Total operating expenses	8	(9)	2	(17)
Operating (loss) income	(8)	9	(2)	17

Interest expense	(5)	(5)	(10)	(9)
(Loss) income before income taxes/Net (loss) income	(13)	4	(12)	8
Losses (earnings) attributable to noncontrolling interest	13	(4)	12	(8)
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 June 30, 2016. In addition to the tolling agreements described above, other variable interests involve various elements of fuel and power costs, including certain construction costs, tax credits, 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 considered to be a VIE generally 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 $818 million at June 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.

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 June 30,			
	2016	2015	2016	2015
Service cost	$27	$29	$ 6	$ 7
Interest cost	40	39	11	11
Expected return on assets	(41)	(44)	(18)	(17)
Amortization of:				
Prior service cost	3	2		
Actuarial loss	7	11		
Regulatory adjustment	(28)	(30)	2	
Total net periodic benefit cost	$8	$7	$ 1	$ 1
	Six months ended June 30,			
	2016	2015	2016	2015
Service cost	$55	$59	$ 11	$ 14
Interest cost	80	78	22	23
Expected return on assets	(83)	(88)	(35)	(34)
Amortization of:				
Prior service cost (credit)	6	5		(1)
Actuarial loss	13	19		
Regulatory adjustment	(56)	(59)	4	
Total net periodic benefit cost	$15	$14	$ 2	$ 2

NET PERIODIC BENEFIT COST – SDG&E
(Dollars in millions)

	Pension benefits		Other postretirement benefits	
	Three months ended June 30,			
	2016	2015	2016	2015
Service cost	$8	$8	$ 1	$ 2
Interest cost	11	10	2	2
Expected return on assets	(13)	(13)	(2)	(3)
Amortization of:				
Prior service cost	1	1	1	1
Actuarial loss (gain)	2	2	(1)	
Regulatory adjustment	(8)	(7)	(1)	(2)
Total net periodic benefit cost	$1	$1	$	$
	Six months ended June 30,			
	2016	2015	2016	2015

Service cost	$15	$16	$ 2	$ 4
Interest cost	21	20	4	4
Expected return on assets	(25)	(27)	(5)	(6)
Amortization of:				
Prior service cost	1	1	2	2
Actuarial loss (gain)	5	4	(1)	
Regulatory adjustment	(15)	(12)	(2)	(4)
Total net periodic benefit cost	$2	$2	$	$

NET PERIODIC BENEFIT COST – SOCALGAS
(Dollars in millions)

	Pension benefits		Other postretirement benefits	
	Three months ended June 30,			
	2016	2015	2016	2015
Service cost	$18	$19	$ 3	$ 5
Interest cost	25	24	9	9
Expected return on assets	(27)	(27)	(14)	(14)
Amortization of:				
Prior service cost (credit)	2	2	(1)	(2)
Actuarial loss	2	6		
Regulatory adjustment	(20)	(23)	3	2
Total net periodic benefit cost	$	$1	$	$
	Six months ended June 30,			
	2016	2015	2016	2015
Service cost	$35	$38	$ 7	$ 10
Interest cost	50	49	17	18
Expected return on assets	(52)	(54)	(28)	(28)
Amortization of:				
Prior service cost (credit)	4	4	(2)	(4)
Actuarial loss	5	11		
Regulatory adjustment	(41)	(47)	6	4
Total net periodic benefit cost	$1	$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 Consolidated	SDG&E	SoCalGas
Contributions through June 30, 2016:			

Pension plans	$ 23	$ 2	$
Other postretirement benefit plans	2		1
Total expected contributions in 2016:			
Pension plans	$ 123	$ 4	$ 77
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 $436 million and $464 million at June 30, 2016 and December 31, 2015, respectively.

EARNINGS PER SHARE

The following table provides earnings per share (EPS) computations for the three months and six months ended June 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 June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Numerator:				
Earnings/Income attributable to common shares	$16	$295	$335	$732
Denominator:				
Weighted-average common shares outstanding for basic EPS(1)	250,096	248,108	249,915	247,916
Dilutive effect of stock options, restricted stock awards and restricted stock units	1,842	3,383	1,771	3,348
Weighted-average common shares outstanding for diluted EPS	251,938	251,491	251,686	251,264
Earnings per share:				
Basic	$0.06	$1.19	$1.34	$2.95
Diluted	0.06	1.17	1.33	2.91

(1) Includes 568 and 501 average fully vested restricted stock units held in our Deferred Compensation Plan for the three months ended June 30, 2016 and 2015, respectively, and 562 and 476 of such units for the six months ended June 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.

