

SEMPRA ENERGY  
Form DEF 14A  
March 26, 2010  
Table of Contents

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, D.C. 20549**  
**SCHEDULE 14A**

**Proxy Statement Pursuant to Section 14(a) of the Securities**

**Exchange Act of 1934 (Amendment No. )**

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement  Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to Section 240.14a-11(c) or Section 240.14a-12

**SEMPRA ENERGY**

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

No fee required.

Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.

## Edgar Filing: SEMPRA ENERGY - Form DEF 14A

- 1) Title of each class of securities to which transaction applies:
- 2) Aggregate number of securities to which transaction applies:
- 3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):
- 4) Proposed maximum aggregate value of transaction:
- 5) Total fee paid:
  - Fee paid previously with preliminary materials.

• Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

- 1) Amount Previously Paid:
- 2) Form, Schedule or Registration Statement No.:
- 3) Filing Party:
- 4) Date Filed:

Notes:

Reg. (S) 240.14a-101.

SEC 1913 (3-99)

Table of Contents

2010

Annual Meeting

May 12, 2010

Newport Beach, California

Notice of 2010 Annual Meeting  
of Shareholders and Proxy Statement

**Table of Contents**

**NOTICE OF ANNUAL MEETING AND PROXY STATEMENT**

**TABLE OF CONTENTS**

	<b>Page</b>
<b><u>Notice of Annual Meeting of Shareholders</u></b>	1
<b><u>Questions and Answers</u></b>	2
<u>Proxy Materials</u>	2
<u>Proposals To Be Voted On</u>	3
<u>How You Can Vote</u>	4
<u>Attending the Annual Meeting</u>	6
<u>Shareholder Proposals and Director Nominations</u>	6
<u>Obtaining Additional Information</u>	7
<b><u>Corporate Governance</u></b>	8
<u>Board of Directors</u>	8
<u>Board Committees</u>	11
<u>Communications with the Board</u>	13
<u>Director Compensation</u>	13
<b><u>Audit Committee Report</u></b>	15
<b><u>Share Ownership</u></b>	16
<b><u>Proposals To Be Voted On</u></b>	17
<u>Proposal 1: Election of Directors</u>	17
<u>Proposal 2: Ratification of Independent Registered Public Accounting Firm</u>	21
<u>Proposal 3: Shareholder Proposal for an Advisory Vote on Executive Compensation</u>	22
<b><u>Executive Compensation</u></b>	24
<u>Compensation Discussion and Analysis</u>	24
<u>Compensation Committee Report</u>	34
<u>Compensation Tables</u>	35

**Table of Contents**

**SEMPRA ENERGY**

**101 Ash Street**

**San Diego, California 92101-3017**

**(877) 736-7721**

**NOTICE OF ANNUAL MEETING OF SHAREHOLDERS**

- Time and Date** 10:00 a.m., local time, on Wednesday, May 12, 2010.
- Place** Balboa Bay Club & Resort, 1221 West Coast Highway, Newport Beach, California.
- Items of Business**
- (1) Elect directors for a one-year term. The director nominees, all of whom are currently directors, are: James G. Brocksmith Jr., Donald E. Felsing, Wilford D. Godbold Jr., William D. Jones, William G. Ouchi, Carlos Ruiz, William C. Rusnack, William P. Rutledge, Lynn Schenk and Neal E. Schmale.
  - (2) Ratify independent registered public accounting firm.
  - (3) Vote on a shareholder proposal, if properly presented at the meeting.
  - (4) Consider other matters that may properly come before the meeting.
- Adjournments and Postponements** The items of business to be considered at the Annual Meeting may be considered at the meeting or at any adjournment or postponement of the meeting.
- Record Date** You are entitled to vote only if you were a Sempra Energy shareholder at the close of business on March 15, 2010.
- Meeting Admission** You are entitled to attend the Annual Meeting only if you were a Sempra Energy shareholder at the close of business on March 15, 2010 or you hold a valid proxy to vote at the meeting. You should be prepared to present photo identification to be admitted to the meeting.
- If you are a shareholder of record or hold shares through our Direct Registration Plan or Employee Savings Plans, an admission ticket is included as part of your notice of Internet availability of proxy materials or proxy card. If you plan to attend the meeting, please bring the admission ticket with you. If you do not bring the admission ticket, your name must be verified against our list of registered shareholders and plan participants.
- If your shares are not registered in your name but are held in street name through a bank, broker or other nominee, you must provide proof of beneficial ownership at the record date such as your most recent account statement prior to March 15, 2010, a copy of the voting instruction card provided by your nominee, or other similar evidence of share ownership.

## Edgar Filing: SEMPRA ENERGY - Form DEF 14A

The meeting will begin promptly at 10:00 a.m., local time. Check-in will begin at 9:00 a.m. and you should allow ample time for check-in procedures.

### Voting

**Your vote is important. Whether or not you plan to attend the Annual Meeting, we encourage you to read this proxy statement and promptly vote your shares. You may vote by completing, signing and dating the enclosed proxy or voting instruction card and returning it in the enclosed envelope or by telephone or the Internet. For specific instructions on how to vote your shares, please refer to the section entitled *Questions and Answers How You Can Vote* beginning on page 4 and to the instructions on your proxy or voting instruction card.**

*This Notice of Annual Meeting and Proxy Statement, the accompanying form of proxy or voting instruction card and our annual report to shareholders are being provided to shareholders beginning March 29, 2010. You can also view these documents on the Internet at [www.amstock.com/ProxyServices/Sempra](http://www.amstock.com/ProxyServices/Sempra).*

Randall L. Clark

*Corporate Secretary*

**Table of Contents**

**QUESTIONS AND ANSWERS**

**Proxy Materials**

***1. Why am I receiving these materials?***

Our Board of Directors is making these materials available to you over the Internet or delivering paper copies to you by mail in connection with Sempra Energy's Annual Meeting of Shareholders to be held on Wednesday, May 12, 2010. As a shareholder, you are invited to attend the Annual Meeting and are entitled and requested to vote on the items of business described in this proxy statement. This proxy statement includes information that we are required to provide under Securities and Exchange Commission rules and is designed to assist you in voting your shares.

***2. What is included in the proxy materials?***

The proxy materials include:

Our proxy statement for the Annual Meeting of Shareholders; and

Our 2009 Annual Report to Shareholders.

If you received a paper copy of these materials by mail, the proxy materials also include a proxy or voting instruction card.

***3. What information is contained in this proxy statement?***

The information in this proxy statement relates to the proposals to be voted on at the Annual Meeting, the voting process, our Board of Directors and board committees, the compensation of our directors and certain executive officers and other required information.

***4. Why did I receive a notice in the mail regarding the Internet availability of the proxy materials instead of a paper copy of the materials?***

We are permitted to furnish proxy materials over the Internet to shareholders who have not requested a paper copy. Accordingly, to conserve paper and reduce costs, we are mailing a notice about the Internet availability of the proxy materials.

All shareholders receiving the notice will have the ability to access the proxy materials over the Internet and to request a paper copy by mail or an electronic copy by e-mail. Instructions on how to do so are contained in the notice. The notice also contains instructions on how you may request proxy materials by mail or e-mail on an ongoing basis.

***5. Why didn't I receive a notice in the mail about the Internet availability of the proxy materials?***

We are providing some of our shareholders, including those who previously have requested paper copies, with a paper copy of the proxy materials instead of a notice about the Internet availability of the proxy materials.

In addition, we are providing notice of the availability of the proxy materials by e-mail to our shareholders who previously have elected electronic delivery. The e-mail contains a link to the website where the proxy materials are available and a link to the proxy voting website.

**6. How can I access the proxy materials over the Internet?**

Your notice about the Internet availability of the proxy materials, proxy card or voting instruction card contains instructions on how to view our proxy materials on the Internet.

**7. How may I obtain a paper copy of the proxy materials?**

Shareholders receiving a notice in the mail about the Internet availability of the proxy materials will find instructions about how to obtain a paper copy of the materials as part of the notice. Shareholders receiving notice of the availability of the proxy materials by e-mail will find instructions about how to obtain a paper copy of the materials as part of the e-mail. All shareholders who do not receive a notice or an e-mail will receive a paper copy of the proxy materials by mail.

To request that you receive paper copies of future proxy materials, please access [www.voteproxy.com](http://www.voteproxy.com) on the Internet. Click on Request Paper Copies of Materials, then click on Sempra Energy. You will see an option to elect to receive paper copies each year. You also may request to receive paper copies of future proxy materials by calling (888) 776-9962 from the United States and Canada or (718) 921-8562 from other countries, or by e-mailing [info@amstock.com](mailto:info@amstock.com).

**Table of Contents**

**8. I share an address with another shareholder, and we received only one paper copy of the proxy materials. How may I obtain an additional copy?**

If you share an address with another shareholder, you may receive only one set of proxy materials unless you have provided contrary instructions. If you wish to receive a separate set of the materials now, please request the additional copy by contacting our proxy solicitor, Morrow & Co., at:

(800) 607-0088 (U.S. and Canada)

(203) 658-9400 (International)

*sempra.info@morrowco.com*

A separate set of the materials will be sent promptly following receipt of your request.

If you are a shareholder of record and wish to receive a separate set of proxy materials in the future, please call our transfer agent, American Stock Transfer & Trust Company, at:

(877) 773-6772 (U.S. and Canada)

(718) 921-8356 (International)

If you are the beneficial owner of shares held through a bank, broker or other nominee and you wish to receive a separate set of proxy materials in the future, please call Broadridge Financial Solutions at:

(800) 542-1061

All shareholders also may write to us at the address below to request a separate copy of the proxy materials:

Sempra Energy

Attn: Shareholder Services

101 Ash Street

San Diego, CA 92101-3017

*investor@sempra.com*

**9. How may I request an electronic copy of the proxy materials?**

If you are a shareholder of record and wish to request electronic delivery of proxy materials in the future, please access [www.amstock.com](http://www.amstock.com) on the Internet. Click on Shareholder Account Access and enroll. Please enter your account number and tax identification number to log in, then select Receive Company Mailings via E-Mail and provide your e-mail address.

If you choose to access future proxy materials electronically, you will receive an e-mail with instructions containing a link to the website where the materials are

available and a link to the proxy voting website. Your election to access proxy materials electronically will remain in effect until you terminate it.

**10. Who pays the cost of soliciting proxies for the Annual Meeting?**

Sempra Energy is making this solicitation and will pay the entire cost of preparing, assembling, printing, mailing and distributing these proxy materials and of soliciting proxies.

Our directors, officers and employees also may solicit proxies in person, by telephone or by electronic communication. They will not receive any additional compensation for these activities.

We also have hired Morrow & Co. to assist us in distributing proxy materials and soliciting proxies. We will pay a base fee of \$13,000 plus customary costs and expenses for these services.

We will reimburse brokerage houses and other custodians, nominees and fiduciaries for forwarding proxy materials to beneficial shareholders.

**Proposals To Be Voted On**

**11. What items of business will be voted on at the Annual Meeting?**

The items of business to be voted on at the Annual Meeting are:

Election of directors for a term of one year.

Ratification of Deloitte & Touche as our independent registered public accounting firm for 2010.

A shareholder proposal, if properly presented at the meeting.

**12. What are my voting choices?**

You may vote FOR or AGAINST or you may ABSTAIN from voting on any or all nominees for election as directors or on any other matter to be voted on at the Annual Meeting.

**13. How does the Board of Directors recommend that I vote?**

Our Board of Directors recommends that you vote your shares FOR each of its nominees for election to the board; FOR the ratification of our independent registered public accounting firm; and AGAINST the shareholder proposal.

**14. What vote is required to approve each item?**

To conduct business at the Annual Meeting, a quorum consisting of a majority of our shares must be present in person or represented by proxy.

## **Table of Contents**

To be elected as a director, a nominee must receive the approval of shareholders. This means that the nominee must receive more FOR than AGAINST votes, and the FOR votes must also represent more than 25% of our outstanding shares.

Ratification of our independent registered public accounting firm and approval of the shareholder proposal also require the approval of shareholders.

### ***15. What happens if additional items are presented at the Annual Meeting?***

We are not aware of any item that may be voted on at the Annual Meeting that is not described in this proxy statement. However, the holders of the proxies that we are soliciting will have the discretion to vote them in accordance with their best judgment on any additional matters that may be voted on, including matters incidental to the conduct of the meeting.

### ***16. Is my vote confidential?***

Our Employee Savings Plans automatically provide confidential voting. Other shareholders may elect that their identity and individual vote be held confidential by marking the appropriate box on their proxy card or ballot. Confidentiality elections will not apply to the extent that voting disclosure is required by law or is appropriate to assert or defend any claim relating to voting. They also will not apply with respect to any matter for which votes are solicited in opposition to the director nominees or voting recommendations of our Board of Directors, unless the persons engaging in the opposing solicitation provide shareholders with voting confidentiality comparable to that which we provide.

### ***17. Where can I find the voting results?***

We expect to announce preliminary voting results at the Annual Meeting and to publish final results in a Current Report on Form 8-K that we will file with the Securities and Exchange Commission within four business days following the meeting. The report will be available on our website at [www.sempira.com](http://www.sempira.com) under the Investor and Company SEC Filings tabs.

## **How You Can Vote**

### ***18. What shares can I vote?***

You are entitled to one vote for each share of our common stock that you owned at the close of business on March 15, 2010, the record date for the Annual Meeting. You may vote all shares owned by you on the record date, including (a) shares held directly in your name as the shareholder of record, and (b) shares held for you as the beneficial owner through a bank, broker or other nominee. On the record date, 247,847,870 shares of our common stock were outstanding.

### ***19. What is the difference between holding shares as a shareholder of record and as a beneficial owner?***

Most of our shareholders hold their shares through a bank, broker or other nominee rather than having the shares registered directly in their own name. There are some distinctions between shares held of record and those owned beneficially that are summarized below.

#### *Shareholder of Record*

If your shares are registered directly in your name with our transfer agent, you are the shareholder of record of the shares. As the shareholder of record, you have the right to grant a proxy to vote your shares to the company or another person, or to vote your shares in person at the Annual Meeting. We have provided a proxy card for you to use in voting your shares.

#### *Beneficial Owner*

## Edgar Filing: SEMPRA ENERGY - Form DEF 14A

If your shares are held through a bank, broker or other nominee, it is likely that they are registered in the name of the nominee and you are the beneficial owner of shares held in street name. You are also the beneficial owner of shares that you own through our Employee Savings Plans.

As the beneficial owner of shares held for your account, you have the right to direct the registered holder to vote your shares as you instruct, and you also are invited to attend the Annual Meeting. Your bank, broker, plan trustee or other nominee has provided a voting instruction card for you to use in directing how your shares are to be voted. However, since a beneficial owner is not the shareholder of record, you may not vote your shares in person at the meeting unless you obtain a legal proxy from the registered holder of the shares giving you the right to do so.

### **20. How can I vote in person at the Annual Meeting?**

You may vote in person at the Annual Meeting those shares that you hold in your name as the shareholder of record. You may vote in person shares for which you are the beneficial owner only by obtaining a legal proxy giving you the right to vote the shares from the bank, broker or other nominee that is the registered holder of your shares.

*Even if you plan to attend the Annual Meeting, we recommend that you also submit your proxy or voting instructions as described below so that your vote will be counted if you later decide not to attend.*

### **21. How can I vote without attending the Annual Meeting?**

Whether you hold your shares as a shareholder of record or as a beneficial owner, you may direct how your shares are to be voted without attending the Annual Meeting. If you

## **Table of Contents**

are a shareholder of record, you may vote by submitting a proxy. If you hold shares as a beneficial owner, you may vote by submitting voting instructions to the registered owner of your shares.

For directions on how to vote, please refer to the following instructions and those included on your proxy or voting instruction card.

***Voting by Internet*** Shareholders who have received a notice of the availability of our proxy materials by mail or e-mail may vote over the Internet by following the instructions in the notice or e-mail. Those who have received a paper copy of the proxy or voting instruction card by mail may vote over the Internet by following the instructions on the card.

***Voting by Telephone*** Shareholders of record may vote by telephone by calling (800) 776-9437 from the United States or Canada or (718) 921-8500 from other countries and following the instructions. When voting by telephone, shareholders must have available the control number included on their proxy card, notice of availability of proxy materials or e-mail.

Most shareholders who are beneficial owners of their shares and have received a voting instruction card by mail may vote by phone by calling the number specified on the voting instruction card provided by their bank, broker or nominee. These shareholders should check the card for telephone voting availability.

***Voting by Mail*** Shareholders who have received a paper copy of these proxy materials may vote by mail by signing, dating and returning their proxy or voting instruction card.

### ***22. How will my shares be voted?***

Your shares will be voted as you specifically instruct on your proxy or voting instruction card.

If you sign and return your proxy or voting instruction card without giving specific instructions, your shares will be voted in accordance with the recommendations of our Board of Directors and in the discretion of the proxy holders on any other matters that properly come before the meeting.

### ***23. How are shares held in Employee Savings Plans voted? What happens if I do not timely sign and return the voting instruction card provided by the plan trustee?***

If you hold shares through our Employee Savings Plans they will be voted as you instruct on the voting instruction card provided by the plan trustee. If you sign and return your card without giving specific instructions, your shares will be voted in accordance with the recommendations of our Board of Directors.

If you do not provide timely instructions as to how your savings plan shares are to be voted, they will be voted in the same manner and proportion as shares for which instructions are timely received from other plan participants. For example, if you own 1,000 shares through the plan and fail to provide timely voting instructions for your shares, the plan trustee would vote them. If the trustee had timely received instructions to vote instructed shares 60% for, 35% against and 5% abstain on a particular item of business, the trustee would, on that item, vote your shares 600 for, 350 against and 50 abstain.

### ***24. Will shares I hold in my brokerage account be voted if I do not provide timely voting instructions?***

If your shares are held through a brokerage firm, they will be voted as you instruct on the voting instruction card provided by your broker. If you sign and return your card without giving specific instructions, your shares will be voted in accordance with the recommendations of our Board of Directors.

If you do not provide timely instructions as to how your brokerage shares are to be voted, your broker will have the authority to vote them only on the ratification of our independent registered public accounting firm. Your broker will be prohibited from voting your shares on the election of directors or the shareholder proposal. These broker non-votes will be counted only for the purpose of determining whether a quorum is

present at the meeting and not as votes cast.

**25. Will shares that I own as a shareholder of record be voted if I do not timely return my proxy card?**

Shares that you own as a shareholder of record will be voted as you instruct on your proxy card. If you sign and return your proxy card without giving specific instructions, they will be voted in accordance with the recommendations of our Board of Directors.

If you do not timely return your proxy card, your shares will not be voted unless you or your proxy holder attends the annual meeting and votes in person as described in Question 20.

**26. What is the deadline to vote?**

If you hold shares as the shareholder of record, your vote by proxy must be received before the polls close at the Annual Meeting.

