

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

[..X..] Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

June 30, 1998

For the quarterly period ended.....

Or

[.....] Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

SAN DIEGO GAS & ELECTRIC COMPANY

(Exact name of registrant as specified in its charter)

CALIFORNIA 1-3779 95-1184800

(State of incorporation (Commission (I.R.S. Employer or organization) File Number) Identification No.)

101 ASH STREET, SAN DIEGO, CALIFORNIA 92101

(Address of principal executive offices) (Zip Code)

Registrant' telephone number, including area code (619) 696-2000

No Change

Former name, former address and former fiscal year, if changed since last report

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Sections 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes...X... No.....

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Common stock outstanding: Wholly owned by Enova Corporation

San Diego Gas and Electric Company and Subsidiary  
CONSOLIDATED STATEMENTS OF INCOME (Unaudited)  
In thousands except per share amounts

	Three Months Ended June 30		Six Months Ended June 30	
	1998	1997	1998	1997
Operating Revenues				
Electric	\$476,328	\$417,040	\$973,527	\$790,710
Gas	93,017	74,852	201,671	195,818
PX/ISO power	113,636	--	113,636	--
Total operating revenues	682,981	491,892	1,288,834	986,528
Operating Expenses				
PX/ISO power	112,532	--	112,532	--
Purchased power	64,265	89,018	160,322	176,679
Electric fuel	36,486	38,741	67,100	78,422
Gas purchased for resale	38,044	22,752	90,377	90,513
Maintenance	27,189	21,389	47,633	43,355
Depreciation and decommissioning	178,184	80,506	376,897	161,128
Property and other taxes	10,888	11,046	22,178	22,672
General and administrative	107,220	50,181	152,248	89,251
Other	41,534	40,896	86,483	83,461
Income taxes	21,531	59,141	50,966	99,895
Total operating expenses	637,873	413,670	1,166,736	845,376
Operating Income	45,108	78,222	122,098	141,152
Other Income and (Deductions)				
Allowance for equity funds used during construction	1,042	1,446	1,918	2,869
Taxes on nonoperating income	(6,406)	856	(8,934)	1,288
Other - net	15,503	(2,746)	21,516	(4,437)
Net other income and (deductions)	10,139	(444)	14,500	(280)
Income Before Interest Charges and Preferred Dividends	55,247	77,778	136,598	140,872
Interest Charges				
Long-term debt	23,739	18,008	51,053	35,933
Other interest	4,754	5,532	8,910	9,404
Allowance for borrowed funds used during construction	(386)	(665)	(728)	(1,297)
Net interest charges	28,107	22,875	59,235	44,040
Net Income	27,140	54,903	77,363	96,832
Dividends on preferred stock	1,645	1,645	3,291	3,291
Earnings Applicable to Common Shares	\$ 25,495	\$ 53,258	\$ 74,072	\$ 93,541

See notes to consolidated financial statements.

San Diego Gas and Electric Company and Subsidiary  
CONSOLIDATED BALANCE SHEETS  
In thousands of dollars

Balance at	June 30, 1998 (Unaudited)	December 31, 1997
	-----	-----
<b>ASSETS</b>		
Utility plant - at original cost	\$4,834,177	\$4,750,607
Accumulated depreciation and decommissioning	(2,535,746)	(2,391,541)
	-----	-----
Utility plant - net	2,298,431	2,359,066
	-----	-----
Nuclear decommissioning trusts	448,456	399,143
	-----	-----
<b>Current assets</b>		
Cash and cash equivalents	273,723	536,050
Accounts receivable - trade	111,844	144,837
Accounts receivable - other	72,692	84,311
Due from affiliates	158,203	125,417
Inventories	64,291	65,390
Regulatory balancing accounts - net	11,035	--
Other	13,864	51,840
	-----	-----
Total current assets	705,652	1,007,845
	-----	-----
Deferred taxes recoverable in rates	196,547	184,837
Regulatory assets	464,092	608,353
Deferred charges and other assets	142,792	95,249
	-----	-----
Total	\$4,255,970	\$4,654,493
	=====	=====
<b>CAPITALIZATION AND LIABILITIES</b>		
<b>Capitalization</b>		
Common equity	\$1,272,853	\$1,387,363
Preferred stock		
Not subject to mandatory redemption	78,475	78,475
Subject to mandatory redemption	25,000	25,000
Long-term debt	1,612,621	1,787,823
	-----	-----
Total capitalization	2,988,949	3,278,661
	-----	-----
<b>Current liabilities</b>		
Short-term debt	8,400	--
Long-term debt due within one year	72,640	72,575
Accounts payable	86,183	161,039
Accrued interest and dividends	10,665	56,436
Accrued taxes	63,518	--
Regulatory balancing accounts - net	--	58,063
Other	149,248	114,388
	-----	-----
Total current liabilities	390,654	462,501
	-----	-----
Customer advances for construction	36,674	37,661
Post-retirement benefits other than pensions	31,371	31,488
Deferred income taxes	393,819	471,890
Deferred investment tax credits	92,071	62,332
Deferred credits and other liabilities	322,432	309,960
	-----	-----
Total deferred credits and other liabilities	876,367	913,331
	-----	-----
<b>Commitments and contingent liabilities (Note 4)</b>		
Total	\$4,255,970	\$4,654,493
	=====	=====

See notes to consolidated financial statements.