The dilution from common stock options is based on the treasury stock method. Under this method, proceeds based on the exercise price plus unearned compensation and windfall tax benefits recognized, minus tax shortfalls recognized, are assumed to be used to repurchase shares on the open market at the average market price for the period. The windfall tax benefits are tax deductions we would receive upon the assumed exercise of stock options in excess of the deferred income taxes we recorded related to the compensation expense on the stock options. Tax shortfalls occur when the assumed tax deductions are less than recorded deferred income taxes. The calculation of dilutive common stock equivalents excludes options for which the exercise price on common stock was greater than the average market price during the period (out-of-the-money options). For the three months and six months ended June 30, 2016 and 2015, we had no such antidilutive stock options outstanding. For the three months and six months ended June 30, 2016 and 2015, we had no stock options outstanding that were antidilutive because of the unearned compensation and windfall tax benefits included in the assumed proceeds under the treasury stock method.

The dilution from unvested restricted stock awards (RSAs) and restricted stock units (RSUs) is also based on the treasury stock method. Proceeds equal to the unearned compensation and windfall tax benefits recognized, minus tax shortfalls recognized, related to the awards and units are assumed to be used to repurchase shares on the open market at the average market price for the period. The windfall tax benefits or tax shortfalls recognized are the difference between tax deductions we would receive upon the assumed vesting of RSAs or RSUs and the deferred income taxes we recorded related to the compensation expense on such awards and units. There were no antidilutive RSAs and 1,010 antidilutive RSUs from the application of unearned compensation in the treasury stock method for the three months ended June 30, 2016. There were no such antidilutive RSAs and 2,408 such antidilutive RSUs for the six months ended June 30, 2016. There were no such antidilutive RSAs and 4,715 such antidilutive RSUs for both the three months and six months ended June 30, 2015.

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 1,417,481 and 1,370,460 for the three months ended June 30, 2016 and 2015, respectively, and 1,491,195 and 1,424,855 for the six months ended June 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 $6 million and $7 million for the three months ended June 30, 2016 and 2015, respectively, and $13 million and $15 million for the six months ended June 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 six months ended June 30, 2016, primarily in January.
During the six months ended June 30, 2016, IEnova issued 183,970 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 six months ended June 30, 2016 and 2015.

CAPITALIZED FINANCING COSTS
(Dollars in millions)

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Sempra Energy Consolidated:				
AFUDC related to debt	$ 8	$ 7	$ 15	$ 13
AFUDC related to equity	30	31	57	58
Other capitalized interest	20	17	38	34
Total Sempra Energy Consolidated	$ 58	$ 55	$ 110	$ 105
SDG&E:				
	$ 4	$ 4	$ 8	$ 7

AFUDC related to debt				
AFUDC related to equity	13	10	24	18
Total SDG&E	$ 17	$ 14	$32	$25
SoCalGas:				
AFUDC related to debt	$ 4	$ 3	$7	$6
AFUDC related to equity	10	10	20	19
Total SoCalGas	$ 14	$ 13	$27	$25

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 June 30, 2016 and 2015			
2016:				
Balance as of March 31, 2016	$(514)	$ (221)	$ (86)	$ (821)
Other comprehensive income (loss)				

before reclassifications	11	(48)		(37)
Amounts reclassified from accumulated other comprehensive income		5	1	6
Net other comprehensive income (loss)	11	(43)	1	(31)
Balance as of June 30, 2016	$ (503)	$ (264)	$ (85)	$ (852)
2015:				
Balance as of March 31, 2015	$ (384)	$ (145)	$ (84)	$ (613)
Other comprehensive (loss) income before reclassifications	(43)	57		14
Amounts reclassified from accumulated other comprehensive income		2	1	3
Net other comprehensive (loss) income	(43)	59	1	17
Balance as of June 30, 2015	$ (427)	$ (86)	$ (83)	$ (596)