If you hold shares in our Employee Savings Plans, your voting instructions must be received by 9:00 a.m. Eastern time on Monday, May 10, 2010 for the plan trustee to vote your shares.

If you hold shares as a beneficial owner, please follow the voting instructions provided by your bank, broker or other nominee.

## **Table of Contents**

### **27. *May I change my vote?***

Yes. You may change your vote at any time prior to the vote at the Annual Meeting, except that any change to your voting instructions for shares held in our Employee Savings Plans must be received by 9:00 a.m. Eastern time on Monday, May 10, 2010.

If you are a shareholder of record, you may change your vote by granting a new proxy bearing a later date (which automatically revokes the earlier proxy), by providing a written notice of revocation to our Corporate Secretary at the address set forth in Question 30 prior to your shares being voted, or by attending the Annual Meeting and voting in person. Attendance at the meeting will not cause your previously granted proxy to be revoked unless you specifically so request.

For shares you hold as a beneficial owner, you may change your vote by timely submitting new voting instructions to your bank, broker or other nominee, or, if you have obtained a legal proxy from the nominee giving you the right to vote your shares, by attending the Annual Meeting and voting in person.

### **28. *Who will serve as inspector of elections?***

The inspector of elections will be a representative of American Stock Transfer & Trust Company.

## **Attending the Annual Meeting**

### **29. *Who can attend the Annual Meeting?***

You may attend the Annual Meeting only if you were a Sempra Energy shareholder at the close of business on March 15, 2010 or you hold a valid proxy to vote at the meeting. You should be prepared to present photo identification to be admitted to the meeting.

If you are a shareholder of record or hold shares through our Direct Stock Purchase Plan or Employee Savings Plans, an admission ticket has been included as part of your notice of Internet availability of proxy materials or your proxy card. If you plan to attend the meeting, please bring the admission ticket with you. If you do not bring your admission ticket, your name must be verified against our list of shareholders of record and plan participants.

If you are not a shareholder of record but are the beneficial owner of shares held in street name through a bank, broker or other nominee, you must provide proof of beneficial ownership on the record date, such as your most recent account statement prior to March 15, 2010, a copy of the voting instruction card provided by your nominee, or other similar evidence of share ownership.

The meeting will begin promptly at 10:00 a.m., local time. Check-in will begin at 9:00 a.m., and you should allow ample time for check-in procedures.

## **Shareholder Proposals and Director Nominations**

### **30. *What is the deadline to submit shareholder proposals to be included in the proxy materials for next year's Annual Meeting of Shareholders?***

Shareholder proposals that are intended to be included in our proxy materials for next year's Annual Meeting must be received by our Corporate Secretary no later than 5:30 p.m. San Diego time on November 29, 2010 and must be submitted to the following address:

Corporate Secretary

Sempra Energy

101 Ash Street

## Edgar Filing: SEMPRA ENERGY - Form DEF 14A

San Diego, CA 92101-3017

Fax: (619) 696-4508

Proposals that are not timely submitted or are submitted to some other address or other than to the attention of our Corporate Secretary may be excluded from our proxy materials.

Shareholder proponents must meet the eligibility requirements of the Securities and Exchange Commission's Shareholder Proposal Rule (Rule 14a-8), and their proposals must comply with the requirements of the rule to be included in our proxy materials.

### ***31. How may I nominate director candidates or present other business for consideration at an Annual Meeting?***

Shareholders who wish to nominate director candidates or to present other items of business to be voted on at an Annual Meeting must give written notice of their intention to do so to our Corporate Secretary at the address set forth in Question 30. We must receive the notice at least 90 days but not more than 120 days before the date corresponding to the date of the last annual meeting. The notice also must include the information required by our bylaws, which may be obtained as provided in Question 33.

The time for us to receive notice of items of business for the 2010 Annual Meeting has expired. The period for the receipt from shareholders of notice of items of business for the 2011 Annual Meeting will begin on January 12, 2011 and end on February 11, 2011.

These notice requirements do not apply to shareholder proposals intended for inclusion in our proxy materials under the Securities and Exchange Commission's Shareholder Proposal Rule. The deadline for receiving those proposals is set forth in Question 30. The notice requirements also do not apply to questions that a shareholder may wish to ask at the Annual Meeting.

## **Table of Contents**

### **32. How may I recommend candidates to serve as directors?**

Shareholders may recommend director candidates for consideration by the Corporate Governance Committee of our Board of Directors by writing to our Corporate Secretary at the address set forth in Question 30. A recommendation must be accompanied by a statement from the candidate that he or she would give favorable consideration to serving on the board and should include sufficient biographical and other information concerning the candidate and his or her qualifications to permit the committee to make an informed decision as to whether further consideration of the candidate would be warranted.

## **Obtaining Additional Information**

### **33. How may I obtain financial and other information about Sempra Energy?**

Our consolidated financial statements are included in our Annual Report to Shareholders that is being provided to you together with this proxy statement.

*Additional information regarding the company is included in our Annual Report on Form 10-K, which we file with the Securities and Exchange Commission, 100 F Street, N.E., Washington, D.C. 20549. Our Form 10-K and other information that we file with the Securities and Exchange Commission are available on our website at [www.sempra.com](http://www.sempra.com) under the Investor and Company SEC Filings tabs. We will also furnish a copy of our 2009 Form 10-K (excluding exhibits, except those that are specifically requested) without charge to any shareholder who so requests by writing to us at our address set forth in Question 8.*

By writing to us, shareholders also may obtain, without charge, a copy of our bylaws, corporate governance guidelines, codes of conduct and charters of our board committees. You can also view these materials on the Internet by accessing our website at [www.sempra.com](http://www.sempra.com) and clicking on the Investor tab, then clicking on the Governance tab.

### **34. What if I have questions for Sempra Energy's transfer agent?**

If you have questions concerning share certificates, dividend checks, transfer of ownership or other matters relating to your share account, please contact our transfer agent at the following address or phone numbers:

American Stock Transfer & Trust Company

Operations Center

Attn: Sempra Energy

6201 15<sup>th</sup> Avenue

Brooklyn, NY 11219

(877) 773-6772 (U.S. and Canada)

(718) 921-8356 (International)

We have a dividend reinvestment and direct stock purchase program under which you may have all or a portion of your dividends automatically reinvested to purchase our shares. You also may elect to purchase additional shares through optional cash payments. For information about this program, please contact American Stock Transfer & Trust Company at the address or the phone number listed above.

### **35. Who can help answer any additional questions?**

If you have any additional questions about the Annual Meeting or how to vote or revoke your vote, you should contact our proxy solicitor:

Edgar Filing: SEMPRA ENERGY - Form DEF 14A

Morrow & Co.

470 West Avenue

Stamford, CT 06902

Shareholders Call:

(800) 607-0088 (U.S. and Canada)

(203) 658-9400 (International)

Banks and Brokers Call Collect:

(203) 658-9400

If you need additional copies of this proxy statement or voting materials, please contact Morrow & Co. as described above or send an e-mail to [sempira.info@morrowco.com](mailto:sempira.info@morrowco.com).

**Table of Contents**

**CORPORATE GOVERNANCE**

Our business and affairs are managed and all corporate powers are exercised under the direction of our Board of Directors. The board establishes fundamental corporate policies and oversees the performance of the company and our chief executive officer and the other officers to whom the board has delegated day-to-day business operations.

The board has adopted Corporate Governance Guidelines that set forth expectations for directors, director independence standards, board committee structure and functions, and other policies for the governance of the company. It has also adopted a Code of Business Conduct and Ethics for Directors and Officers, and officers are also subject to Business Conduct Guidelines that apply to all employees.

Several standing committees assist the board in carrying out its responsibilities. Each operates under a written charter adopted by the board.

Our governance guidelines, committee charters and codes of conduct are posted on our website at [www.sempra.com](http://www.sempra.com) under the Investor and Governance tabs. Paper copies may be obtained upon request by writing to: Corporate Secretary, Sempra Energy, 101 Ash Street, San Diego, California 92101-3017.

**Board of Directors**

*Functions*

In addition to its oversight role, our Board of Directors performs a number of specific functions, including:

Selecting our chief executive officer and overseeing his or her performance and that of other senior management in the operation of the company.

Reviewing and monitoring strategic, financial and operating plans and budgets and their development and implementation by management.

Assessing and monitoring risks and risk-management strategies.

Reviewing and approving significant corporate actions.

Reviewing and monitoring processes designed to maintain the integrity of the company, including financial reporting, compliance with legal and ethical obligations, and relationships with shareholders, employees, customers, suppliers and others.

Planning for management succession.

Selecting director nominees, appointing board committee members and overseeing effective corporate governance.

*Leadership Structure*

## Edgar Filing: SEMPRA ENERGY - Form DEF 14A

The Board of Directors retains the flexibility to determine on a case-by-case basis whether the Chief Executive Officer, or an independent director, should serve as Chairman of the Board. This flexibility permits the board to organize its functions and conduct its business in a manner it deems most effective in then prevailing circumstances.

The Board of Directors believes that the company and its shareholders currently are best served by having Donald E. Felsing serve as Chairman of Board as well as Chief Executive Officer. By combining these positions, Mr. Felsing serves as a bridge between the board and the operating organization and provides critical leadership for the strategic initiatives and challenges of the future. Mr. Felsing's performance is evaluated annually by the board's Compensation Committee, which is composed entirely of independent directors.

During those periods in which the positions of Chairman of the Board and Chief Executive Officer are combined, the independent directors appoint an independent director as a Lead Director. William C. Rusnack currently serves as the Lead Director.

The position and role of the Lead Director is intended to expand lines of communication between the board and the Chairman of the Board and Chief Executive Officer and other members of management. It is not intended to reduce the free and open access and communications that each independent board member has with other board members and members of management. The Lead Director has the following duties:

To organize, convene and preside over executive sessions of the non-management and independent directors and promptly communicate approved messages and directives to the Chairman of the Board and Chief Executive Officer.

To preside at all meetings of the Board of Directors at which the Chairman of the Board is not available.

To collect and communicate to the Chairman of the Board and Chief Executive Officer the views and recommendations of the independent directors, relating to his or her performance.

To perform such other duties and responsibilities as may be assigned from time-to-time by the independent directors.

The Board of Directors believes that its independence and oversight of management is maintained effectively through this leadership structure, the composition of the board and sound corporate governance policies and practices.

---

## **Table of Contents**

### *Director Independence*

The Board of Directors determines the independence of our directors by applying the independence principles and standards established by the New York Stock Exchange. These provide that a director is independent only if the board affirmatively determines that the director has no direct or indirect material relationship with the company. They also specify various relationships that preclude a determination of director independence. Material relationships may include commercial, industrial, consulting, legal, accounting, charitable, family and other business, professional and personal relationships.

Applying these standards, the board annually reviews the independence of the company's directors. In its most recent review, the board considered, among other things, the absence of any employment relationships between the company and its directors (other than Donald E. Felsing and Neal E. Schmale who are also executive officers of the company) and their families; the absence of any of the other specific relationships that would preclude a determination of independence under New York Stock Exchange independence rules; the absence of any affiliation of the company's directors and their families with the company's independent registered public accounting firm, compensation consultants, legal counsel and other consultants and advisors; the absence of any transactions with directors and members of their families that would require disclosure in this proxy statement under Securities and Exchange Commission rules regarding related person transactions; and the insubstantial amount of goods and services that we purchase in the ordinary course of business from companies and the modest amount of our discretionary contributions to non-profit organizations of which some of our directors or members of their families are associated.

Based upon this review, the board has affirmatively determined that each of the company's non-officer directors is independent. The independent directors are:

James G. Brocksmith Jr.  
Wilford D. Godbold Jr.  
Richard G. Newman  
Carlos Ruiz  
William P. Rutledge  
*Director Share Ownership Guidelines*

Richard A. Collato  
William D. Jones  
William G. Ouchi  
William C. Rusnack  
Lynn Schenk

The board has established share ownership guidelines for directors and officers to further strengthen the link between company performance and compensation. For non-employee directors, the guideline is ownership of a number of our shares having a value of four times the directors annual base retainer and is expected to be attained within five years of becoming a director. For these purposes, share ownership includes phantom shares into

which compensation has been deferred and the vested portion of certain in-the-money stock options as well as shares owned directly. All of our non-employee directors who have served as directors for five or more years meet or exceed the guideline. For information regarding executive officer share ownership guidelines, please see [Executive Compensation](#) [Compensation Discussion and Analysis](#) [Share Ownership Guidelines](#).

### *Board and Committee Meetings; Executive Sessions; Annual Meetings of Shareholders*

At regularly scheduled board and committee meetings, directors review and discuss management reports regarding the company's performance, prospects and plans, as well as immediate issues facing the company. At least once a year, the board also reviews management's long-term strategic and financial plans.

The Chairman of the Board establishes the agenda for each board meeting. Committee agendas are set by or in consultation with the committee chair. Directors are encouraged to suggest agenda items, and any director also may raise at any meeting subjects that are not on the agenda.

Information and other materials important to understanding the business to be conducted at board and committee meetings are distributed in writing to the directors in advance of the meeting. Additional information may be presented at the meeting.

An executive session of non-management board members is held at each regularly scheduled board meeting, and any director may call for an executive session at any special meeting. Executive sessions are presided over by the Lead Director. During 2009, the board held six executive sessions.

## Edgar Filing: SEMPRA ENERGY - Form DEF 14A

During 2009, the board held six meetings and committees of the board held 19 meetings. Directors, on an aggregate basis, attended over 99% of the combined number of these meetings. Each director attended at least 93% of the combined number of meetings of the board and each committee of which the director was a member.

The board encourages all nominees for election as directors to attend the Annual Meeting of Shareholders. Last year, all of the nominees attended the meeting except Mr. Ruiz, who did not attend due to travel restrictions from Mexico associated with the H1N1 pandemic.

### *Evaluation of Board and Director Performance*

The Corporate Governance Committee annually reviews and evaluates the performance of the Board of Directors. The committee assesses the board's contribution as a whole and identifies areas in which the board or senior

## **Table of Contents**

management believes a better contribution may be made. The purpose of the review is to increase the effectiveness of the board, and the results are reviewed with the board and its committees.

Our board annually reviews the individual performance and qualifications of each director who may wish to be considered for nomination to an additional term. The evaluations are reviewed by the Corporate Governance Committee, which makes recommendations to the board regarding nominees for election as directors.

### *Risk Oversight*

Our Corporate Governance Guidelines provide that the specific functions of the Board of Directors include assessing and monitoring risks and risk management. The board reviews and oversees strategic, financial and operating plans that are intended to provide sustainable long-term growth with moderate risk. Each of our business units is responsible for identifying and moderating risk in a manner consistent with these goals. The board fulfills its risk oversight function through reports both directly to the board and appropriate board committees.

The board and its committees mitigate risk through policies that include:

Leverage limitations.

Prior regulatory review and approval of substantial utility investments.

Non-utility investment policies, including requirements for substantial third party pre-construction contractual commitments to use the capacity of major non-utility construction projects.

Employee compensation that encourages and rewards sustainable moderate-risk growth.

We also have substantial investments in non-subsidiary companies engaged in commodities trading, interstate natural gas pipeline, electric generation and non-United States utility operations. Although we have representation on the boards of these companies, we do not operate or control them and we have limited influence over their businesses and management.

The risks inherent in our interstate pipeline, electric generation and utility investments are similar to those of our subsidiaries and are reviewed and monitored by the boards of these companies and reported to and reviewed by our board.

The risks inherent in and volatility of our commodities marketing joint venture, RBS Sempra Commodities, differ substantially in kind and magnitude from those of our subsidiaries. Also unlike our other businesses but consistent with industry and competitive practices, the

compensation of commodities traders consists primarily of annual cash bonuses. These annual bonuses are based upon and constitute a substantial portion of the annual mark-to-market profits attributable to the trading books of the individual traders, although the ultimate realization of income and the risk from these trades may extend into subsequent years. To reduce the likelihood that these compensation practices may encourage excessive risk taking, a significant portion of each annual bonus in excess of certain amounts is deferred for payment in installments over a succeeding one or two year period. The unpaid deferred bonus amounts are subject to discretionary reductions if there are subsequent losses in the trader's book and are also subject to forfeiture if the trader's employment is terminated. Tendencies for excessive risk-taking, as well as the general risks presented by commodity price fluctuations, are also mitigated by:

Hedging a substantial portion of purchase and sale commitments and commodities inventories.

Maintaining daily value-at-risk and other trading limits.

Maintaining counterparty credit limits and margining requirements.

Liquidity and credit support arrangements.

Generally avoiding exposures extending for more than two years.

These and other risks and risk management practices are reviewed and monitored by the RBS Sempra Commodities board (consisting of seven members, including three of our senior officers) and reported to and reviewed by our board. Our risks associated with RBS Sempra Commodities are further mitigated by provisions of our joint venture agreement that provide us with a preferential share of the venture's earnings and require that our joint venture partner provide all additional capital and all liquidity and credit support required by the joint venture.

*Succession Planning and Management Development*

Our Compensation Committee annually reports to the Board of Directors on succession planning, including policies and principles for executive officer selection.

*Review of Related Person Transactions*

Securities and Exchange Commission rules require us to disclose certain transactions involving more than \$120,000 in which we are a participant and any of our directors, nominees as directors or executive officers, or any member of their immediate families, has or will have a direct or indirect material interest. The charter of our Corporate Governance Committee requires the committee to review any such related person transaction before we enter into the transaction. There have been no transactions or proposed transactions requiring review during 2009 or 2010.

## **Table of Contents**

### *Director Orientation and Education Programs*

Every new director participates in an orientation program and receives materials and briefings to acquaint him or her with our business, industry, management and corporate governance policies and practices. Continuing education is provided for all directors through board materials and presentations, discussions with management, visits to corporate facilities and other sources.

### *Board Access to Senior Management, Independent Accountants and Counsel*

Directors have complete access to our independent registered public accounting firm, and to senior management and other employees. They also have complete access to counsel, advisors and experts of their choice with respect to any issues relating to the board's discharge of its duties.

## **Board Committees**

### **Audit Committee**

James G. Brocksmith Jr., *Chair*

Wilford D. Godbold Jr.

William D. Jones

Richard G. Newman

Carlos Ruiz

Lynn Schenk

### **Compensation Committee**

William C. Rusnack, *Chair*

William G. Ouchi

William P. Rutledge

### **Corporate Governance Committee**

William G. Ouchi, *Chair*

James G. Brocksmith Jr.

Richard A. Collato

Richard G. Newman

William C. Rusnack

### **Environmental and Technology Committee**

William P. Rutledge, *Chair*

Wilford D. Godbold Jr.

## Edgar Filing: SEMPRA ENERGY - Form DEF 14A

William D. Jones

Carlos Ruiz

Lynn Schenk

### **Executive Committee**

Donald E. Felsing, *Chair*

James G. Brocksmith Jr.

