

PACIFIC ENTERPRISES INC
Form 10-Q
May 02, 2006

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

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2006



Commission File Number	Name of Registrant, State of Incorporation, Address and Telephone Number	(I.R.S. Employer Identification No.)
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1-40	Pacific Enterprises (A California Corporation) 101 Ash Street San Diego, California 92101 (619) 696-2000	94-0743670
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1-1402	Southern California Gas Company (A California Corporation) 555 West Fifth Street Los Angeles, California 90013 (213) 244-1200	95-1240705
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No Change



(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No



Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer

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

Yes No X

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

Common stock outstanding:

Pacific Enterprises Wholly owned by Sempra Energy

Southern California Gas Company Wholly owned by Pacific Enterprises

INFORMATION REGARDING FORWARD-LOOKING STATEMENTS

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

Forward-looking statements are necessarily based upon various assumptions involving judgments with respect to the future and other risks, including, among others, local, regional and national economic, competitive, political,

legislative and regulatory conditions and developments; actions by the California Public Utilities Commission, the California State Legislature, and the Federal Energy Regulatory Commission and other regulatory bodies in the United States; capital markets conditions, inflation rates, interest rates and exchange rates; energy and trading markets, including the timing and extent of changes in commodity prices; the availability of natural gas; weather conditions and conservation efforts; war and terrorist attacks; business, regulatory, environmental and legal decisions and requirements; the status of deregulation of retail natural gas and electricity delivery; the timing and success of business development efforts; the resolution of litigation; and other uncertainties, all of which are difficult to predict and many of which are beyond the control of the companies. Readers are cautioned not to rely unduly on any forward-looking statements and are urged to review and consider carefully the risks, uncertainties and other factors which affect the companies' business described in this report and other reports filed by the companies from time to time with the Securities and Exchange Commission.

PART I. FINANCIAL INFORMATION
ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

PACIFIC ENTERPRISES AND SUBSIDIARIES
STATEMENTS OF CONSOLIDATED INCOME

(Dollars in millions)	Three months ended March 31,	
	2006	2005
	(unaudited)	
Operating revenues	\$ 1,425	\$ 1,241
Operating expenses		
Cost of natural gas	986	801
Other operating expenses	233	215
Depreciation	66	66
Franchise fees and other taxes	39	33
Total operating expenses	1,324	1,115
Operating income	101	126
Other expense, net (Note 3)	(1)	(1)
Interest income	8	4

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Interest expense	(19)	(12)
	<u>89</u>	<u>117</u>
Income before income taxes		
Income tax expense	38	48
	<u>51</u>	<u>69</u>
Net income		
Preferred dividend requirements	1	1
	<u>\$ 50</u>	<u>\$ 68</u>
Earnings applicable to common shares		

See notes to Consolidated Financial Statements.

PACIFIC ENTERPRISES AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

(Dollars in millions)	March 31, 2006	December 31, 2005
	(unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 371	\$ 90
Accounts receivable - trade	658	694
Accounts receivable - other	16	37
Interest receivable	10	9
Due from unconsolidated affiliates	68	5
Income taxes receivable	79	166
Deferred income taxes	24	20
Regulatory assets arising from fixed-price contracts and other derivatives	32	52
Other regulatory assets	35	36
Inventories	24	121
Other	8	16
	<u>1,325</u>	<u>1,246</u>
Total current assets		

Other assets:		
Due from unconsolidated affiliates	416	414
Other regulatory assets	148	143
Sundry	42	55
	<u>606</u>	<u>612</u>
Total other assets		
Property, plant and equipment:		
Property, plant and equipment	7,845	7,764
Less accumulated depreciation	(3,133)	(3,091)
	<u>4,712</u>	<u>4,673</u>
Property, plant and equipment, net		
Total assets	<u>\$ 6,643</u>	<u>\$ 6,531</u>

See notes to Consolidated Financial Statements.

PACIFIC ENTERPRISES AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

(Dollars in millions)	March 31, 2006	December 31, 2005
	(unaudited)	
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Short-term debt	\$ --	\$ 88
Accounts payable - trade	275	344
Accounts payable - other	72	76
Due to unconsolidated affiliates	165	176
Regulatory balancing accounts, net	193	13
Fixed-price contracts and other derivatives	32	52
Customer deposits	86	80
Temporary LIFO liquidation	107	--
Current portion of long-term debt	8	8
Other	283	280
	<u>1,221</u>	<u>1,117</u>
Total current liabilities		
Long-term debt	<u>1,098</u>	<u>1,100</u>

Deferred credits and other liabilities:

Customer advances for construction	80	74
Postretirement benefits other than pensions	61	65
Deferred income taxes	121	125
Deferred investment tax credits	38	38
Regulatory liabilities arising from removal obligations	1,104	1,097
Asset retirement obligations	512	504
Deferred taxes refundable in rates	206	200
Fixed-price contracts and other derivatives	5	2
Preferred stock of subsidiary	20	20
Deferred credits and other	343	355
	<u>2,490</u>	<u>2,480</u>
Total deferred credits and other liabilities	<u>2,490</u>	<u>2,480</u>

Commitments and contingencies (Note 6)

Shareholders' equity:

Preferred stock	80	80
Common stock (600 million shares authorized; 84 million shares outstanding)	1,453	1,453
Retained earnings	306	306
Accumulated other comprehensive income (loss)	(5)	(5)
	<u>1,834</u>	<u>1,834</u>
Total shareholders' equity	<u>1,834</u>	<u>1,834</u>
Total liabilities and shareholders' equity	<u>\$ 6,643</u>	<u>\$ 6,531</u>

See notes to Consolidated Financial Statements.

