SEMPRA ENERGY
Form 10-Q
November 02, 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	September 30, 2016
	or	
[ ]	TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934	
	For the transition period from	to

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 October 27, 2016:

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

2

SEMPRA ENERGY FORM 10-Q
SAN DIEGO GAS & ELECTRIC COMPANY FORM 10-Q
SOUTHERN CALIFORNIA GAS COMPANY FORM 10-Q
TABLE OF CONTENTS

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,” “possib “target,” “pursue,” “goals,” “outlook,” “maintain,” or similar expressions, or when we discuss our guidance, strategy, plans, goals, opportunities, projections, initiatives, objectives or intentions, we are making forward-looking statements.

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

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

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

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

the resolution of civil and criminal litigation and regulatory investigations;

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

the availability of electric power, natural gas and liquefied natural gas, and natural gas pipeline and storage capacity, including disruptions caused by failures in the North American transmission grid, moratoriums on the ability to withdraw natural gas from or inject natural gas into storage facilities, pipeline explosions and equipment failures;

energy markets; the timing and extent of changes and volatility in commodity prices; moves to reduce or eliminate reliance on natural gas as an energy source; and the impact on the value of our natural gas storage and related assets and our investments from low natural gas prices, low volatility of natural gas prices and the inability to procure favorable long-term contracts for natural gas storage services;

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

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

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

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

- the impact on reliability of San Diego Gas & Electric Company's (SDG&E) electric transmission and distribution system due to increased amount and variability of power supply from renewable energy sources and increased reliance on natural gas and natural gas transmission systems;
- the impact on competitive customer rates due to the growth in distributed and local power generation and the corresponding decrease in demand for power delivered through SDG&E's electric transmission and distribution system;
- the impact on customer rates and other adverse consequences due to possible departing retail load resulting from customers transferring to Direct Access and Community Choice Aggregation;
- the inability or determination not to enter into long-term supply and sales agreements or long-term firm capacity agreements due to insufficient market interest, unattractive pricing or other factors; and
- other uncertainties, all of which are difficult to predict and many of which are beyond our control.

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

PART I – FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

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

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

Dividends declared per share of common stock	$0.76	$0.70	$2.27	$2.10

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

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

See Notes to Condensed Consolidated Financial Statements.

SEMPRA ENERGY
CONDENSED CONSOLIDATED BALANCE SHEETS
(Dollars in millions)

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

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

8

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

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

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

(1) Derived from audited financial statements.

See Notes to Condensed Consolidated Financial Statements.

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

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

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

equivalents

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

See Notes to Condensed Consolidated Financial Statements.

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

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

See Notes to Condensed Consolidated Financial Statements.

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

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

See Notes to Condensed Consolidated Financial Statements.

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

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

See Notes to Condensed Consolidated Financial Statements.

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

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

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

14

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

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

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

15

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

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

See Notes to Condensed Consolidated Financial Statements.

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

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

See Notes to Condensed Financial Statements.

17

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

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

See Notes to Condensed Financial Statements.

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

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

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

19

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

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

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

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

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

See Notes to Condensed Financial Statements.

21

SEMPRA ENERGY AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. GENERAL
PRINCIPLES OF CONSOLIDATION
Sempra Energy
Sempra Energy's Condensed Consolidated Financial Statements include the accounts of Sempra Energy, a California-based Fortune 500 energy-services holding company, and its consolidated subsidiaries and variable interest entities (VIEs). Sempra Energy's principal operating units are

- San Diego Gas & Electric Company (SDG&E) and Southern California Gas Company (SoCalGas), which are separate, reportable segments;
- Sempra International, which includes our Sempra South American Utilities and Sempra Mexico reportable segments; and
- Sempra U.S. Gas & Power, which includes our Sempra Renewables and Sempra Natural Gas reportable segments.

We provide descriptions of each of our segments in Note 12.
We refer to SDG&E and SoCalGas collectively as the California Utilities, which do not include the utilities in our Sempra International and Sempra U.S. Gas & Power operating units. As we discuss below and in Note 3, Sempra U.S. Gas & Power sold its natural gas distribution utilities in September 2016. Sempra Global is the holding company for most of our subsidiaries that are not subject to California utility regulation. All references in these Notes to "Sempra International," "Sempra U.S. Gas & Power" and their respective reportable segments are not intended to refer to any legal entity with the same or similar name.
Our Sempra Mexico segment includes the operating companies of our subsidiary, Infraestructura Energética Nova, S.A.B. de C.V. (IEnova), as well as certain holding companies and risk management activity. We discuss IEnova further in Note 1 of the Notes to Consolidated Financial Statements in our Annual Report on Form 10-K for the year ended December 31, 2015 (the Annual Report), which includes the combined reports for Sempra Energy, SDG&E and SoCalGas.
Sempra Energy uses the equity method to account for investments in affiliated companies over which we have the ability to exercise significant influence, but not control. We discuss our investments in unconsolidated entities in Notes 3 and 4 herein and in Notes 3, 4 and 10 of the Notes to Consolidated Financial Statements in the Annual Report.
SDG&E
SDG&E's Condensed Consolidated Financial Statements include its accounts and the accounts of a VIE of which SDG&E is the primary beneficiary, as we discuss in Note 5 under "Variable Interest Entities." SDG&E's common stock is wholly owned by Enova Corporation, which is a wholly owned subsidiary of Sempra Energy.
SoCalGas
SoCalGas' common stock is wholly owned by Pacific Enterprises, which is a wholly owned subsidiary of Sempra Energy.
BASIS OF PRESENTATION
This is a combined report of Sempra Energy, SDG&E and SoCalGas. We provide separate information for SDG&E and SoCalGas as required. References in this report to "we," "our" and "Sempra Energy Consolidated" are to Sempra Energy and its consolidated entities, unless otherwise indicated by the context. We have eliminated intercompany accounts and transactions within the consolidated financial statements of each reporting entity.
Throughout this report, we refer to the following as Condensed Consolidated Financial Statements and Notes to Condensed Consolidated Financial Statements when discussed together or collectively:

