

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

FORM 10-Q

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

For the quarterly period ended September 30, 1995

Commission file number 1-1402

SOUTHERN CALIFORNIA GAS COMPANY

(Exact name of registrant as specified in its charter)

California

95-1240705

(State or other jurisdiction of incorporation
or organization)

(I.R.S. Employer
Identification No.)

555 West Fifth Street, Los Angeles, California 90013-1011

(Address of principal executive offices)
(Zip Code)

(213) 244-1200

(Registrant's telephone number, including area code)

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

The number of shares of common stock outstanding on October 27, 1995 was 91,300,000.

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

**SOUTHERN CALIFORNIA GAS COMPANY AND SUBSIDIARY
CONDENSED STATEMENT OF CONSOLIDATED INCOME**
(Thousands of Dollars)

	Three Months Ended September 30		Nine Months Ended September 30	
	1995	1994	1995	1994
	(Unaudited)			
Operating Revenues	\$505,292	\$567,929	\$1,689,541	\$1,887,381
Operating Expenses:				
Cost of gas distributed	162,249	169,701	576,094	774,815
Operation and maintenance	151,388	218,060	525,726	556,392
Depreciation	59,089	58,637	177,415	174,354
Income taxes	39,088	32,562	119,052	98,347
Other taxes and franchise payments	21,979	21,394	72,603	80,206
Total	433,793	500,354	1,470,890	1,684,114
Net Operating Revenue	71,499	67,575	218,651	203,267
Other Income and (Deductions):				
Interest income	2,059	368	6,879	1,348
Regulatory interest	534	3,612	2,116	5,661
Allowance for equity funds used during construction	1,203	686	2,342	2,170
Income taxes on non-operating income	(797)	(1,136)	(1,090)	
(2,100)				
Other - net	(1,228)	(993)	(4,271)	
(3,580)				
Total	1,771	2,537	5,976	3,499
Interest Charges and (Credits):				
Interest on long-term debt	21,759	22,257	66,210	66,768
Other interest	1,560	3,050	5,050	6,298
Allowance for borrowed funds used during construction	(699)	(392)	(1,357)	
(1,234)				
Total	22,620	24,915	69,903	71,832
Net Income	50,650	45,197	154,724	134,934
Dividends on Preferred Stock	2,888	2,665	8,734	7,670
Net Income Applicable to Common Stock	\$47,762	\$ 42,532	\$ 145,990	\$ 127,264

See Notes to Condensed Consolidated Financial Statements.

**SOUTHERN CALIFORNIA GAS COMPANY AND SUBSIDIARY
CONDENSED CONSOLIDATED BALANCE SHEET**

ASSETS
(Thousands of Dollars)

31	September 30	December
	1995	1994

	(Unaudited)	
Utility Plant	\$5,725,715	
\$5,613,013		
Less accumulated depreciation	2,544,620	
2,400,601	-----	
Utility plant - net	3,181,095	
3,212,412	-----	
Current Assets:		
Cash and cash equivalents	61,521	
57,531		
Accounts and notes receivable - net	317,165	
523,975		
Regulatory accounts receivable	168,102	
360,479		
Gas in storage	66,336	
63,470		
Materials and supplies	20,587	
25,792		
Prepaid expenses	19,610	
34,129		
Deferred income taxes	39,887	

Total current assets	693,208	
1,065,376	-----	
Deferred Charges	481,856	
497,975	-----	
Total	\$4,356,159	
\$4,775,763	=====	

See Notes to Condensed Consolidated Financial Statements.