Six months ended June 30, 2016 and 2015

2016:				
Balance as of December 31, 2015	$(582)	$ (137)	$ (87)	$ (806)
Other comprehensive income (loss) before reclassifications	79	(130)		(51)
Amounts reclassified from accumulated other comprehensive income		3	2	5
Net other comprehensive income (loss)	79	(127)	2	(46)
Balance as of June 30, 2016	$(503)	$ (264)	$ (85)	$ (852)
2015:				
Balance as of December 31, 2014	$(322)	$ (90)	$ (85)	$ (497)
Other comprehensive (loss) income before reclassifications	(105)	3		(102)
Amounts reclassified from accumulated other				

comprehensive income		1	2	3
Net other comprehensive (loss) income	(105)	4	2	(99)
Balance as of June 30, 2015	$(427)	$ (86)	$ (83)	$ (596)

(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)		Affected line item on Condensed Consolidated Statements of Operations
	Three months ended June 30,		
	2016	2015	
Sempra Energy Consolidated:			
Financial instruments:			
Interest rate and foreign exchange instruments	$ 3	$ 3	Interest Expense
Interest rate instruments	2	3	Equity Earnings (Losses), Before Income

			Tax
Interest rate and foreign exchange instruments	5		Equity Earnings, Net of Income Tax
Total before income tax	10	6	
	(1)	(1)	Income Tax Expense
Net of income tax	9	5	
	(4)	(3)	Earnings Attributable to Noncontrolling Interests
	$ 5	$ 2	
Pension and other postretirement benefits:			
Amortization of actuarial loss	$ 2	$ 2	See note (1) below
	(1)	(1)	Income Tax Expense
Net of income tax	$ 1	$ 1	
Total reclassifications for the period, net of tax	$ 6	$ 3	
SDG&E:			
Financial instruments:			
Interest rate	$ 3	$ 3	Interest Expense

instruments			
	(3)	(3)	Losses (Earnings) Attributable to Noncontrolling Interest
Total reclassifications for the period, net of tax	$	$	

(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	Amount reclassified from accumulated other comprehensive income (loss)		Affected line item on Condensed Consolidated Statements of Operations
	Six months ended June 30,		
	2016	2015	
Sempra Energy Consolidated:			
Financial instruments:			
Interest rate and foreign exchange instruments	$ 7	$ 9	Interest Expense
	5	6	

Interest rate instruments			Equity Earnings (Losses), Before Income Tax
Interest rate and foreign exchange instruments	6		Equity Earnings, Net of Income Tax
Commodity contracts not subject to rate recovery	(7)	(7)	Revenues: Energy-Related Businesses
Total before income tax	11	8	
	(1)		Income Tax Expense
Net of income tax	10	8	
	(7)	(7)	Earnings Attributable to Noncontrolling Interests
	$ 3	$ 1	
Pension and other postretirement benefits:			
Amortization of actuarial loss	$ 4	$ 4	See note (1) below
	(2)	(2)	Income Tax Expense
Net of income tax	$ 2	$ 2	
Total reclassifications for the	$ 5	$ 3	

period, net of tax			
SDG&E:			
Financial instruments:			
Interest rate instruments	$ 6	$ 6	Interest Expense
	(6)	(6)	Losses (Earnings) Attributable to Noncontrolling Interest
Total reclassifications for the period, net of tax	$	$	

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

For the three months and six months ended June 30, 2016 and 2015, Other Comprehensive Income (Loss) (OCI), excluding amounts attributable to noncontrolling interests, at SDG&E and SoCalGas was negligible, and reclassifications out of AOCI to Net Income were also negligible for SoCalGas.

SHAREHOLDERS' EQUITY AND NONCONTROLLING INTERESTS

The following tables provide reconciliations of changes in Sempra Energy's and SDG&E's shareholders' equity and noncontrolling interests for the six months ended June 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,	$11,809	$770	$12,579

