For the year ended December 31
1938

The sole purpose of this report is to give present shareholders information about their company. This report is not a representation or prospectus or circular in respect of any stock or bond of this corporation, and it is not transmitted either in connection with any sale or offer to sell or buy any stock or security now or hereafter to be issued, or in connection with any preliminary negotiation for such sale or purchase.
SOUTHERN CALIFORNIA GAS COMPANY
810 South Flower Street
Los Angeles, California

DIRECTORS

A. C. BALCH
F. M. BANKS *
ADDISON B. DAY *
LEROY M. EDWARDS *
STANLEY W. GUTHRIE

W. E. HOUGHTON
HAROLD JANS
A. B. MACBETH *
H. L. MASSER *
BEN R. MEYER

C. O. G. MILLER
R. W. MILLER *
WILLIAM MOELLER, JR. *
STUART O'MELVENY
T. J. REYNOLDS *

OFFICERS

ADDISON B. DAY . . . . . . . Chairman of Board of Directors
A. B. MACBETH . . . . . . . President and General Manager
H. L. MASSER . . . . . . . Executive Vice President
R. W. MILLER . . . . . . . Vice President
LEROY M. EDWARDS, Vice President and Special Counsel
W. E. HOUGHTON . . . . . . . Vice President
T. J. REYNOLDS . . . . . . . Vice President and General Counsel
WILLIAM MOELLER, JR. . . . . . . . Vice President
F. M. BANKS . . . . . . . Vice President
F. E. SEAVER . . . . . . . Secretary
E. N. SIMMONS . . . . . . . Comptroller
L. D. ROMIG . . . . . . . Treasurer
R. R. BLACKBURN . . . . . . . Assistant Secretary
R. D. MCGUIRE . . . . . . . Assistant Secretary
L. B. WILSON . . . . . . . Assistant Treasurer
H. L. PHELPS . . . . . . . Assistant Treasurer

REGISTRARS OF 6% SERIES A CUMULATIVE PREFERRED STOCK

American Trust Company
San Francisco, California

Irving Trust Company
New York, N. Y.

Security-First National Bank†
Los Angeles, California

TRANSFER AGENTS OF 6% SERIES A CUMULATIVE PREFERRED STOCK

Pacific Lighting Corporation
San Francisco, California

Manufacturers Trust Company
New York, N. Y.

Office of the Company‡
Los Angeles, California

*Member of Executive Committee.
†Also Registrar of 6% Cumulative Preferred Stock.
‡Also Transfer Agent of 6% Cumulative Preferred Stock.
TO THE SHAREHOLDERS:

THIS REPORT for the year 1938, together with certified Balance Sheet and Statements of Income and of Surplus, covers the first full year of unified operation of the properties of the Southern California Gas Company and the gas properties of the former Los Angeles Gas and Electric Corporation which were merged on May 13, 1937.

The certified Statement of Income for the 12 months ended December 31, 1938, shows net income of $6,073,719. This represents an increase of $715,803 over comparative earnings of $5,357,916 for the 12 months ended December 31, 1937, as reported on page 3 of the annual report for 1937.

REVENUES

Total gross revenues in 1938 declined more than $750,000 in comparison with the previous year. Of this total, there was a decrease of $725,000 in revenues from industrial customers, and a very small decline in domestic and commercial revenues.

Fluctuations in industrial revenues do not proportionately affect net earnings since gas used for industrial purposes is sold at a small margin over cost. The advantage of this arrangement is that it permits your Company to have available immediately large supplies of natural gas for the requirements of domestic and commercial customers during periods of cold weather. Gas is sold to industries under contracts stipulating the immediate diversion of gas whenever necessary.

The total number of independent active gas meters in service was 698,960 as of December 31, 1938, an increase for the year of 23,696, or 3.5%.

OPERATING EXPENSES

Operating expenses for 1938, totaling $18,019,396, were down $1,483,807 from 1937 expenses for gas operations. Smaller purchases of gas resulting from the reduced industrial demand accounted for the major part of this decrease.