SOUTHERN CALIFORNIA GAS COMPANY AND SUBSIDIARY
CONDENSED CONSOLIDATED BALANCE SHEET
CAPITALIZATION AND LIABILITIES
(Thousands of Dollars)

	September 30	December
31	1995	1994

(Unaudited)

Capitalization:

Common equity:

Common stock	\$ 834,889	\$
834,889		
Retained earnings	620,125	
643,040		

Total common equity	1,455,014	
1,477,929		
Preferred stock	196,551	
196,551		
Long-term debt	1,257,018	
1,396,931		

Total capitalization	2,908,583	
3,071,411		

Current Liabilities:

Short-term debt	83,817	
278,201		
Accounts payable	418,109	
409,462		
Accounts payable-affiliates	19,361	
35,013		
Accrued taxes and franchise payments	62,025	
117,576		
Deferred income taxes		
40,792		
Long-term debt due within one year	102,282	
86,000		
Accrued interest	43,990	
40,057		
Other accrued liabilities	99,949	
109,150		

Total current liabilities	829,533	
1,116,251		

Deferred Credits:

Customer advances for construction	43,831	
44,269		
Deferred income taxes	364,751	
341,149		
Deferred investment tax credits	67,730	
69,969		
Other deferred credits	141,731	
132,714		

Total deferred credits	618,043	
588,101		

Total	\$4,356,159	
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See Notes to Condensed Consolidated Financial Statements.

SOUTHERN CALIFORNIA GAS COMPANY AND SUBSIDIARY
CONDENSED STATEMENT OF CONSOLIDATED CASH FLOWS
(Thousands of Dollars)

	Nine Months Ended September 30	
	1995	1994
	(Unaudited)	
Cash Flows From Operating Activities:		
Net income	\$154,724	\$134,934
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	177,415	174,354
Deferred income taxes	21,933	15,671
Other	4,698	
(4,452)		
Net change in other working capital components	272,395	
(223,113)		
	-----	-----
Net cash provided by operating activities	631,165	97,394
	-----	-----
Cash Flows from Investing Activities:		
Expenditures for utility plant	(142,217)	
(146,646)		
(Increase)decrease in other assets	8,552	
(261)		
	-----	-----
Net cash used in investing activities	(133,665)	
(146,907)		
	-----	-----
Cash Flows from Financing Activities:		
Dividends paid	(175,495)	
(101,709)		
Issuance of long-term debt		325,000
Payments of long-term debt	(123,631)	
Decrease in short-term debt	(194,384)	
(172,126)		
	-----	-----
Net cash provided by (used in) financing activities	(493,510)	51,165
	-----	-----
Increase in Cash and Cash Equivalents	3,990	1,652
Cash and Cash Equivalents, January 1	57,531	14,533
	-----	-----
Cash and Cash Equivalents, September 30	\$ 61,521	\$ 16,185
	=====	=====
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the period:		
Interest (net of amount capitalized)	\$ 64,166	\$ 79,675
	=====	=====
Income Taxes	\$232,195	\$ 92,130
	=====	=====

See Notes to Condensed Consolidated Financial Statements.

**SOUTHERN CALIFORNIA GAS COMPANY AND SUBSIDIARY
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

1. SUMMARY OF ACCOUNTING POLICIES

The accompanying condensed consolidated financial statements have been prepared in accordance with the interim period reporting requirements of Form 10-Q. Reference is made to the Form 10-K for the year ended December 31, 1994 for additional information.

Results of operations for interim periods are not necessarily indicative of results for the entire year. In order to match revenues and costs for interim reporting purposes, the Southern California Gas Company (Company) defers revenue related to costs which are expected to be incurred later in the year. In the opinion of management, the accompanying statements reflect all adjustments which are necessary for a fair presentation. These adjustments are of a normal recurring nature. Certain changes in account classification have been made in the prior years' consolidated financial statements to conform to the 1995 financial statement presentation.

2. ENVIRONMENTAL OBLIGATIONS

The Company has identified and reported to California environmental authorities 42 former manufactured gas plant sites for which it (together with other utilities as to 21 of these sites) may have environmental obligations under environmental laws. As of September 30, 1995, eight of these sites have been remediated, of which five have received certification from the California Environmental Protection Agency. Preliminary investigations, at a minimum, have been completed on 38 of the gas plant sites, including those sites at which the remediations described above have been completed. In addition, the Company has been named as a potentially responsible party of two landfill sites and three industrial waste disposal sites.