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

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

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

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

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

Regulated Operations

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

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

NOTE 2. NEW ACCOUNTING STANDARDS

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

SEMPRA ENERGY, SDG&E AND SOCALGAS

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

ASU 2015-14 defers the effective date of ASU 2014-09 by one year for all entities and permits early adoption on a limited basis. For public entities, ASU 2014-09 is effective for fiscal years beginning after December 15, 2017, with early adoption permitted for fiscal years beginning after December 15, 2016, and is effective for interim periods in the year of adoption. We plan to adopt ASU 2014-09 on January 1, 2018 and are currently evaluating the transition method and the effect on our ongoing financial reporting. As part of our evaluation, we continue to actively monitor outstanding issues currently being addressed by the American Institute of Certified Public Accountants' Revenue Recognition Working Group and the Financial Accounting Standards Board's Transition Resource Group, since conclusions reached by these groups may impact our application of these ASU's.

ASU 2016-01, "Recognition and Measurement of Financial Assets and Financial Liabilities": In addition to the presentation and disclosure requirements for financial instruments, ASU 2016-01 requires entities to measure equity investments not accounted for under the equity method at fair value and recognize changes in fair value in net income. Entities will no longer be able to use the cost method of accounting for equity securities. However, for equity investments without readily determinable fair values, entities may elect a measurement alternative that will allow those investments to be recorded at cost, less impairment, and adjusted for subsequent observable price changes. Upon adoption, entities must record a cumulative-effect adjustment to the balance sheet as of the beginning of the first reporting period in which the standard is adopted. The guidance on equity securities without readily determinable fair values will be applied prospectively to all equity investments that exist as of the date of adoption of the standard.

For public entities, ASU 2016-01 is effective for fiscal years beginning after December 15, 2017. We will adopt ASU 2016-01 on January 1, 2018 as required and do not expect it to materially affect our financial condition, results of operations or cash flows. We will make the required changes to our disclosures upon adoption.

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

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

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

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

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

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

Sempra Energy, SDG&E and SoCalGas recognized earnings consisting of excess tax benefits on the Condensed Consolidated Statements of Operations of $34 million, $7 million and $4 million, respectively, in the nine months ended September 30, 2016, all of which related to the three months ended March 31, 2016. The $34 million was previously recorded in Sempra Energy Shareholders' Equity in Common Stock prior to adoption of ASU 2016-09.

The $34 million of excess tax benefits from share-based compensation for Sempra Energy related to the three months ended March 31, 2016 was previously classified as a financing activity on Sempra Energy's Condensed Consolidated Statement of Cash Flows. As now required, the $34 million of excess tax benefits for Sempra Energy, as well as the $7 million for SDG&E and $4 million for

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

As a result of the provision to recognize excess tax benefits in earnings, these benefits are no longer included in the calculation of diluted earnings per share (EPS) effective January 1, 2016. The weighted-average number of common shares outstanding for diluted EPS increased by 75 thousand shares for the three months ended March 31, 2016 and 98 thousand shares and 89 thousand shares for the three months and six months ended June 30, 2016, respectively. We discuss the impact further in Note 5 under "Earnings Per Share."

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

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

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

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

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

NOTE 3. ACQUISITION AND DIVESTITURE ACTIVITY

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

ACQUISITIONS

Sempra Mexico

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

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

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

DEN through GdC and accounts for it as an equity method

investment. PEMEX continues to hold its 50-percent interest in DEN, which enables us to have an ongoing relationship with PEMEX for joint development of new projects in the future.
We paid $1.078 billion in cash ($1.144 billion purchase price less $66 million of cash and cash equivalents acquired), which was funded using interim financing provided by Sempra Global through a $1.150 billion bridge loan to IEnova. Sempra Global funded the transaction using commercial paper borrowings. On October 19, 2016, IEnova completed a private follow-on offering of its common stock in the U.S. and outside of Mexico and a concurrent public common stock offering in Mexico, which generated net proceeds of approximately $1.57 billion or 29.86 billion Mexican pesos (based on an exchange rate of 18.96 pesos to 1.00 U.S. dollar as of October 13, 2016). IEnova used a portion of the proceeds from the offerings to fully repay the Sempra Global bridge loan in October 2016. We discuss the offerings in Note 13.
Purchase Price Allocation. We accounted for this business combination using the acquisition method of accounting whereby the total fair value of the business acquired is allocated to identifiable assets acquired and liabilities assumed based on respective fair values, with any excess recognized as goodwill at the Sempra Mexico reportable segment. We expect the GdC acquisition to have strategic benefits, including opportunities for asset optimization and expansion into areas such as the transportation and storage of refined products; and a larger platform and presence in Mexico to participate in energy sector reform, reflecting the value of goodwill recognized. None of the goodwill is expected to be deductible in Mexico or the United States for income tax purposes.
The following table summarizes the total fair value of the business combination and the values of the assets acquired and liabilities assumed at the date of acquisition:

PURCHASE PRICE ALLOCATION – GdC
(Dollars in millions)

	September 26, 2016
Fair value of business combination:	
Cash consideration (fair value of total consideration)	$ 1,144
Fair value of equity interest in GdC immediately prior to	1,144

acquisition	
Total fair value of business combination	$ 2,288
Recognized amounts of identifiable assets acquired and liabilities assumed:	
Cash and cash equivalents	$ 66
Accounts receivable(1)	39
Other current assets	6
Property, plant and equipment	1,248
Other noncurrent assets	1
Accounts payable	(11)
Due to unconsolidated affiliates	(3)
Current portion of long-term debt	(49)
Fixed-price contracts and other derivatives, current	(6)
	(20)

Other current liabilities	
Long-term debt	(315)
Asset retirement obligations	(5)
Deferred income taxes	(8)
Fixed-price contracts and other derivatives, noncurrent	(19)
Other noncurrent liabilities	(11)
Total identifiable net assets	913
Goodwill	1,375
Total fair value of business combination	$ 2,288

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

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

Valuation of GdC's Assets and Liabilities. Based on the nature of the Mexico regulatory environment and the oversight surrounding the establishment and maintenance of rates that GdC charges for services on its assets, GdC applies the guidance under the provisions of U.S. GAAP governing rate-regulated operations. Therefore, when determining the fair value of the acquired assets and liabilities assumed, we considered the effect of regulation on a market participant's view of the highest and best use of the assets, in particular for the fair value of GdC's property, plant and equipment (PP&E). Under U.S. GAAP, regulation is viewed as being a characteristic (restriction) of a regulated entity's PP&E, and the impact of regulation is considered a fundamental input to measuring the fair value of PP&E in a business combination involving a regulated business. As a regulated business will generally earn a return of its costs and a reasonable return on its invested capital, but nothing more, the value of a regulated business is the value of its invested capital.

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

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

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

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

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

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

PRO FORMA INFORMATION – SEMPRA ENERGY CONSOLIDATED
(Dollars in millions)

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Revenues	$2,608	$2,545	$7,529	$7,708
Net income	308	308	744	1,550
Earnings	299	255	685	1,280

The pro forma information above assumes:

- the related IEnova equity offerings, discussed above and in Note 13, occurred on January 1, 2015, which results in a change in Sempra Energy's noncontrolling interest in IEnova from 18.9 percent to 33.6 percent for all periods presented;
- the proceeds from the IEnova equity offerings were used to fund the acquisition, instead of the bridge loan that was provided by Sempra Global to IEnova, therefore interest expense on the commercial paper borrowings supporting the bridge loan is excluded for all periods presented;
- equity earnings, net of income tax, from GdC that were previously included in Sempra Energy's results have been excluded for all periods presented;
- the gain related to the remeasurement of our previously held equity interest in GdC has been included in the nine months ended September 30, 2015, and accordingly, the three months and nine months ended September 30, 2016

were adjusted to exclude the gain; and

acquisition-related transaction costs have been included in the nine months ended September 30, 2015, and accordingly, the three months and nine months ended September 30, 2016 were adjusted to exclude them.

Most of Sempra Mexico’s operations, including GdC, use the U.S. dollar as their functional currency.

Sempra Renewables

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

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

PENDING ACQUISITION

Sempra Mexico

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

ASSETS HELD FOR SALE

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

Sempra Mexico

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

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

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

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

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

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

DIVESTITURES
Sempra Natural Gas
EnergySouth Inc.

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

The following table summarizes the deconsolidation:

DECONSOLIDATION OF SUBSIDIARY
(Dollars in millions)

	EnergySouth Inc.
Proceeds from sale, net of transaction costs	$ 304
Cash	(2)
Inventory	(3)
Other current assets	(14)
Regulatory assets	(12)
Goodwill	(72)

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

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

Investment in Rockies Express Pipeline LLC

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

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

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

Mesquite Power Plant

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

NOTE 4. INVESTMENTS IN UNCONSOLIDATED ENTITIES

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

SEMPRA MEXICO

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

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

SEMPRA RENEWABLES

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

SEMPRA NATURAL GAS

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

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

GUARANTEES

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

NOTE 5. OTHER FINANCIAL DATA

INVENTORIES

The components of inventories by segment are as follows:

INVENTORY BALANCES

(Dollars in millions)

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

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

Temporary LIFO Liquidation

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

GOODWILL

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

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

GOODWILL

(Dollars in millions)

	Sempra South American Utilities	Sempra Mexico	Sempra Natural Gas	Total
Balance at December 31, 2015	$ 722	$ 25	$ 72	$819
Acquisition of business	—	1,375	—	1,375

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

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

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

31

VARIABLE INTEREST ENTITIES

We consolidate a VIE if we are the primary beneficiary of the VIE. Our determination of whether we are the primary beneficiary is based on qualitative and quantitative analyses, which assess

the purpose and design of the VIE;

the nature of the VIE's risks and the risks we absorb;

the power to direct activities that most significantly impact the economic performance of the VIE; and

the obligation to absorb losses or right to receive benefits that could be significant to the VIE.