William G. Ouchi

William C. Rusnack

William P. Rutledge

### *Audit Committee*

Our Audit Committee is composed entirely of independent directors. It is directly responsible and has sole authority for selecting, appointing, retaining and overseeing the work and approving the compensation of our independent registered public accounting firm, which reports directly to the committee. The committee pre-approves all services provided by the accounting firm and prepares the report reprinted under the caption Audit Committee Report. It also assists the Board of Directors in fulfilling oversight responsibilities regarding:

The integrity of our financial statements.

Our compliance with legal and regulatory requirements.

Our internal audit function.

The board has determined that each member of the Audit Committee is financially literate. It has also determined that Mr. Brocksmith, who chairs the committee, is an audit committee financial expert as defined by the rules of the Securities and Exchange Commission.

During 2009, the Audit Committee held seven meetings.

### *Compensation Committee*

Our Compensation Committee is composed entirely of independent directors. It assists the Board of Directors in the evaluation and compensation of executives. It establishes our compensation principles and policies and oversees our executive compensation program. The committee has direct responsibility for:

Reviewing and approving corporate goals and objectives relevant to the compensation of our Chief Executive Officer.

Evaluating our Chief Executive Officer's performance in light of those goals and objectives and approving (subject to ratification by the board acting solely through the independent directors) his or her compensation based on the committee's performance evaluation.

## Edgar Filing: SEMPRA ENERGY - Form DEF 14A

Recommending to the board the compensation program for other executive officers, incentive compensation plans and equity-based compensation plans.

During 2009, the Compensation Committee held four meetings.

For additional information regarding the Compensation Committee's principles, policies and practices please see the discussion under Executive Compensation Compensation Discussion and Analysis.

## **Table of Contents**

### *Corporate Governance Committee*

Our Corporate Governance Committee is composed entirely of independent directors. The committee's responsibilities include:

Identifying individuals qualified to become directors.

Recommending nominees for election as directors and candidates to fill board vacancies.

Recommending directors for appointment as members of board committees.

Developing and recommending corporate governance principles.

The committee reviews with the board the skills and characteristics required of directors in the context of current board membership, and develops and maintains a pool of qualified director candidates. It seeks a group of individuals who bring to the board a variety of complementary skills and a range of viewpoints, backgrounds, experiences and individual qualities and attributes that contribute to board diversity. It solicits the names of director candidates from a variety of sources, including search firms advised of these policies, and also considers candidates submitted by shareholders. The committee assesses the effectiveness of its policies as part of its annual review of board composition and board, committee and individual director performance and in its recommendations of nominees for election as directors at the next annual meeting.

The committee reviews biographical data and other relevant information regarding potential board candidates, may request additional information from the candidates or other sources and, if the committee deems it appropriate, may interview candidates and consult references and others who may assist in candidate evaluation. The committee evaluates all candidates in the same manner whether identified by shareholders or through other sources.

In considering potential director candidates, the committee evaluates each candidate's integrity, independence, judgment, knowledge, experience and other relevant factors to develop an informed opinion of his or her qualifications and ability and commitment to meet the board's expectations for directors set forth in our Corporate Governance Guidelines.

The committee's deliberations reflect the board's requirement that substantially all directors (other than current or former company officers) should be independent and that all director nominees must be financially literate or must become financially literate within a reasonable time after becoming a director. They also reflect the board's view regarding the appropriate number of directors and the composition of the board.

The committee in recommending nominees for election as directors at the 2010 annual meeting and the board in approving the nominees considered the individual experience, qualifications, attributes and skills of each nominee (including his or her prior contributions to the board), with a view to constituting a board that, as whole, is well-qualified to oversee our businesses.

With respect to Mr. Rutledge and Dr. Ouchi, the committee and the board also considered that they are directors of FirstFed Financial Corp. and during 2009 and prior years they also served as directors of First Fed's subsidiary First Federal Bank of California. In January 2009, First Federal Bank consented to an order by the Office of Thrift Supervision that First Federal Bank and its directors and employees cease and desist engaging in unsafe or unsound banking practices. In December 2009, First Federal Bank was closed by the Office of Thrift Supervision and in January 2010, FirstFed Financial filed for liquidation under the Bankruptcy Code. The committee and the board concluded that these events do not reflect upon the integrity of Mr. Rutledge or Dr. Ouchi or, in view of the national and international financial crisis that resulted in the insolvency of numerous financial institutions, their ability and qualifications to serve on our board.

During 2009, the Corporate Governance Committee held four meetings.

### *Executive Committee*

## Edgar Filing: SEMPRA ENERGY - Form DEF 14A

Our Executive Committee meets on call by the Chairman of the Board during the intervals between meetings of the Board of Directors when scheduling or other requirements make it difficult to convene the full board. The committee did not meet during 2009.

### *Environmental and Technology Committee*

Our Environmental and Technology Committee is responsible for:

Reviewing environmental regulation and developments at the global, national and regional level, and evaluating ways to address them as part of the company's business strategy and operations.

Reviewing and evaluating technology developments and related issues that advance the company's overall business strategy. During 2009, the Environmental and Technology Committee held four meetings.

## **Table of Contents**

### **Communications with the Board**

Shareholders and interested parties who wish to communicate with the board, non-management directors as a group, a committee of the board or a specific director may do so by letters addressed to the attention of our Corporate Secretary. All communications regarding executive compensation will be relayed on to the chair of the Compensation Committee, William C. Rusnack, for appropriate evaluation and consideration.

All other communications are reviewed by the Corporate Secretary and provided to the directors consistent with a screening policy providing that unsolicited items, sales materials, and other routine items and items unrelated to the duties and responsibilities of the board not be relayed on to directors. Any communication that is not relayed is recorded in a log and made available to the directors.

The address for these communications is:

Corporate Secretary

Sempra Energy

101 Ash Street

San Diego, CA 92101-3017

### **Director Compensation**

Directors who are not employees of Sempra Energy receive an annual base retainer of \$50,000. The Chair of the Audit Committee receives an additional \$20,000; the chairs of other board committees receive an additional \$10,000; and the Lead Director receives an additional \$15,000.

Each quarter, non-employee directors also are credited with a number of phantom shares of our common stock having a market value of \$12,500. Upon the director's retirement as a director, the then market value of the shares credited to the director's account (together with reinvested dividend equivalents) is paid to the director in cash. Directors may also elect to receive their other fees in shares of our common stock or to defer them into an interest-bearing account, phantom investment funds or phantom shares of our common stock.

During 2009, each non-employee director also received meeting fees of \$1,000 for each board meeting attended and each meeting attended of the board committees (\$1,500 in the case of the Audit Committee) of which they were members. Beginning in 2010, the board meeting attendance fee has been increased to \$2,000 and the committee meeting attendance fees have been increased to \$2,000 for the Audit Committee and \$1,500 for other board committees.

Upon first becoming a director, each non-employee director was granted a ten-year option to purchase 15,000 shares of our common stock. Thereafter at each annual meeting (other than the annual meeting that coincides with or first follows the director's election to the board), each non-employee director who continued to serve as a director was granted an additional ten-year option for 5,000 shares. Each option was granted with an exercise price at the closing price of our common stock on the date of grant and became exercisable commencing with the first annual meeting following that date.

Beginning in 2010, directors will receive forfeitable grants of restricted or phantom shares of our common stock in lieu of grants of stock options. Upon first becoming a director, each non-employee director will receive a number of restricted or phantom shares having a then market value of \$180,000 and vesting in equal annual installments of one-third of the original grant (together with related reinvested dividends or dividend equivalents) on each of the first three anniversaries of the grant date. Thereafter at each annual meeting (other than the annual meeting that coincides with or first follows the director's election to the board), each non-employee director who continues to serve as a director will receive an additional number of restricted or phantom shares having a then fair market value of \$60,000 and vesting on the first anniversary of the grant date. Unvested shares will be forfeited if the director's service on the board terminates for any reason other than death, retirement, disability or removal without cause, in which event all unvested shares would immediately vest.



**Table of Contents**

We summarize the 2009 compensation of our non-employee directors below.

2009 Director Compensation	Change in Pension Value and Nonqualified Deferred Compensation Earnings (C)					All Other Compensation (D)	Total
	Fees Earned or Paid in Cash	Stock Awards (A)	Option Awards (B)				
James G. Brocksmith Jr.	\$89,000	\$50,000	\$38,450				\$177,450
Richard A. Collato	\$64,000	\$50,000	\$38,450	\$124,813	\$20,000		\$297,263
Wilford D. Godbold Jr.	\$69,000	\$50,000	\$38,450	\$155,000	\$ 7,775		\$320,225
William D. Jones	\$69,000	\$50,000	\$38,450	\$ 97,684	\$ 7,500		\$262,634
Richard G. Newman	\$69,000	\$50,000	\$38,450		\$20,000		\$177,450
William G. Ouchi	\$73,000	\$50,000	\$38,450	\$102,713	\$20,000		\$284,163
Carlos Ruiz	\$67,500	\$50,000	\$38,450				\$155,950
William C. Rusnack	\$84,000	\$50,000	\$38,450	\$ 12,247	\$20,000		\$204,697
William P. Rutledge	\$74,000	\$50,000	\$38,450		\$20,000		\$182,450
Lynn Schenk	\$68,000	\$50,000	\$38,450		\$19,945		\$176,395

- (A) Phantom shares of our common stock that are valued at the fair market value of our shares at the crediting date without reduction for phantom share non-transferability. The number of our phantom shares credited to each director (including shares credited in prior years and additional phantom shares credited as reinvested dividends) at December 31, 2009 was 9,746 shares for each director other than Mr. Newman, Mr. Ruiz and Ms. Schenk, for whom the number of phantom shares was 9,542 shares, 2,726 shares and 1,982 shares, respectively. Upon retirement as a director, the then market value of the shares credited to the director's account is paid to the director in cash.
- (B) Grant date fair value of stock options granted in 2009. These amounts reflect our grant date estimate of the aggregate compensation expense that we will recognize over the service period of the award. They are calculated in accordance with generally accepted accounting principles for financial reporting purposes based on the assumptions described in Note 10 of Notes to Consolidated Financial Statements included in our Annual Report to Shareholders, but disregarding estimates of forfeitures related to service-based vesting conditions. The number of our shares subject to non-employee director stock options that were outstanding at December 31, 2009 is 50,000 shares for Mr. Brocksmith; 45,000 shares for Mr. Collato; 50,000 shares for Mr. Godbold; 25,000 shares for Mr. Jones; 20,000 shares for Mr. Newman; 45,000 shares for Dr. Ouchi; 20,000 shares for Mr. Ruiz; 50,000 shares for Mr. Rusnack; 50,000 shares for Mr. Rutledge; and 20,000 shares for Ms. Schenk.
- (C) Consists of (i) above-market interest (interest in excess of 120% of the federal long term rate) on deferred compensation and (ii) the aggregate change in the actuarial value of accumulated benefits under defined benefit pension plans. The respective amounts are \$18,018 and \$106,795 for Mr. Collato; \$24,779 and \$130,221 for Mr. Godbold; \$468 and \$97,216 for Mr. Jones; \$0 and \$102,713 for Dr. Ouchi and \$12,247 and \$0 for Mr. Rusnack. Only Messrs. Collato, Godbold and Jones and Dr. Ouchi are entitled to receive pension benefits and all have attained maximum years of service credit. The annual benefit is the sum of the annual director retainer and ten times the board meeting fee at the date the benefit is paid. It commences upon the later of the conclusion of board service or attaining age 65 and continues for a period not to exceed the director's years of service as a director of predecessor companies and up to ten years of service as a director of the company. The actuarial equivalent of the total retirement benefit is paid to the retiring director in a single lump sum upon the conclusion of board service unless the director has elected to receive the annual benefit.
- (D) Consists of our contributions to charitable, educational and other non-profit organizations to match those of directors on a dollar-for-dollar basis up to an annual maximum match of \$20,000 for each director.

## Edgar Filing: SEMPRA ENERGY - Form DEF 14A

Directors who are also employees of the company (Donald E. Felsing, Chairman and Chief Executive Officer, and Neal E. Schmale, President and Chief Operating Officer) are not additionally compensated for their services as directors. Their compensation is summarized in the Summary Compensation Table appearing under Executive Compensation.

---

**Table of Contents**

**AUDIT COMMITTEE REPORT**

The Audit Committee of the Board of Directors is composed of the six directors named below, all of whom have been determined by the board to be independent directors. The board also has determined that all members of the committee are financially literate and the chair of the committee is an audit committee financial expert as defined by the rules of the Securities and Exchange Commission. The committee's charter, adopted by the board, is posted on the company's website at [www.sempra.com](http://www.sempra.com) under the Investor and Governance tabs.

The committee's responsibilities include appointing the company's independent registered public accounting firm, pre-approving both audit and non-audit services to be provided by the firm, and assisting the board in providing oversight to the company's financial reporting process. In fulfilling its oversight responsibilities, the committee meets with the company's independent registered public accounting firm, internal auditors and management to review accounting, auditing, internal controls and financial reporting matters.

It is not the committee's responsibility to plan or conduct audits or to determine that the company's financial statements and disclosures are complete, accurate and in accordance with accounting principles generally accepted in the United States and applicable laws, rules and regulations. Management is responsible for the company's financial statements, including the estimates and judgments on which they are based, as well as the company's financial reporting process, accounting policies, internal audit function, internal accounting controls, and disclosure controls and procedures. The company's independent registered public accounting firm, Deloitte & Touche LLP, is responsible for performing an audit of the company's annual financial statements, expressing an opinion as to the conformity of the annual financial statements with accounting principles generally accepted in the United States, expressing an opinion as to the effectiveness of the company's internal control over financial reporting, and reviewing the company's quarterly financial statements.

The committee has discussed with Deloitte & Touche the matters required to be discussed by Statement of Auditing Standards No. 61 (Communications with Audit Committees), as amended and adopted by the Public Company Accounting Oversight Board, which requires the independent registered public accounting firm to provide the committee with information regarding the scope and results of its audit of the company's financial statements, including information with respect to the firm's responsibilities under auditing standards generally accepted in the United States, significant accounting policies, management judgments and estimates, any significant audit

adjustments, any disagreements with management and any difficulties encountered in performing the audit.

The committee also has received from Deloitte & Touche a letter providing the disclosures required by the applicable requirements of the Public Accounting Oversight Board regarding the independent accountant's communications with the Audit Committee concerning independence. Deloitte & Touche has also discussed its independence with the committee and confirmed in the letter that, in its professional judgment, it is independent of the company within the meaning of the federal securities laws. The committee also considered whether Deloitte & Touche's provision of non-audit services to the company and its affiliates is compatible with its independence.

The committee also has reviewed and discussed with the company's senior management the audited financial statements included in the company's Annual Report on Form 10-K for the year ended December 31, 2009 and management's reports on the financial statements and internal controls. Management has confirmed to the committee that the financial statements have been prepared with integrity and objectivity and that management has maintained an effective system of internal controls. Deloitte & Touche has expressed its professional opinions that the financial statements conform with accounting principles generally accepted in the United States and that management has maintained an effective system of internal controls. In addition, the company's Chief Executive Officer and Chief Financial Officer have reviewed with the committee the certifications that each will file with the Securities and Exchange Commission pursuant to the requirements of the Sarbanes-Oxley Act of 2002 and the policies and procedures management has adopted to support the certifications.

Based on these considerations, the Audit Committee has recommended to the Board of Directors that the company's audited financial statements be included in the Annual Report on Form 10-K for the year ended December 31, 2009.

**Audit Committee**

Edgar Filing: SEMPRA ENERGY - Form DEF 14A

James G. Brocksmith Jr., *Chair*

Wilford D. Godbold Jr.

William D. Jones

Richard G. Newman

Carlos Ruiz

Lynn Schenk

February 22, 2010

**Table of Contents****SHARE OWNERSHIP**

The following table shows the number of shares of our common stock beneficially owned at March 15, 2010 by each of our directors, by each of our executive officers named in the executive compensation tables in this proxy statement, and by all of our directors and executive officers as a group. These shares, upon giving effect to the exercise of exercisable options, total approximately 1.1% of our outstanding shares.

Share Ownership	Current Beneficial Holdings (A)	Shares Subject to Exercisable Options (B)	Phantom Shares (C)	Total
James G. Brocksmith Jr.	235	50,000	13,988	64,223
Javade Chaudhri	67,533	68,775	3,052	139,360
Richard A. Collato	7,188	45,000	10,056	62,244
Donald E. Felsing	401,651	863,450	99,674	1,364,775
Wilford D. Godbold Jr.	3,006	50,000	15,422	68,428
Joseph Householder	37,216	57,625	3,422	98,263
William D. Jones	3,709	25,000	10,864	39,573
Richard G. Newman	38,591	20,000	9,850	68,441
William G. Ouchi	15,780	45,000	10,556	71,336
Carlos Ruiz		20,000	2,984	22,984
William C. Rusnack	4,495	50,000	10,454	64,949
William P. Rutledge	2,732	50,000	10,641	63,373
Lynn Schenk	2,000	20,000	2,233	24,233
Neal E. Schmale	190,252	204,875	32,416	427,543
Mark A. Snell	108,981	137,875	4,666	251,522
Directors and Executive Officers as a Group (18 persons)	969,972	1,899,800	255,340	3,125,112

- (A) Includes unvested shares of restricted stock that may be voted but are not transferable until they vest. These shares total 24,287 shares for Mr. Chaudhri; 87,063 shares for Mr. Felsing; 25,632 shares for Mr. Householder; 54,970 shares for Mr. Schmale; 44,714 shares for Mr. Snell; and 274,181 shares for all directors and executive officers as a group.
- (B) Shares which may be acquired through the exercise of stock options that are currently exercisable or will become exercisable within 60 days.
- (C) Represents deferred compensation deemed invested in shares of our common stock. These shares track the performance of our common stock but cannot be voted or transferred.

Sempra Energy has approximately 215,000 shareholders.

The only person known to us to own beneficially more than 5% of our outstanding shares is BlackRock, Inc., 40 East 52<sup>nd</sup> Street, New York, New York. BlackRock has reported that at December 31, 2009, it and related entities beneficially owned 20,017,555 shares for which they had sole voting and dispositive power. These shares represent approximately 8% of our outstanding shares.

Our employee savings and stock ownership plans hold 17,182,813 shares of our common stock (approximately 7% of our outstanding shares) for the benefit of employees.

## Edgar Filing: SEMPRA ENERGY - Form DEF 14A

Our directors and executive officers are required to file reports with the Securities and Exchange Commission regarding their ownership of our shares. Based on our review of the reports filed and representations from directors and officers that no other reports were required, we believe that all filing requirements were timely met during 2009.

