

ALJ/RAB/sid

Decision 01-09-056 September 20, 2001

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Joint Application of Pacific Enterprises, Enova Corporation, Mineral Energy Company, B Mineral Energy Sub and G Mineral Energy Sub for Approval of a Plan of Merger of Pacific Enterprises and Enova Corporation With and Into B Energy Sub ("Newco Pacific Sub") and G Energy Sub ("Newco Enova Sub"), the Wholly-Owned Subsidiaries of A Newly Created Holding Company, Mineral Energy Company.

Application 96-10-038
(Petition filed
September 13, 2000)

O P I N I O N

Sempra Energy¹ (Sempra) submits this Petition to Modify Decision (D.) 98-03-073 (merger decision), or for a declaratory order affirming that its proposed reorganization of its California utility subsidiaries, Southern California Gas Company (SoCalGas) and San Diego Gas & Electric Company (SDG&E) is within the authority granted by the Commission in D.98-03-073.

¹ Sempra Energy is the legal successor-in-interest to applicants in the above docket, Mineral Energy Company, B Mineral Energy Sub and G Mineral Energy Sub. As described in the application, the latter two entities were created to facilitate the acquisition of Enova and Pacific Enterprises' stock, and became merged with and into Sempra Energy, the new name for Mineral Energy. This merger became effective on June 26, 1998.

I. Introduction and Summary

Sempra proposes to reorganize its regulated California utility businesses to further integrate the management and cultures of SoCalGas and SDG&E. While this reorganization may be completely within the authority sought from, and granted by, the merger decision in 1998, Sempra seeks a review of its plan in order to gain a clear understanding of the Commission's view of Sempra's authority in this regard. If we determine that Sempra's plans are in any way outside of Sempra's current authority, Sempra seeks modification of the merger decision to permit the proposed reorganization.

A. The Merger Application and Decision, and Subsequent Merged Operations

The merger decision authorized the combination of applicants Pacific Enterprises and Enova Corporation into a single entity, Sempra Energy. The Commission authorized the merger based on the forecast applicants provided, pursuant to Cal. Pub. Util. Code § 854(b)(2),² that the merger would yield \$435.8 million in savings over five years, to be shared 50-50 between ratepayers and shareholders.³ While this forecast found most merger savings in the integration of certain operations of SoCalGas and SDG&E, applicants specifically declined to merge the utilities, and the decision accepted applicants' limitations on utility integration.

² This section requires the Commission to find that the merger proposal equitably allocates between ratepayers and shareholders "the total short-term and long-term *forecasted economic benefits*" of the merger (emphasis added). All statutory citations herein are to the Cal. Pub. Util. Code unless otherwise indicated.

³ Merger decision at 19. The Commission adopted applicants' savings forecast with some adjustments. Applicants had requested that the savings be forecast and shared over 10 years.

Since the merger decision, Sempra states that it has attempted to achieve the savings available from integrating the utilities' operations. In terms of management, consistent with the merger application, the two utilities report to a Group President, Regulated Operations. Initially, most transactional, policy, and governance functions, primarily in the area defined under the Commission's Affiliate Rules as "Shared Services," such as finance, legal, human resources, and regulatory, were combined at the parent company level, outside the regulated utility group. Certain line operations were either combined within one of the utilities (e.g., gas engineering), or workload was shared between the two utilities (e.g., Orange County meter reading).

Sempra believes that, to date, substantially all practicable quantitative efficiency and savings measures have been implemented by eliminating duplication, achieving economies of scale and scope, and adopting best practices. In December 1999 Sempra announced to its employees that the last of merger-related position reductions had taken place.