The unprecedented flood of March 2 and 3, 1938, caused extensive damage to your Company's facilities, particularly to transmission and distribution pipelines. However, our organization was able to maintain uninterrupted service to more than 90% of all domestic and commercial customers throughout the duration of the emergency, and service was restored in most of the affected areas within two days. Cost of property destroyed, repairs, and other losses approximated $105,000, for which there was adequate provision in your Company's reserve accounts.
SOUTHERN CALIFORNIA GAS COMPANY

TAXES

Tax expense reached a new high level in 1938, amounting to $4,942,695 in comparison with $4,933,712 for 1937. Equivalent to an outlay of more than $13,500 a day last year, taxes represented 14.2% of gross revenues, compared with 13.9% in the previous year.

INTEREST AND AMORTIZATION

Interest and amortization of bond discount and expense totaled $1,400,229 for 1938. This is a decrease of $124,933 from similar charges for 1937, due to the retirement of all of the bonds of the former Los Angeles Gas and Electric Corporation at the time of the sale of its electric properties in January of that year.

ADDITIONS, BETTERMENTS AND REPLACEMENTS

Gross expenditures for additions, betterments and replacements amounted to $3,851,352 in 1938 compared with $5,169,861 in the previous year, including the former Los Angeles Gas and Electric Corporation prior to the merger. Transmission pipelines were installed to connect with additional oil and gas fields in the San Joaquin Valley. Four new commercial offices were built and five were modernized. In addition, construction of three distribution offices in various parts of the system were undertaken, as well as necessary extensions and replacements of distribution lines, mains and services.

It is estimated that an expenditure of about $4,300,000 will be required for your Company's 1939 improvement program, covering additions, betterments and replacements.

NATURAL GAS SUPPLY

Deeper zone developments and additional field discoveries continued to add to the Company’s source of natural gas supply during 1938. Of particular interest is a deeper zone development in the Kettleman Hills North Dome field, the state's largest reserve. The great depth of producing formations discovered in the Wasco field opens up the possibility of new lower zones in existing fields in the southern part of the San Joaquin Valley. As a result of continued exploration and drilling activities of the oil industry during the past year, the known gas reserves available for the future requirements of our customers have shown a substantial increase.

LABOR SITUATION

In 1937 a new local of the Utility Workers' Organizing Committee, affiliated with the CIO, began organization efforts among "production" employees in the central division of your Company, and last year the union applied to the National Labor Relations Board for certification as exclusive bargaining agent. Hearings before the board in May and June 1938 were followed by an order by that body on January 14, 1939 for an election to determine whether the union had a majority among certain production employees in the central division, the National Labor Relations Board claiming jurisdiction on the ground that the Company supplies gas as fuel to industries engaged in interstate commerce.
ANNUAL REPORT FOR 1938

On February 10, the board announced that the union received 779 votes. This represents 58% of the 1,332 employees who were allowed to vote under conditions laid down by the National Labor Relations Board.

The actual showing of an 8% majority in payroll classifications of the CIO's own choosing has resulted in a certification from the National Labor Relations Board naming that union as the exclusive bargaining agent for all such production employees. The Company contends that it is not subject to the jurisdiction of the board, and this probably will throw the case into the courts.

Since there are legal questions to be settled, particularly as to the jurisdiction of the board itself, and since an 8% majority in a group of 1,332 employees does not express the preference of the 4,400 Company employees who have an interest in collective bargaining, the Company will continue to deal with the CIO and other employee groups only to the extent of their memberships.

UNIFORM PENSION AND BENEFIT PLAN

The Uniform Pension and Benefit Plan was further revised as of January 1, 1938, to accommodate the pension benefits provided by the Federal Social Security Act and to make some further extensions of the benefits under the Plan. The principal improvements and changes were:

1. Permitting employees to participate after one year of service, instead of two years as heretofore.
2. All minimums increased $10.00 per month for retirement and disability benefits becoming effective on and after January 1, 1938, thereby raising the pension and disability minimums from $45.00 to $55.00 per month for those who will have had 20 years of service at normal retirement date.
3. Change in the normal retirement date (not age) to make it correspond with the retirement date under the Federal Social Security Act.
4. Advance in normal retirement age for women to provide for their retirement at age 55.

Since the inception of the Plan, 205 employees who have reached normal retirement date have been provided with retirement incomes; 234 employees whose non-occupational illness or accident disabilities were of 90 days or more duration have received disability benefits (in addition to time off allowances for shorter absences); and the beneficiaries of 141 employees and pensioners have received life insurance benefits.