2015			
Comprehensive income	290	22	312
Preferred dividends of subsidiary	(1)		(1)
Share-based compensation expense	24		24
Common stock dividends declared	(377)		(377)
Issuances of common stock	56		56
Repurchases of common stock	(54)		(54)
Tax benefit related to share-based compensation	34		34
Equity contributed by noncontrolling interest		1	1
Distributions to noncontrolling interests		(11)	(11)
Balance at June 30, 2016	$11,781	$782	$12,563
Balance at December 31, 2014	$11,326	$774	$12,100
Comprehensive income	634	33	667
Preferred dividends	(1)		(1)

of subsidiary			
Share-based compensation expense	26		26
Common stock dividends declared	(347)		(347)
Issuances of common stock	59		59
Repurchases of common stock	(66)		(66)
Tax benefit related to share-based compensation	52		52
Equity contributed by noncontrolling interest		1	1
Distributions to noncontrolling interests		(16)	(16)
Balance at June 30, 2015	$11,683	$792	$12,475

(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
Comprehensive income (loss)	229	(13)	216
Common stock dividends declared	(175)		(175)
Distributions to noncontrolling interest		(3)	(3)
Balance at June 30, 2016	$5,277	$37	$5,314
Balance at December 31, 2014	$4,932	$60	$4,992
Comprehensive income	273	9	282
Distributions to noncontrolling interest		(8)	(8)
Balance at June 30, 2015	$5,205	$61	$5,266

SHAREHOLDERS' EQUITY SOCALGAS
(Dollars in millions)

	SoCalGas shareholders' equity
Balance at December 31, 2015	$3,149
Comprehensive income	195
Preferred stock dividends declared	(1)
Balance at June 30, 2016	$3,343
Balance at December 31, 2014	$2,781
Comprehensive income	285
Preferred stock dividends declared	(1)
Balance at June 30, 2015	$3,065

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 June 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			
	June 30, 2016	December 31, 2015	June 30, 2016	December 31, 2015
SDG&E:				
Otay Mesa VIE	100 %	100 %	$ 37	$ 53
Sempra South American Utilities:				
Chilquinta Energía subsidiaries(1)	23.2 – 43.4	23.5 – 43.4	21	21
Luz del Sur	16.4	16.4	175	164
Tecsur	9.8	9.8	4	4
Sempra Mexico:				
IEnova	18.9	18.9	484	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			$ 762	$ 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.

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)

	June 30, 2016	December 31, 2015
Sempra Energy Consolidated:		
Total due from various unconsolidated affiliates - current	$ 6	$ 6
Sempra South American Utilities(1):		
Eletrans S.A. and Eletrans II S.A.:		
4% Note(2)	$ 79	$ 72
Other related party receivables	2	
Sempra Mexico(1):		
Affiliate of joint venture with PEMEX:		
Note due November 13, 2017(3)	2	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)	17	24
Sempra Natural Gas:		
Cameron LNG JV	6	3
Total due from unconsolidated affiliates - noncurrent	$ 192	$ 186
Total due to various unconsolidated affiliates - current	$ (8)	$ (14)
SDG&E:		
Sempra Energy(5)	$ 163	$
Other affiliates		1
	$ 163	$ 1

Total due from unconsolidated affiliates - current		
Sempra Energy	$	$ (34)
SoCalGas	(7)	(13)
Other affiliates	(183)	(8)
Total due to unconsolidated affiliates - current	$ (190)	$ (55)
Income taxes due from Sempra Energy(6)	$ 59	$ 28
SoCalGas:		
Sempra Energy(7)	$	$ 35
SDG&E	7	13
Total due from unconsolidated affiliates - current	$ 7	$ 48
Sempra Energy	$ (25)	$
Total due to unconsolidated affiliate - current	$ (25)	$
Income taxes	$ 9	$ 1

due from Sempra Energy(6)

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

(2) U.S. dollar-denominated loan, at a fixed interest rate with no stated maturity date, to provide project financing for the construction of transmission lines at Eletrans S.A. and Eletrans II S.A., both of which are joint ventures at Chilquinta Energía.

(3) U.S. dollar-denominated loan, at a variable interest rate based on a 30-day LIBOR plus 450 basis points (4.97 percent at June 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 (6.84 percent at June 30, 2016), to finance the first phase of the Energía Sierra Juárez wind project, which is a joint venture of IEnova.