For information regarding share ownership guidelines applicable to our directors and officers, please see [Corporate Governance](#) [Board of Directors](#) [Director Share Ownership Guidelines](#) and [Executive Compensation](#) [Compensation Discussion and Analysis](#) [Share Ownership Guidelines](#).

**Table of Contents**

**PROPOSALS TO BE VOTED ON**

**Proposal 1: Election of Directors**

Directors are elected at each annual meeting for terms expiring at the next annual meeting.

The Corporate Governance Committee has recommended and the Board of Directors has nominated the following ten individuals, all of whom currently are directors, for election as directors:

James G. Brocksmith Jr.

Donald E. Felsing

Wilford D. Godbold Jr.

William D. Jones

William G. Ouchi

Carlos Ruiz

William C. Rusnack

William P. Rutledge

Lynn Schenk

Neal E. Schmale

The proxies and voting instructions solicited by the board will be voted for these ten nominees unless other instructions are specified. If any nominee should become unavailable to serve, the proxies may be voted for a substitute nominee designated by the board, or the board may reduce the authorized number of directors.

We have not received notice of any additional candidates to be nominated for election as directors at the 2010 Annual Meeting and the deadline for notice of additional candidates has passed. Consequently, the election of directors will be an uncontested election and our bylaw providing for majority voting in uncontested elections will apply. Under majority voting, a nominee must receive more votes FOR than AGAINST his or her election to be elected as a director. In addition, the FOR votes must represent more than 25% of our outstanding shares. If a nominee who currently is serving as a director does not receive sufficient FOR votes to be re-elected, the director will cease to be a director not later than 90 days following the certification of the election results, and the resulting vacancy in the board may be filled by the remaining directors.

The board has determined that each non-officer nominee is an independent director. Information concerning the board's independence standards is contained under the caption Corporate Governance Board of Directors Director Independence.

Biographical information regarding each director nominee and his or her qualifications to serve as a director is set forth below. The year shown as election as a director is the year that the director was first elected as a director of Sempra Energy or a predecessor corporation. Unless otherwise indicated, each director has held his or her principal occupation or other positions with the same or predecessor organizations for at least the last five years.



Table of Contents

**THE BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE FOR EACH  
OF ITS NOMINEES FOR ELECTION TO THE BOARD**

**James G. Brocksmith Jr.**, 69, has been a director since 2001. He is an independent financial consultant and the former Deputy Chairman and Chief Operating Officer for the U.S. operations of KPMG Peat Marwick LLP. He is a director of AAR Corp and Alberto-Culver Co. He is a former director of Nationwide Financial Services.

Mr. Brocksmith's in-depth experience with public accounting issues and knowledge of corporate accounting, tax and compliance practices are important for us in his role as chair of the Audit Committee. His financial credentials provide a resource that is helpful to our board given the increasingly complex financial environment in which we operate.

**Donald E. Felsing**, 62, has been a director since 2004. He is the Chairman of the Board and Chief Executive Officer of the company. From 1998 through 2004, he was Group President and Chief Executive Officer of Sempra Global. Prior to the merger that formed Sempra Energy, he served as President and Chief Operating Officer of Enova Corporation, the parent company of San Diego Gas & Electric (SDG&E). Prior positions included President and Chief Executive Officer of SDG&E, Executive Vice President of Enova Corporation and Executive Vice President of SDG&E. He is also a director of Archer-Daniels-Midland Company and Northrop Grumman Corporation. He is a member of the Conference Board, the Committee Encouraging Corporate Philanthropy and the United States-Mexico Chamber of Commerce.

Mr. Felsing, in his current position as our Chairman and Chief Executive Officer, oversees the management of all aspects of our business. He has been an employee of our company and its subsidiaries for over 30 years and has held senior executive positions with SDG&E and Sempra Global. This extensive background within our primary businesses, coupled with his reputation as one of the country's seasoned energy decision-makers, makes Mr. Felsing's contributions to our board invaluable.

**Wilford D. Godbold Jr.**, 71, has been a director since 1990. He is the retired President and Chief Executive Officer of ZERO Corporation, an international manufacturer primarily of enclosures and thermal management equipment for the

electronics market. He is a director emeritus of The Wellness Community, a former director of Learning Tree International, Inc. and K-2 Inc., a past President of the Board of Trustees of Marlborough School and a past Chairman of the Board of Directors of the California Chamber of Commerce and The Employers Group.

Mr. Godbold's many years as a public company chief executive officer combined with his lengthy service as a corporate and securities partner with the law firm of Gibson, Dunn & Crutcher give him insight into the effect of laws and regulations on our businesses. This combination of legal and executive experience makes him a highly qualified and valuable member of our board.

**William D. Jones**, 54, has been a director since 1994. He is the President and Chief Executive Officer and a director of CityLink Investment Corporation and City Scene Management Company. From 1989 to 1993, he served as General Manager/Senior Asset Manager and Investment Manager with certain real estate subsidiaries of The Prudential. Prior to joining The Prudential, he served as a San Diego City Council member from 1982 to 1987. Mr. Jones is a director of the Federal Reserve Bank of San Francisco, Southwest Water Company, certain funds under management by Capital Research and Management Company and the San Diego Padres baseball club. He is also a trustee of the Francis Parker School. He is a former director of The Price Real Estate Investment Trust and former Chairman of the Board of the Los Angeles Branch of the Federal Reserve Bank of San Francisco.

Mr. Jones has extensive experience as a real estate developer in San Diego, where he built the City Heights Urban Village, an award-winning redevelopment project. This background has been helpful to our board as it considers the development of large infrastructure projects, which

## Edgar Filing: SEMPRA ENERGY - Form DEF 14A

requires extensive amounts of land and an understanding of the construction and real estate industries. His expertise in these areas makes him a vital member of our board.

**Table of Contents**

**William G. Ouchi, Ph.D.**, 66 has been a director since 1998. He is the Sanford and Betty Sigoloff Distinguished Professor in Corporate Renewal in the Anderson Graduate School of Management at UCLA. Dr. Ouchi is a director of AECOM Technology

Corporation and FirstFed Financial Corp., and a former director of Water-Pik Technologies. He is a director of The Alliance for College Ready Public Schools, the California Heart Center Foundation, the Japanese American National Museum and the Conrad N. Hilton Foundation.

Professor Ouchi is a renowned academic and expert in corporate management and organization. He is a best-selling author and has published numerous books on promoting effective corporate management. Professor Ouchi's academic roots and understanding of corporate governance, both theory and practice, make him a valuable member of our board.

**Carlos Ruiz**, 60, has been a director since 2007. He is a partner of Proyectos Estrategicos Integrales, a Mexican developing and financing company that provides comprehensive financial advisory and investment banking services to the private and public sectors,

mainly in energy, infrastructure, transportation and communications. He is also a director of Southern Copper Corporation (an integrated copper producer in Peru and Mexico), Banco Ve por Mas (a Mexican bank) and Constructora y Perforadora Latina (a Mexican geothermal exploration and drilling company). He is a former director of ASARCO LLC (an integrated copper producer in the United States).

Mr. Ruiz has served as Mexico's Secretary of Communications and Transportation and was general director of PEMEX, Mexico's national oil company. His extensive knowledge of Mexico's regulatory and energy sectors, provides valuable insight to our board as we develop and operate natural gas and renewable energy projects in Mexico.

**William C. Rusnack**, 65, has been a director since 2001. He was the President and Chief Executive Officer and a director of Premcor, Inc. from 1998 to 2002. Prior to 1998, he was an executive of Atlantic Richfield Company. He is also a director of

Flowsolve and Peabody Energy. He is a member of the Dean's Advisory Council of the Graduate School of Business at the University of Chicago and the National Council of the Olin School of Business at the Washington University in St. Louis.

Mr. Rusnack brings a deep understanding of the energy industry to our board. He spent 31 years at Atlantic Richfield Company, many of which he worked in a senior leadership capacity. Mr. Rusnack also offers knowledge and insight gained as a senior executive with the oil refinery company Premcor. This specialized energy industry and executive experience makes him a valuable addition to our board.

**William P. Rutledge**, 68, has been a director since 2001. He is the Chief Executive Officer of AquaNano Technologies, LLC. He was Chairman of Communications and Power Industries from 1999 to 2004. Prior to 1998, he was President and Chief Executive Officer of

Allegheny Teledyne. He is a director of AECOM Technology Corporation, CPI, International (formerly Communications and Power Industries) and FirstFed Financial Corp. He is a Trustee emeritus of Lafayette College and a Trustee of St. John's Hospital and Health Center Foundation, John Wayne Career Institute and the World Affairs Council of Los Angeles.

Mr. Rutledge has extensive board and senior management experience. He serves and has served on numerous public company boards and has significant experience in the role of chief executive officer for multiple companies. In addition to his management expertise, Mr. Rutledge brings to our board a strong understanding of new industry technologies and their impacts on our business.

**Table of Contents**

**Lynn Schenk**, 65, has been a director since 2008. She is an attorney in private practice. She served as Chief of Staff to the Governor of California from 1999 to 2003. She served as a member of the U.S. House of Representatives representing San Diego, California, from

1993 to 1995, serving on the House Energy and Commerce

Committee. From 1980 to 1983, she served as the California Secretary of Business, Transportation and Housing; prior to that she was on the in-house counsel staff for San Diego Gas & Electric Company. She is also a director of Biogen Idec, a trustee of The Scripps Research Institute, a director of the California High Speed Rail Authority and a member of the University of San Diego School of Law, Board of Visitors.

Ms. Schenk has a strong history of public service and an acute knowledge of the inner workings of federal and state governmental processes. Along with Ms. Schenk's extensive experience in government, her legal background within our business sector has equipped her with unique tools to help our board identify and manage risk. She has also served on the boards of a number of publicly listed companies. This combination also enables her to provide our board with reasoned perspective on matters pertaining to California's complex government and regulatory environment.

**Neal E. Schmale**, 63, has been a director since 2004. He is the President and Chief Operating Officer of the company. He is also a director of Murphy Oil Corporation and WD-40 Company.

Mr. Schmale brings with him 29 years of experience at Unocal and over a decade of service to our company. Serving not only as a board member and chief financial officer of Unocal, Mr. Schmale also benefitted from years of hands-on experience with energy infrastructure operations. His management experience with other public companies within the energy industry and his key role as our Chief Operating Officer bring a multifaceted perspective to the board as it considers our strategy and operations.

**Table of Contents****Proposal 2: Ratification of Independent Registered Public Accounting Firm**

The Audit Committee of the Board of Directors has selected Deloitte & Touche LLP as the independent registered public accounting firm to audit our financial statements and the effectiveness of our internal control over financial reporting for 2010. Representatives of Deloitte & Touche are expected to attend the Annual Meeting and will have the opportunity to make a statement if they desire to do so and to respond to appropriate questions from shareholders.

The following table shows the fees that we paid Deloitte & Touche for 2008 and 2009.

	2008		2009	
	Fees	% of Total	Fees	% of Total
<b>Audit Fees</b>				
Sempra Energy Consolidated Financial Statements and Internal Control Audits, Subsidiary and Statutory Audits	\$ 6,653,000		\$ 6,462,000	
SEC Filing and Related Services	228,000		123,000	
<b>Total Audit Fees</b>	6,881,000	85%	6,585,000	86%
<b>Audit-Related Fees</b>				
Employee Benefit Plan Audits	417,000		358,000	
Accounting Consultation	298,000		345,000	
<b>Total Audit-Related Fees</b>	715,000	9%	703,000	9%
<b>Tax Fees</b>				
Tax Planning and Compliance	154,000		255,000	
Other Tax Services	302,000		94,000	
<b>Total Tax Fees</b>	456,000	5%	349,000	5%
<b>All Other Fees</b>	54,000	1%	9,000	0%
<b>Total Fees</b>	\$ 8,106,000		\$ 7,646,000	

The Audit Committee is directly responsible and has sole authority for selecting, appointing, retaining and overseeing the work and approving the compensation of our independent registered public accounting firm. The committee also pre-approves all audit and permissible non-audit services provided by Deloitte & Touche. The committee's pre-approval policies and procedures provide for the general pre-approval of specific types of services, give detailed guidance to management as to the specific services that are eligible for general pre-approval and provide specific cost limits for each service on an annual basis. They require specific pre-approval of all other permitted services. For both types of pre-approval, the committee considers whether the services to be provided are consistent with maintaining the firm's independence.

The policies and procedures also delegate authority to the chair of the committee to address any requests for pre-approval of services between committee meetings, with any pre-approval decisions to be reported to the committee at its next scheduled meeting.

We are asking our shareholders to ratify the appointment of Deloitte & Touche as our independent registered public accounting firm for 2010. Ratification would be advisory only, but the Audit Committee would reconsider the appointment if it were not ratified. Ratification requires the favorable vote of a majority of the votes cast, and the approving majority also must represent more than 25% of our outstanding shares.

**THE BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE FOR  
PROPOSAL 2**

21

## **Table of Contents**

### **Proposal 3: Shareholder Proposal for an Advisory Vote on Executive Compensation**

The following proposal has been submitted by a shareholder and is included in this proxy statement in accordance with the Securities and Exchange Commission's Shareholder Proposal Rule. It is presented as submitted by the shareholder proponent, whose name and address will be provided promptly to any shareholder who orally or in writing requests that information from our Corporate Secretary.

The proposal will be voted on at the Annual Meeting only if it is properly presented by the shareholder proponent or the proponent's qualified representative. To be approved by shareholders, the proposal must receive the favorable vote of a majority of the votes cast on the proposal, and the approving majority must also represent more than 25% of our outstanding shares.

***FOR THE REASONS STATED BELOW, THE BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE AGAINST THIS PROPOSAL***

### **The Proposal**

#### **3. Shareholder Say on Executive Pay**

RESOLVED the shareholders of our company recommend that our board of directors adopt a policy requiring that the proxy statement for each annual meeting contain a proposal, submitted by and supported by Company Management, seeking an advisory vote of shareholders to ratify and approve the board Compensation's Committee Report and the executive compensation policies and practices set forth in the Company's Compensation Discussion and Analysis.

This proposal topic won our 49% support at our 2009 annual meeting. Votes on 2009 Say on Pay resolutions averaged more than 46% in favor. More than 20 companies had votes over 50%, demonstrating strong shareholder support for this reform.

There should be no doubt that executive compensation lies at the root of the current financial crisis, wrote Paul Hodgson, a senior research associate with The Corporate Library <http://www.thecorporatelibrary.com>, an independent research firm. There is a direct link between the behaviors that led to this financial collapse and the short-term compensation programs so common in financial services companies that rewarded short-term gains and short-term stock price increases with extremely generous pay levels.

Nell Minow said, If the board can't get executive compensation right, it's been shown it won't get anything else right either.

A *Los Angeles Times* article was titled, Sempra CEO's pay in fine print; The firm's disclosures on compensation lack clarity despite new rules to boost transparency, March 16, 2007.

Donald Felsing, our CEO, has a potential payment of \$35 million for change in control termination. Mr. Felsing had an aggregate total accumulated benefit of \$22 million for all of his retirement and pension plans. This was substantial, considering that he also has an aggregate balance of \$15 million in non-qualified deferred compensation plans. This may be an indicator that compensation practices were not well-aligned with shareholder interests. Source: The Corporate Library.

The equity ownership guideline for Mr. Felsing was only four times his base salary. Our company provided tax gross-ups for executives as well as accelerated vesting of all stock awards.

The merits of this Executive Pay proposal should also be considered in the context of the need for improvements in our company's corporate governance. In 2009 the following governance issues were identified:

Our directors had 13 seats on boards rated D by The Corporate Library. Our company is probably in the worst 10% of Fortune 500 companies for having the highest number of directors on D-rated boards.

## Edgar Filing: SEMPRA ENERGY - Form DEF 14A

The Corporate Library downgraded our company's rating from B to D. Our directors still had a retirement plan independence concern. We had no shareholder right to an independent board chairman, an independent lead director, cumulative voting or to act by written consent.

The above concerns shows there is need for improvement. Please encourage our board to respond positively to this proposal: Shareholder Say on Executive Pay Yes on 3.

### **The Board of Directors Position**

The Board of Directors and its Compensation Committee appreciate the underlying goal of the shareholder proposal to provide shareholders with a mechanism to convey their views regarding executive compensation policies and practices.

However, there are legislative proposals pending in Congress that would require a more comprehensive shareholder advisory vote than that sought by the shareholder proposal. The legislative proposals are supported by President Obama, have been approved in the House of Representatives and are pending in the Senate. We believe a requirement for an advisory vote on executive

**Table of Contents**

compensation is likely to be enacted and applicable to us for next year's Annual Meeting of Shareholders.

The legislative proposals call for an annual shareholder advisory vote to approve the compensation of executives as disclosed in the proxy statement. In contrast, the shareholder proposal does call not for approval of our executive compensation itself but merely approval of the Compensation's Committee Report and the executive compensation policies and practices set forth in the Company's Compensation Discussion and Analysis. Implementing the shareholder proposal would not satisfy expected legislative mandates.

In view of the pending legislative proposals, the board and the committee believe that it would be premature to implement a shareholder advisory vote regarding executive compensation. They believe that shareholders should not approve a proposal recommending an advisory vote that would not satisfy expected legislative mandates.

In addition, shareholders already have multiple mechanisms by which they can provide input regarding executive compensation and our compensation processes. Direct communications are an effective means of expressing specific observations on compensation matters. Shareholders may express their views and have them considered through writing to the board, to the compensation committee, to individual directors or committee members, or to company management. These communications should be sent to the attention of our Corporate Secretary, Semptra Energy, 101 Ash Street, San Diego, CA 92101-3017. For additional information regarding these communications, please see the discussion under Corporate Governance Communications with the Board.

Shareholders may also express their views at annual meetings of shareholders that are attended not only by management but also by directors. They also have the opportunity to vote on the approval of equity compensation plans and may express their views in electing directors who, in uncontested elections, must receive a majority of the votes cast to be elected.

During the last several months, we have also requested the views of our large institutional investors regarding our corporate governance practices, including our executive compensation. They generally viewed our compensation levels, policies and practices favorably and appropriate to support our pay-for-performance philosophy.

The board and the compensation committee believe these existing mechanisms provide appropriate and effective opportunities for communication both from and to shareholders. They permit shareholders to express their individual and collective views in a comprehensive and thoughtful manner that permits an appropriate company response.

Accordingly, in light of the likelihood that legislation will be enacted requiring a different and more comprehensive shareholder advisory vote on executive compensation than that contemplated by the shareholder proposal and our continuing commitment to corporate governance, executive compensation transparency and direct communications with shareholders, the board and the compensation committee believe that the adoption of the shareholder proposal would be premature and not in the best interests of shareholders.