Sempra says that while significant cost savings were projected to occur as a result of the sharing of personnel and resources between the two utilities, neither applicants' merger case, the merger decision, nor applicants' post-merger compliance plan specified a detailed organizational or management structure under which integration would take place. The sole structural elements presented and approved were that the operations of both utilities would report to a principal executive entitled "President," and that SoCalGas and SDG&E would each maintain the essential attributes of a separate corporate identity, including separate franchises, permits, capital structures, and headquarters. Neither applicants nor the merger decision identified a definitive plan for achieving the savings. Rather, the savings estimates resulted from a forecast of

possible actions prepared well before the merger actually closed, by teams from each of two equal merger partners for purposes of providing the “forecast” of “economic benefits” required by Section 854(b).

Because the actions proposed in the merger application and testimony were forecasts of possible outcomes, and because Sempra recognizes the desirability of changing those forecasts as business conditions change, Sempra now requests the Commission’s guidance regarding the proper interpretation of D.98-03-073. Sempra also requests a finding that its “no merger layoffs” policy is replaced by a guarantee that there will be no involuntary employment separations resulting from the proposed integration project, and that this integration employment guarantee would be effective through December 31, 2001.

B. The Proposed Reorganization

Sempra says effective June 1, 2000, Sempra’s board of directors approved implementation of the executive succession plan set forth in the Pacific Enterprises/Enova merger agreement.⁴ The Board decided that service reliability and quality could benefit by further integrating the management cultures of SDG&E and SoCalGas.

Sempra plans to reorganize its regulated California utility operations by (1) returning to the utilities certain transactional support services previously integrated at the corporate parent, and (2) integrating the management of certain utility operations. This latter aspect would integrate most gas and electric operations at the senior leadership level; most officers would carry responsibility

⁴ Unless otherwise indicated, record citations are to the pleadings and evidentiary record in Application (A.) 96-10-038.

for their function in both corporate utility entities. Such integrated operations would report to the President or CEO of Sempra's regulated utility group. Integration of functions below the officer level will be designed and carried out by these officers, and will follow a similar model, although some functions will continue to be managed based on business drivers such as geography, market segment, scope and scale of operations, technology, etc. as appropriate to the function. The reorganization would comply with all limitations on utility integration set forth in the merger decision, as well as the conditions set forth in Attachment B to the merger decision. Charts illustrating the proposed reorganization are set forth at pp. 13 and 15, *infra*.

C. The Relief Sought

Sempra submits that the Commission can properly grant this petition and find that the relief sought is in the public interest without evidentiary hearings, based upon this petition, any responsive papers, the record in A.96-10-038, and the merger decision.

II. Sempra's Argument

The PE/Enova merger application stated that a "principal objective" was to "unite the diverse skills and capabilities of Pacific Enterprises and Enova Corporation"⁵ This would permit SoCalGas and SDG&E to achieve "synergies, consisting of cost reductions and cost avoidances," estimated to be \$1.2 billion net of costs to achieve over 10 years, the "majority of which will be realized in utility operations."⁶ Fifty percent of the forecast savings would be

⁵ Application at 10.

⁶ *Id.*, at 2-3.

passed on to ratepayers through an annual bill credit upon consummation of the merger. The application stated that the “substantial majority of the synergies will be achieved through streamlining corporate, administrative, and field support functions, as well as the elimination of some duplicative functions in overlapping gas operations.”⁷ And Enova separately stated that the “combination will enhance the cost-efficiency and effectiveness of SDG&E’s local distribution operations.”⁸ The “new company’s regulated operations” would be led by a single “principal executive officer” with the title of “President.”

Prepared testimony identified 12 areas of functional integration – Accounting and Finance, Human Resources, Information Systems, Legal, External Relations, Corporate Services, Support Services, Customer Services, Marketing, Transmission and Distribution, Gas Supply and Operations and Executive Management.

The application did not seek to merge the utilities. Each utility would retain its existing legal and regulatory status, including name, headquarters, corporate identity, separate capital structure, and existing franchises, permits, tariffs and licenses. The applicants’ merger case specified only one limit on functional integration – that the combined company’s gas operations would be operated independently of, and physically separated from, its gas acquisition. In the course of the merger proceeding, applicants argued successfully that inter-utility transactions of the merged company should be exempt from the

⁷ *Id.*, at 29.