(5) At June 30, 2016, net receivable included outstanding advances to Sempra Energy of $172 million at an interest rate of 0.35

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 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 June 30,		Six months ended June 30,	
	2016	2015	2016	2015
REVENUES				
Sempra Energy Consolidated	$ 5	$ 8	$ 10	$ 16
SDG&E		2	3	5
SoCalGas	18	17	35	36
COST OF SALES				
Sempra Energy Consolidated	$ 20	$ 30	$ 50	$ 49
SDG&E	16	13	30	18

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 June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Sempra Energy Consolidated:				
Allowance for equity funds used during construction	$ 30	$ 31	$ 57	$ 58
Investment gains (losses)(1)	10	(2)	20	7
Losses on interest rate and foreign exchange instruments, net	(15)	(3)	(12)	(3)
Foreign currency transaction losses	(5)	(2)	(7)	(3)
Sale of other investments	1	6	2	6
Electrical infrastructure relocation income(2)	2	4	3	4
Regulatory interest,	1	1	3	2

net(3)				
Sundry, net	(1)	2	6	5
Total	$ 23	$ 37	$ 72	$ 76
SDG&E:				
Allowance for equity funds used during construction	$ 13	$ 10	$ 24	$ 18
Regulatory interest, net(3)	1	1	3	2
Sundry, net	(1)	(2)		(2)
Total	$ 13	$ 9	$ 27	$ 18
SoCalGas:				
Allowance for equity funds used during construction	$ 10	$ 10	$ 20	$ 19
Sundry, net	(4)	(1)	(4)	(2)
Total	$ 6	$ 9	$ 16	$ 17

(1) Represents investment gains (losses) on dedicated assets in support of our executive retirement and deferred 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 AND EFFECTIVE INCOME TAX RATES
(Dollars in millions)

	Income tax (benefit) expense	Effective income tax rate	Income tax expense	Effective income tax rate
	Three months ended June 30,			
	2016		2015	
Sempra Energy Consolidated	$(106)	95 %	$98	25 %
SDG&E	48	36	54	29
SoCalGas	(29)	100	16	18
	Six months ended June 30,			
	2016		2015	
Sempra Energy Consolidated	$36	10 %	$261	26 %
SDG&E	120	36	142	34
SoCalGas	58	23	111	28

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.

Sempra Energy Consolidated

The income tax benefit in the three months ended June 30, 2016 compared to income tax expense in the same period in 2015 was due to a pretax loss in the period in 2016. The pretax loss includes the charges associated with prior years' tax repairs deductions as a result of the 2016 General Rate Case Final Decision (GRC FD) issued by the CPUC in June 2016 affecting the California Utilities and losses from the permanent release of pipeline capacity at Sempra Natural Gas, as we discuss in Notes 10 and 11, respectively. Pretax income in 2015 included the gain from the sale of the Mesquite Power plant discussed in Note 3. Items affecting the effective income tax rate in 2016 include

§ higher flow-through items as a percentage of pretax loss;
§ higher income tax benefit from foreign currency translation and inflation adjustments; and
§ lower U.S. income tax expense as a result of lower planned repatriation of current year earnings from certain non-U.S. subsidiaries.

The decrease in income tax expense in the six months ended June 30, 2016 compared to the same period in 2015 was due to lower pretax income, as we discuss for the second quarter above, and a lower effective income tax rate, primarily due to:

§ higher flow-through items as a percentage of pretax income in 2016; and
§ higher income tax benefit in 2016 from foreign currency translation and inflation adjustments; offset by
§ $32 million deferred Mexican income tax expense in 2016 on our basis difference in TdM as a result of management's decision to hold the asset for sale. We discuss the planned sale further in Note 3.

SDG&E

The decrease in SDG&E's income tax expense in the three and six months ended June 30, 2016 compared to the same periods in 2015 was primarily due to lower pretax income, offset by a higher effective income tax rate. Pretax income in 2016 includes the charges associated with prior years' tax repairs deductions as a result of the 2016 GRC FD. The higher effective income tax rate was primarily due to:

§ favorable resolution of prior years' income tax items in 2015; and
§ Otay Mesa VIE's pretax loss in 2016 compared to pretax income in 2015, which is excluded from SDG&E's and Sempra Energy Consolidated's taxable income; offset by

§ higher flow-through items as a percentage of pretax income in 2016.