On May 4, 1994, the California Public Utilities Commission approved a collaborative settlement between the Company and other California energy utilities and the Division of Ratepayer Advocates that provides for rate recovery of 90 percent of environmental investigation and remediation costs without reasonableness review. In addition, the utilities have the opportunity to retain a percentage of any insurance recoveries to offset the 10 percent of costs not recovered in rates.

At September 30, 1995, the Company's estimated remaining investigation and remediation liability was approximately \$65 million which it is authorized to recover through the mechanism discussed above. The estimated liability is subject to future adjustment pending further investigation. The Company

believes that any costs not ultimately recovered through rates, insurance or other means, upon giving effect to previously established liabilities, will not have a material adverse effect on the Company's financial statements.

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Southern California Gas Company (Company) is a subsidiary of Pacific Enterprises (Parent). The Company, a public utility, provides natural gas distribution, transmission and storage in a 23,000-square-mile service area in southern California and parts of central California. Company markets are separated into core customers and noncore customers. Core customers consist of approximately 4.7 million customers (4.5 million residential and 200,000 smaller commercial and industrial customers). The noncore market consists of approximately 1,200 customers which primarily include utility electric generation, wholesale and large commercial and industrial customers. Many noncore customers are sensitive to the price relationship between natural gas and alternate fuels, and are capable of readily switching from one fuel to another, subject to air quality regulations. The Company is regulated by the California Public Utilities Commission (CPUC). It is the responsibility of the CPUC to determine that utilities operate in the best interest of the ratepayers with the opportunity to earn a reasonable return on investment. Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with the Condensed Consolidated Financial Statements and the Company's Annual Report on Form 10-K.

RESULTS OF OPERATIONS

Net income for the three and nine months ended September 30, 1995 increased by \$5 million and \$20 million compared to the same periods in 1994. The increase in net income was due primarily to the increase in the authorized rate of return on common equity from 11.0 percent in 1994 to 12.0 percent in 1995 and lower operating expenses and capital expenditures in 1995 from the amounts authorized in the most recent general rate case decision as adjusted for the 1995 attrition allowances. Earnings achieved above the utility's authorized rate have been partially reflected throughout the first three quarters of the year rather than in the fourth quarter as was recorded in 1994. For this reason, it is not likely that the same level of earnings will be achieved in the fourth quarter of this year as was achieved in the fourth quarter of 1994.

Operating revenues for the three and nine months ended September 30, 1995 decreased \$63 million and \$198 million, respectively,

when compared to the same periods in 1994. Cost of gas distributed for the three and nine months ended September 30, 1995 decreased \$7 million and \$199 million, respectively, when compared to the same periods in 1994. The decrease in operating revenues is primarily due to significant nonrecurring expenses in the third quarter 1994. Since these expenses are recoverable in rates, these are also

recorded as revenue resulting in unusually high revenue in 1994. In 1995, the average unit cost of gas declined as a result of lower market prices also reducing revenues from 1994 levels. Under the current regulatory framework, changes in revenue resulting from changes in volumes and cost of gas delivered to the core market do not affect net income.

Operation and maintenance expense for the three and nine months ended September 30, 1995 decreased \$67 million and \$31 million, respectively, when compared to the same periods in 1994. The decreases primarily reflect savings from the Company's realignment into two business units effective July 1995 and nonrecurring expenses in 1994. Results for 1994 included expenses resulting from the January 1994 earthquake and expenses related to a discontinued capital project.