SDG&E

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

Tolling Agreements

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

Otay Mesa VIE

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

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

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

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

Operations.

AMOUNTS ASSOCIATED WITH OTAY MESA VIE
(Dollars in millions)

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

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

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

Sempra Natural Gas

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

Other Variable Interest Entities

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

PENSION AND OTHER POSTRETIREMENT BENEFITS

Net Periodic Benefit Cost

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

NET PERIODIC BENEFIT COST – SEMPRA ENERGY CONSOLIDATED

(Dollars in millions)

	Pension benefits		Other postretirement benefits	
	Three months ended September 30,			
	2016	2015	2016	2015
Service cost	$26	$27	$ 4	$ 5
Interest cost	40	38	9	10
Expected return on assets	(41)	(42)	(17)	(17)
Amortization of:				
Prior service cost (credit)	2	3	—	(1)
Actuarial loss (gain)	10	9	(1)	—
Settlements	—	4	—	—
Regulatory adjustment	(28)	(27)	5	4
Total net periodic benefit cost	$9	$12	$ —	$ 1
	Nine months ended September 30,			
	2016	2015	2016	2015
Service cost	$81	$86	$ 15	$ 19
Interest cost	120	116	31	33
Expected return on assets	(124)	(130)	(52)	(51)
Amortization of:				
Prior service cost (credit)	8	8	—	(2)
Actuarial loss (gain)	23	28	(1)	—
Settlements	—	4	—	—
Regulatory adjustment	(84)	(86)	9	4
Total net periodic benefit cost	$24	$26	$ 2	$ 3

NET PERIODIC BENEFIT COST – SDG&E

(Dollars in millions)

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

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

NET PERIODIC BENEFIT COST – SOCALGAS
(Dollars in millions)

	Pension benefits		Other postretirement benefits	
	Three months ended September 30,			
	2016	2015	2016	2015
Service cost	$16	$17	$ 4	$ 3
Interest cost	26	25	7	8
Expected return on assets	(26)	(25)	(15)	(14)
Amortization of:				
Prior service cost (credit)	3	2	(1)	(2)
Actuarial loss	3	5	—	—
Regulatory adjustment	(21)	(24)	5	5
Total net periodic benefit cost	$1	$—	$ —	$ —
	Nine months ended September 30,			
	2016	2015	2016	2015
Service cost	$51	$55	$ 11	$ 13
Interest cost	76	74	24	26
Expected return on assets	(78)	(79)	(43)	(42)
Amortization of:				
Prior service cost (credit)	7	6	(3)	(6)
Actuarial loss	8	16	—	—
Regulatory adjustment	(62)	(71)	11	9
Total net periodic benefit cost	$2	$1	$ —	$ —

Benefit Plan Contributions

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

BENEFIT PLAN CONTRIBUTIONS
(Dollars in millions)

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

RABBI TRUST

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

EARNINGS PER SHARE

The following table provides EPS computations for the three months and nine months ended September 30, 2016 and 2015. Basic EPS is calculated by dividing earnings attributable to common stock by the weighted-average number of common shares outstanding for the period. Diluted EPS includes the potential dilution of common stock equivalent shares that could occur if securities or other contracts to issue common stock were exercised or converted into common stock.

EARNINGS PER SHARE COMPUTATIONS
(Dollars in millions, except per share amounts; shares in thousands)

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Numerator:				
Earnings/Income attributable to common shares	$622	$ 248	$991	$ 980
Denominator:				
Weighted-average common shares outstanding for basic EPS(1)	250,386	248,432	250,073	248,090
Dilutive effect of stock options, restricted stock awards and restricted stock units(2)	2,019	2,592	1,903	2,575
Weighted-average common shares outstanding for diluted EPS(2)	252,405	251,024	251,976	250,665
Earnings per share:				
Basic	$2.48	$ 1.00	$3.96	$ 3.95
Diluted	2.46	0.99	3.93	3.91

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

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

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

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

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

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

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

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

SHARE-BASED COMPENSATION

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

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

CAPITALIZED FINANCING COSTS

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

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

CAPITALIZED FINANCING COSTS
(Dollars in millions)

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

COMPREHENSIVE INCOME

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

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

SEMPRA ENERGY CONSOLIDATED

(Dollars in millions)

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

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

38

CHANGES IN ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS) BY COMPONENT(1)
SOUTHERN CALIFORNIA GAS COMPANY
(Dollars in Millions)

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

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

RECLASSIFICATIONS OUT OF ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)
(Dollars in millions)

Details about accumulated other comprehensive income (loss) components	Amounts reclassified from accumulated other comprehensive income (loss) Three months ended September 30, 2016	2015	Affected line item on Condensed Consolidated Statements of Operations
Sempra Energy Consolidated:			
Financial instruments:			
Interest rate and foreign exchange instruments	$ 4	$ 5	Interest Expense
Interest rate instruments	3	3	Equity Earnings, Before Income Tax
Interest rate and foreign exchange instruments	7	—	Remeasurement of Equity Method Investment
Interest rate and foreign exchange instruments	(2)	—	Equity Earnings, Net of Income Tax
Commodity contracts not subject to rate recovery	—	(3)	Revenues: Energy-Related Businesses
Total before income tax	12	5	
	(3)	(1)	Income Tax Expense
Net of income tax	9	4	
	(4)	(3)	Earnings Attributable to Noncontrolling Interests
	$ 5	$ 1	
Pension and other postretirement benefits:			
Amortization of actuarial loss	$ 4	$ 7	See note (1) below
	(2)	(2)	Income Tax Expense
Net of income tax	$ 2	$ 5	
Total reclassifications for the period, net of tax	$ 7	$ 6	
SDG&E:			
Financial instruments:			
Interest rate instruments	$ 3	$ 3	Interest Expense
	(3)	(3)	(Earnings) Losses Attributable to Noncontrolling Interest
Total reclassifications for the period, net of tax	$ —	$ —	
SoCalGas:			
Financial instruments:			
Interest rate instruments	$ 1	$ —	Interest Expense
Total reclassifications for the period, net of tax	$ 1	$ —	