SoCalGas

SoCalGas' income tax benefit in the three months ended June 30, 2016 compared to income tax expense in the same period in 2015 was due to a pretax loss in the period in 2016. The pretax loss includes the charges associated with prior years' tax repairs deductions as a result of the 2016 GRC FD. In addition, the effective income tax rate in 2016 was affected by higher flow-through items as a percentage of pretax loss.

The decrease in SoCalGas' income tax expense in the six months ended June 30, 2016 compared to the same period in 2015 was primarily due to lower pretax income, as discussed for the second quarter above, and a lower effective income tax rate. The lower effective income tax rate was primarily due to higher flow-through items as a percentage of pretax income in 2016.

The 2016 GRC FD requires the establishment of a two-way income tax expense memorandum account for SDG&E and SoCalGas to track any revenue variances resulting from differences between the income tax expense forecasted in the 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 as a result of certain flow-through item deductions (see description below) exceeding the amounts forecasted in the GRC process. In the second quarter of 2016, SoCalGas recorded a $9 million after-tax charge ($15 million pretax) and SDG&E recorded a negligible amount to earnings for the differences in the income tax expense forecasted in the GRC proceedings and the income tax expense that SDG&E and SoCalGas incurred for the six-month period ended June 30, 2016. We discuss the memo account further in Note 10.

Although the 2016 GRC FD requires the tracking described above for SDG&E and SoCalGas, the California Public Utilities Commission (CPUC) continues to require 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

Differences arising from the forecasted amounts for these flow-through items will be tracked in the two-way income tax expense tracking account described above, except for the equity portion of AFUDC, which is not subject to taxation. We expect that amounts recorded in the tracking account may give rise to regulatory liabilities until the CPUC disposes with the account.

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

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 June 30, 2016, Sempra Energy Consolidated had an aggregate of $4.2 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 June 30, 2016 was approximately $2.5 billion. Our foreign operations have additional general purpose credit facilities aggregating $1.1 billion at June 30, 2016. Available unused credit on these lines totaled $843 million at June 30, 2016.

Sempra Energy

Sempra Energy has a $1 billion, five-year syndicated revolving credit agreement expiring in October 2020. Citibank, N.A. serves as administrative agent for the syndicate of 20 lenders, and no single lender has greater than a 7-percent share.
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 June 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 June 30, 2016, Sempra Energy had no outstanding borrowings or letters of credit supported by the facility.

Sempra Global

Sempra Global has a $2.21 billion, five-year syndicated revolving credit agreement expiring in October 2020. Citibank, N.A. serves as administrative agent for the syndicate of 20 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 June 30, 2016, Sempra Energy was in compliance with this and all other financial covenants under the credit facility.
At June 30, 2016, Sempra Global had $1.6 billion of commercial paper outstanding supported by the facility and $643 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. JPMorgan Chase Bank, N.A. serves as administrative agent for the syndicate of 20 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 June 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 June 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 June 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 aggregating $547 million U.S. dollar equivalent, expiring between 2016 and 2018. 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 June 30, 2016, Sempra South American Utilities was in compliance with this financial covenant under the credit facilities. At June 30, 2016, Sempra South American Utilities had outstanding borrowings of $167 million and bank guarantees of $16 million against the Peruvian facilities, and $252 million of available unused credit. There were no outstanding borrowings at June 30, 2016 under the $112 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 June 30, 2016, IEnova had $121 million of outstanding borrowings supported by the facility, and available unused credit on the line was $479 million.

WEIGHTED AVERAGE INTEREST RATES

The weighted average interest rates on the total short-term debt at Sempra Energy Consolidated were 1.21 percent and 1.09 percent at June 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 June 30, 2016 and December 31, 2015, respectively.

LONG-TERM DEBT

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.

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 June 30, 2016 and December 31, 2015 as follows:

NET ENERGY DERIVATIVE VOLUMES
(Quantities in millions)

Segment and Commodity	Unit of measure	June 30, 2016	December 31, 2015
California Utilities:			
SDG&E:			
Natural gas	MMBtu(1)	72	70
Electricity	MWh(2)	1	1
Congestion revenue rights	MWh	30	36
SoCalGas – natural gas	MMBtu	—	1
Energy-Related Businesses:			
Sempra Natural Gas – natural gas	MMBtu	30	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 June 30, 2016 and December 31, 2015, the net notional amounts of our interest rate derivatives, excluding joint ventures and cross-currency derivatives discussed below, were:

INTEREST RATE DERIVATIVES
(Dollars in millions)

	June 30, 2016		December 31, 2015	
	Notional debt	Maturities	Notional debt	Maturities
Sempra Energy Consolidated:				
Cash flow hedges(1)	$377	2016-2028	$384	2016-2028
Fair value hedges			300	2016
SDG&E:				
Cash flow hedge(1)	310	2016-2019	315	2016-2019

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

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.
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, we entered into foreign currency derivatives with a notional amount totaling $550 million.