**THE BOARD OF DIRECTORS RECOMMENDS THAT YOU**

**VOTE AGAINST PROPOSAL 3**

**Table of Contents**

**EXECUTIVE COMPENSATION**  
**COMPENSATION DISCUSSION AND ANALYSIS**

**Executive Summary**

*What information is provided in this section?*

In this Compensation Discussion and Analysis, we discuss the roles and responsibilities of the Compensation Committee of the Sempra Energy Board of Directors. We outline our compensation philosophy and discuss how the Compensation Committee determines executive pay. We describe each element of executive pay, including base salaries, short- and long-term incentives and executive benefits. We also describe how we manage risk in our incentive compensation plans.

*What is our Compensation Philosophy?*

The Compensation Committee of our Board of Directors sets the company's executive pay philosophy.

Our compensation philosophy emphasizes:

Pay-for-performance

Performance-based incentives aligned with shareholders

Balance between short- and long-term incentives

More pay tied to performance at higher levels of responsibility

Our pay programs align pay with short- and long-term company performance. We believe this is the best way to attract, motivate and retain key executive talent and promote strong, sustainable long-term performance.

Our compensation program goals include:

## Edgar Filing: SEMPRA ENERGY - Form DEF 14A

Attracting and retaining executives of outstanding ability and proven experience who demonstrate high standards of integrity and ethics

Aligning compensation with company performance 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. Company performance is the key indicator of whether our programs are effective. We use earnings as the primary measure of company performance in our annual incentive

plans. In contrast, stock price appreciation and total return to shareholders are the key measures for long-term performance.

### *How has the company performed compared to general industry and our peers?*

Sempra's 2009 performance, as measured by earnings, was solid.

Figure 1.

\* Represents \$325 million in earnings related to one-time asset sales.

Our Total Shareholder Return continues to outpace the market. Both our short- and long-term total return significantly exceed the market.

Total Shareholder Return *	Sempra Energy	S&P 500 Utilities	S&P 500
Ten-Year Total Return	348%	61%	(9%)
Five-Year Total Return	74%	34%	2%
One-Year Total Return	36%	12%	27%

Table 1.

\* Total shareholder return is the percentage change in the market value of an investment at the end of the relevant investment period (assuming reinvestment of dividends) from its market value at the beginning of the period.

As shown in Figure 1, earnings results have been consistently strong. Table 1 shows the company's total return to shareholders has substantially exceeded the returns of both the S&P Utilities Index and the S&P 500 Index. Performance-based incentive compensation for our executive officers reflects the company's superior performance.

## Compensation Committee Roles and Responsibilities

### Overview

The Compensation Committee's primary role is to determine all aspects of compensation for our executive officers. The committee reviews all components of pay for the Chief Executive Officer and other executive officers.



## **Table of Contents**

The committee holds four regularly scheduled meetings each year, with additional meetings scheduled when required. The committee's chair approves the agenda prior to each meeting. Three directors currently sit on the committee. Each director is:

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

A non-employee director under Rule 16b-3 of the Securities Exchange Act of 1934  
The committee:

Sets its meeting dates and agenda items annually

Considers standing agenda items and other topics at each meeting

Holds an executive session at each meeting without management

Recommends changes to its charter for approval by the board as needed

Retains its own independent advisors

The most recent charter review was held in June 2009. The charter is on our website at [www.sempra.com](http://www.sempra.com) under the Investor and Governance tabs.

## **Responsibilities of the Compensation Committee**

The Compensation Committee's major responsibilities include:

Analyzing executive compensation market data, including base salaries, annual bonuses, long-term incentives and pay, as well as executive compensation principles, strategies, trends, regulatory requirements and current programs

Overseeing and approving annual incentive plans, equity-based plans, severance plans, deferred compensation arrangements, retirement benefits and other programs and benefits that primarily cover executive officers

Reviewing and approving corporate goals and objectives relevant to the compensation of the company's Chief Executive Officer and other executive officers

Leading the evaluation of CEO performance in light of these goals and objectives and, based on individual and company performance, competitive compensation information and other considerations, recommending CEO compensation for approval by the board

Tracking and understanding the total compensation of each executive officer and reviewing, at least once a year, tally sheets that summarize the major elements of compensation

Reviewing and approving new or amended broad-based, qualified benefit plans and programs

Reporting annually on succession planning to the board

Reviewing and approving the Compensation Discussion and Analysis included in the annual proxy statement

Analyzing long-term incentive plan overall dilution and current annual dilution rates

**Key Deliberations in 2009**

Under a policy recommended by the committee and adopted by the board in 2009, change in control benefits for new officers will not include tax gross-ups.

In June 2009, the committee reviewed market practices related to executive stock ownership guidelines. Based on this review, the committee increased the CEO's ownership guideline from 4x base salary to 5x base salary.

**Tally Sheets for Committee and Board**

The Compensation Committee uses tally sheets, along with information prepared annually for the proxy statement, to provide:

Information for analyzing and understanding the design, operation and effectiveness of our executive compensation programs

The total dollar value of executives' accumulated compensation and benefits, including holdings of our common stock and realized and unrealized gains under equity-based compensation awards

Estimated pension benefits, life insurance benefits, and deferred compensation balances

Information on change-in-control scenarios

Tally sheets provide the committee with an understanding of the company's total executive compensation and benefit program. However, the committee does not rely on tally sheets to establish specific pay levels, which are instead based primarily on external market data, and other considerations described elsewhere in this discussion.

In addition, board members receive a Compensation Program Summary. The summary provides an overview of the Company's executive compensation philosophy, information on each executive compensation plan, and officer and employee demographic data.

## **Table of Contents**

### **The Compensation Committee's Advisors**

The Compensation Committee retains advisors to assist it on matters affecting executive compensation. It has the sole authority to select, compensate and terminate its external advisors.

In 2009, Hewitt Associates was the committee's primary compensation consultant. A Hewitt representative attended all committee meetings. He met in executive session with the committee members several times during 2009.

Hewitt Associates supported the committee by:

Providing competitive data on compensation and relative performance of peer group companies

Recommending pay programs and salary increase budgets

Making presentations on regulatory and legislative matters affecting executive compensation

Providing opinions on the reasonableness of compensation

Consulting on other related matters as needed

Total fees paid in 2009 for Hewitt's consulting services were \$228,096. The committee must pre-approve any work done by Hewitt for the company.

In 2010, the Hewitt consulting team that served the Committee joined Exequity and the Committee selected Exequity as its independent compensation consultant. Exequity is a nationally recognized independent provider of executive compensation advisory services with no legal or financial connection to any other service provider.

Our Chief Executive Officer attends the non-executive session of each committee meeting, as does our Senior Vice President of Human Resources. Our human resources department assists the committee by preparing tally sheets and other compensation information and analyses for consideration by the committee. Both the committee and the independent consultant receive all presentation materials well in advance of committee meetings.

Our accounting, finance and law departments also support the committee with respect to compensation-related matters, including issues related to broad-based benefit plans and regulatory reporting and compliance.

### **Management's Role**

Our Chief Executive Officer does not determine or approve any element or component of his own pay. Our other executive officers also do not determine or approve their own pay. This includes base salary, annual bonus, long-term incentives, or other aspects of compensation. Our

CEO does not meet separately with the committee's compensation consultants.

The Compensation Committee does seek our CEO's views on the performance of our other executive officers and he makes pay recommendations for these officers. In addition, the committee frequently requests input from the CEO on what programs and goals he believes might be most appropriate given the strategic direction of the company.

### **Labor Market Benchmarking**

*How does the committee use external market data in determining pay?*

The Compensation Committee uses external pay data to help align executive compensation levels, in total and by component, with the labor market. The committee views the labor market for our most senior positions as a nationwide, broad cross-section of companies in various industries.

During this benchmarking process, the committee:

Reviews external market data from Hewitt's Total Compensation Database covering 167 non-financial Fortune 500 companies. Reviews summary statistics with the goal of managing total target pay opportunities to the median of this data. Actual pay levels will rise above or fall below these standards as a result of actual company and individual performance.

Reviews pay and performance data in proxy statements and other public filings of a selected group of energy and utility companies (see Table 2) to provide an additional basis for assessing executive compensation and corporate performance. This review gives us a better understanding of the effectiveness of our emphasis on pay for performance in relation to the performance of our peer group.

Companies Included in 2009 Review	
AES Corporation	Centerpoint Energy
CMS Energy	Consolidated Edison
Dominion Resources	DTE Energy
Duke Energy	Edison International
Energy Future Holdings Corp.	Exelon
FPL Group	Nicor
NiSource	PG&E
Public Service Enterprises Group	Southern Company
Williams Companies	

Table 2.

## **Table of Contents**

### *How does the committee use internal equity in determining pay?*

The committee uses internal equity to determine the compensation for positions that are unique or difficult to benchmark against market data. Internal equity is also considered in establishing compensation for positions considered to be equivalent in responsibilities and importance.

## **Compensation Components**

The primary components of our compensation program are:

Base salaries

Performance-based annual bonuses

Long term equity-based incentive awards

Additional benefits include health and welfare programs, retirement and savings plans, personal benefits and severance pay.

All of our executive officers participate in the same compensation programs. However, market compensation levels vary substantially based upon the roles and responsibilities of individual officers. Thus, appropriately, the pay of our Chief Executive Officer is substantially higher than that of our other executive officers.

## **Managing Risk in Compensation Plans**

The committee manages the risk inherent in incentive compensation plans by balancing short- and long-term incentives and linking a higher proportion of total compensation to long-term incentives. Risk is also managed through the incentive plan design and selection of the performance measures.

Our long-term incentive awards:

Provide for a four-year performance period for our restricted stock unit grants. This time period is consistent with the typical development time frame for our major capital investment projects.

Use a market-based measure, total shareholder return, for our restricted stock unit grants.

Measure our total shareholder return against the S&P 500 Utilities Index rather than against a peer group selected by the company.

Our annual bonus plans:

Provide for a symmetrical payout scale, with no payout for performance at threshold. The committee avoids cliffs in the payout scale. An example of a cliff is a scale that pays 50% for threshold performance and 0% for performance below threshold. The committee believes cliffs create pressure points that may encourage unintended results.

## Edgar Filing: SEMPRA ENERGY - Form DEF 14A

Select a corporate financial performance measure that is based on the earnings reported in our financial statements. Adjustments are limited and made only after thoughtful consideration by the committee.

Provide the committee with downward discretion over incentive plan payouts.

### Pay Mix

*What is Pay Mix ?*

Pay mix is the relative value of each of the primary compensation components as a percentage of total compensation. Figure 2 shows each component of our CEO's total pay at target company performance.

Figure 2.

*Why is pay mix important?*

Our pay mix helps to align the interests of executives with the interests of shareholders. It does this by providing a much greater portion of pay through performance-based annual and long-term incentives than base salary. This means that most pay is variable and will go up or down in value based on company performance. Approximately 85% of our CEO's total pay is delivered through performance-based incentives.

Table 3 shows the percent of total pay at company target performance that comes from each major pay component for each of our named executive officers.

Pay Components of Total Compensation	Base Salary	Annual Bonus at Target	Long-Term Incentives at Target
Donald E. Felsing	15.1%	16.7%	68.2%
Neal E. Schmale	20.8%	16.7%	62.5%
Mark A. Snell	22.2%	15.6%	62.2%
Javade Chaudhri	26.3%	17.1%	56.6%
Joseph A. Householder	32.3%	16.1%	51.6%

Table 3.

**Table of Contents**

Actual pay mix may vary substantially from that shown in the table. This may occur as a result of corporate performance, which greatly affects annual bonuses and the value of long-term incentives.

**1. Base Salaries**

Our executive compensation programs emphasize performance-based pay. This includes annual bonuses and equity-based long-term incentive awards. However, base salaries remain a necessary and typical part of compensation for attracting and retaining outstanding employees at all levels.

Salaries for our executive officers approximate the median of those for Fortune 500 companies. Using national general industry comparisons helps us attract and retain top-quality executive talent from a broad range of backgrounds.

The Compensation Committee annually reviews base salaries for executive officers.

The committee considers the following factors in its review:

Approximate  
mid-range of Fortune 500 salary data

Retention needs

Individual  
contribution and  
performance

Experience

Complexity and importance of roles and responsibilities

Labor market conditions

Market characteristics

Reporting  
relationships

Succession planning

Company  
performance

Internal equity

*Base Salary Adjustments for 2009*

In November 2008, Hewitt Associates presented its most current executive pay benchmarking data. Based on the Compensation Committee's consideration of market data, and other factors described above, base salary adjustments were made on January 1, 2009.

The committee approved a 3% salary increase for the CEO from \$1,150,000 to \$1,184,300. Increases for the other executive officers named in the Summary Compensation Table ranged from 2.9% to 3.5%.

**2. Performance-Based Annual Bonuses**

*Incentive Compensation Pool*

Executive officers may receive annual performance-based bonuses under our shareholder-approved Executive Incentive Plan. Under the terms of the plan, a compensation pool based on operating earnings is established for each year. The plan is intended to preserve the deductibility of the bonuses under Section 162(m) of the Internal Revenue Code while providing flexibility to the Compensation Committee in administering the plan.

Please see [Executive Compensation](#) [Compensation Tables](#) [Grants of Plan-Based Awards](#) for additional details regarding the plan.

*Performance Guidelines and Bonus Payments*

Each year the Compensation Committee establishes performance guidelines for bonus payments. These guidelines are substantially lower than the shareholder-approved incentive plan maximums.

Consistent with our pay-for-performance philosophy, the guidelines do not provide for any bonus payment unless the company attains a threshold (minimum) performance level for the year. Bonus opportunities increase from 0% for performance at the threshold level to 200% of target for performance at maximum.

Potential bonuses at threshold, target and maximum company performance are expressed as a percentage of each executive officer's base salary. Table 4 illustrates how these percentages vary with the individual officer's position and attainment of goals.

In 2009, bonus opportunities were as follows:

Bonus Potential as a Percent of Base Salary	Threshold	Target	Maximum
Donald E. Felsing	0%	110%	220%
Neal E. Schmale	0%	80%	160%
Mark A. Snell	0%	70%	140%
Javade Chaudhri	0%	65%	130%
Joseph A. Householder	0%	50%	100%

Table 4.

Performance at target is intended to result in bonuses at the mid-point of those for executives with comparable levels of responsibility at Fortune 500 companies. Target bonus potentials and percentages are consistent with the leverage typically found in bonus plans at Fortune 500 companies. Bonus payouts at our maximums are intended to approximate the 75<sup>th</sup> percentile of bonus payouts among peer companies.

**Table of Contents**

Because our performance was strong while bonuses decreased in the external market, our actual payments exceeded the 75<sup>th</sup> percentile of the external market data.

Extraordinary corporate or individual performance may result in the payment of bonuses above the guidelines but not to exceed plan maximums.

*What were the annual bonus performance goals for the named executive officers?*

For 2009, the committee selected earnings for the measurement of annual corporate performance. For incentive plan purposes, earnings means Sempra Energy Net Income excluding earnings attributable to non-controlling interests.

*Why is only one performance measure used for the annual bonus plan?*

The committee selected earnings as the annual bonus performance measure because it believes this measure provides an accurate and comprehensive picture of annual company performance that plan participants, shareholders, analysts and other parties clearly understand. While one financial measure is used for the short-term incentive plan, other measures are considered within the overall compensation program:

The committee may apply discretionary adjustments to annual bonus awards in consideration of the contributions of each named executive officer.

The compensation program includes other performance measures, such as the relative total shareholder return measure under the long-term incentive plan.

Bonus plans for business unit executives include performance measures for business unit earnings, key operational measures, such as safety, and Sempra Energy earnings. None of the named executive officers participated in these business unit plans.

*How was the 2009 earnings goal determined?*

Table 5 shows the earnings criteria for 2009 bonuses:

2009 Earnings for Bonus Purposes		Threshold	Target	Maximum
<i>(dollars in millions)</i>		\$ 675	\$ 750	\$ 825

Table 5.

The committee set 2009 bonus guidelines, with the target of \$750 million in earnings, based on anticipated business unit earnings. The 2009 earnings guidelines exclude earnings from the RBS Sempra Commodities joint venture.

This was due to the volatility of the joint venture's earnings and the difficulty in predicting the company's share of the earnings.

Consistent with the approach taken in prior years, the committee also determined at the beginning of the year that the following items would be excluded from the calculation of earnings for bonus purposes:

## Edgar Filing: SEMPRA ENERGY - Form DEF 14A

Any one-time extraordinary gains or losses related to the 2001-2002 California energy crisis

Positive or negative impact of major changes in accounting rules that were unknown or unanticipated at the beginning of the plan year. Earnings for bonus purposes include 10% of the value of any gains or losses for the sale of assets or write-down of assets in connection with a sale. This is because the committee believes that the impact of asset sales should be measured primarily through stock price. Most of the impact would, then, be reflected in the long-term incentive plan.

### *2009 Performance-Based Annual Bonus Payments*

Earnings for 2009 bonus purposes were \$798 million, between the \$750 million earnings target and \$825 million maximum under the committee's guidelines. This results in a performance result, prior to any discretionary adjustments by the committee, of 164% of target. Based on this performance and its consideration of the contributions of each executive officer, the Compensation Committee approved the payment of the annual bonuses shown in Table 6:

Bonuses Paid for 2009 Performance	Base Salary at Year-End 2009	x Bonus Percentage	=	Bonus*
Donald E. Felsing	\$ 1,184,300	180.40%		\$ 2,136,500
Neal E. Schmale	\$ 833,900	131.20%		\$ 1,094,100
Mark A. Snell	\$ 595,300	114.82%		\$ 683,500
Javade Chaudhri	\$ 517,300	96.95%		\$ 501,500
Joseph A. Householder	\$ 445,000	82.00%		\$ 364,900

Table 6.

\* Amounts rounded up to nearest \$100.

### **3. Long-Term Equity-Based Incentives**

Long-term equity-based incentives are the largest single component of each executive officer's compensation package. (See Table 3 for these percentages.)

We measure our performance over a four-year performance period. Competitive benchmarking suggests that a three-year performance period is the most common measurement period in the external market. However, the committee believes at this time that using a four-year performance period for our equity-based incentives promotes a long-term strategic focus.

**Table of Contents**

*What type of equity is granted?*

In 2009, the grant date fair value of long-term incentive plan awards was 80% in performance-based restricted stock units (performance-based RSUs) and 20% in non-qualified stock options.

*Why is this mix of equity used?*

The Compensation Committee approved this mix after considering many variables. These included alignment with shareholder interests, plan expense, share usage and market trends.

The committee believes that the combination of stock options and performance-based restricted stock units appropriately rewards both absolute stock price growth and stock price growth relative to the company's industry peers. This creates a strong link between executive pay and shareholder returns over a multi-year performance period.