Employees' contributions to the Benefit Plan remain at 3% of their present wages, with 1% on the first $3,000 of annual wages being paid to the Federal government for Social Security taxes, and the remainder being paid to the insurance company. The contributions made to the insurance company are returned with interest to the employee if he should leave the service of the Company, and to his beneficiary if he should die. The employees' contributions cover the minor portion of the pensions' cost, while the employer's contributions cover the remainder of the cost of pensions and the full cost of the death and disability benefits.
SALES PROMOTION

The large volume of new dwelling construction maintained during 1937 continued throughout 1938 at a markedly accelerated pace. Total units completed during the year amounted to 21,144, as compared with the 16,747 completed during 1937, an increase in excess of 26%. Special attention is given by the sales organization to insuring that gas appliances are installed in these new homes.

Despite the fact that an extremely high percentage of these new homes installed gas appliances for the four main jobs of cooking, water heating, house heating and refrigeration, cumulative totals on gas appliance sales by Company and dealer outlets showed slight decreases as compared with similar figures for the previous 12 month period.

Appliance sales by all agencies throughout the territory of this and affiliated companies in Southern California were approximately as follows:

- Gas ranges: 72,000
- Gas refrigerators and water heaters: 87,200
- Central heating and floor furnaces: 18,000
- Gas space heaters: 105,000

The financing of instalment appliance sales for periods of four and five years was discontinued during the year except where competitive appliances are still being offered on such terms under plans sponsored by the Federal government. Net investment in appliance contracts was reduced during the year by approximately $2,000,000 through shortened terms and Bank of America financing.

Sales promotional activities included a number of special campaigns, sales training programs, a full schedule of advertising, and an aggressive home service program. Principal sales campaign was the "CP" (certified performance) gas range promotion which tied-in with the national advertising and publicity program of the American Gas Association, and resulted in the introduction of a large number of modern gas cooking units in homes over the system. Ranges of this type will be energetically pushed throughout the year.

Respectfully submitted,

A. B. Macbeth, President and General Manager.
ACCOUNTANTS' CERTIFICATE

SOUTHERN CALIFORNIA GAS COMPANY:

We have made an examination of the balance sheet of Southern California Gas Company as of December 31, 1938 and of the related statements of income and of surplus for the year 1938. In connection therewith, we made a review of the accounting methods and examined or tested accounting records of the Company and other supporting evidence in a manner and to the extent which we considered appropriate in view of the system of internal accounting control.

In our opinion, based upon such examination, the accompanying balance sheet and related statements of income and of surplus fairly present, in accordance with accepted principles of accounting consistently followed by the Company, its financial condition at December 31, 1938 and the results of its operations for the year ended that date.

March 15, 1939.

HASKINS & SELLS
## ASSETS

### PLANT PROPERTIES (including $8,136,756.15 franchises and intangibles)

$140,161,603.41

### INVESTMENTS IN SECURITIES — at cost

$41,828.59

### CURRENT ASSETS:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>$1,806,366.07</td>
</tr>
<tr>
<td>Accounts and notes receivable</td>
<td>$9,021,550.00</td>
</tr>
<tr>
<td>Less reserve</td>
<td>1,883,467.79</td>
</tr>
<tr>
<td>Materials and supplies (including construction materials) at cost</td>
<td>1,309,476.30</td>
</tr>
<tr>
<td>Total current assets</td>
<td>10,253,724.58</td>
</tr>
</tbody>
</table>

### DEFERRED CHARGES:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unamortized bond discount and expense</td>
<td>$1,238,062.04</td>
</tr>
<tr>
<td>Net discount on preferred capital stock</td>
<td>1,702,187.14</td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>213,512.97</td>
</tr>
<tr>
<td>Total deferred charges</td>
<td>3,153,762.15</td>
</tr>
</tbody>
</table>

**TOTAL** $153,610,918.73

Investments in securities include $30,632.31, representing the cost of securities deposited with the Treasurer of the State of California in connection with the issuance of a certificate of self-insurance as required by the Workmen's Compensation Insurance and Safety Act.
GAS COMPANY
in California
DECEMBER 31, 1938