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

40

RECLASSIFICATIONS OUT OF ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)
(Dollars in millions)

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

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

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

SHAREHOLDERS' EQUITY AND NONCONTROLLING INTERESTS

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

SHAREHOLDERS' EQUITY AND NONCONTROLLING INTERESTS – SEMPRA ENERGY CONSOLIDATED

(Dollars in millions)

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

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

SHAREHOLDER'S EQUITY AND NONCONTROLLING INTEREST – SDG&E

(Dollars in millions)

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

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

SHAREHOLDERS' EQUITY – SOCALGAS
(Dollars in millions)

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

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

Preferred Stock

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

Other Noncontrolling Interests

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

OTHER NONCONTROLLING INTERESTS
(Dollars in millions)

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

(1)

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

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

Sempra Renewables

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

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

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

TRANSACTIONS WITH AFFILIATES

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

AMOUNTS DUE FROM (TO) UNCONSOLIDATED AFFILIATES
(Dollars in millions)

	September 30, 2016	December 31, 2015
Sempra Energy Consolidated:		
Total due from various unconsolidated affiliates - current	$ 8	$ 6
Sempra South American Utilities(1):		
Eletrans S.A. and Eletrans II S.A.:		
4% Note(2)	$ 83	$ 72
Other related party receivables	1	—
Sempra Mexico(1):		
Affiliate of joint venture with DEN:		
Note due November 13, 2017(3)	3	3
Note due November 14, 2018(3)	43	42
Note due November 14, 2018(3)	35	34
Note due November 14, 2018(3)	8	8
Energía Sierra Juárez:		
Note due June 15, 2018(4)	14	24
Sempra Natural Gas:		
Cameron LNG JV	8	3
Total due from unconsolidated affiliates - noncurrent	$ 195	$ 186
Total due to various unconsolidated affiliates - current	$ (9)	$ (14)
SDG&E:		
Sempra Energy(5)	$ 88	$ —
Other affiliates	—	1
Total due from unconsolidated affiliates - current	$ 88	$ 1
Sempra Energy	$ —	$ (34)
SoCalGas	(5)	(13)
Other affiliates	(5)	(8)
Total due to unconsolidated affiliates - current	$ (10)	$ (55)
Income taxes due from Sempra Energy(6)	$ 109	$ 28
SoCalGas:		
Sempra Energy(7)	$ 30	$ 35
SDG&E	5	13
Total due from unconsolidated affiliates - current	$ 35	$ 48
Income taxes due from Sempra Energy(6)	$ 16	$ 1

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

(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 of Chilquinta Energía.

(3)

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

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

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

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

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

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

REVENUES AND COST OF SALES
FROM UNCONSOLIDATED
AFFILIATES
(Dollars in millions)

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

Guarantees

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

OTHER INCOME, NET

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

OTHER INCOME, NET
(Dollars in millions)

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

(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 (BENEFIT) AND EFFECTIVE INCOME TAX RATES
(Dollars in millions)

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

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

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

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

repairs expenditures related to a certain portion of utility plant assets
the equity portion of AFUDC
a portion of the cost of removal of utility plant assets
utility self-developed software expenditures
depreciation on a certain portion of utility plant assets
state income taxes

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

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

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

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

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

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

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

NOTE 6. DEBT AND CREDIT FACILITIES

LINES OF CREDIT

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

Sempra Energy

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

Borrowings bear interest at benchmark rates plus a margin that varies with Sempra Energy's credit ratings. The facility requires Sempra Energy to maintain a ratio of total indebtedness to total capitalization (as defined in the agreement) of no more than 65 percent at the end of each quarter. At September 30, 2016, Sempra Energy was in compliance with this and all other financial covenants under the credit facility. The facility also provides for issuance of up to $400 million of letters of credit on behalf of Sempra Energy with the amount of borrowings otherwise available under the facility reduced by the amount of outstanding letters of credit.

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

Sempra Global

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

Sempra Energy guarantees Sempra Global's obligations under the credit facility. Borrowings bear interest at benchmark rates plus a margin that varies with Sempra Energy's credit ratings. The facility requires Sempra Energy to maintain a ratio of total indebtedness to total capitalization (as defined in the agreement) of no more than 65 percent at the end of each quarter. At September 30, 2016, Sempra Energy was in compliance with this and all other financial covenants under the credit facility.

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

California Utilities

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

Borrowings bear interest at benchmark rates plus a margin that varies with the borrowing utility's credit rating. The agreement requires each utility to maintain a ratio of total indebtedness to total capitalization (as defined in the agreement) of no more than 65 percent at the end of each quarter. At September 30, 2016, the California Utilities were in compliance with this and all other financial covenants under the credit facility.