PACIFIC ENTERPRISES AND SUBSIDIARIES
CONDENSED STATEMENTS OF CONSOLIDATED CASH FLOWS

Three months ended
March 31,

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(Dollars in millions)	2006	2005
	(unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 51	\$ 69
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	66	66
Deferred income taxes and investment tax credits	(3)	11
Other	2	--
Net changes in other working capital components	471	330
Changes in other assets	5	2
Changes in other liabilities	(2)	(7)
Net cash provided by operating activities	<u>590</u>	<u>471</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Expenditures for property, plant and equipment	(97)	(63)
Increase in loans to affiliates, net	(71)	(386)
Other	(2)	--
Net cash used in investing activities	<u>(170)</u>	<u>(449)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Common dividends paid	(50)	--
Preferred dividends paid	(1)	(1)
Decrease in short-term debt	(88)	(30)
Net cash used in financing activities	<u>(139)</u>	<u>(31)</u>
Increase (decrease) in cash and cash equivalents	281	(9)
Cash and cash equivalents, January 1	90	34
Cash and cash equivalents, March 31	<u>\$ 371</u>	<u>\$ 25</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest payments, net of amounts capitalized	<u>\$ 8</u>	<u>\$ 6</u>
Income tax payments (refunds), net	<u>\$ (47)</u>	<u>\$ 56</u>

See notes to Consolidated Financial Statements.

SOUTHERN CALIFORNIA GAS COMPANY AND SUBSIDIARIES
STATEMENTS OF CONSOLIDATED INCOME

(Dollars in millions)	Three months ended March 31,	
	2006	2005
	(unaudited)	
Operating revenues	\$ 1,425	\$ 1,241
Operating expenses		
Cost of natural gas	986	801
Other operating expenses	233	215
Depreciation	66	66
Franchise fees and other taxes	39	33
Total operating expenses	1,324	1,115
Operating income	101	126
Other expense, net (Note 3)	--	(1)
Interest income	3	2
Interest expense	(18)	(11)
Income before income taxes	86	116
Income tax expense	37	47
Net income/earnings applicable to common shares	\$ 49	\$ 69

See notes to Consolidated Financial Statements.

SOUTHERN CALIFORNIA GAS COMPANY AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

(Dollars in millions)	March 31, 2006	December 31, 2005
	(unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 371	\$ 90
Accounts receivable - trade	658	694
Accounts receivable - other	16	37
Interest receivable	10	9
Due from unconsolidated affiliates	63	1
Income taxes receivable	--	85
Deferred income taxes	25	20
Regulatory assets arising from fixed-price contracts and other derivatives	32	52
Other regulatory assets	35	36
Inventories	24	121
Other	8	15
Total current assets	1,242	1,160
Other assets:		
Other regulatory assets	148	143
Sundry	20	33
Total other assets	168	176
Property, plant and equipment:		
Property, plant and equipment	7,842	7,762
Less accumulated depreciation	(3,133)	(3,091)
Property, plant and equipment, net	4,709	4,671
Total assets	\$ 6,119	\$ 6,007

See notes to Consolidated Financial Statements.

SOUTHERN CALIFORNIA GAS COMPANY AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

(Dollars in millions)	March 31, 2006	December 31, 2005
	(unaudited)	
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Short-term debt	\$ --	\$ 88
Accounts payable - trade	275	344
Accounts payable - other	72	76
Due to unconsolidated affiliates	90	102
Income taxes payable	3	--
Regulatory balancing accounts, net	193	13
Fixed-price contracts and other derivatives	32	52
Customer deposits	86	80
Temporary LIFO liquidation	107	--
Current portion of long-term debt	8	8
Other	281	280
Total current liabilities	<u>1,147</u>	<u>1,043</u>
Long-term debt	<u>1,098</u>	<u>1,100</u>
Deferred credits and other liabilities:		
Customer advances for construction	80	74
Postretirement benefits other than pensions	61	65
Deferred income taxes	141	145
Deferred investment tax credits	38	38
Regulatory liabilities arising from removal obligations	1,104	1,097
Asset retirement obligations	512	504
Deferred taxes refundable in rates	206	200
Fixed-price contracts and other derivatives	5	2
Deferred credits and other	311	322
Total deferred credits and other liabilities	<u>2,458</u>	<u>2,447</u>

Commitments and contingencies (Note 6)

Shareholders' equity:		
Preferred stock	22	22
Common stock (100 million shares authorized; 91 million shares outstanding)	866	866
Retained earnings	533	534
Accumulated other comprehensive income (loss)	(5)	(5)
Total shareholders' equity	<u>1,416</u>	<u>1,417</u>
Total liabilities and shareholders' equity	<u>\$ 6,119</u>	<u>\$ 6,007</u>

See notes to Consolidated Financial Statements.