San Diego Gas and Electric Company and Subsidiary  
 STATEMENTS OF CONSOLIDATED CASH FLOWS (Unaudited)  
 In thousands of dollars

For the six months ended June 30	1998	1997
	-----	-----
Cash Flows from Operating Activities		
Net income	\$ 77,363	\$ 96,832
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and decommissioning	376,897	161,128
Amortization of deferred charges and other assets	4,559	3,231
Amortization of deferred credits and other liabilities	(2,361)	(2,129)
Allowance for equity funds used during construction	(1,918)	(2,869)
Deferred income taxes and investment tax credits	(53,702)	115
Application of balancing accounts to stranded costs	(86,000)	--
Other - net	(34,713)	(3,971)
Net changes in working capital components		
Accounts and notes receivable	(88,174)	(37,443)
Inventories	1,099	5,555
Other current assets	12,472	1,140
Interest accrued	(1,449)	(574)
Taxes accrued	65,133	59,812
Accounts payable and other current liabilities	(39,996)	(47,551)
Regulatory balancing accounts	(69,098)	33,194
	-----	-----
Net cash provided by operating activities	160,112	266,470
	-----	-----
Cash Flows from Financing Activities		
Dividends paid	(136,195)	(94,256)
Special dividend paid	--	(66,150)
Payment on long-term debt	(181,994)	(37,500)
Increase in short-term debt	8,400	1,000
	-----	-----
Net cash used by financing activities	(309,789)	(196,906)
	-----	-----
Cash Flows from Investing Activities		
Expenditures for utility plant	(100,647)	(84,979)
Contributions to decommissioning funds	(11,016)	(11,016)
Other - net	(987)	(5,666)
	-----	-----
Net cash used in investing activities	(112,650)	(101,661)
	-----	-----
Net decrease in cash and cash equivalents	(262,327)	(32,097)
Cash and cash equivalents, beginning of period	536,050	81,409
	-----	-----
Cash and cash equivalents, end of period	\$273,723	\$ 49,312
	=====	=====
Supplemental Disclosure of Cash Flow Information		
Income tax payments, net of refunds	\$ 48,619	\$ 40,650
	=====	=====
Interest payments, net of amounts capitalized	\$ 60,684	\$ 44,614
	=====	=====
Supplemental Schedule of Noncash Activities		
Dividend to Parent of Intercompany Receivable	\$100,000	\$ --
	=====	=====

See notes to consolidated financial statements.

SAN DIEGO GAS & ELECTRIC COMPANY AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

## 1. GENERAL

This Quarterly Report on Form 10-Q is a filing of San Diego Gas & Electric Company (SDG&E), a wholly owned subsidiary of Enova Corporation (Enova). The financial statements presented herein represent the consolidated statements of SDG&E and its subsidiary, SDG&E Funding LLC.

The accompanying consolidated financial statements have been prepared in accordance with the interim-reporting requirements of Form 10-Q. This quarterly report should be read in conjunction with SDG&E's 1997 Annual Report on Form 10-K which includes the financial statements and notes thereto, its Quarterly Report on Form 10-Q for the three months ended March 31, 1998, and the Current Report on Form 8-K filed by Sempra Energy (Commission no. 1-14201) with the Securities and Exchange Commission on June 30, 1998 in connection with the completion of the business combination of Pacific Enterprises and Enova Corporation.

Results of operations for interim periods are not necessarily indicative of results for the entire year. In the opinion of management, the accompanying statements reflect all adjustments necessary for a fair presentation. These adjustments are of a normal recurring nature. Certain changes in account classification have been made to prior presentations to conform to the current financial statement presentation.

SDG&E has been accounting for the economic effects of regulation on all of its utility operations in accordance with SFAS No. 71, "Accounting for the Effects of Certain Types of Regulation," as described in the notes to consolidated financial statements in SDG&E's Annual Report to Shareholders. SDG&E has ceased the application of SFAS No. 71 to its generation business, in accordance with the conclusion of the Financial Accounting Standards Board that the application of SFAS No. 71 should be discontinued when legislation is issued that determines that a portion of an entity's business will no longer be regulated. The discontinuance of SFAS No. 71 has not resulted in a write-off of SDG&E's generation assets, since the California Public Utilities Commission (CPUC) has approved the recovery of the stranded costs related to these assets by the distribution portion of its business, via the competition transition charge described in Note 4, subject to the rate cap. (See further discussion in Note 4.)

The new revenue and expense captions on the Consolidated Statements of Income (both entitled "PX/ISO Power") relate to the new regulatory requirements concerning the way power is purchased by and sold by the distribution and generation, respectively, operations of SDG&E. This is discussed in Note 4.