Each utility's obligations under the agreement are individual obligations, and a default by one utility would not constitute a default by the other utility or preclude borrowings by, or the issuance of letters of credit on behalf of, the other utility.

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

Sempra South American Utilities

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

Sempra Mexico

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

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

WEIGHTED AVERAGE INTEREST RATES

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

LONG-TERM DEBT

Sempra Energy

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

SDG&E

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

SoCalGas

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

Sempra South American Utilities

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

Sempra Mexico

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

Sempra Natural Gas

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

INTEREST RATE SWAPS

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

NOTE 7. DERIVATIVE FINANCIAL INSTRUMENTS

We use derivative instruments primarily to manage exposures arising in the normal course of business. Our principal exposures are commodity market risk, benchmark interest rate risk and foreign exchange rate exposures. Our use of derivatives for these risks is integrated into the economic management of our anticipated revenues, anticipated expenses, assets and liabilities. Derivatives may be effective in mitigating these risks (1) that could lead to declines in anticipated revenues or increases in anticipated expenses, or (2) that our asset values may fall or our liabilities increase. Accordingly, our derivative activity summarized below generally represents an impact that is intended to offset associated revenues, expenses, assets or liabilities that are not included in the tables below.

In certain cases, we apply the normal purchase or sale exception to derivative instruments and have other commodity contracts that are not derivatives. These contracts are not recorded at fair value and are therefore excluded from the disclosures below.

In all other cases, we record derivatives at fair value on the Condensed Consolidated Balance Sheets. We designate each derivative as (1) a cash flow hedge, (2) a fair value hedge, or (3) undesignated. Depending on the applicability of hedge accounting and, for the California Utilities and other operations subject to regulatory accounting, the requirement to pass impacts through to customers, the impact of derivative instruments may be offset in other comprehensive income (loss) (cash flow hedge), on the balance sheet (fair value hedges and regulatory offsets), or recognized in earnings. We classify cash flows from the settlements of derivative instruments as operating activities on the Condensed Consolidated Statements of Cash Flows.

HEDGE ACCOUNTING

We may designate a derivative as a cash flow hedging instrument if it effectively converts anticipated cash flows associated with revenues or expenses to a fixed dollar amount. We may utilize cash flow hedge accounting for derivative commodity instruments, foreign currency instruments and interest rate instruments. Designating cash flow hedges is dependent on the business context in which the instrument is being used, the effectiveness of the instrument in offsetting the risk that the future cash flows of a given revenue or expense item may vary, and other criteria.

We may designate an interest rate derivative as a fair value hedging instrument if it effectively converts our own debt from a fixed interest rate to a variable rate. The combination of the derivative and debt instrument results in fixing that portion of the fair value of the debt that is related to benchmark interest rates. Designating fair value hedges is dependent on the instrument being used, the effectiveness of the instrument in offsetting changes in the fair value of our debt instruments, and other criteria.

ENERGY DERIVATIVES

Our market risk is primarily related to natural gas and electricity price volatility and the specific physical locations where we transact. We use energy derivatives to manage these risks. The use of energy derivatives in our various businesses depends on the particular energy market, and the operating and regulatory environments applicable to the business, as follows:

- The California Utilities use energy derivatives, both natural gas and electricity, for the benefit of customers, with the objective of managing price risk and basis risks, and stabilizing and lowering natural gas and electricity costs. These derivatives include fixed price natural gas and electricity positions, options, and basis risk instruments, which are either exchange-traded or over-the-counter financial instruments, or bilateral physical transactions. This activity is governed by risk management and transacting activity plans that have been filed with and approved by the CPUC. Natural gas and electricity derivative activities are recorded as commodity costs that are offset by regulatory account balances and are recovered in rates. Net commodity cost impacts on the Condensed Consolidated Statements of Operations are reflected in Cost of Electric Fuel and Purchased Power or in Cost of Natural Gas.
- SDG&E is allocated and may purchase congestion revenue rights (CRRs), which serve to reduce the regional electricity price volatility risk that may result from local transmission capacity constraints. Unrealized gains and losses do not impact earnings, as they are offset by regulatory account balances. Realized gains and losses associated with CRRs, which are recoverable in rates, are recorded in Cost of Electric Fuel and Purchased Power on the Condensed Consolidated Statements of Operations.
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Sempra Mexico, Sempra Natural Gas, and Sempra Renewables may use natural gas and electricity derivatives, as appropriate, to optimize the earnings of their assets which support the following businesses: liquefied natural gas (LNG), natural gas transportation and storage, and power generation. Gains and losses associated with undesignated derivatives are recognized in Energy-Related Businesses Revenues or in Cost of Natural Gas, Electric Fuel and Purchased Power on the Condensed Consolidated Statements of Operations. Certain of these derivatives may also be designated as cash flow hedges. Sempra Mexico also uses natural gas energy derivatives with the objective of managing price risk and lowering natural gas prices at its Mexican distribution operations. These derivatives, which are recorded as commodity costs that are offset by regulatory account balances and recovered in rates, are recognized in Cost of Natural Gas on the Condensed Consolidated Statements of Operations.