⁸ *Id.*, at 12.

Commission's new affiliate rules, because application of those rules in this case would nullify most merger savings and not serve any pro-competitive purpose.

The merger decision largely adopted applicants' merger plan and savings forecast, and adopted no limits on utility integration beyond those proposed by applicants. Significantly, the decision granted Section 851 approval "to the extent necessary to achieve the savings from this merger."⁹ Moreover, the merger decision's required mitigation measures state:

SDG&E and SoCalGas will be organized in a manner that allows them to provide the highest quality utility service that focuses on safety and reliability, and is responsive to customers' needs. *Each utility Affiliate will, to the extent it makes business sense, share resources with the other utility Affiliate.*¹⁰

From those factors Sempra concluded that the merger decision contemplated that the utilities would work out how best to achieve savings by integrating utility operations within the specific limits adopted by the merger decision. Sempra believes the proposed reorganization is consistent with the evidence placed before the Commission in the PE/Enova merger application and with the merger decision itself.

After briefing, but before the Administrative Law Judge (ALJ) issued his proposed merger decision, the Commission, in a separate rulemaking,¹¹ issued its affiliate transactions rules in D.97-12-088. This decision concluded that the new

⁹ Merger decision at Conclusion of Law 5, mimeo. at 145.

¹⁰ Merger decision, Attachment B at 18 (emphasis added).

¹¹ Order Instituting Rulemaking to Establish Standards of Conduct Governing Relationships Between Energy Utilities and Their Affiliates, R. 97-04-011; I. 97-04-012.

rules would apply to inter-utility transactions, including those contemplated by this merger, unless applicants could show in the merger proceeding, “by clear and convincing evidence” that application of the new rules to SoCalGas/SDG&E transactions would not be in the public interest.¹² The ALJ asked the applicants and other parties to comment on the impact of D.97-12-088 on the merger application. Applicants’ comments in response quantified a substantial reduction in forecast merger savings if the affiliate rules were to apply to inter-utility transactions in this merger. Applicants argued vigorously that to apply the new rules in this case would not prevent cross-subsidies or promote competition, and that ratepayers would benefit from a blanket exemption for SoCalGas/SDG&E transactions, with the following limited exceptions (Merger Decision, Attachment B, p. 33):

- Affiliate rules V.G.a, b, and c shall apply to any transfer of employees between SoCalGas Operations or SoCalGas Acquisition and any group at SDG&E engaged in the gas or electric merchant function.
- Rules V.G.2.a, V.G.2.b, and V.G.2.c shall not be applied to transfer of employees between SoCalGas and SDG&E subsequent to the merger other than transfers subject to the preceding paragraph.

Applicants proposed rules to insure there would be no cross-subsidy between the customers of SoCalGas and those of SDG&E after the merger, and that the Commission could track such transactions. These rules would also allow the utilities to maximize efficiencies through shared services that would

¹² Merger Decision at 11-12. See D.97-12-088, Appendix A, Rule II.C.

eliminate duplicative activities. We applied the affiliate transaction rule of D.97-12-088, with the broad exception of utility-to-utility transactions. (D.98-03-073, mimeo., p. 106.)

Sempra believes that the proposed reorganization falls within the scope of the inter-utility integration approved in D.98-03-073.

If the Commission concludes that the merger decision did not grant such authority, Sempra requests that the Commission authorize the reorganization described below of Sempra's regulated California utility operations. This reorganization is based on the following principles:

- For governance and management of ongoing operations, gas and electric functions should be integrated at the executive level to provide consistent vision, values, goals, culture, focus and operational excellence.
- While SDG&E and SoCalGas will remain separate entities, with separate service territories and regulation, most officers will carry responsibility for their functions in both companies.
- The same functional groupings used at the officer level will guide the integration of most subordinate management and supervisory levels. In some cases, at the operational level it may be more effective to integrate based on business drivers such as geography, market segment, scope and scale of operations, or technology, while preserving reporting relationships to the functionally integrated leadership level.
- Employees will be on the payroll of one utility or the other. Sempra will continue the practice of charging work done for another company to that company, to ensure compliance with our merger conditions.