RECENT CPUC REGULATORY ACTIVITY

On June 1, 1995, the Company filed a "Performance Based Regulation" (PBR) application with the CPUC which would replace the general rate case. This new method would link financial performance with productivity improvements and generally would allow for rates to increase by the rate of inflation, less an agreed-upon percentage for productivity improvements. However, under PBR, the Company would be at risk for changes in interest rates and cost of capital, changes in core volumes not related to weather, and achieving the productivity improvements. Implementation of PBR was anticipated in 1997 however, recent requests filed by the intervenors, if granted by the CPUC, could delay implementation beyond that date.

On March 16, 1994, the CPUC approved a new process for evaluating the Company's gas purchases, substantially replacing the previous process of reasonableness reviews. The new Gas Cost Incentive Mechanism (GCIM) is a three-year pilot program that began on April 1, 1994. The GCIM essentially compares the Company's cost of gas with a benchmark level, which is the average market price of 30-day firm spot supplies delivered to the Company's service areas.

All savings from gas purchased below the benchmark are shared equally between ratepayers and shareholders. The Company can recover all costs in excess of the benchmark that are within a tolerance band. If the Company's cost of gas exceeds the tolerance band, then the excess costs are shared equally between ratepayers and shareholders. For the first year of the program, the GCIM provided a 4.5 percent tolerance band above the benchmark. For the second and third years of the program, the tolerance band is 4 percent. Since the inception of the program through September 30, 1995, the Company's gas costs, including gains and losses from gas futures contracts discussed below, were within the tolerance band.

The Company enters into gas futures contracts in the open market on a limited basis. The Company's intention is to use gas futures contracts to mitigate

risk and better manage gas costs. The CPUC has approved the use of gas futures for managing risk associated with the GCIM.

Three proposed decisions have been submitted for consideration by the full CPUC, one by an Administrative Law Judge (ALJ), a second by a CPUC Commissioner and a third by two CPUC Commissioners regarding ratepayer funding for the natural gas vehicle (NGV) program. Two proposals authorized the Company \$33 million, and the third proposal authorized \$35 million over six years to cover the costs of maintaining existing fueling stations, increasing the overall number of natural gas vehicles, continuing research and conducting educational activities. The decision is subject to CPUC approval and it may accept, reject or modify any proposal.

All the proposals require that all refueling stations on customer property be sold or removed from ratebase within six years of the decision. Under the ALJ proposal, any depreciation previously recovered in rates, less 50% of any gain resulting from the sale of these stations would be the responsibility of the Company. If this proposal is accepted by the CPUC, the Company may have to reduce the carrying value of its \$20 million investment in these stations.

The second proposal is the same as the ALJ proposal except that depreciation previously recovered in rates would not be the responsibility of the Company. Under this proposal, a reduction in the investment carrying value would probably be unnecessary or be immaterial.

Under the proposed decision sponsored by two CPUC Commissioners, all refueling stations would be sold or removed from ratebase within six years. During this period, depreciation on those facilities would continue to be allowed in rates and the Company would be responsible for 25% of any resulting losses on the sale or keep 25% of any resulting gains. Under this proposal, a reduction in the investment carrying value would probably be unnecessary or would be immaterial.

The Company continues to believe that the Commission will adopt a policy permitting recovery of all or substantially all NGV costs.

The CPUC approved a plan to reduce rates to core customers by \$280 million reflecting the impact of lower gas prices. Of the total, \$120 million will be returned to customers as a rate reduction implemented on September 16, 1995 and \$160 million will be returned as a one time credit in November 1995.

FACTORS INFLUENCING FUTURE PERFORMANCE. Under current ratemaking policies, future Company earnings and cash flow will be determined primarily by the allowed rate of return on common equity, the growth in ratebase, noncore pricing and the variance in gas volumes delivered to noncore customers versus CPUC-adopted forecast deliveries and the ability of management to control expenses and investment in line with the amounts authorized by the CPUC to be collected in rates.