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

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

NET ENERGY DERIVATIVE VOLUMES

(Quantities in millions)

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

(1) Million British thermal units

(2) Megawatt hours

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

INTEREST RATE DERIVATIVES

We are exposed to interest rates primarily as a result of our current and expected use of financing. We periodically enter into interest rate derivative agreements intended to moderate our exposure to interest rates and to lower our overall costs of borrowing. We utilize interest rate swaps typically designated as fair value hedges, as a means to achieve our targeted level of variable rate debt as a percent of total debt. In addition, we may utilize interest rate swaps, typically designated as cash flow hedges, to lock in interest rates on outstanding debt or in anticipation of future financings.

Interest rate derivatives are utilized by the California Utilities as well as by other Sempra Energy subsidiaries and joint ventures. Interest rate derivatives are generally accounted for as hedges, and although the California Utilities generally recover borrowing costs in rates over time, the use of interest rate derivatives is subject to certain regulatory constraints, and the impact of interest rate derivatives may not be recovered from customers as timely as described above with regard to energy derivatives. Separately, Otay Mesa VIE has entered into interest rate swap agreements, designated as cash flow hedges, to moderate its exposure to interest rate changes.

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

INTEREST RATE DERIVATIVES

(Dollars in millions)

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

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

(1) Includes Otay Mesa VIE. All of SDG&E’s interest rate derivatives relate to Otay Mesa VIE.
(2) At September 30, 2016, includes GdC, which was previously a joint venture and excluded from this table.

FOREIGN CURRENCY DERIVATIVES

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

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

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

FOREIGN CURRENCY DERIVATIVES

(Dollars in millions)

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

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

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

FINANCIAL STATEMENT PRESENTATION

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

DERIVATIVE INSTRUMENTS ON THE CONDENSED CONSOLIDATED BALANCE SHEETS
(Dollars in millions)

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

not subject to rate recovery				
Additional cash collateral for commodity contracts subject to rate recovery	2	—	—	—
Total	$4	$ —	$ (2)	$ —

(1) Included in Current Assets: Other for SoCalGas.
(2) Included in Current Liabilities: Other for SoCalGas.
(3) Includes Otay Mesa VIE. All of SDG&E's amounts relate to Otay Mesa VIE.
(4) Normal purchase contracts previously measured at fair value are excluded.

54

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 months and nine months ended September 30 were:

FAIR VALUE HEDGE IMPACTS
(Dollars in millions)

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

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

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

CASH FLOW HEDGE IMPACTS
(Dollars in millions)

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

Interest rate instruments(2)	$—	$—	Interest Expense	$(1)	$—

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

(1) Amounts include Otay Mesa VIE. All of SDG&E’s interest rate derivative activity relates to Otay Mesa VIE.
(2) Amounts include negligible hedge ineffectiveness in the three months and nine months ended September 30, 2016 and 2015.

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

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

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

UNDESIGNATED DERIVATIVE IMPACTS
(Dollars in millions)

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

CONTINGENT FEATURES

For Sempra Energy Consolidated and SDG&E, certain of our derivative instruments contain credit limits which vary depending on our credit ratings. Generally, these provisions, if applicable, may reduce our credit limit if a specified credit rating agency reduces our ratings. In certain cases, if our credit ratings were to fall below investment grade, the counterparty to these derivative liability instruments could request immediate payment or demand immediate and ongoing full collateralization.

For Sempra Energy Consolidated, the total fair value of this group of derivative instruments in a net liability position is $6 million at each of September 30, 2016 and December 31, 2015. At September 30, 2016, if the credit ratings of Sempra Energy were reduced below investment grade, $8 million of additional assets could be required to be posted as collateral for these derivative contracts.

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

For Sempra Energy Consolidated, SDG&E and SoCalGas, some of our derivative contracts contain a provision that would permit the counterparty, in certain circumstances, to request adequate assurance of our performance under the contracts. Such additional assurance, if needed, is not material and is not included in the amounts above.

NOTE 8. FAIR VALUE MEASUREMENTS

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

Recurring Fair Value Measures

The three tables below, by level within the fair value hierarchy, set forth our financial assets and liabilities that were accounted for at fair value on a recurring basis at September 30, 2016 and December 31, 2015. We classify financial assets and liabilities in their entirety based on the lowest level of input that is significant to the fair value measurement. Our assessment of the significance of a particular input to the fair value measurement requires judgment, and may affect the valuation of fair value assets and liabilities, and their placement within the fair value hierarchy levels. We have not changed the valuation techniques or types of inputs we use to measure recurring fair values during the nine months ended September 30, 2016.

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

The determination of fair values, shown in the tables below, incorporates various factors, including but not limited to, the credit standing of the counterparties involved and the impact of credit enhancements (such as cash deposits, letters of credit and priority interests).

Our financial assets and liabilities that were accounted for at fair value on a recurring basis at September 30, 2016 and December 31, 2015 in the tables below include the following:

Nuclear decommissioning trusts reflect the assets of SDG&E’s nuclear decommissioning trusts, excluding cash balances. A third party trustee values the trust assets using prices from a pricing service based on a market approach. We validate these prices by comparison to prices from other independent data sources. Equity and certain debt securities are valued using quoted prices listed on nationally recognized securities exchanges or based on closing prices reported in the active market in which the identical security is traded (Level 1). Other debt securities are valued based on yields that are currently available for comparable securities of issuers with similar credit ratings (Level 2).