- Most services and support functions will be located at the utility level.
- Overall policy, governance and strategic oversight, as well as some service and support services, will remain at the Corporate Center, and will be charged to the company for which the work is performed.

A. Most Core Utility Functions Would Be Integrated at the Executive Level

Sempra has concluded that grouping gas and electric distribution operations together under common leadership and management could yield benefits, and that although gas and electric transmission operations will report to a common senior officer, it may be beneficial to have these functions report to this senior officer through separate executive leadership at this time, with the potential for further integration in the future as markets evolve. As for customer service, Sempra believes that establishing two groups – Account Management and Customer Service – would best accomplish the goals of the integration effort. Much like distribution, each of these functions would operate under common leadership across the two companies, and may also share some common management below the executive level. The chart below illustrates the concept:¹³

¹³ This does not purport to be a formal organizational chart, but a conceptual chart showing the functional groups under senior leadership and the regulated utility group level. These preliminary groupings could change as the integration process evolves.

Chart A. Preliminary Integrated Core Utility Functions¹⁴

Distribution (Gas & Electric)	Transmission (Electric)	Transmission (Gas)	Account Management (Gas & Electric)	Customer Service (Gas & Electric)
Regional Distribution Operations Field Collections Customer Service Field Regional Public Affairs Operations Services <ul style="list-style-type: none"> • Project Managers • Process Managers (SET 21, New Business, etc) Contract Construction Services Dist Control & Dispatch Distribution Planning Electric Distribution Engineering Logistics ROW / Land Planning Health and Safety Emergency Preparedness Region Engineering (Gas)	Transmission Substations Elec Capacity Planning Mission Control Energy Scheduling Elec Trans Engineering	Storage Compressor Stations Transmission Gas Asset Optimization <ul style="list-style-type: none"> • Gas Capacity Planning • Gas Control • Gas Scheduling Gas Engineering	Mass Markets C&I Markets Energy Markets Federal Accounts ESP Relations Gas Capacity Prod & Sales DSM Advertising & Graphics Market Research DAP/CARE Design Cust Comm (web design) RD&D	Billing Credit & Collections Call Centers Branch Offices Meter Reading DAP Admin CARE Admin AMR Cust Serv Policy

¹⁴ Notes to Chart A

1. Purchased Power, SDG&E Fuels, SONGS will be a functional group that will function separately from gas operations consistent with the merger conditions.
2. SCG Gas Acquisition will be a functional group that will operate independently and be physically separated from gas operations consistent with merger conditions.
3. These are illustrative functions, and will evolve. For brevity, not every function that could be in a particular group has been listed.
4. Training activities will be located in multiple functional groupings.
5. IT technology support activities will be located in multiple functional groupings.

Accordingly, Sempra requests authorization to integrate core utility functions at the leadership level by appointing common officers who would lead integrated functions for both SDG&E and SoCalGas.

B. Certain Services Now Integrated at the Corporate Parent Would Be Returned to the Utility Group Level

Sempra recommends that certain shared services directly affecting the utilities' bottom line performance be relocated closer to their customers at the regulated business unit level, along with support services integral to the business units' strategy. Services that bear more on Sempra-wide governance and policy would remain integrated at the corporate parent. The chart below illustrates this proposal.