*What are general practices with respect to equity grants?*

The following equity award practices have been in place for many years:

Awards are granted under a shareholder-approved plan

All grants of stock options are made at 100% of fair market value

Fair market value is defined as the closing price of our common stock on the date of grant

We do not backdate grants of awards

We do not coordinate the grant of awards with the release of material information to result in favorable pricing

Grants are not repriced

The Compensation Committee authorizes the annual grants of equity-based incentive awards on the first trading day of the upcoming new year

In making the annual grants, the committee:

Specifies a dollar value (based on a percentage of base salary) and other terms for each executive officer's award

Allocates the dollar value between restricted stock units and stock options

Bases the number of shares underlying the awards granted each year on a dollar value, as opposed to a fixed number of shares. This approach allows maintenance of the pay mix described previously.

On the annual January grant date:

We calculate the precise number of shares to be granted to each executive officer for each type of award

We apply Black-Scholes and Monte Carlo valuation models previously authorized by the committee and using the closing price for shares of our common stock on that date

The closing price on that date establishes the exercise price for stock options  
Equity awards also may be granted upon the hiring or promotion of executive officers or to award extraordinary performance with the approval of the committee.

*What is the value of the equity grants?*

The estimated grant date fair values of our annual awards have generally been between the median and the 75<sup>th</sup> percentile of market data. However, the actual amounts realized by equity award recipients will depend on future stock price performance. These amounts will not necessarily track with the grant date value targets.

Table 7 illustrates the estimated grant date fair value of 2009 annual awards as a percentage of base salary. These percentages are unchanged from 2008.

Estimated Grant Date Values for 2009 as a % of Base Salary	Percent of Value in			Total
	Performance-Based RSUs		Stock Options	
	80%	+	20%	
Donald E. Felsing	360%		90%	450%
Neal E. Schmale	240%		60%	300%
Mark A. Snell*	224%		56%	280%
Javade Chaudhri	172%		43%	215%
Joseph A. Householder*	128%		32%	160%

Table 7.

\* Does not include 2/19/09 special award.

*Why does the company grant performance-based restricted stock units?*

Stock options are an important component of shareholder-aligned executive compensation. However, the Compensation Committee sought a more direct link to performance in comparison to indices and peers. To achieve this result, the committee uses performance-based restricted stock units as the major component of our equity grants. An additional advantage of performance-based restricted stock units is that, in comparison to stock options, fewer shares are required to deliver the same economic value. This results in lower dilution.

**Table of Contents**

*What are the performance goals for restricted stock units?*

Each performance-based restricted stock unit represents the right to receive between zero and 1.5 shares of Sempra Energy common stock based on the company's four-year cumulative total shareholder return compared to the S&P 500 Utilities Index as shown in Table 8. The plan pays out performance-based dividend equivalents at the end of the performance period based on the number of shares earned.

Four-Year Cumulative Total Shareholder Return Ranking versus S&P 500 Utilities Index *	Number of Sempra Energy Common Shares Received for Each Restricted Stock Unit
75th Percentile or Above	1.5
50th Percentile	1.0
35th Percentile or Below	0.0

Table 8.

*\* If the company ranks at or above the 50<sup>th</sup> percentile compared to the S&P 500 Index, participants will receive a minimum of 1.0 shares.  
What were the results for the four-year performance period ending December 31, 2009?*

Our relative total shareholder return from 2006 to 2009 met the 94<sup>th</sup> percentile of the S&P 500 Utilities Index. As a result, all of the performance-based restricted stock for the 2006-2009 Long-Term Incentive Plan cycle was released to plan participants after the committee certified performance results.

*Why does the company grant stock options?*

While playing a lesser role in our current pay program, stock options remain an appropriate and highly motivating vehicle for delivering long-term incentives. Our stock options become exercisable in equal annual installments over a four-year period.

Options provide a direct link with shareholder interests, as they have no compensation value unless our stock price increases above the grant date price.

*Were any special equity awards granted in 2009?*

On February 19, 2009, the committee awarded Mr. Snell and Mr. Householder a special grant of performance-based restricted stock. This was in recognition of their contributions to the creation of the RBS Sempra Commodities joint venture. The award vests in three ratable installments. The committee has the discretion to reduce the unvested portion of the award.

**Benefit Plans**

Our executive officers also participate in other benefit programs including: 1) Health, Life Insurance and Disability Plans; 2) Retirement Plans; 3) Savings and Deferred Compensation Plans; and 4) Other Benefit Programs.

*1. Health, Life Insurance and Disability Plans*

Our executive officers participate in life, disability, medical and dental insurance group plans that are available to virtually all employees. These are common benefits essential to attracting a high-quality workforce.

*Do executives receive any benefits in addition the basic group plans?*

In addition to the basic group plans, our executive officers participate in the following:

A Medical Insurance Plan that provides up to \$20,000 (the annual aggregate maximum) in additional coverage for medically necessary care for the officer or covered dependents

A Life Insurance Plan providing additional life insurance death benefits (two times base salary and bonus for active employees and one times base salary and bonus for retired employees)

A Long-Term Disability Plan providing additional protection upon disability (60% of base salary and average bonus) and restoring benefits otherwise capped under the company's basic Long-Term Disability Plan

## 2. *Retirement Plans*

Our executive officers participate in our Cash Balance Plan and a Supplemental Executive Retirement Plan.

### *What is the Cash Balance Plan?*

The Cash Balance Plan is a tax-qualified pension plan available to most company employees.

### *Why does the company offer a supplemental retirement plan?*

The committee believes that retirement, savings and deferred compensation plans, in general, and the Supplemental Executive Retirement Plan in particular, are important elements of an overall compensation package. This package is designed to recruit and retain executive talent, especially mid-career executives, and to retain longer-term executive participants.

### *How are benefits calculated?*

Our Supplemental Executive Retirement Plan (SERP) provides executive officers with retirement benefits based on the executive's final average pay,<sup>1</sup> actual years of service, and age at retirement. SERP benefits are reduced by benefits payable under the broad-based Cash Balance Plan.

<sup>1</sup> *Final average pay is the average of the two highest years of base salary and average of the three highest annual bonuses prior to retirement.*

## **Table of Contents**

Both the Cash Balance Plan and the Supplemental Executive Retirement Plan use only base salary and annual incentive bonuses in calculating benefits. The value of long-term incentive awards is not included.

Benefits under both plans use the same interest rates for calculating lump sum distributions.

### *3. Savings and Deferred Compensation Plans*

Our executive officers, together with most other company employees, participate in a broad-based, tax-qualified 401(k) Savings Plan. Officers may also participate in a deferred compensation plan.

#### *What is the 401(k) Savings Plan?*

Employees may contribute a portion of their pay to a tax-qualified 401(k) savings plan. Contributions to the plan are invested on a tax-deferred basis.

The company matches one-half of the first 6% of the employee's contributions. We then make an additional company contribution of up to 1% of base pay if we meet or exceed annual earnings targets. The Internal Revenue Code limits the amount of compensation eligible for deferral under tax-qualified plans.

#### *What is the deferred compensation plan?*

Our executive officers and other key management employees also may defer up to 100% of their base salary and bonus under a Deferred Compensation Plan. Participants can direct these deferrals into:

Funds that mirror the investments available under our 401(k) Savings Plan, including a Sempra Energy phantom stock account, and

A fund providing interest at the greater of 110% of the Moody's Corporate Bond Yield or Moody's plus 1%.

Deferred compensation plan participants receive company matching contributions identical to the matching contributions that would have been provided under the 401(k) savings plan, but for maximum dollar limitations on amounts that may be deferred under tax-qualified plans.

All employee contributions, matching company contributions, and investment earnings in both the 401(k) savings plan and deferred compensation plan vest immediately.

### *4. Other Benefit Programs*

We provide certain other typical benefits to our executive officers. The Compensation Committee reviews the level and types of these benefits each year. The committee

believes that these benefits are reasonable and important in attracting and retaining executive talent.

These benefits include financial planning services and excess personal liability insurance. Our Chief Executive Officer has an executive security specialist for personal and business driving in the context of an overall security plan.

## **Severance Pay and Change in Control Arrangements**

Our executive officers have severance pay agreements that include change in control features. The agreements were updated in 2008 to comply with Section 409A of the Internal Revenue Code.

*Why does the company provide severance agreements?*

Severance arrangements are a prevalent market practice. The Compensation Committee believes that they are effective in attracting executives who are leaving an existing employer, in mitigating legal issues upon a separation of employment and in retaining talent during uncertain times. By mitigating the effects of potential job loss, our severance agreements reinforce management continuity, objectivity and focus on shareholder value, particularly in actual or potential change in control situations.

*What benefits do severance agreements provide?*

The severance agreements provide for cash payments and the continuation of certain other benefits for a limited period when the company terminates an executive's employment other than for cause, death or disability or when the executive terminates for good reason.

*What does termination for Good Reason mean?*

A termination for good reason may occur if there is an adverse change in scope of duties or in compensation and benefit opportunities or, following a change in control, changes in employment location.

These provisions provide safeguards against arbitrary actions that effectively force an executive to resign. In order to receive some of the benefits in the agreement, the executive must comply with contractual confidentiality, non-solicitation and non-disparagement obligations.

*Does the agreement provide for additional benefits to offset any excise taxes incurred by the executive as a result of the severance payment?*

To the extent that our executive officers would incur excise taxes in connection with severance payments, their severance agreements provide that they will be made whole for these taxes. These are taxes above and beyond regular income taxes.

## **Table of Contents**

Under a policy adopted in 2009 by the Sempra Energy Board of Directors, severance agreements for new officers will not provide for excise tax gross-ups.

*What happens to outstanding equity awards upon a change in control?*

Under our shareholder-approved long-term incentive plan, upon a change in control of the company, all previously granted stock options vest and become immediately exercisable. All performance and time restrictions lift for outstanding restricted stock and restricted stock unit grants.

Acceleration of equity awards is the predominant industry practice for existing equity plans. This approach creates a clean slate for the emerging organization and allows for alignment with metrics that are forward looking and appropriate to a newly created company and management team.

## **Evaluating and Compensating the CEO**

The Compensation Committee annually reviews and approves corporate goals and objectives relevant to the compensation of our Chief Executive Officer. These goals and objectives are based primarily upon objective criteria, including business performance; accomplishment of strategic and financial objectives; development of management; and other matters relevant to the short-term and long-term success of the company and the creation of shareholder value.

*How does the board evaluate the CEO's performance?*

All independent directors provide input for the CEO's performance evaluation. The committee leads the process and reports the consolidated results back to the independent directors. The chair of the committee discusses the board's evaluation with the CEO. Based upon this evaluation and subject to ratification by the board acting solely through the independent directors, the committee determines the CEO's compensation level. This includes base salary and awards under annual and long-term incentive plans.

In determining the long-term component of our CEO's compensation, the committee considers the company's performance and relative shareholder return, the value of incentive awards to chief executive officers at comparable companies, and the awards granted in past years.

*What were the CEO's 2009 goals?*

Our CEO, Donald E. Felsing, met or exceeded his 2009 objectives, which included:

Exceeding 2009 earnings target of \$1.1 billion.

Launching broad deployment of Smart Meters at San Diego Gas & Electric and continuing to develop Southern California Gas Company's Smart Meter program.

Commencing commercial operations at Cameron LNG.

Completing Rockies Express East pipeline.

Continuing development of renewable energy projects.

Maintaining a strong balance sheet with ample liquidity to support the company's capital plan.

Continuing to develop talent for top level succession.

## **Impact of Regulatory Requirements**

### **Tax Deductibility of Pay**

Section 162(m) of the Internal Revenue Code places a limit of \$1,000,000 on the annual amount of compensation (other than compensation that qualifies as qualified performance-based compensation ) that publicly held companies may deduct for federal income tax purposes for each of certain executive officers.

The Compensation Committee believes that tax deductibility is one important factor in evaluating a compensation program. Consequently, we generally design and administer our performance-based incentive plans in a manner intended to maintain tax deductibility. This includes obtaining shareholder approval of the plans. However, providing salary levels and other compensation that is not fully tax deductible may be required by competitive or other circumstances and in the best interests of our shareholders. Accordingly, the committee may continue to exercise discretion to provide compensation that may not be fully tax deductible by the company.

### **Other Tax, Accounting and Regulatory Considerations**

Many other Internal Revenue Code provisions, Securities and Exchange Commission regulations and accounting rules affect the delivery of executive pay. They are taken into consideration to create and maintain plans that are efficient and comply with these requirements.

## **Share Ownership Guidelines**

Our Board of Directors has established share ownership guidelines for officers to further strengthen the link between company executive and shareholder interests.

**Table of Contents**

The guidelines set minimum levels of share ownership that our officers are encouraged to achieve and maintain. For officers, the guidelines are:

Executive Level	Share Ownership Guidelines
Chief Executive Officer	5x base salary
President	3x base salary
Executive Vice Presidents	3x base salary
Senior Vice Presidents	2x base salary
Other Vice Presidents	1x base salary

Table 9.

In 2009, the committee increased the CEO's ownership guideline from 4x base salary to 5x base salary. Based on Hewitt's review of competitive benchmark data, our guidelines are in line with prevalent market practices.

For purposes of the guidelines, we include shares owned directly or through benefit plans. We also count deferred compensation that executives invest in phantom shares of our common stock and the vested portion of certain in-the-money stock options.

We expect officers to meet these guidelines within five years of hire or any officer level promotion. All officers are in compliance with the guidelines.

The company also prohibits employees and directors from trading in puts, calls, options or other future rights to purchase or sell shares of the company.

**Conclusion**

We have structured our executive compensation programs to provide competitive pay opportunities (levels found in the marketplace), and to reward outstanding individual and corporate performance.

For 2009, our executive officers' total direct compensation (base salaries, bonuses paid and the grant-date value of long-term incentives) generally fell within the third quartile (between the 50<sup>th</sup> percentile and the 75<sup>th</sup> percentile) of the Fortune 500 market data. Our salaries are competitive and our performance-based compensation is strongly aligned with the interests of our shareholders. We will continue to monitor our pay programs for alignment with performance, shareholder interests and competitive labor markets. We will continue to offer the programs necessary to attract, retain, and motivate top executive talent.

**COMPENSATION COMMITTEE REPORT**

The Compensation Committee of Sempra Energy's Board of Directors has reviewed and discussed with management of the company the Compensation Discussion and Analysis

included in this proxy statement and, based upon that review and discussion, recommended to the board that it be so included.

**Compensation Committee**

William C. Rusnack, *Chair*

William G. Ouchi

William P. Rutledge

February 11, 2010

Table of Contents

## COMPENSATION TABLES

## Summary Compensation Table

In the table below, we summarize the compensation of our executive officers who were the five most highly compensated for 2009.

Summary Compensation Table	Year	Salary	Stock Awards (A) <i>Restricted stock and restricted stock units</i>	Option Awards (A) <i>Service-based stock options</i>	Non-Equity Incentive Plan <i>Performance-based annual cash bonus</i>	Change in Pension  Value and Non-Qualified Deferred Compensation Earnings (B) <i>accruals and above-market interest on non-qualified deferred compensation</i>	All Other Compensation (C)	Total
<b>Donald E. Felsing</b>	2009	\$ 1,184,300	\$ 4,264,733	\$ 588,645	\$ 2,136,500	\$ 12,564,520	\$ 155,820	\$ 20,894,518
Chairman and Chief Executive Officer	2008	\$ 1,150,000	\$ 4,144,905	\$ 1,120,353	\$ 2,530,000	\$ 1,851,184	\$ 167,760	\$ 10,964,202
<b>Neal E. Schmale</b>	2007	\$ 1,003,898	\$ 2,907,039	\$ 956,344	\$ 2,014,300	\$ 4,641,243	\$ 306,170	\$ 11,828,994
President and Chief Operating Officer	2009	\$ 833,900	\$ 2,002,914	\$ 276,555	\$ 1,094,100	\$ 1,943,532	\$ 115,065	\$ 6,266,066
<b>Mark A. Snell</b>	2008	\$ 809,800	\$ 1,945,568	\$ 525,829	\$ 1,295,700	\$ 1,385,636	\$ 111,330	\$ 6,073,863
Executive Vice President and Chief Financial Officer	2007	\$ 782,831	\$ 1,835,453	\$ 603,424	\$ 1,258,400	\$ 2,765,418	\$ 119,096	\$ 7,364,622
<b>Javade Chaudhri</b>	2009	\$ 595,300	\$ 1,934,337	\$ 184,370	\$ 683,500	\$ 1,061,787	\$ 88,531	\$ 4,547,825
Executive Vice President and General Counsel	2008	\$ 575,400	\$ 1,289,996	\$ 348,471	\$ 805,600	\$ 761,219	\$ 82,461	\$ 3,863,147
<b>Joseph A. Householder (D)</b>	2007	\$ 527,086	\$ 1,151,231	\$ 377,832	\$ 743,300	\$ 553,749	\$ 86,486	\$ 3,439,684
Senior Vice President, Controller and Chief Accounting Officer	2009	\$ 517,300	\$ 891,782	\$ 123,085	\$ 501,500	\$ 834,243	\$ 88,422	\$ 2,956,332
	2008	\$ 502,400	\$ 867,046	\$ 234,812	\$ 602,900	\$ 609,468	\$ 79,697	\$ 2,896,323
	2007	\$ 484,051	\$ 810,930	\$ 267,112	\$ 585,600	\$ 613,646	\$ 123,657	\$ 2,884,996
	2009	\$ 445,000	\$ 1,172,007	\$ 78,795	\$ 364,900	\$ 738,525	\$ 54,480	\$ 2,853,707

(A) Grant date fair value of stock and option awards granted during the year. These amounts reflect our grant date estimate of the aggregate compensation expense that we will recognize over the service period of the award. They are calculated in accordance with generally accepted accounting principles for financial reporting purposes based on the assumptions described in Note 10 of Notes to Consolidated Financial Statements included in our Annual Report to Shareholders but disregarding estimates of forfeitures related to service-based vesting conditions. Amounts previously reported for 2008 and 2007 (amounts recognized as compensation expense for the year in respect of outstanding awards, including those granted in prior years) have been restated to conform to current grant date fair value reporting requirements.

Option awards consist solely of service-based stock options. A modified Black-Scholes valuation model is used to calculate their grant date fair value.

Stock awards consist solely of performance-based restricted stock and restricted stock units. A Monte Carlo valuation model is used to reflect the probable outcome of performance conditions and calculate grant date fair value. If all of the performance conditions were to be satisfied at their highest level, the value of the awards granted during 2009 (the maximum number of shares subject to the award multiplied by the grant date market price of our shares) would be \$7,783,125 for Mr. Felsing, \$3,655,313 for Mr. Schmale, \$3,034,947 for Mr. Snell, \$1,627,500 for Mr. Chaudhri and \$1,643,697 for Mr. Householder.

The value actually realized by executives from stock and option awards will depend upon the extent to which performance and service-based vesting conditions are satisfied and the market value of the shares subject to the award.

## Edgar Filing: SEMPRA ENERGY - Form DEF 14A

For additional information regarding stock and option awards, please see the discussions under [Grants of Plan-Based Awards](#) and [Outstanding Equity Awards at Year-End](#).

