

PACIFIC ENTERPRISES INC
Form 10-Q
August 02, 2007

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 June 30, 2007

Commission File Number	Name of Registrant, State or other jurisdiction of incorporation or organization, Address and Telephone Number	I.R.S. Employer Identification No.
1-40	PACIFIC ENTERPRISES (A California Corporation) 101 Ash Street San Diego, California 92101 (619) 696-2020	94-0743670
1-1402	SOUTHERN CALIFORNIA GAS COMPANY (A California Corporation) 555 West Fifth Street Los Angeles, California 90013 (213) 244-1200	95-1240705

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

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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

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, the Federal Energy Regulatory Commission and other environmental and 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 and liquefied 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		Six months ended	
	June 30,		June 30,	
	2007	2006	2007	2006
			(unaudited)	
Operating revenues	\$ 981	\$ 908	\$ 2,349	\$ 2,333
Operating expenses				
Cost of natural gas	529	476	1,441	1,462
Other operating expenses	249	233	492	466
Depreciation	70	67	139	133
Franchise fees and other taxes	29	27	65	66
Total operating expenses	877	803	2,137	2,127
Operating income	104	105	212	206
Other expense, net	(1)	(1)	(3)	(2)
Interest income	13	31	25	39
Interest expense	(19)	(18)	(38)	(37)
Income before income taxes	97	117	196	206
Income tax expense	41	50	82	88
Net income	56	67	114	118
Preferred dividend requirements	1	1	2	2
Earnings applicable to common shares	\$ 55	\$ 66	\$ 112	\$ 116

See Notes to Condensed Consolidated Financial Statements.

PACIFIC ENTERPRISES AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

(Dollars in millions)	June 30, 2007 (unaudited)	December 31, 2006
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 474	\$ 211
Accounts receivable - trade	405	640
Accounts receivable - other	15	33
Interest receivable	1	10
Due from unconsolidated affiliates	209	63
Income taxes receivable	22	54
Deferred income taxes	32	43
Inventories	50	106
Other regulatory assets	39	41
Other	37	17
Total current assets	1,284	1,218
Other assets:		
Due from unconsolidated affiliates	453	448
Regulatory assets arising from pension and other		
postretirement benefit obligations	155	136
Other regulatory assets	104	95
Sundry	34	41
Total other assets	746	720
Property, plant and equipment:		
Property, plant and equipment	8,295	8,151
Less accumulated depreciation	(3,304)	(3,248)
Property, plant and equipment, net	4,991	4,903
Total assets	\$ 7,021	\$ 6,841

See Notes to Condensed Consolidated Financial Statements.

PACIFIC ENTERPRISES AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

(Dollars in millions)	June 30, 2007 (unaudited)	December 31, 2006
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable - trade	\$ 386	\$ 416
Accounts payable - other	77	114
Due to unconsolidated affiliates	113	102
Regulatory balancing accounts, net	250	167
Customer deposits	89	88
Other	341	305
Total current liabilities	1,256	1,192
Long-term debt	1,105	1,107
Deferred credits and other liabilities:		
Customer advances for construction	94	91
Pension and other postretirement benefit obligations, net of plan assets	184	172
Deferred income taxes	103	107
Deferred investment tax credits	34	36
Regulatory liabilities arising from removal obligations	1,048	1,019
Asset retirement obligations	675	655
Deferred taxes refundable in rates	228	221
Preferred stock of subsidiary	20	20
Deferred credits and other	285	291
Total deferred credits and other liabilities	2,671	2,612
Commitments and contingencies (Note 7)		
Shareholders' equity:		
Preferred stock	80	80
Common stock (600 million shares authorized; 84 million shares outstanding; no par value)	1,462	1,464
Retained earnings	452	391
Accumulated other comprehensive income (loss)	(5)	(5)

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Total shareholders' equity	1,989	1,930
Total liabilities and shareholders' equity	\$ 7,021	\$ 6,841

See Notes to Condensed Consolidated Financial Statements.

PACIFIC ENTERPRISES AND SUBSIDIARIES

CONDENSED STATEMENTS OF CONSOLIDATED CASH FLOWS

(Dollars in millions)	Six months ended	
	2007	2006
	June 30,	
	(unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 114	\$ 118
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	139	133
Deferred income taxes and investment tax credits	10	(12)
Gain on sale of assets	(2)	(1)
Accretion of interest	3	4
Net changes in working capital components	408	547
Changes in other assets	6	4
Changes in other liabilities	(13)	