Chart B. Preliminary Integrated Utility Service Functions¹⁵

Shared Services at Utility		Shared Services at Corporate Center
Fleet	Labor Relations	Policy and Governance for all Utility Shared Services
Transactional Purchasing	Human Resources	
Facilities Management & Maintenance	• Staffing: assessment/selection/succession	Transactional Services (Examples) <ul style="list-style-type: none"> • Sempra-Wide Sourcing & E-Commerce • Real Estate & Facilities Portfolio Mgmt • Diversity • Benefits Design and Administration • Human Resources Information System • Payroll • Legal Services • Sempra-Wide Communications • Financial Management / Treasury • Sempra-Wide Strategic Planning • Information Technology (TBD) • Environmental & Safety Advocacy & Permit Support
Real Estate	• Employee Relations	
Environmental	• Management Development	
Security	• Organizational Effectiveness / Change Mgmt	
Information Technology	• Employee Services: compensation, disability, wellness	
• Desktop Support	Controller	
• Utility-specific application dev & maint	• Accounting	
• Telecom Maintenance	• Financial Performance	
• Other IT functions (TBD)	• Claims	
Regulatory / Governmental Aff's	• Accounts Payable	
• Regulatory	• Strategic Planning	
• San Francisco Office		
• Policy Integration & Implementation		
• Communications		

Sempra requests authority to reorganize shared services as set forth above.

¹⁵ **Notes to Chart B**

1. These are illustrative functions, and will evolve. For brevity, not every function that could be in a particular group has been listed.
2. Any services provided by the Corporate Center will continue to be charged to the company benefiting from them, consistent with merger conditions.
3. Training activities will be in multiple-functional groupings.

C. Sempra's Request to Terminate Its "No Merger Layoff" Guarantee and Authorize a Similar Guarantee to Support the Proposed Reorganization

Merger applicants established a policy that there would be no layoffs as a result of the merger for non-officer employees, and that any merger-related reductions in force would be achieved through natural attrition and the offer of voluntary separation packages.¹⁶ These provisions are made to maintain the value of the ongoing concern during a merger's pendency by removing perceptions of job uncertainty that might otherwise lead valuable employees to seek work elsewhere. Sempra believes it has achieved virtually all job eliminations made possible by merger synergies, and, to this effect, in December 1999, it notified employees that all but 27 of such job eliminations had been achieved. With respect to those 27 positions, the incumbents have, since December 1999, been offered other positions in the Sempra companies.

To avoid similar perceptions of job uncertainty, Sempra would, on behalf of SoCalGas and SDG&E, like to replace the "no merger layoff" guarantee with Integration Guarantee. This guarantee would assure all management and associate employees, except for the officer group, that there will be no layoff or involuntary separation from employment as a result of this integration project. Assuming timely approval of the instant application, this guarantee would expire on December 31, 2001.

Sempra argues that the Integration Guarantee will prevent uncertainty as to whether any future employment action or any internal utility

¹⁶ Ex. 13 at p. 22.

reorganization might be deemed merger-related or related to the integration project. Sempra points to a recent California Supreme Court decision for guidance on this issue. In *Asmus v. Pacific Bell*, (June 1, 2000) 23 Cal. 4th 1, the Court found that an employer may terminate a unilaterally-imposed employment guarantee, where the policy contains a specific condition if it:

.... is one of indefinite duration, and the employer effects the change after a reasonable time, on reasonable notice, and without interfering with the employees' vested benefits.¹⁷

Accordingly, Sempra asks the Commission to find that Sempra's "no merger-related layoff" obligation has been fulfilled, and that Sempra may replace this policy with the Integration Guarantee to be effective through its expiration on December 31, 2001.

Both Southern California Gas Company and SDG&E negotiated a merger guarantee similar to the one offered management and associate employees with their represented employees through their respective unions. Any guarantee or assurance of continued employment for union-represented employees must, of course be bargained with the represented employees' unions. Sempra does not anticipate any layoff or involuntary separation as a result of this integration project through the end of 2001.

III. Discussion

We grant the petition. In D.98-03-073, the merger decision, the Commission said, "SDG&E and SoCalGas will be organized in a manner that allows them to provide the highest quality utility service that focuses on safety

¹⁷ *Id.*, at 32.

and reliability, and is responsive to customers' needs. **Each utility Affiliate will, to the extent that it makes business sense, share resources with the other utility Affiliate.**" (Decision, Attachment B, p. 18 (emphasis added).) We believe the proposed reorganization is within the merger decision's grant of authority.