**Table of Contents**

- (B) Represents (i) the aggregate change in the actuarial present value of accumulated benefits under defined benefit and other pension plans at year-end over the prior year-end and (ii) above-market interest (interest in excess of 120% of the federal long-term rate) on compensation deferred on a basis that is not tax-qualified. The 2009 amounts are:

2009 Change in Pension Value and Above-Market Interest	Change in Accumulated Benefits	Above-Market Interest	Total
Donald E. Felsing	\$ 12,368,280	\$ 196,240	\$ 12,564,520
Neal E. Schmale	\$ 1,746,474	\$ 197,058	\$ 1,943,532
Mark A. Snell	\$ 1,055,999	\$ 5,788	\$ 1,061,787
Javade Chaudhri	\$ 826,204	\$ 8,039	\$ 834,243
Joseph A. Householder	\$ 729,843	\$ 8,682	\$ 738,525

The 2009 substantial increase in Mr. Felsing's accumulated benefits under our pension plans results primarily from the spousal benefit provided by our Supplemental Retirement Plan and his recent marriage, and the inclusion of his more highly compensated recent years of service as Chief Executive Officer in calculating pension benefits.

For additional information regarding pension benefits and deferred compensation, please see the discussions under Pension Benefits and Non-Qualified Deferred Compensation.

- (C) All Other Compensation amounts for 2009 are:

2009 All Other Compensation	Company 401(k) and Related Plan Contributions	Insurance Premiums	Other	Total
Donald E. Felsing	\$ 124,184	\$ 14,110	\$ 17,526	\$ 155,820
Neal E. Schmale	\$ 72,902	\$ 13,905	\$ 28,258	\$ 115,065
Mark A. Snell	\$ 48,419	\$ 20,112	\$ 20,000	\$ 88,531
Javade Chaudhri	\$ 39,198	\$ 20,901	\$ 28,323	\$ 88,422
Joseph A. Householder	\$ 31,129	\$ 20,309	\$ 3,042	\$ 54,480

Amounts shown in the Other column consist of our contributions to charitable, educational and other non-profit organizations to match the personal contributions of executive officers on a dollar-for-dollar basis; financial and estate planning services; and the incremental cost to us (the hourly rate of drivers plus fuel, vehicle maintenance and depreciation expense) of commuting and other personal use of company cars and drivers. They do not include parking at company offices and the occasional personal use by executive officers of company property and services (including club memberships and entertainment events which would not otherwise be used for the business purposes for which they were obtained) for which we incur no more than nominal incremental cost or for which we are reimbursed by the executive for the incremental cost of personal use.

- (D) Although Mr. Householder has been an executive officer since 2006, information with respect to his compensation is required only for 2009, the year in which he first became a named executive officer for purposes of proxy statement compensation reporting.

**Table of Contents****Grants of Plan-Based Awards**

Our executive officers participate in shareholder-approved incentive compensation plans that are designed to encourage high levels of performance on both a short-term and a long-term basis. Shorter-term incentives, typically annual performance-based cash bonuses, are provided under our Executive Incentive Plan. Longer-term incentives, typically performance-based restricted stock and restricted stock units and service-based stock options, are provided under our Long Term Incentive Plan.

We summarize below our 2009 grants of plan-based awards for our executive officers named in the Summary Compensation Table.

2009 Grants of Plan-Based Awards	Grant Date (A)	Authorization Date (A)	Estimated Possible Payouts Under Non-Equity Incentive Plan Awards (Performance-Based Annual Bonus) (B)			Estimated Future Payouts Under Equity Incentive Plan Awards (Number of Shares) (C)			Option Awards (Service-Based Stock Options) (D)		Grant Date Fair Value of Stock and Option Awards (E)
			Threshold	Target	Maximum	Threshold	Target	Maximum	Number of Shares	Per Share Exercise Price	
<b>Donald E. Felsing</b>											
Stock Options	1/02/09	12/11/08							114,300	\$ 43.75	\$ 588,645
Restricted Stock Units	1/02/09	12/11/08				118,600	177,900				\$ 4,264,733
Annual Bonus			\$	\$ 1,302,800	\$ 2,605,500						
<b>Neal E. Schmale</b>											
Stock Options	1/02/09	12/11/08							53,700	\$ 43.75	\$ 276,555
Restricted Stock Units	1/02/09	12/11/08				55,700	83,550				\$ 2,002,914
Annual Bonus			\$	\$ 667,200	\$ 1,334,300						
<b>Mark A. Snell</b>											
Stock Options	1/02/09	12/11/08							35,800	\$ 43.75	\$ 184,370
Restricted Stock Units	1/02/09	12/11/08				37,100	55,650				\$ 1,334,077
Restricted Stock	2/19/09	2/19/09				14,880	14,880	14,880			\$ 600,259
Annual Bonus			\$	\$ 416,800	\$ 833,500						
<b>Javade Chaudhri</b>											
Stock Options	1/02/09	12/11/08							23,900	\$ 43.75	\$ 123,085
Restricted Stock Units	1/02/09	12/11/08				24,800	37,200				\$ 891,782
Annual Bonus			\$	\$ 336,300	\$ 672,500						
<b>Joseph A. Householder</b>											
Stock Options	1/02/09	12/11/08							15,300	\$ 43.75	\$ 78,795
Restricted Stock Units	1/02/09	12/11/08				15,900	23,850				\$ 571,747
Restricted Stock	2/19/09	2/19/09				14,880	14,880	14,880			\$ 600,259
Annual Bonus			\$	\$ 222,500	\$ 445,000						

(A) Grant and authorization dates applicable to equity incentive and option awards, which consist of performance-based restricted stock and restricted stock units and service-based stock options. The Compensation Committee authorizes these awards as part of annual compensation planning that is typically completed in December with salary adjustments becoming effective on January 1 and awards granted on the first trading day of January. The committee specifies a dollar value and other terms for the awards to be granted to each executive officer and the percentage of that value to be allocated between performance-based restricted stock units and service-based stock options. On the January grant date, the precise number of shares to be granted to each executive officer is calculated by applying valuation models previously authorized by the committee and the closing price for shares of our common stock on that date. The closing price on the grant date also establishes the exercise price for the stock options. Awards also may be granted at other times upon the hiring or promotion of executive officers or for extraordinary performance.

(B) Non-equity incentive plan awards consist of annual bonuses payable under our Executive Incentive Plan from a performance pool equal to 1.5% of operating income for the year with maximum bonuses not to exceed 30% of the performance pool for the Chief Executive Officer

## Edgar Filing: SEMPRA ENERGY - Form DEF 14A

and 17.5% of the performance pool for each other plan participant. Amounts reported in the table represent estimates at the beginning of 2009 of bonuses expected to be paid under earnings performance guidelines established by the Compensation Committee. These guidelines anticipate that the committee will apply downward discretion as permitted by the plan to reduce bonuses paid from plan maximums to the

**Table of Contents**

lower amounts contemplated by the guidelines. Extraordinary corporate or individual performance may result in the payment of bonuses that exceed those contemplated by the guidelines to the extent the amounts paid are consistent with performance pool limitations. Bonus guidelines for 2009 were based on earnings excluding (i) any one-time extraordinary gains or losses related to the California energy crisis, (ii) 90% of gains or losses related to asset sales and write-downs of assets in connection with a sale, (iii) the positive or negative effect of major changes in accounting rules that were unknown or unanticipated at the beginning of the year and (iv) earnings from RBS Sempra Commodities, with no bonuses payable for earnings of less than \$675 million and maximum bonuses payable for earnings of \$825 million. Bonuses for targeted earnings performance of \$750 million were set at levels ranging from 110% of base salary for the Chairman and Chief Executive Officer to 50% of base salary for Senior Vice Presidents, with maximum bonuses ranging from 220% to 100% of base salary, respectively. Earnings for the year for bonus purposes were \$798 million. Accordingly, in February 2010, the Compensation Committee authorized the payment of bonuses to the executive officers in the amounts reported in the Summary Compensation Table as non-equity incentive plan compensation earned in 2009.

(C) Equity incentive plan awards consist of performance-based restricted stock and restricted stock units granted under our Long Term Incentive Plan. During the performance period, dividends paid or that would have been paid on the shares subject to the award are reinvested or deemed reinvested to purchase additional shares, at then fair market value, which become subject to the same forfeiture and performance vesting conditions as the shares to which the dividends relate. If the performance criteria are not satisfied or the executive's employment is terminated during the performance period other than by death or certain other events that may be specified in the award agreement or the executive's severance pay agreement, the award is forfeited subject to earlier vesting upon a change in control of the company or various events specified in the executive's severance pay agreement.

Shares subject to the performance-based restricted stock units granted in 2009 will vest or be forfeited at the beginning of 2013 based upon our total return to shareholders. The target number of shares will vest if we have achieved a cumulative total return to shareholders for a four-year performance period that places us among the top 50% of the companies in the S&P 500 Utilities Index or the S&P 500 Index with additional shares vesting ratably for performance above the 50<sup>th</sup> percentile of the S&P 500 Utilities Index to the maximum number (150% of the target number) for performance at or above the 75<sup>th</sup> percentile of that index. If our performance does not place us among the top 50% of the companies in the S&P 500 Utilities Index or the S&P 500 Index, shares will vest for performance above the 35<sup>th</sup> percentile of the S&P 500 Utilities Index declining from the target number of shares at the 50<sup>th</sup> percentile to zero at the 35<sup>th</sup> percentile.

Shares of performance-based restricted stock were granted in 2009 to Messrs. Snell and Householder in recognition of their contributions to the creation of our RBS Sempra Commodities joint venture. The shares subject to the award (together with reinvested dividends) will vest in installments of one-third of the shares initially subject to the award on March 15 of each of the first three years following the year of the grant, subject, as to each installment, of a performance condition that we have attained positive operating income for the preceding calendar year. If the performance condition is not satisfied, the shares subject to the installment are forfeited. Unvested restricted shares will also be forfeited if the executive's employment is terminated by any reason other than death and the Compensation Committee may reduce the number of the unvested restricted shares.

We permit each holder of restricted stock and restricted stock units to sell to us (at the market price of our shares at the end of the performance period) a sufficient number of vesting shares to pay the minimum amount of withholding taxes that becomes payable upon satisfaction of the performance conditions.

(D) All stock options are service-based options to purchase shares of our common stock granted under our Long Term Incentive Plan. They were granted at an exercise price equal to the closing market price of our common stock on the date of the grant and for a ten-year term subject to earlier expiration following termination of employment. They become exercisable in cumulative installments of one-fourth of the shares initially subject to the option on each of the first four anniversaries of the grant date, with immediate exercisability upon a change in control of the company or various events specified in the executive's severance pay agreement.

(E) These amounts reflect our grant date estimate of the aggregate compensation expense that we will recognize over the service period of the award. They are calculated in accordance with generally accepted accounting principles for financial reporting purposes based on the assumptions described in Note 10 of Notes to Consolidated Financial Statements included in our Annual Report to Shareholders but disregarding estimates of forfeitures related to service-based vesting conditions. The value actually realized by executives from stock and option awards will depend upon the extent to which performance and service-based vesting conditions are satisfied and the market value of the shares subject to the award.



**Table of Contents****Outstanding Equity Awards at Year-End**

We summarize below our grants of equity awards that were outstanding at December 31, 2009 for our executive officers named in the Summary Compensation Table. These grants consist solely of stock options, restricted stock and restricted stock units.

Outstanding Equity Awards at Year-End	Stock Awards									
	Option Awards (Service-Based Stock Options) (A)						Service-Based Restricted	Performance-Based Restricted Stock and Restricted		
	Number of Shares Underlying						Stock	Stock Units (B)	Market	Market
	Unexercised Options						Number of	Value of	Number of	Value of
	Grant Date	Exercisable	Unexer- cisable	Exercise Price	Expiration Date	Unvested Shares (C)	Unvested Shares	Unearned/ Unvested Shares (C)	Unearned/ Unvested Shares	
Donald E. Felsing	01/02/09		114,300	\$ 43.75	01/01/19			182,216	\$ 10,200,461	
	01/02/08	22,425	67,275	\$ 61.41	01/01/18			120,717	6,757,716	
	01/03/07	34,550	34,550	\$ 56.77	01/02/17			86,424	4,838,039	
	01/03/06	56,625	18,875	\$ 46.14	01/02/16					
	12/06/05	61,000		\$ 44.64	12/05/15					
	01/03/05	57,300		\$ 36.30	01/02/15					
	06/08/04	22,400		\$ 33.89	06/07/14					
	01/02/04	75,800		\$ 30.20	01/01/14					
	01/02/03	101,800		\$ 24.37	01/01/13					
	01/02/02	344,400		\$ 24.77	01/01/12					
		776,300	235,000	\$ 36.37 (D)				389,357	\$ 21,796,216	
Neal E. Schmale	01/02/09		53,700	\$ 43.75	01/01/19			85,577	\$ 4,790,604	
	01/02/08	10,525	31,575	\$ 61.41	01/01/18			56,663	3,171,989	
	01/03/07	21,800	21,800	\$ 56.77	01/02/17			54,567	3,054,653	
	01/03/06	36,225	12,075	\$ 46.14	01/02/16					
	01/03/05	42,800		\$ 36.30	01/02/15					
	06/08/04					57,845 (E)	\$ 3,238,173			
	01/02/04	46,600		\$ 30.20	01/01/14					
		157,950	119,150	\$ 45.47 (D)		57,845 (E)	\$ 3,238,173	196,807	\$ 11,017,246	
Mark A. Snell	02/19/09							15,241	\$ 853,192	
	01/02/09		35,800	\$ 43.75	01/01/19			57,000	3,190,869	
	01/02/08	6,975	20,925	\$ 61.41	01/01/18			37,570	2,103,167	
	01/03/07	13,650	13,650	\$ 56.77	01/02/17			34,225	1,915,936	
	01/03/06	21,450	7,150	\$ 46.14	01/02/16					
	01/03/05	30,600		\$ 36.30	01/02/15					
	01/02/04	21,500		\$ 30.20	01/01/14					
	01/02/03	13,800		\$ 24.37	01/01/13					
		107,975	77,525	\$ 44.45 (D)				144,036	\$ 8,063,164	
Javade Chaudhri	01/02/09		23,900	\$ 43.75	01/01/19			38,103	\$ 2,132,980	
	01/02/08	4,700	14,100	\$ 61.41	01/01/18			25,252	1,413,604	
	01/03/07	9,650	9,650	\$ 56.77	01/02/17			24,108	1,349,590	
	01/03/06	15,975	5,325	\$ 46.14	01/02/16					
	01/03/05	17,625		\$ 36.30	01/02/15					

Edgar Filing: SEMPRA ENERGY - Form DEF 14A

		47,950	52,975	\$ 48.73 (D)			87,463	\$ 4,896,174
Joseph A. Householder	02/19/09						15,241	\$ 853,192
	01/02/09		15,300	\$ 43.75	01/01/19		24,429	1,367,515
	01/02/08	3,000	9,000	\$ 61.41	01/01/18		16,167	905,051
	01/03/07	6,100	6,100	\$ 56.77	01/02/17		15,283	855,544
	01/03/06	5,775	1,925	\$ 46.14	01/02/16			
	01/03/05	8,500		\$ 36.30	01/02/15			
	01/02/04	13,400		\$ 30.20	01/01/14			
	01/02/03	9,050		\$ 24.37	01/01/13			
		45,825	32,325	\$ 43.35 (D)			71,120	\$ 3,981,302

- (A) Stock options become exercisable as to one-quarter of the shares originally subject to the option grant on each of the first four anniversaries of the grant date, with immediate exercisability upon a change in control of the company or various events specified in the executive's severance pay agreement. They remain exercisable until they expire ten years from the date of grant subject to earlier expiration following termination of employment. If an executive's employment is terminated after the executive has attained age 55 and completed five years of continuous service, the executive's

**Table of Contents**

stock options expire three years (five years if the executive has attained age 62) after the termination of employment. If an executive's employment is terminated by death or disability prior to attaining age 55, the executive's stock options expire twelve months after the termination of employment and are exercisable only as to the number of shares for which they were exercisable at the date of employment termination. If an executive's employment is otherwise terminated, the executive's stock options expire 90 days after the termination of employment and are exercisable only as to the number of shares for which they were exercisable at the date of employment termination.

- (B) Performance-based restricted stock and restricted stock units that (except for the February 19, 2009 awards to Messrs. Snell and Householder) will vest or will be forfeited in whole or in part at the end of a four-year performance period based upon our total return to shareholders compared to market and peer group indexes and subject to earlier vesting upon a change in control of the company or various events specified in the award agreement of the executive's severance pay agreement. If an executive's employment is terminated after the executive has attained age 55 and completed five years of service, and the termination occurs after one year of the applicable performance period has been completed, the executive's award is not forfeited as a result of the termination of employment but continues to be subject to forfeiture based upon the extent to which the related performance goals have been satisfied at the end of the applicable four-year performance period. If an executive's employment is otherwise terminated before the end of the applicable performance period, the executive's award is forfeited. For information regarding the performance measures and other terms of the February 19, 2009 awards to Messrs. Snell and Householder and additional information regarding the performance measures applicable to other 2009 awards, please see Note C to the table under Grants of Plan-Based Awards.

We have reported the number and market value of shares subject to the awards (together with reinvested dividends and dividend equivalents) that would have vested at December 31, 2009 had the applicable performance period ended at that date. The number of shares that ultimately vest will depend upon the extent to which the performance measures have been satisfied at the actual end of the applicable performance period, and may be fewer or greater than the number reported in the table.

- (C) Includes shares purchased and deemed purchased with reinvested dividends and dividend equivalents that become subject to the same forfeiture conditions as the shares to which the dividends relate.
- (D) Weighted average exercise price of all exercisable and unexercisable option shares. The weighted average exercise prices of exercisable option shares and unexercisable option shares are, respectively, \$31.97 and \$50.91 for Mr. Felsing; \$41.26 and \$51.05 for Mr. Schmale; \$39.73 and \$51.03 for Mr. Snell; \$46.16 and \$51.06 for Mr. Chaudhri; and \$37.77 and \$51.27 for Mr. Householder.
- (E) These shares vested on January 1, 2010.

**Option Exercises and Stock Vested**

We summarize below the stock options that were exercised and restricted stock that vested during 2009 for our executive officers named in the Summary Compensation Table.

2009 Options Exercised and Stock Vested	Option Awards		Stock Awards	
	Number of Shares Acquired on Exercise	Value Realized on Exercise (A)	Number of Shares Acquired on Vesting	Value Realized on Vesting (B)
Donald E. Felsing	357,900	\$ 9,864,304	128,307	\$ 7,259,595
Neal E. Schmale	310,900	\$ 8,391,943	66,283	\$ 3,750,312
Mark A. Snell	15,000	\$ 459,450	39,152	\$ 2,215,243
Javade Chaudhri	8,875	\$ 220,100	29,226	\$ 1,653,632
Joseph A. Householder		\$	10,588	\$ 599,052

- (A) Difference between the market value of option shares on the exercise date and the option exercise price.