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

(Dollars in millions)	Three months ended March 31,	
	2006	2005
	(unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 49	\$ 69
Adjustments to reconcile net income to net cash provided by		
operating activities:		
Depreciation	66	66
Deferred income taxes and investment tax credits	(4)	11
Other	2	--
Net changes in other working capital components	470	326
Changes in other assets	5	1
Changes in other liabilities	(1)	(6)
Net cash provided by operating activities	<u>587</u>	<u>467</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Expenditures for property, plant and equipment	(97)	(63)
Increase in loans to affiliates, net	(71)	(333)
	<u>(168)</u>	<u>(396)</u>
Net cash used in investing activities	<u>(168)</u>	<u>(396)</u>

CASH FLOWS FROM FINANCING ACTIVITIES

Common dividends paid	(50)	(50)
Decrease in short-term debt	(88)	(30)
	<u>(138)</u>	<u>(80)</u>
Net cash used in financing activities	<u>(138)</u>	<u>(80)</u>

Increase (decrease) in cash and cash equivalents	281	(9)
Cash and cash equivalents, January 1	90	34
	<u>\$ 371</u>	<u>\$ 25</u>
Cash and cash equivalents, March 31	<u>\$ 371</u>	<u>\$ 25</u>

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Interest payments, net of amounts capitalized	<u>\$ 7</u>	<u>\$ 5</u>
Income tax payments (refunds), net	<u>\$ (47)</u>	<u>\$ 56</u>

See notes to Consolidated Financial Statements.

NOTE 1. GENERAL

This Quarterly Report on Form 10-Q is that of Pacific Enterprises (PE) and of Southern California Gas Company (SoCalGas) (collectively referred to as the company or the companies). PE's common stock is wholly owned by Sempra Energy, a California-based Fortune 500 holding company, and PE owns all of the common stock of SoCalGas. The financial statements herein are, in one case, the Consolidated Financial Statements of PE and its subsidiary, SoCalGas, and, in the other case, the Consolidated Financial Statements of SoCalGas and its subsidiaries, which comprise less than one percent of SoCalGas' consolidated financial position and results of operations.

Sempra Energy also indirectly owns all of the common stock of San Diego Gas & Electric Company (SDG&E). SoCalGas and SDG&E are collectively referred to herein as the California Utilities.

The accompanying Consolidated Financial Statements have been prepared in accordance with the interim-period-reporting requirements of Form 10-Q. Results of operations for interim periods are not necessarily indicative of results for the entire year. In the opinion of management, the accompanying statements reflect all

adjustments necessary for a fair presentation. These adjustments are only of a normal recurring nature.

Information in this Quarterly Report should be read in conjunction with the Annual Report on Form 10-K for the year ended December 31, 2005 (the Annual Report).

The companies' significant accounting policies are described in Note 1 of the notes to Consolidated Financial Statements in the Annual Report. The same accounting policies are followed for interim reporting purposes.

SoCalGas accounts for the economic effects of regulation on utility operations in accordance with Statement of Financial Accounting Standards (SFAS) 71, *Accounting for the Effects of Certain Types of Regulation*.

Following are the changes in asset-retirement obligations, as defined in SFAS 143, *Accounting for Asset Retirement Obligations* and Financial Accounting Standards Board (FASB) Interpretation (FIN) No. 47, *Accounting for Conditional Asset Retirement Obligations, an interpretation of SFAS 143*, for the three months ended March 31, 2006 and 2005. FIN 47 was adopted prospectively on January 1, 2006.

(Dollars in millions)	2006	2005
Balance as of January 1	\$ 505 *	\$ 9 *
Accretion expense	8	--
Balance as of March 31	\$ 513 *	\$ 9 *

* The current portion of the obligation is included in Other Current Liabilities on the Consolidated Balance Sheets.

In accordance with FIN 47, the company has determined that the amount of asbestos-containing materials could not be determined and, therefore, no liability has been recognized for the related removal obligations. Since substantially all of the cost of removing such materials is expected to be recovered in rates, the effect of not recognizing these liabilities is not material to the company's financial condition or results of operations.

In accordance with SFAS 132 (revised), *Employers' Disclosures about Pensions and Other Postretirement Benefits*, the following tables provide the components of benefit costs for the three months ended March 31:

(Dollars in millions)	Pension Benefits		Other Postretirement Benefits	
	2006	2005	2006	2005
Service cost	\$ 10	\$ 8	\$ 4	\$ 5
Interest cost	24	25	10	11
Expected return on assets	(24)	(25)	(9)	(9)
Amortization of:				
Prior service cost	2	2	(1)	--
Actuarial loss	1	1	1	2
Regulatory adjustment	(12)	(10)	1	1
Total net periodic benefit cost	\$ 1	\$ 1	\$ 6	\$ 10