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April 17, 2009

Florence E. Harmon, Acting Secretary
Securities and Exchange Commission
101 F Street, NE
Washington, DC 20549-1090

Submitted via email to rule-comments@sec.gov

Re: FILE NO. S7-27-08
Roadmap for the Potential Use of Financial Statements Prepared in Accordance with International Financial Reporting Standards by U.S. Issuers

Dear Ms. Harmon,

Sempra Energy appreciates the opportunity to respond to the request for comment by the Securities and Exchange Commission (the Commission) regarding the *Roadmap for the Potential Use of Financial Statements Prepared in Accordance with International Financial Reporting Standards by U.S. Issuers* (the Proposed Roadmap).

Sempra Energy is a Fortune 500 energy services holding company whose subsidiaries provide electricity, natural gas, and energy products and services. Through our subsidiaries and joint ventures, we serve more than 29 million consumers worldwide. The Sempra Energy Utilities, indirectly owned subsidiaries of Sempra Energy, include **Southern California Gas Company**, a regulated natural gas utility that serves 20.5 million consumers through 5.7 million natural gas meters in central and southern California, and **San Diego Gas & Electric Company**, a regulated utility that provides service to 3.4 million consumers through 1.4 million electric meters in San Diego and southern Orange counties, and 840,000 natural gas meters in San Diego County.

Sempra Energy supports the Commission's goal of a single set of high-quality global accounting standards. We believe that the use of a single, widely accepted set of high-quality accounting standards would benefit both the global capital markets and U.S. investors by providing a common basis for investors, issuers and others to evaluate financial information. With a single set of standards, investors would be able to more easily compare information and make better, more informed, investment decisions.

The Proposed Roadmap outlines one approach to achieving that goal – the possible adoption of International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) by all U.S. public issuers. Currently, we do not believe that this approach is the best way to advance towards one set of high-quality global accounting standards. We believe that convergence through continuation of the joint standard-setting efforts of the Financial Accounting Standards Board (FASB) and the IASB is a better alternative. We would like to provide the Commission the following comments related to our preference of convergence rather than conversion to IFRS:

1. Convergence of U.S. GAAP and IFRS is currently in progress.

The FASB and IASB (referred to jointly as "the Boards") stated in the 2002 Norwalk Agreement and the 2006 Memorandum of Understanding that a common set of high-quality global standards would be their top priority. Since 2002, the majority of the Boards' resources have been focused on convergence and developing compatible accounting standards. In addition to short-term convergence projects designed to eliminate a variety of individual differences between U.S. GAAP and IFRS, several long-term joint projects have been added to the agenda to improve significant areas of financial reporting, such as revenue recognition, financial statement presentation, and lease accounting. Currently, there are eleven major convergence projects in progress with a target adoption date of 2012 or before on the agendas of both the IASB and the FASB that could fundamentally change accounting under both U.S. GAAP and IFRS. We believe that if this timeline is met, the convergence approach we recommend may be accomplished on approximately the same timeline the Proposed Roadmap suggests for conversion.

We recommend that the Commission allow the Boards latitude to continue to make progress towards convergence via the current system of due process. This will give the Boards the resources necessary to deliberate the issues before they conclude on the best accounting approach and issue guidance. It will also give constituents the opportunity to voice their opinions and provide recommendations to the Boards through the system of due process. We believe that accounting guidance issued by the joint Boards, derived from a system of due process, will result in a higher quality set of global accounting standards.

Further, we recommend that the Commission monitor the Boards' progress and support the discipline necessary to ensure that the agreed-upon completion timelines are met. In addition, we believe that the Commission should urge the FASB to issue new standards that are not inconsistent or divergent from IFRS. Managing the goal of issuing unbiased standards that represent best accounting practices with that of trying to proceed down the path of convergence will present challenges to the FASB. However, we believe that with the support of the Commission, convergence to one set of high-quality global accounting standards can be obtained.

2. IFRS is not a set of high-quality global accounting standards, and their adoption would subject companies to standards for which they had no participation in the standard-setting process.