In so concluding, we rely on Sempra's representation in comments¹⁸ that its proposed reorganization will not shift to the holding company level any operations or managerial responsibilities that currently reside at the utility level. Based on this representation, we find that Sempra's reorganization does not go beyond the scope of the proposal presented by Sempra's merger application or beyond the limits we set in the merger decision. We put Sempra on notice that nothing in this decision permits Sempra to allow additional operational and managerial responsibilities to be transferred from the utility level to the holding company level. Should Sempra contemplate a further reorganization that has the effect of transferring any additional responsibilities to the holding company level, Sempra must first gain Commission authorization for such a reorganization.

We note that, as Sempra contends, the reorganization plan has the potential to reduce rates. In the merger decision, we said "Our goal is low rates for ratepayers. Low costs, efficient operations, and competition are the means to achieve that goal." (D.98-03-073, mimeo. at 106.) The benefits predicted from the merger in March 1998 could not be expected to achieve fruition in 2001 exactly as planned. But experience has shown benefits occurred from the merger and

¹⁸ *Comments of Sempra Energy on Alternate Draft Decision of President Lynch*, July 26, 2001, pp. 2-4.

Sempra has shown how additional benefits might be achieved. This opportunity should not be ignored.

In general rate cases, rates are set based upon a forecast of projected capital and operating costs. (*See Pacific Tel. & Tel. Co. v. Public Util. Comm'n*, 62 Cal.2d 634, 645 (1965).) But that has never meant that the utility must actually operate in precisely the manner forecast. Just as the utility may need to incur additional expenses to meet unanticipated requirements, so too may it satisfy foreseen obligations in a less costly manner than projected. Under traditional ratemaking, we have stated that an important virtue of a periodic general rate case is to create an incentive for the utility to:

...find ways to conduct operations for less than projected.... In the short term, between general rate case proceedings, the shareholders benefit when the company's management can "do it for less," and correspondingly, ratepayers ultimately benefit because the productivity improvements will be reflected periodically when there is a comprehensive review of the utility's revenue requirement.

There are two procedures in place through which ratepayers will share any savings realized from the proposed reorganization. First, each utility has a Performance-Based Ratemaking (PBR) sharing mechanism in place. These mechanisms begin to capture earnings above the first 25 basis points above each utility's authorized return on rate base. This means that ratepayers should capture a share of savings arising from the reorganization.

Second, both utilities are required to have a base rate review to be effective January 1, 2003. A timely grant of the relief requested will capture the economic benefits of the reorganization. (*See D.98-12-038 (Attachment 1, p. 12.) for SDG&E; D.97-07-054, p. 52 for SoCalGas.*) In each case, the utility's application and accompanying forecasts should reflect the reorganization, and ORA and

other interested parties will have this information for the preparation of their responsive cases.

The Coalition of California Utility Employees (CUE) responded to Sempra's motion and requested a delay in ruling "until further factual investigations and analysis" takes place. (Response, p. 8.) Our reading of the Response shows a particular concern that Sempra's request for authorization to terminate the "no merger layoff" guarantee implemented under the original approval could result in unfairness to represented employees. CUE argues by requiring that all merger-related job reductions be achieved through natural attrition and offers of voluntary separation packages, that guarantee provided a clearly defined and meaningful limit on the Sempra's ability to eliminate jobs as a result of the merger. By contrast, the "Integration Guarantee" described in the current motion is only vaguely described, and does not contain sufficient detail or discussion to support a conclusion that the new merger, if approved, would remain fair and reasonable to represented employees.

In its comments to the Draft Decision, Sempra states that the termination of the merger guarantee and concomitant implementation of the Integration Guarantee do not apply to bargaining unit employees. As to those employees, any new arrangements with respect to the merger guarantee and/or the integration project will be the subject of collective bargaining. Accordingly, Sempra suggests modifying the Draft to make this distinction clear. We have done so. Nothing remains of CUE's Response that requires a hearing.

