

COMPENSATION DISCUSSION AND ANALYSIS

Overview

In this section we review our plans and programs for compensating the company's executive officers who are named in the Summary Compensation Table that appears under the caption "Executive Compensation." These "named executive officers" are Donald E. Felsing, Chairman and Chief Executive Officer; Neal E. Schmale, President and Chief Operating Officer; Edwin A. Guile, Executive Vice President—Corporate Development; Mark A. Snell, Executive Vice President and Chief Financial Officer; and Javade Chaudhri, Executive Vice President, General Counsel and Chief Environmental Officer.

Compensation Committee Responsibilities

The Compensation Committee of our Board of Directors has the central role in determining all aspects of executive compensation. The committee makes recommendations to the board with respect to the overall compensation program for officers, including incentive compensation plans, equity-based plans, severance plans, deferred compensation arrangements, retirement benefits, perquisites and any other compensation programs that primarily benefit officers. The committee reviews and approves corporate goals and objectives relevant to the compensation of the company's Chief Executive Officer (CEO) and the other named executive officers. The committee also evaluates the CEO's performance in light of these goals and objectives. Based on individual and company performance, competitive compensation information and other considerations, the committee makes recommendations on CEO pay for approval by the board. The committee tracks the total compensation of each named executive officer by reviewing, at least once a year, tally sheets that summarize the major elements of compensation. In addition, the committee is responsible for reviewing and making recommendations to the board with respect to new or amended broad-based, "qualified" benefit plans and programs and for reporting to the board annually on succession planning.

The committee establishes its upcoming meeting dates and agenda items annually. The committee's chair approves the agenda prior to each meeting. The committee operates under a charter that it reviews annually. Changes to the charter are recommended by the committee and must be approved by the board. The most recent review was in June 2006, at which time no changes were made. The charter may be found on our website at www.sempra.com/aboutUs/gov_charterCompensation.htm.

The committee is currently comprised of four directors, each of whom has been determined by the board to be an independent director under independence standards established by the New York Stock Exchange, an outside director under Section 162 (m) of the Internal Revenue Code, and a non-employee director under Rule 16b-3 under the Securities Exchange Act of 1934. For 2006, the members of the committee were William C. Rusnack, committee chair, Richard A. Collato, William G. Ouchi and William P. Rutledge.

Advisors to the Committee

The Compensation Committee has sole authority for compensating, retaining and terminating outside consultants and advisors who assist the committee in performing its responsibilities. Since the creation of Sempra Energy in 1998, the committee has retained an outside consultant to advise it on matters of executive compensation. Hewitt Associates, an internationally recognized compensation and benefits consulting firm, has filled the role of outside consultant to the committee since 2001. A representative of Hewitt attended all committee meetings in 2006 and met in executive session with the committee members several times during 2006 as well as in previous years. Management provides all material for each committee meeting to the consultant, and he is available to consult with the committee and address any questions, concerns or other issues.

Hewitt Associates provides competitive data on compensation and relative performance of peer group companies, recommends pay programs and salary increase budgets, makes presentations on regulatory and

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EXECUTIVE SUMMARY

Sempra's Compensation Committee of the Board ("the Committee") establishes our overall executive compensation philosophy. Our philosophy emphasizes:

- Pay-for-performance
- Performance-based incentives that closely align the interests of executives and shareholders
- Balance between short-term and long-term compensation that reward long-term strategic results and encourages share ownership
- Shared risk, through equity and other performance-based incentives, which impacts executive compensation levels as responsibilities increase

Our executive compensation programs support the attraction, motivation, and retention of key executive talent. Our program goals include:

- Attracting and retaining executives of outstanding ability and proven experience who demonstrate the highest standards of integrity and ethics
- Aligning compensation with the performance of the company and the interests of shareholders
- Motivating executives to achieve superior performance
- Strongly linking executive compensation to both annual and long-term corporate, business unit and individual performance

The Committee uses net income as the primary measure of short term or annual incentive plans. The key measures for the long-term incentive plans are stock price appreciation and total return to shareholders (TRS).

Sempra's performance determines whether our compensation programs are effective. We measure performance by net income growth, stock price appreciation, and total shareholder return, which has been strong and consistent since the creation of Sempra in 1998.

As Table 1 shows, Sempra's TRS for the past five years is 200%. Based on these TRS results, the company has performed in the top quartile of S&P 500 companies

Total Return to Shareholders	Sempra Energy	S&P 500 Utilities	S&P 500
2003	32%	26%	29%
2004	26%	24%	11%
2005	26%	17%	5%
2006	28%	21%	16%
2007	13%	19%	5%
Five-year Cumulative	200%	165%	83%

Table 1

As shown in Figure 1, net income results have also been consistently outstanding. Compensation for the executive officers has reflected Sempra's performance.

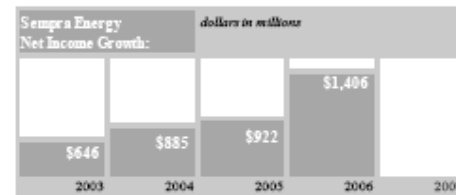


Figure 1

COMPENSATION COMMITTEE: ROLES AND RESPONSIBILITIES

Roles

The Compensation Committee's primary role is to determine all aspects of compensation for our named executive officers.

Four Directors currently sit on this Committee. Each Director has been determined to be an independent, outside director under

- independence standards established by the New York Stock Exchange, and
- Section 162(m) of the Internal Revenue Code and non-employee directors under Rule 16b-3 under the Securities Exchange Act of 1934.

The Compensation Committee holds four regularly scheduled meetings each year, with additional meetings scheduled when required. At each meeting, the Committee considers standing agenda items and addresses other timely and pertinent topics. The Committee Chair approves the agenda prior to each meeting.

The Committee also

- sets its meeting dates and agenda items annually
- operates under a charter that it reviews annually
- meets in executive session at each meeting without management
- recommends changes to the Board for approval as needed

The most recent review was in June 2007, at which time the Committee made no changes.

The Committee's charter is located on our website at: www.sempra.com/aboutUs/gov_charterCompensation.htm