The impact of any future regulatory restructuring, such as Performance Based Regulation, increased competitiveness in the industry, including the continuing threat of customers bypassing the Company's system and obtaining service directly from interstate pipelines, and electric industry restructuring could also affect the Company's future performance. The Company's ability to report as earnings the results from revenues in excess of its authorized return from noncore customers due to volume increases has been substantially eliminated for the five years beginning August 1, 1994 as a consequence of the restructuring of high-cost gas contracts that was approved by the CPUC in July 1994 (the Comprehensive Settlement). This is because certain forecasted levels of gas deliveries in excess of the 1991 throughput levels used to establish noncore rates were contemplated in estimating the costs of the Comprehensive Settlement in prior years.

The Company's earnings for 1995 will be affected by the increase in the authorized rate of return on common equity, reflecting the overall increase in cost of capital. For 1995, the Company is authorized to earn a rate of return on ratebase of 9.67 percent and a rate of return on common equity of 12.00 percent compared to 9.22 percent and 11.00 percent, respectively, in 1994. A change in return on equity of 1 percent (100 basis points) impacts earnings approximately \$.17 per share. Ratebase is expected to remain at the same level as 1994.

On May 9, 1995, the Company filed a request with the CPUC for the 1996 cost of capital. The Company requested an authorized return on common equity of 12.50 percent and a 9.90 percent return on ratebase. An administrative law judge has recommended that the CPUC adopt a settlement awarding a return on equity of 11.6% and a return of ratebase of 9.42%. The CPUC is expected to issue its final decision in November 1995.

The Company's earnings for the fourth quarter of 1995 and all of 1996 will continue to be favorably impacted by the completion of a realignment of the Company into two business units effective July 1995. A significant amount of the savings will not be realized until 1996, the first full year following the realignment. Improvements to earnings will be partially offset by the 2 percent and 3 percent productivity adjustments for 1995 and 1996, respectively, authorized by the CPUC, under the terms of the 1994 Comprehensive Settlement.

Existing interstate pipeline capacity into California exceeds current demand by over 1 billion cubic feet per day. Up to 2 billion cubic feet per day of capacity on the El Paso and Transwestern interstate pipeline systems representing over \$175 million and \$55 million, respectively, of annual reservation charges, may be relinquished within the next few years based on existing contract reduction options and contract expirations. Some of this capacity may not be resubscribed. Current Federal Energy Regulatory Commission (FERC) regulation could permit the cost of unsubscribed capacity to be allocated to remaining firm service customers, including the Company. Under existing regulation in California, the Company would have the opportunity to include its portion of any such reallocated costs in its

rates. If competitive conditions did not support higher rates resulting from these reallocated costs, then the Company would be at risk for lost revenues in the noncore market.

The Company, as a part of a coalition of customers who hold 90 percent of the firm transportation capacity rights on the El Paso and Transwestern systems, has offered a proposal for negotiated rates with balanced incentives to El Paso and Transwestern to resolve the issue of unsubscribed capacity. In March 1995, a Principles of Agreement consistent with the coalition's proposal was finalized with Transwestern. A definitive settlement was submitted to the FERC on May 2, 1995 and approval was granted on July 26, 1995. A similar proposal was offered to and rejected by El Paso. El Paso has subsequently filed for a \$74 million annual rate increase with the FERC. The rate increase proposes to reallocate to its remaining firm customers the costs related to pipeline capacity soon to be relinquished by certain of its customers. On July 12, 1995, the Company and a coalition of El Paso's customers filed a protest with the FERC in opposition to El Paso's request. El Paso and its customers including the Company are continuing negotiations.

The Company's operations and those of its customers are affected by a growing number of environmental laws and regulations. These

laws and regulations affect current operations as well as future expansion. Historically, environmental laws favorably impacted the use of natural gas in the Company's service territory, particularly by utility electric generation and large industrial customers. However, increasingly complex administrative requirements may discourage natural gas use by commercial and industrial customers. Environmental laws also require clean up of facilities no longer in use. Because of current and expected rate recovery, the Company believes that compliance with these laws will not have a significant impact on its financial statements. For further discussion of regulatory and environmental matters, see Note 2 of Notes to Condensed Consolidated Financial Statements.