At June 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)

	June 30, 2016		December 31, 2015	
	Notional debt	Maturities	Notional debt	Maturities
Sempra Mexico:				
Cross-currency swaps	$408	2018-2023	$408	2018-2023
Other foreign currency derivatives	550	2016		

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 such swaps 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 June 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)

	June 30, 2016			
	Current assets: Fixed-price contracts and other derivatives(1)	Other assets: Sundry	Current liabilities: Fixed-price contracts and other derivatives(2)	Deferred credits and other liabilities: Fixed-price contracts and other derivatives
Sempra Energy Consolidated:				
Derivatives designated as hedging instruments:				

Interest rate and foreign exchange instruments(3)	$1	$	$(15)	$(184)
Commodity contracts not subject to rate recovery			(5)	
Derivatives not designated as hedging instruments:				
Interest rate and foreign exchange instruments			(12)	
Commodity contracts not subject to rate recovery	208	22	(227)	(17)
Associated offsetting commodity contracts	(199)	(13)	199	13
Associated offsetting cash collateral			30	1
Commodity contracts subject to rate recovery	18	52	(35)	(48)
Associated offsetting commodity contracts	(4)	(2)	4	2
Associated offsetting cash collateral			13	15
Net amounts presented on the balance sheet	24	59	(48)	(218)
Additional cash collateral for commodity contracts not subject to rate recovery	14			
Additional cash collateral for commodity contracts subject to rate recovery	27			
Total(4)	$65	$59	$(48)	$(218)
SDG&E:				
Derivatives designated as hedging instruments:				
Interest rate instruments(3)	$	$	$(14)	$(23)
Derivatives not designated as hedging instruments:				
Commodity contracts subject to rate recovery	16	52	(32)	(48)
Associated offsetting commodity contracts	(3)	(2)	3	2
Associated offsetting cash collateral			12	15
Net amounts presented on the balance sheet	13	50	(31)	(54)
Additional cash collateral for commodity contracts subject to rate recovery	26			
Total(4)	$39	$50	$(31)	$(54)
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	2		(3)	
Associated offsetting commodity contracts	(1)		1	
Associated offsetting cash collateral			1	
Net amounts presented on the balance sheet	1		(1)	
Additional cash collateral for commodity contracts not subject to rate recovery	1			
Additional cash collateral for commodity contracts subject to rate recovery	1			
Total	$3	$	$(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.

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	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)	
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 and six months ended June 30 were:

FAIR VALUE HEDGE IMPACTS
(Dollars in millions)

		Pretax gain (loss) on derivatives recognized in earnings			
		Three months ended June 30,		Six months ended June 30,	
	Location	2016	2015	2016	2015
Sempra Energy Consolidated:					
Interest rate instruments	Interest Expense	$1	$2	$3	$4
Interest rate instruments	Other Income, Net	(2)	(3)	(2)	(2)
Total(1)		$(1)	$(1)	$1	$2

(1) There was no hedge ineffectiveness in either the three months or six months ended June 30, 2016 or 2015. 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	Pretax (loss) gain reclassified from AOCI into earnings

	(effective portion) Three months ended June 30, 2016	2015	Location	(effective portion) Three months ended June 30, 2016	2015
Sempra Energy Consolidated:					
Interest rate and foreign exchange instruments(1)	$ 1	$ 6	Interest Expense	$ (3)	$ (3)
Interest rate instruments	(70)	89	Equity Earnings (Losses), Before Income Tax	(2)	(3)
Interest rate and foreign exchange instruments	(15)		Equity Earnings, Net of Income Tax	(5)	
Commodity contracts not subject to rate recovery	(5)	1	Revenues: Energy-Related Businesses		
Total	$ (89)	$ 96		$ (10)	$ (6)
SDG&E:					
Interest rate instruments(1)(2)	$ (2)	$	Interest Expense	$ (3)	$ (3)