For commodity contracts, interest rate derivatives and foreign exchange instruments, we primarily use a market approach with market participant assumptions to value these derivatives. Market participant assumptions include those about risk, and the risk inherent in the inputs to the valuation techniques. These inputs can be readily observable, market corroborated, or generally unobservable. We have exchange-traded derivatives that are valued based on quoted prices in active markets for the identical instruments (Level 1). We also may have other commodity derivatives that are valued using industry standard models that consider quoted forward prices for commodities, time value, current market and contractual prices for the underlying instruments, volatility factors, and other relevant economic measures (Level 2). Level 3 recurring items relate to CRRs and long-term, fixed-price electricity positions at SDG&E, as we discuss below under “Level 3 Information.”

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

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

RECURRING FAIR VALUE MEASURES – SEMPRA ENERGY CONSOLIDATED
(Dollars in millions)

	Fair value at September 30, 2016				
	Level 1	Level 2	Level 3	Netting(1)	Total
Assets:					
Nuclear decommissioning trusts:					
Equity securities	$607	$—	$—	$ —	$607
Debt securities:					
Debt securities issued by the U.S. Treasury and other U.S. government corporations and agencies	48	52	—	—	100
Municipal bonds	—	161	—	—	161
Other securities	—	188	—	—	188
Total debt securities	48	401	—	—	449
Total nuclear decommissioning trusts(2)	655	401	—	—	1,056
Interest rate and foreign exchange instruments	—	5	—	—	5
Commodity contracts not subject to rate recovery	—	18	—	13	31
Commodity contracts subject to rate recovery	—	1	90	19	110
Total	$655	$425	$90	$ 32	$1,202
Liabilities:					
Interest rate and foreign exchange instruments	$—	$269	$—	$ —	$269
Commodity contracts not subject to rate recovery	19	1	—	(19)	1
Commodity contracts subject to rate recovery	1	40	177	(29)	189
Total	$20	$310	$177	$ (48)	$459

	Fair value at December 31, 2015				
	Level 1	Level 2	Level 3	Netting(1)	Total
Assets:					
Nuclear decommissioning trusts:					
Equity securities	$619	$—	$—	$ —	$619
Debt securities:					
Debt securities issued by the U.S. Treasury and other U.S. government corporations and agencies	47	44	—	—	91
Municipal bonds	—	156	—	—	156
Other securities	—	182	—	—	182
Total debt securities	47	382	—	—	429
Total nuclear decommissioning trusts(2)	666	382	—	—	1,048
Interest rate and foreign exchange instruments	—	5	—	—	5
Commodity contracts not subject to rate recovery	22	16	—	(4)	34
Commodity contracts subject to rate recovery	—	1	72	28	101
Total	$688	$404	$72	$ 24	$1,188
Liabilities:					
Interest rate and foreign exchange instruments	$—	$171	$—	$ —	$171
Commodity contracts not subject to rate recovery	5	3	—	(4)	4
Commodity contracts subject to rate recovery	—	68	53	(54)	67
Total	$5	$242	$53	$ (58)	$242

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

RECURRING FAIR VALUE MEASURES – SDG&E
(Dollars in millions)

	Fair value at September 30, 2016				
	Level 1	Level 2	Level 3	Netting(1)	Total
Assets:					
Nuclear decommissioning trusts:					
Equity securities	$607	$—	$—	$ —	$607
Debt securities:					
Debt securities issued by the U.S. Treasury and other U.S. government corporations and agencies	48	52	—	—	100
Municipal bonds	—	161	—	—	161
Other securities	—	188	—	—	188
Total debt securities	48	401	—	—	449
Total nuclear decommissioning trusts(2)	655	401	—	—	1,056
Commodity contracts not subject to rate recovery	—	—	—	1	1
Commodity contracts subject to rate recovery	—	—	90	17	107
Total	$655	$401	$90	$ 18	$1,164
Liabilities:					
Interest rate instruments	$—	$31	$—	$ —	$31
Commodity contracts subject to rate recovery	—	39	177	(29)	187
Total	$—	$70	$177	$ (29)	$218

	Fair value at December 31, 2015				
	Level 1	Level 2	Level 3	Netting(1)	Total
Assets:					
Nuclear decommissioning trusts:					
Equity securities	$619	$—	$—	$ —	$619
Debt securities:					
Debt securities issued by the U.S. Treasury and other U.S. government corporations and agencies	47	44	—	—	91
Municipal bonds	—	156	—	—	156
Other securities	—	182	—	—	182
Total debt securities	47	382	—	—	429
Total nuclear decommissioning trusts(2)	666	382	—	—	1,048
Commodity contracts not subject to rate recovery	—	—	—	1	1
Commodity contracts subject to rate recovery	—	—	72	27	99
Total	$666	$382	$72	$ 28	$1,148
Liabilities:					
Interest rate instruments	$—	$37	$—	$ —	$37
Commodity contracts not subject to rate recovery	1	—	—	(1)	—
Commodity contracts subject to rate recovery	—	67	53	(54)	66
Total	$1	$104	$53	$ (55)	$103

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

(2) Excludes cash balances and cash equivalents.

60

RECURRING FAIR VALUE MEASURES – SOCALGAS
(Dollars in millions)

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

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

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

Level 3 Information

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

LEVEL 3 RECONCILIATIONS
(Dollars in millions)

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

	Nine months ended September 30,	
	2016	2015

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

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

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

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

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

Fair Value of Financial Instruments

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

FAIR VALUE OF FINANCIAL INSTRUMENTS
(Dollars in millions)

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