CAPITAL EXPENDITURES. For the nine months ended September 30, 1995, capital expenditures were \$142 million. Capital expenditures for utility plant are expected to be \$240 million in 1995 and will be financed primarily by internally-generated funds.

LIQUIDITY

Accounts receivable decreased \$207 million from December 1994, reflecting the seasonal fluctuations in the sale of gas. Regulatory accounts receivable decreased \$192 million reflecting the recovery through rates of amounts undercollected in prior years. As a result, the cash flows generated were available for additional cash requirements, primarily the payment of debt and the payment of dividends.

On October 31, 1995, the Company announced it would redeem all of the approximately \$18.4 million aggregate principal amount of its 9 3/4% First

Mortgage Bonds, Series X, due in 2020 at 106.95% of the principal amount of the bonds plus accrued interest. The redemption date will be December 1, 1995.

PART II. OTHER INFORMATION

Item 6. EXHIBITS AND REPORTS ON FORM 8-K

(b) There were no reports of Form 8-K filed during the quarter ended September 30, 1995.

A report on Form 8-K filed subsequent to the quarter ended September 30, 1995 was as follows:

Item 5 - Other Events - November 1, 1995

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

SOUTHERN CALIFORNIA GAS COMPANY

(Registrant)

/s/ Ralph Todaro

*Ralph Todaro
Vice President and Controller
(Chief Accounting Officer and
duly authorized signatory)*

Date: November 13, 1995

ARTICLE UT

THE SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CONDENSED STATEMENT OF CONSOLIDATED INCOME, BALANCE SHEET AND CASH FLOWS AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

CIK: 0000092108

NAME: SOUTHERN CALIFORNIA GAS COMPANY

MULTIPLIER: 1,000

PERIOD TYPE	9 MOS
FISCAL YEAR END	DEC 31 1995
PERIOD END	SEP 30 1995
BOOK VALUE	PER BOOK
TOTAL NET UTILITY PLANT	3,181,095
OTHER PROPERTY AND INVEST	0
TOTAL CURRENT ASSETS	693,208
TOTAL DEFERRED CHARGES	481,856
OTHER ASSETS	0
TOTAL ASSETS	4,356,159
COMMON	834,889
CAPITAL SURPLUS PAID IN	0
RETAINED EARNINGS	620,125
TOTAL COMMON STOCKHOLDERS EQ	1,455,014
PREFERRED MANDATORY	0
PREFERRED	196,551
LONG TERM DEBT NET	1,257,018
SHORT TERM NOTES	83,817
LONG TERM NOTES PAYABLE	0
COMMERCIAL PAPER OBLIGATIONS	0
LONG TERM DEBT CURRENT PORT	102,282
PREFERRED STOCK CURRENT	0
CAPITAL LEASE OBLIGATIONS	0
LEASES CURRENT	0
OTHER ITEMS CAPITAL AND LIAB	1,261,477
TOT CAPITALIZATION AND LIAB	4,356,159
GROSS OPERATING REVENUE	1,689,541
INCOME TAX EXPENSE	119,052
OTHER OPERATING EXPENSES	1,351,838
TOTAL OPERATING EXPENSES	1,470,890
OPERATING INCOME LOSS	218,651
OTHER INCOME NET	5,976
INCOME BEFORE INTEREST EXPEN	224,627
TOTAL INTEREST EXPENSE	69,903
NET INCOME	154,724
PREFERRED STOCK DIVIDENDS	8,734
EARNINGS AVAILABLEFOR COMM	145,990
COMMON STOCK DIVIDENDS	0
TOTAL INTEREST ON BONDS	0
CASH FLOW OPERATIONS	631,165
EPS PRIMARY	0
EPS DILUTED	0

End of Filing