In order to conclude that a set of accounting standards are of high quality, we believe that they should be sufficiently comprehensive and compatible with the environment in which they are applied.

Currently, there is guidance and other accounting literature available under U.S. GAAP that IFRS does not provide. For example, IFRS provides limited guidance in certain areas such as accounting for cost-based rate-regulated entities. Under the provisions of FASB Statement No. 71, *Accounting for the Effects of Certain Types of Regulation*, (SFAS 71), a regulated entity, including utilities, records a regulatory asset if it is probable that, through future revenues, the regulated entity will recover that asset from customers and records a regulatory liability for reductions in future revenues for amounts due to customers. SFAS 71 has significant influence on the Sempra Utilities' financial statements and, therefore, on the consolidated financial statements of Sempra Energy. Currently, there is no equivalent guidance under IFRS.

Our review of the potential application of IFRS to utility companies here in the U.S. leads us to conclude that the result is materially different and misleading. For example, the California Public Utilities Commission's (CPUC) regulations permit the utility companies under its jurisdiction to recover the entire cost of electric power and natural gas delivered to their customers. However, in any given period, the billing rate associated with its cost of the commodity delivered is estimated and will be different than the actual cost incurred to procure the commodity. The difference between the actual commodity costs incurred and the amount billed to customers is recorded in a regulatory balancing account and any over/under collected amount is factored into the next billing cycle resulting in a regulatory accounts receivable. It does not appear that IFRS permits the use of regulatory accounts, and the difference between the billing rate and the actual cost of natural gas flows through earnings. We believe many of the larger European utility companies that apply IFRS do not see significant volatility of earnings even without the use of regulatory accounts because of the vast size of their facilities and highly diversified area of operations, combined with a different regulatory compact.

On the contrary, U.S. utility companies are smaller in size and operate under a very different regime subject to oversight and regulation. If they were to apply IFRS, the difference between the billing rate and the actual cost of natural gas would flow through earnings. This would result in significantly higher earnings volatility and distortions to reported periodic net earnings and shareholders' equity. Shareholders would incorrectly perceive the earnings volatility as an increase in performance risk and demand higher returns, resulting in less efficient capital markets. In our opinion, this would be inconsistent with one of the goals indentified in the Roadmap – one set of high-quality global standards to facilitate more efficient capital markets.

We recognize that the IASB recently added to its agenda a project to discuss cost-based rate-regulated entities and some of the issues discussed above. However, we anticipate that it will be some time before the IASB will deliberate and issue any related guidance. As a result, we do not believe that current IFRS are sufficiently comprehensive for application in our industry.

There are other examples of circumstances for which IFRS provides limited guidance, such as accounting for investment companies, extractive industries, and insurance companies, that we suspect may pose similar challenges.

In addition to lacking specific guidance, certain aspects of IFRS would be difficult to apply in the U.S. For example, IFRS on contingent liabilities are incompatible with the legal environment in the U.S. International Accounting Standards No. 37, *Provisions, Contingent Liabilities and Contingent Assets* (IAS 37), requires that financial statement disclosures include information regarding litigation not currently required under GAAP, such as specific claim amounts and information about the reimbursable amounts under an insurance policy. Given the legal environment here in the U.S., this information could potentially damage the nature of legal proceedings and give one party significant advantage over another.

Accounting guidance issued by the joint Boards through a system of due process could address these problems. The nature of due process would allow constituents the opportunity to request that the Boards provide specific topic or clarification guidance. In addition, constituents would play a part in educating the Boards, so that any issued accounting guidance would be consistent and workable within the current and applicable legal and economic environments.

Rather than requiring the adoption of IFRS, we believe that the convergence process would provide a better foundation for one set of high-quality global accounting standards that are sufficiently comprehensive.