IV. Comments on Draft Decision

The draft decision of the ALJ in this matter was mailed to the parties in accordance with Pub. Util. Code § 311(g)(1) and Rule 77.7 of the Rules of Practice

and Procedure. Comments were filed on June 12, 2001, by Sempra. We have modified this decision in response.

In addition, on July 19, 2001, an Alternate Proposed Decision of President Lynch was mailed to the parties. Comments were filed by Sempra, The Utility Reform Network, and the Southern California Generation Counsel on July 26, 2001. Sempra filed reply comments on July 31, 2001. These comments have been fully considered in the preparation of this decision.

Findings of Fact

1. The merger decision (D.98-03-073) authorized the combination of applicants Pacific Enterprises and Enova Corporation into a single entity, Sempra Energy.
2. Each utility retained its existing legal and regulatory status, including name, headquarters, corporate identity, separate capital structure, and existing franchises, permits, tariffs and licenses. Only one limit was put on functional integration – that the combined company’s gas operations would be operated independently of, and physically separated from, its gas acquisition.
3. Each utility was authorized, to the extent it made business sense, to share resources with the other utility.
4. Sempra represents that its proposed reorganization will not shift to the holding company level any operations or managerial responsibilities that currently reside at the utility level.
5. To date, substantially all practicable quantitative efficiency and savings measures have been implemented through elimination of duplication, economies of scale and scope, and adoption of best practices. In December 1999, Sempra announced to its employees that the last of merger-related position reductions had taken place.

6. Service reliability, service quality, and cost savings could benefit by further integrating the management of SDG&E and SoCalGas.

7. Charts A and B, set forth in the body of this decision, illustrate the functions approved by this decision. It is not expected that these functions be adopted in their entirety, but that business judgement be used in their implementation.

8. The “no merger layoff” Guarantee was collectively bargained between the utilities and their respective unions. Any change to the merger Guarantee or adoption of an “Integration Guarantee” is likewise the subject of collective bargaining between each utility and the unions representing their member employees.

Conclusions of Law

1. The authority granted by D.98-03-073 encompasses the proposed reorganization of Sempra’s California utility subsidiaries, SoCalGas and SDG&E.

2. The petition to modify should be granted.

3. Sempra is authorized to integrate core utility functions as set forth in this decision at the leadership level by appointing common officers who would lead integrated functions for both SDG&E and SoCalGas.

O R D E R

IT IS ORDERED that:

1. The Petition to Modify Decision 98-03-073 is granted to the extent set forth in this decision.

2. Sempra may reorganize its regulated California utility operations by (1) returning to the utilities certain transactional support services previously integrated at the corporate parent, and (2) by integrating the management of

certain utility operations. This latter aspect would integrate most gas and electric operations at the senior leadership level; most officers would carry responsibility for their function in both corporate utility entities. Such integrated operations would report to the President or CEO of Sempra's regulated utility group. Integration of functions below the officer level should be designed and carried out by these officers, and should follow a similar model, although some functions should continue to be managed based on business drivers such as geography, market segment, scope and scale of operations, technology, etc. as appropriate to the function. The reorganization would comply with all limitations on utility integration set forth in the merger decision, as well as the conditions set forth in Attachment B to the merger decision.

3. Sempra must obtain the approval of the Commission before it may transfer any operational or managerial responsibilities from the utility level to the holding company level beyond the holding company responsibilities that were set forth in Sempra's original merger proposal.

4. The proposed termination of the merger Guarantee and implementation of an Integration Guarantee is denied solely with respect to the utilities' union-represented work force. Any change in the merger assurances negotiated between the Sempra utilities and their union-represented employees, including the "no merger layoff" Guarantee or an "Integration Guarantee" shall be the subject of collective bargaining.

5. This proceeding is closed.

This order is effective today.

Dated September 20, 2001, at San Francisco, California.

LORETTA M. LYNCH

President
HENRY M. DUQUE
RICHARD A. BILAS
CARL W. WOOD
GEOFFREY F. BROWN
Commissioners