LIABILITIES

CAPITAL STOCK:
Preferred:
6% cumulative—Old series (authorized, 160,000 shares
of $25.00 each; outstanding, 159,956 shares)........... $ 3,998,900.00
6% cumulative—Series A (authorized, 2,240,000 shares
of $25.00 each; outstanding, 783,032 shares)........... 19,575,800.00
Common (authorized, 1,600,000 shares of $25.00 each; out-
standing, 1,152,000 shares).......................... 28,800,000.00
Total capital stock.............................................. $ 52,374,700.00

FUNDED DEBT—FIRST MORTGAGE AND REFUNDING BONDS:
41/2% series, due March 1, 1961............... $12,500,000.00
4% series, due August 1, 1965 ................. 15,000,000.00
Total funded debt.......................................... 27,500,000.00

CURRENT LIABILITIES:
Accounts payable........................................... $ 2,240,060.73
Due to Pacific Lighting Corporation............. 1,489,967.70
Accrued accounts:
Bond interest ........................................... 437,500.00
Taxes ...................................................... 3,882,643.62
Dividends payable ....................................... 353,622.08
Consumers' deposits and construction advances... 650,857.01
Total current liabilities................................ 9,054,651.14

RESERVES:
Retirements ................................................ $50,295,240.93
Insurance .................................................. 1,835,484.07
Contingencies ............................................. 896,615.24
Total reserves ............................................. 53,027,340.24

CAPITAL SURPLUS:
Premium on common capital stock.................. $ 2,400,000.00
Donations in aid of construction.................... 2,402,097.47
Total capital surplus .................................. 4,802,097.47

EARNED SURPLUS ........................................ 6,852,129.88
TOTAL ..................................................... $153,610,918.73

Accounts receivable include approximately $3,100,000 of instalment accounts due subsequent to 1939, and the related reserve
includes unearned carrying charges.

At December 31, 1938 the Company had a contingent liability of approximately $1,150,000 as guarantor on instalment con-
tracts financed by bank.
SOUTHERN CALIFORNIA GAS COMPANY

STATEMENT OF INCOME
FOR THE YEAR ENDED DECEMBER 31, 1938

GROSS OPERATING REVENUE: $34,682,314.64

DEDUCT:

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating expenses</td>
<td>$16,980,631.91</td>
</tr>
<tr>
<td>Maintenance and repairs</td>
<td>1,038,763.88</td>
</tr>
<tr>
<td>Taxes (including Federal taxes on income)</td>
<td>4,942,695.34</td>
</tr>
<tr>
<td>Provision for retirements</td>
<td>4,251,575.98</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>27,213,667.11</strong></td>
</tr>
</tbody>
</table>

NET OPERATING REVENUE: $7,468,647.53

OTHER INCOME (NET): 5,300.34

TOTAL: $7,473,947.87

DEDUCT:

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bond interest</td>
<td>$1,162,500.00</td>
</tr>
<tr>
<td>Amortization of bond discount and expense</td>
<td>231,156.83</td>
</tr>
<tr>
<td>Other interest</td>
<td>19,517.24</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>1,413,174.07</strong></td>
</tr>
<tr>
<td>Less interest charged to construction</td>
<td>12,945.05</td>
</tr>
<tr>
<td><strong>Remainder</strong></td>
<td><strong>1,400,229.02</strong></td>
</tr>
</tbody>
</table>

NET INCOME: $6,073,718.85
SOUTHERN CALIFORNIA GAS COMPANY

STATEMENT OF SURPLUS
FOR THE YEAR ENDED DECEMBER 31, 1938

EARNED SURPLUS

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance, January 1</td>
<td>$6,095,643.26</td>
</tr>
<tr>
<td>Net Income</td>
<td>6,073,718.85</td>
</tr>
</tbody>
</table>

Surplus Credits:
- Forfeited construction advances applicable to property retired (transferred from donations in aid of construction—see below) $159,122.71
- Miscellaneous                                                               535.26 159,657.97
Total                                                                                $12,329,020.08

Surplus Charges:
- Dividends—cash:
  - Preferred (6% cumulative):
    - Old series                                              $239,936.10
    - Series A                                                1,174,551.71
  - Common                                                  4,032,000.00 $5,446,487.81
- Miscellaneous                                                 30,402.39 5,476,890.20