<u>3. Convergence will result in less costly implementation.</u>

The Commission has received many comments identifying and discussing the issues and related costs associated with converting to IFRS. Converting to IFRS could possibly be the single most costly and extensive change to accounting that our profession has yet to experience. Companies would be faced with significant implementation costs, including the costs to run parallel U.S. GAAP/IFRS systems, external advisors and educating investors and shareholders. Regulated industries that are required to provide financial information to regulators would be burdened with an additional layer of costs incurred by having to either educate regulators on IFRS financial statements or, possibly, compile another set of financial statements under the accounting rules required by regulators. As discussed above, one half of Sempra Energy's businesses are cost-based rate-regulated and as a result, there would be significant costs associated with preparing two sets of financial statements, one under IFRS for reporting purposes and another under U.S. GAAP for regulator use.

We note that while we support establishing a single set of high-quality accounting standards, the capital market efficiency gains desired are not obvious to us at this time. Our investors and lenders have not expressed any preference to see our financial reporting converted to an IFRS presentation.

Particularly in light of the current economic crisis, we are more cautious about all expenditures, especially those that do not provide shareholders with a clear return. We believe that following the path of convergence would be significantly more cost-effective than the alternative one-time conversion. Global accounting standards would be adopted over time, as each new standard or piece of guidance is issued by the Boards. Companies would incur the costs of converging over time versus the large capital outlay required to convert to IFRS. A convergence adoption process requires no modification of the existing process used to implement new or revised accounting standards.

4. Constituency training and understanding of global standards will be less burdensome and more orderly.

The Proposed Roadmap identifies the various groups of stakeholders who would need training and education should the Commission decide to require companies to convert to IFRS. Those identified in the Roadmap include students, university professors, investors, issuers' personnel and governing bodies, auditors, rating agencies, investment and research analysts, actuaries, valuation experts, lawyers and regulators' personnel. Significant resources and time would be required in order to educate and train such a large group on IFRS. Moving to one set of global standards through a steady stream of new joint standards issued by the Boards would lessen the burden for all those identified in the Roadmap. Training, education and understanding of the new guidance would be more orderly and evolve as the standards are issued.

5. The option of early adoption of IFRS for some large public companies and the delayed adoption of IFRS for small private companies could result in comparability issues.

As currently drafted, the Proposed Roadmap permits the limited early use of IFRS in certain circumstances. This option could create the potential for a dual standard reporting system for an extended period of time which would result in comparability issues, unnecessary complexity, and additional costs for investors and other market participants. These results would be inconsistent with the original goal indentified in the Roadmap – one set of high-quality global standards so that investors can more easily compare information and make better, more informed, investment decisions.

In addition, the Roadmap states that small private companies would not be required to adopt IFRS for some time after the adoption by large publicly held companies. This staggered implementation could also present significant comparability challenges. Convergence through continued efforts of the Boards would mitigate many of these issues, as all issuers, large and small, public and private, would adopt standards over time, simultaneously, as each one is issued by the joint Boards.

6. The Commission and the International Accounting Standards Committee Foundation (IASC) would have sufficient time and resources to create one joint oversight body.

In the U.S., the Commission has a responsibility under securities laws to protect the investors in the U.S. market and the authority to set accounting standards for financial statements filed with the Commission, which it does through its oversight of the FASB. Currently, the IASB is overseen by the IASC, which has no link with securities regulators. We share the Commission's concern that the existing IASC/IASB structure does not provide the regulatory and statutory safeguards, due process and oversight that is provided by the Commission here in the U.S. The Commission has mentioned that they have recommended that the IASC trustees make amendments to include an oversight body, or monitoring group, composed of securities authorities charged with the adoption and recognition of impartial accounting standards. We support the Commission's recommendation and urge the Commission to take part in the development of such a group of global regulators. We believe that creation of an oversight body, one that is robust, sustainable and independent, is essential to ensure the development of one set of high-quality global accounting standards.

In conclusion, Sempra Energy supports the Commission's goal of a single set of high-quality global accounting standards and we applaud the Commission for taking steps towards obtaining this goal. We believe that convergence through continuation of the joint standard-setting efforts of the FASB and the IASB is the best approach towards a single set of high-quality standards. We appreciate the opportunity to provide comments.

Thank you for your consideration.

Very truly yours,

[s] Joseph A. Householder

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Sempra Energy

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