	Six months ended June 30, 2016	2015	Location	Six months ended June 30, 2016	2015
Sempra Energy Consolidated:					
Interest rate and foreign	$ (10)	$ (12)	Interest Expense	$ (7)	$ (9)

exchange instruments(1)					
Interest rate instruments	(207)	11	Equity Earnings (Losses), Before Income Tax	(5)	(6)
Interest rate and foreign exchange instruments	(33)		Equity Earnings, Net of Income Tax	(6)	
Commodity contracts not subject to rate recovery	(4)		Revenues: Energy-Related Businesses	7	7
Total	$(254)	$(1)		$(11)	$(8)
SDG&E:					
Interest rate instruments(1)(2)	$(7)	$(5)	Interest Expense	$(6)	$(6)

(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 six months ended June 30, 2016 and 2015.

For Sempra Energy Consolidated, we expect that losses of $23 million, which are net of income tax benefit, that are currently recorded in AOCI (including $13 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. Actual amounts ultimately reclassified into earnings depend on the interest rates in effect when derivative contracts that are currently outstanding mature.

SoCalGas expects that negligible losses, which are 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.

For all forecasted transactions, the maximum remaining term over which we are hedging exposure to the variability of cash flows at June 30, 2016 is approximately 13 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 six months ended June 30 were:

UNDESIGNATED DERIVATIVE IMPACTS
(Dollars in millions)

	Location	Pretax (loss) gain on derivatives recognized in earnings			
		Three months ended June 30,		Six months ended June 30,	
		2016	2015	2016	2015
Sempra Energy Consolidated:					
Foreign exchange instruments	Other Income, Net	$(15)	$(3)	$(12)	$(3)
Foreign exchange instruments	Equity Earnings, Net of Income Tax			2	(1)
Commodity contracts not subject to rate recovery	Revenues: Energy-Related Businesses	(24)	9	(29)	12
Commodity contracts not subject to rate recovery	Operation and Maintenance	1	1	1	1
Commodity contracts subject to rate recovery	Cost of Electric Fuel and Purchased Power	40	(53)	28	(73)
Commodity contracts subject to rate recovery	Cost of Natural Gas	(1)		(2)	1
Total		$1	$(46)	$(12)	$(63)
SDG&E:					
Commodity contracts subject to rate	Cost of Electric Fuel and Purchased Power	$40	$(53)	$28	$(73)

recovery					
SoCalGas:					
Commodity contracts not subject to rate recovery	Operation and Maintenance	$	$1	$	$1
Commodity contracts subject to rate recovery	Cost of Natural Gas	(1)		(2)	1
Total		$(1)	$1	$(2)	$2

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 both June 30, 2016 and December 31, 2015. At June 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 June 30, 2016 and December 31, 2015 is $2 million and $5 million, respectively. At June 30, 2016, if the credit ratings of SDG&E were reduced below investment grade, $4 million of additional assets could be required to be posted as collateral for these derivative contracts.

For Sempra Energy 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. We have not changed the valuation techniques or types of inputs we use to measure fair value during the six months ended June 30, 2016.

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 June 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.

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 June 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 June 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 June 30, 2016				
	Level 1	Level 2	Level 3	Netting(1)	Total
Assets:					
Nuclear decommissioning trusts:					
Equity securities	$632	$	$		$632
Debt securities:					
Debt securities issued by the U.S.					

Treasury and other U.S. government corporations and agencies	52	52			104
Municipal bonds		163			163
Other securities		192			192
Total debt securities	52	407			459
Total nuclear decommissioning trusts(2)	684	407			1,091
Interest rate and foreign exchange instruments		1			1
Commodity contracts not subject to rate recovery	1	17		14	32
Commodity contracts subject to rate recovery		1	63	27	91
Total	$685	$426	$63	$41	$1,215
Liabilities:					
Interest rate and foreign exchange instruments	$	$211	$	$	$211
Commodity contracts not subject	32	5		(31)	6

to rate recovery					
Commodity contracts subject to rate recovery	1	37	39	(28)	49
Total	$33	$253	$39	$(59)	$266

	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					