Balance, December 31                                               $6,852,129.88

CAPITAL SURPLUS

Premium on Common Capital Stock—Balance, January 1
AND DECEMBER 31 (no change during the year)                      $2,400,000.00

Donations in Aid of Construction:
- Balance, January 1                                            $2,492,839.71
- Advances for main extensions forfeited during the year, and advances for service line installations 68,380.47
  Total                                                      $2,561,220.18
- Less advances applicable to property retired (transferred to earned surplus—see above) 159,122.71

Balance, December 31                                               2,402,097.47

Total Capital Surplus, December 31                                $4,802,097.47
## SOUTHERN CALIFORNIA GAS COMPANY

### STATISTICS

#### GAS METERS:

<table>
<thead>
<tr>
<th>Category</th>
<th>1938</th>
<th>1937</th>
</tr>
</thead>
<tbody>
<tr>
<td>Domestic and Commercial</td>
<td>696,966</td>
<td>673,307</td>
</tr>
<tr>
<td>Industrial and Gas Engine</td>
<td>1,994</td>
<td>1,957</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>698,960</strong></td>
<td><strong>675,264</strong></td>
</tr>
</tbody>
</table>

(The above figures do not include supplemental meters.)

#### NATURAL GAS SALES (CUBIC FEET):

<table>
<thead>
<tr>
<th>Category</th>
<th>1938</th>
<th>1937</th>
</tr>
</thead>
<tbody>
<tr>
<td>Domestic and Commercial</td>
<td>38,124,899,000</td>
<td>38,086,191,000</td>
</tr>
<tr>
<td>Butane (natural gas equivalent)</td>
<td>23,010,000</td>
<td>24,170,000</td>
</tr>
<tr>
<td>Industrial and Gas Engine</td>
<td>35,418,522,000</td>
<td>39,344,532,000</td>
</tr>
<tr>
<td>Wholesale</td>
<td>1,944,432,000</td>
<td>1,741,498,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>75,510,863,000</strong></td>
<td><strong>79,196,391,000</strong></td>
</tr>
</tbody>
</table>

#### GAS MAINS (MILES):

<table>
<thead>
<tr>
<th>Category</th>
<th>1938</th>
<th>1937</th>
</tr>
</thead>
<tbody>
<tr>
<td>Production and Gathering</td>
<td>193.77</td>
<td>798.78</td>
</tr>
<tr>
<td>Transmission</td>
<td></td>
<td>8,031.44</td>
</tr>
<tr>
<td>Distribution</td>
<td></td>
<td>9.49</td>
</tr>
<tr>
<td>Leased Lines</td>
<td></td>
<td>9,033.48</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>98,676,950</strong></td>
<td></td>
</tr>
</tbody>
</table>

#### GAS STORAGE CAPACITY (CUBIC FEET):

<table>
<thead>
<tr>
<th>Category</th>
<th>1938</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low pressure holders</td>
<td>97,870,800</td>
</tr>
<tr>
<td>High pressure holders</td>
<td>806,150</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>98,676,950</strong></td>
</tr>
</tbody>
</table>

#### COMPRESSOR STATIONS (HORSEPOWER):

<table>
<thead>
<tr>
<th>Category</th>
<th>1938</th>
</tr>
</thead>
<tbody>
<tr>
<td>Field stations</td>
<td>14,964</td>
</tr>
<tr>
<td>Distribution stations</td>
<td>48,279</td>
</tr>
</tbody>
</table>

#### GAS AND BUTANE PLANTS (DAILY CAPACITY—CUBIC FEET):

<table>
<thead>
<tr>
<th>Category</th>
<th>1938</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gas manufacturing plants, (950 Brt. gas)</td>
<td>130,632,600</td>
</tr>
<tr>
<td>Butane gasifying plants, (1100 Brt. natural gas equivalent)</td>
<td>232,500</td>
</tr>
</tbody>
</table>

#### NUMBER OF EMPLOYEES

<table>
<thead>
<tr>
<th>Category</th>
<th>1938</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>4,588</td>
</tr>
</tbody>
</table>

#### AREA SERVED:

<table>
<thead>
<tr>
<th>Category</th>
<th>1938</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of cities, towns and communities</td>
<td>156</td>
</tr>
<tr>
<td>Population of area (estimated)</td>
<td>3,000,000</td>
</tr>
</tbody>
</table>

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