(B) Market value of vesting stock (including reinvested dividends) at the vesting date.

**Table of Contents****Pension Benefits**

Our executive officers participate, along with most other employees, in our Cash Balance Plan, a broad-based tax-qualified retirement plan. Under the plan, we annually credit to a notional account for each participant an amount equal to 7.5% of the participant's salary and bonus. Account balances earn interest and are fully vested after three years of service.

In addition to the Cash Balance Plan, our executive officers participate in a Supplemental Executive Retirement Plan. Under the plan, benefits are calculated using a defined benefit formula based on final average earnings (average base salary for the 24 consecutive months of highest base salary prior to retirement plus the average of the three highest annual bonuses during the ten years prior to retirement), years of service and age at retirement of the executive officer and the officer's spouse.

Benefits under the defined benefit formula begin to vest after five years of service and attainment of age 55, with full vesting when age plus years of service total 70 or the executive attains age 60. Upon normal retirement at age 62, the annual benefit (as a percentage of final average earnings) in the form of a 50% joint and survivor annuity is 20% after five years of service, 40% after ten years of service, 50% after 15 years of service, 60% after 20 years of service, 62.5% after 30 years of service, and 65% after 40 years of service. Reduced benefits based on age and years of service are provided for retirement as early as age 55 and the completion of five years of service.

Supplemental Executive Retirement Plan participants with at least three years of service who do not meet the minimum vesting criteria under the defined benefit formula (five years of service and attainment of age 55) are entitled to a benefit equal to the benefit that would have been received under the tax-qualified Cash Balance Plan but for Internal Revenue Code limitations on pay and benefits under tax-qualified plans.

Benefits payable under the Supplemental Executive Retirement Plan are reduced by benefits payable under the Cash Balance Plan.

Retiring employees may elect to receive the retirement date present value of their vested accumulated retirement benefits in a single lump sum payment. Alternatively, they may elect an annuity that provides the actuarial equivalent of the lump sum benefit.

We summarize below the present value of accumulated benefits under our various retirement plans at December 31, 2009 for our executive officers named in the Summary Compensation Table.

Pension Benefits at Year-End	Plan	Years of Credited Service	Present Value of Accumulated Benefit (A)
<b>Donald E. Felsing</b>	Cash Balance Plan	38	\$ 1,403,173
	Supplemental Executive Retirement Plan	38	33,720,642
	Total		\$ 35,123,815 (B)
<b>Neal E. Schmale</b>	Cash Balance Plan	12	\$ 405,173
	Supplemental Executive Retirement Plan	12	11,806,377
	Total		\$ 12,211,550 (B)
<b>Mark A. Snell</b>	Cash Balance Plan	9	\$ 136,642
	Supplemental Executive Retirement Plan	9	3,690,862
	Total		\$ 3,827,504 (C)

Edgar Filing: SEMPRA ENERGY - Form DEF 14A

<b>Javade Chaudhri</b>	Cash Balance Plan	6	\$ 118,126
	Supplemental Executive Retirement Plan	6	2,859,571
	Total		\$ 2,977,697 (B)
<b>Joseph A. Householder</b>	Cash Balance Plan	9	\$ 155,256
	Supplemental Executive Retirement Plan	9	2,351,639
	Total		\$ 2,506,895 (C)

**Table of Contents**

- (A) Based upon the assumptions used for financial reporting purposes set forth in Note 9 of the Notes to Consolidated Financial Statements contained in our Annual Report to Shareholders, except retirement age has been assumed to be the earliest time at which the executive could retire under each of the plans without any benefit reduction due to age.  
Amounts shown for the Cash Balance Plan are based on the greater of the amounts payable under the plan or the sum of the present value of the accumulated benefit payable under a frozen predecessor plan plus future cash balance accruals. The amount shown for the Supplemental Executive Retirement Plan is the present value of the incremental benefit over that provided by the Cash Balance Plan.
- (B) Messrs. Felsing, Schmale and Chaudhri, who at year-end were ages 62, 63 and 57, respectively, are eligible for early retirement benefits. Had they retired at December 31, 2009 and received their benefits under the plans as a lump sum, their early retirement benefits would have been \$35,064,548 for Mr. Felsing; \$12,351,768 for Mr. Schmale; and \$2,754,285 for Mr. Chaudhri.
- (C) Messrs. Snell and Householder, who at year-end were ages 53 and 54, respectively, are vested in benefits under the Cash Balance Plan but are not vested under the Supplemental Executive Retirement Plan defined benefit formula. Had their employment terminated at December 31, 2009, Mr. Snell would have received benefits of \$660,174 and Mr. Householder would have received benefits of \$468,965.

**Nonqualified Deferred Compensation**

Our nonqualified deferred compensation plans permit executives to elect on a year-by-year basis to defer the receipt of all or a portion of their annual salary and bonus for payment in installments or in a lump sum at a future date selected by the executive at the time of the deferral election. Deferred amounts are fully vested and earn interest at a rate reset annually to the higher of 110% of the Moody's Corporate Bond Yield Average Rate or the Moody's Rate plus 1% (7.32% for 2009) or, at the election of the executive, are deemed invested in investment accounts that mirror the investment accounts available under our tax-qualified 401(k) Savings Plans in which all employees may participate.

We summarize below information regarding the participation in our nonqualified deferred compensation plans by our executive officers named in the Summary Compensation Table.

2009 Nonqualified Deferred Compensation	Executive Contributions in 2009 (A)	Company Contributions in 2009 (B)	Aggregate Earnings in 2009 (C)	Aggregate Balance at 12/31/09 (D)
Donald E. Felsing	\$ 225,488	\$ 114,534	\$ 2,420,193	\$ 18,490,327
Neal E. Schmale	\$ 51,886	\$ 63,252	\$ 1,140,453	\$ 11,417,445
Mark A. Snell	\$ 37,032	\$ 38,769	\$ 103,383	\$ 636,516
Javade Chaudhri	\$ 32,187	\$ 29,548	\$ 68,075	\$ 569,012
Joseph A. Householder	\$ 70,919	\$ 21,479	\$ 79,972	\$ 660,424

- (A) Executive contributions consist of deferrals of salary and bonus that also are reported as compensation in the Summary Compensation Table. However, timing differences between reporting bonus compensation in the Summary Compensation Table (which reports bonus amounts in the year for which they were earned) and related deferral dates (the date on which the bonuses would have been paid to the executive) may in any year result in lesser or greater amounts reported as executive contributions in the accompanying table than the amounts that have been included in compensation reported in the Summary Compensation Table. Executive contributions in 2009 that are also included as 2009 salary and bonus compensation reported in the Summary Compensation Table total \$73,688 for Mr. Felsing; \$51,886 for Mr. Schmale; \$37,032 for Mr. Snell; \$32,187 for Mr. Chaudhri; and \$27,689 for Mr. Householder.
- (B) Company contributions are identical to the amounts that the executive would have received under our tax-qualified 401(k) Savings Plan but for maximum dollar limitations on amounts that may be deferred under tax-qualified plans. These contributions are also reported as compensation in the Summary Compensation Table.

- (C) Earnings are measured as the difference in deferred account balances between the beginning and the end of the year minus executive and company contributions during the year. Earnings consisting of above-market interest are reported in the Summary Compensation Table. Excluding above-market interest, earnings for 2009 were \$2,230,040 for Mr. Felsing; \$943,395 for Mr. Schmale; \$97,595 for Mr. Snell; \$59,927 for Mr. Chaudhri; and \$75,740 for Mr. Householder. These earnings are not reported in the Summary Compensation Table.

---

**Table of Contents**

(D) Year-end balances consist of executive and company contributions and earnings on contributed amounts. All contributions and all earnings that consist of above-market interest have been included in the Summary Compensation Table for 2009 or prior years or would have been so included had the current reporting requirements been applicable to the executive. Such amounts that have or would have been reported in Summary Compensation Tables are \$5,215,659 for Mr. Schmale; \$473,553 for Mr. Snell; \$472,057 for Mr. Chaudhri; and \$503,477 for Mr. Householder. They are estimated to be no less than \$9,650,053 for Mr. Felsinger.

**Severance and Change in Control Benefits**

We have a severance pay agreement with each of our executive officers named in the Summary Compensation Table. Each agreement is for a term of two years and is automatically extended for an additional year upon each anniversary of the agreement unless we or the executive elect not to extend the term.

The severance pay agreements provide executives with severance benefits in the event that we were to terminate the executive's employment during the term of the agreement for reasons other than cause, death or disability or the executive were to do so for good reason as defined in the agreement. The nature and amount of the severance benefits vary somewhat with the executive's position, and increased benefits are provided if the executive enters into an agreement with the company to provide consulting services for two years and abide by certain covenants regarding non-solicitation of employees and information confidentiality. Additional benefits are also provided if the termination of employment were to occur within two years of a change in control of the company.

The definitions of cause and good reason vary somewhat based on whether the termination of employment occurs before or after a change in control of the company. However, cause is generally defined to include a willful and continued failure by the executive to perform his or her duties to the company, and good reason is generally defined to include adverse changes in the executive's responsibilities, compensation and benefit opportunities, and certain changes in employment location. A change in control is defined in the agreements to include events resulting in a change in the effective control of the company or a change in the ownership of a substantial portion of the company's assets.

Our stock option, restricted stock, and restricted stock unit agreements provide that all stock options would become immediately exercisable and all forfeiture and transfer conditions on restricted stock and restricted stock units would immediately terminate upon a change in control of the company, whether or not accompanied or followed by a termination of the executive's employment.

Below we summarize the benefits each of our executive officers named in the Summary Compensation Table would have been entitled to receive had we terminated his employment (other than for cause, death or disability) at December 31, 2009 or had the executive done so for good reason, and the benefits each executive would have been entitled to receive had the termination occurred within two years following a change in control of the company. These amounts assume the executive had entered into a two-year consulting, non-solicitation and confidentiality agreement providing for enhanced severance benefits and the enhanced benefits would not be subject to excise taxes for which the executive would be entitled to reimbursement. We also show the benefits that each executive would have been entitled to receive (accelerated vesting and exercisability of stock options and vesting of restricted stock and restricted stock units) had a change in control of the company occurred on December 31, 2009 whether or not accompanied or followed by a termination of the executive's employment.

**Table of Contents**

Severance and Change in Control Benefits	Termination of Employment by the Company Without Cause or by the Executive Officer for Good Reason Unrelated		Change in Control
	to a Change in Control	Change in Control	Only  (Without Termination of Employment)
<b>Donald E. Felsing</b>			
Lump Sum Cash Payment (A)	\$ 6,664,800	\$ 10,008,800	\$
Acceleration of Existing Equity Awards (B)		20,355,065	20,355,065
Enhanced Retirement Benefits (C)			
Health & Welfare Benefits (D)	45,681	76,190	
Financial Planning (E)	50,000	75,000	
Outplacement	50,000	50,000	
Total	\$ 6,810,481	\$ 30,565,055	\$ 20,355,065
Excise Tax Gross-Up (F)		\$ 10,954,931	
<b>Neal E. Schmale</b>			
Lump Sum Cash Payment (A)	\$ 4,170,533	\$ 6,413,067	\$
Acceleration of Existing Equity Awards (B)		10,353,122	10,353,122
Enhanced Retirement Benefits (C)			
Health & Welfare Benefits (D)	36,636	62,712	
Financial Planning (E)	50,000	75,000	
Outplacement	50,000	50,000	
Total	\$ 4,307,169	\$ 16,953,901	\$ 10,353,122
Excise Tax Gross-Up (F)			
<b>Mark A. Snell</b>			
Lump Sum Cash Payment (A)	\$ 2,666,533	\$ 4,054,267	\$
Acceleration of Existing Equity Awards (B)		7,617,458	7,617,458
Enhanced Retirement Benefits (C)		4,452,650	
Health & Welfare Benefits (D)	45,681	94,811	
Financial Planning (E)	50,000	75,000	
Outplacement	50,000	50,000	
Total	\$ 2,812,214	\$ 16,344,186	\$ 7,617,458
Excise Tax Gross-Up (F)		\$ 7,335,723	2,971,653
<b>Javade Chaudhri</b>			
Lump Sum Cash Payment (A)	\$ 2,295,667	\$ 3,572,533	\$
Acceleration of Existing Equity Awards (B)		4,599,825	4,599,825
Enhanced Retirement Benefits (C)		935,766	
Health & Welfare Benefits (D)	45,681	97,178	
Financial Planning (E)	50,000	75,000	
Outplacement	50,000	50,000	
Total	\$ 2,441,348	\$ 9,330,302	\$ 4,599,825
Excise Tax Gross-Up (F)		\$ 3,461,730	
<b>Joseph A. Householder</b>			
Lump Sum Cash Payment (A)	\$ 1,282,450	\$ 1,727,700	\$
Acceleration of Existing Equity Awards (B)		3,782,562	3,782,562
Enhanced Retirement Benefits (C)		2,865,986	
Health & Welfare Benefits (D)	34,261	63,601	

Edgar Filing: SEMPRA ENERGY - Form DEF 14A

Financial Planning (E)	37,500	50,000	
Outplacement	50,000	50,000	
Total	\$ 1,404,211	\$ 8,539,849	\$ 3,782,562
Excise Tax Gross-Up (F)		\$ 3,563,550	

**Table of Contents**

- (A) Severance payment ranging from 1.5 to two times (from two to three times following a change in control) the sum of annual base salary and the average of the last three incentive bonuses. Excludes payment of bonus earned in the year of termination.
  
- (B) Fair market value at December 31, 2009 of performance-based restricted stock and shares subject to performance-based restricted stock units for which forfeiture restrictions would terminate, and the difference between the fair market value at that date and the exercise price of stock options that would become exercisable. Stock option amounts include those attributable to fully vested but otherwise not yet exercisable options held by retirement eligible executives. Such amounts are \$1,583,619 for Mr. Felsing; \$775,569 for Mr. Schmale; and \$344,695 for Mr. Chaudhri. For additional information regarding options held by retirement eligible executives, please see Note A to Outstanding Equity Awards at Year-End.
  
- (C) For Messrs. Snell, Chaudhri and Householder, the amount shown for termination accompanied by a change in control is the incremental actuarial value assuming that they had attained age 62, but reduced for applicable early retirement factors.
  
- (D) Estimated value associated with continuation of health benefits for two years for termination unrelated to a change in control and continuation of health, life, disability and accident benefits for three years for termination accompanied by a change in control.
  
- (E) Estimated value associated with continuation of financial planning services for two years for termination unrelated to a change in control, and three years for termination accompanied by a change in control.
  
- (F) Gross-up payment to fully reimburse the executive for excise taxes associated with change in control payments that exceed 2.99 times the executive's five-year average compensation. The executive is not reimbursed for other taxes associated with the amounts shown in the Total line.

Executive officers who voluntarily terminate their employment (other than for good reason) or whose employment is terminated by death or by the company for cause are not entitled to enhanced benefits.

This Notice of Annual Meeting and Proxy Statement are sent by order of the Sempra Energy Board of Directors.

Randall L. Clark

*Corporate Secretary*

Dated: March 15, 2010

**Table of Contents**

**Table of Contents**

**Table of Contents**

**ANNUAL MEETING OF SHAREHOLDERS OF**

**SEMPRA ENERGY**

**May 12, 2010**

**PROXY VOTING INSTRUCTIONS**

**INTERNET** - Access **www.voteproxy.com** and follow the on-screen instructions. Have your proxy card available when you access the web page, and use the Company Number and Account Number shown on your proxy card.

**TELEPHONE** - Call toll-free **1-800-PROXIES** (1-800-776-9437) in the United States and Canada or **1-718-921-8500** from other countries from any touch-tone telephone and follow the instructions. Have your proxy card available when you call and use the Company Number and Account Number shown on your proxy card.

**COMPANY NUMBER**

**ACCOUNT NUMBER**

**MAIL** - Sign, date and mail your proxy card in the envelope provided as soon as possible.

**IN PERSON** - You may vote your shares in person by attending the Annual Meeting.

**NOTICE REGARDING INTERNET AVAILABILITY OF PROXY MATERIALS: The notice of meeting, proxy statement, proxy card and annual report to shareholders are available at**

**<http://www.amstock.com/ProxyServices/Sempra>.**

Û Please detach along perforated line and mail in the envelope provided **IF** you are not voting by telephone or the Internet. Û

¢

051210

Edgar Filing: SEMPRA ENERGY - Form DEF 14A

THIS PROXY WHEN PROPERLY EXECUTED WILL BE VOTED IN THE MANNER DIRECTED HEREIN BY THE UNDERSIGNED SHAREHOLDER(S).

IF NO DIRECTION IS MADE, THIS PROXY WILL BE VOTED FOR ITEMS 1 AND 2 AND AGAINST ITEM 3.

PLEASE SIGN, DATE AND RETURN PROMPTLY IN THE ENCLOSED ENVELOPE. PLEASE MARK YOUR VOTE IN BLUE OR BLACK INK AS SHOWN HERE x

**THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR PROPOSAL 1.**

1. Election of Directors:	FOR	AGAINST	ABSTAIN
01. James G. Brocksmith Jr.	..	..	..
02. Donald E. Felsing	..	..	..
03. Wilford D. Godbold Jr.	..	..	..
04. William D. Jones	..	..	..
05. William G. Ouchi	..	..	..
06. Carlos Ruiz	..	..	..

FOR AGAINST ABSTAIN

**THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR PROPOSAL 2.**

07. William C. Rusnack	..	..	..
08. William P. Rutledge	..	..	..
09. Lynn Schenk	..	..	..
10. Neal E. Schmale	..	..	..

2. Ratification of Independent Registered Public Accounting Firm. .. ..

**THE BOARD OF DIRECTORS RECOMMENDS A VOTE AGAINST PROPOSAL 3.**

3. Shareholder Proposal for an Advisory Vote on Executive Compensation .. ..

To change the address on your account, please check the box at right and indicate your new address in the address space above. Please note that changes to the registered name(s) on the account may not be submitted via this method.

..

MARK X HERE IF YOU PLAN TO ATTEND THE MEETING. ..

MARK X HERE IF YOU WANT CONFIDENTIAL VOTING. ..

Signature of Shareholder

Date:

Signature of Shareholder

Date:

**Note:** Please sign exactly as your name or names appear on this Proxy. When shares are held jointly, each holder should sign. When signing as executor, administrator, attorney, trustee or guardian, please give full title as such. If the signer is a corporation, please sign full corporate name by duly authorized officer, giving full title as such. If signer is a partnership, please sign in partnership name by authorized person.

¢