## 2. BUSINESS COMBINATION

On June 26, 1998 (pursuant to an October 1996 agreement), Enova and Pacific Enterprises (PE) combined the two companies into a new company named Sempra Energy. As a result of the combination, (i) each outstanding share of common stock of Enova was converted into one share of common stock of Sempra Energy, (ii) each outstanding share of common stock of PE was converted into 1.5038 shares of common stock of Sempra Energy and (iii) the preferred stock and/or preference stock of SDG&E; PE; and PE's principal subsidiary, Southern California Gas Company (SoCalGas) remain outstanding. Additional information on the business combination is discussed in the Current Report on Form 8-K filed by Sempra Energy (Commission no. 1-14201) on June 30, 1998 and incorporated herein by reference.

Expenses incurred in connection with the business combination are \$29 million and \$4 million, after-tax, for the six-month period

ended June 30, 1998 and 1997, respectively. These costs consist primarily of employee-related costs, and investment banking, legal, regulatory and consulting fees.

### 3. COMPREHENSIVE INCOME

In conformity with generally accepted accounting principles, SDG&E has adopted Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income." Comprehensive income for the three-month and the six-month periods ended June 30, 1998 and 1997 was equal to net income.

### 4. MATERIAL CONTINGENCIES

#### ELECTRIC INDUSTRY RESTRUCTURING -- CALIFORNIA PUBLIC UTILITIES COMMISSION

In September 1996 the State of California enacted a law restructuring California's electric utility industry (AB 1890). The legislation adopts the December 1995 CPUC policy decision that restructures the industry to stimulate competition and reduce rates.

Beginning on March 31, 1998, customers were given the opportunity to choose to continue to purchase their electricity from the local utility under regulated tariffs, to enter into contracts with other energy service providers or buy their power from the independent Power Exchange (PX) that serves as a wholesale power pool allowing all energy producers to participate competitively. The PX obtains its power from qualifying facilities, nuclear units and, lastly, from the lowest-bidding suppliers. The California investor-owned utilities (IOUs) are obligated to bid their power supply, including owned generation and purchased-power contracts, into the PX. An Independent System Operator (ISO) schedules power transactions and access to the transmission system. The local utility continues to provide distribution service regardless of which source the customer chooses.

The IOUs have been given a reasonable opportunity to recover their stranded costs via a competition transition charge (CTC) to customers through December 31, 2001. Excluding the costs of purchased power and other costs whose recovery is not limited to the pre-2002 period, the balance of stranded assets at June 30, 1998 is \$800 million, consisting of \$600 million for the power plants (see the following paragraph) and \$200 million of related deferred taxes and undercollections. During the 1998-2001 period, recovery of transition costs is limited by the rate cap (discussed below). Generation plant additions made after December 20, 1995 are not eligible for transition cost recovery. Instead, each utility must file a separate application seeking a reasonableness review thereof. The CPUC has approved an agreement between SDG&E and the CPUC's Office of Ratepayer Advocates for the recovery of \$13.6 million of SDG&E's \$14.5 million in 1996 capital additions for the Encina and South Bay power plants. In addition, in August 1998 SDG&E submitted an application to the CPUC seeking recovery of \$21.7 million in capital additions for 1997 and the first three months of 1998.

In November 1997 SDG&E announced a plan to auction its power plants and other generation assets. This plan includes the divestiture of SDG&E's fossil power plants and combustion turbines, its 20-percent interest in San Onofre Nuclear Generating Station (SONGS) and its portfolio of long-term purchased-power contracts. The power plants have a net book value as of June 30, 1998 of \$600 million (\$200 million for fossil and \$400 million for SONGS). The proceeds from the auction will be applied directly to SDG&E's transition costs. SDG&E has proposed to the CPUC that the sale of its fossil plants be completed by the end of 1998. Management believes that the rates within the rate cap and the proceeds from the sale of electric-generating assets will be sufficient to recover all of SDG&E's approved transition costs by December 31, 2001, not including the

post-2001 purchased-power contract payments that may be recovered after 2001 (see discussion above). However, if the proceeds from the sale of the power plants are less than expected or if generation costs, principally fuel costs, are greater than anticipated, SDG&E may be unable to recover all of its approved transition costs. This would result in a charge against earnings at the time it becomes probable that SDG&E will be unable to recover all of the transition costs.

AB 1890 requires a 10-percent reduction of residential and small commercial customers' rates beginning in January 1998. AB 1890 provided for the issuance of rate-reduction bonds by an agency of the State of California to enable the IOUs to achieve this rate reduction. In December 1997 \$658 million of rate-reduction bonds were issued on SDG&E's behalf at an average interest rate of 6.26 percent. These bonds are being repaid over 10 years by SDG&E's residential and small commercial customers via a non-bypassable charge on their electric bills. In 1997 SDG&E formed a subsidiary, SDG&E Funding LLC, to facilitate the issuance of the bonds. In exchange for the bond proceeds, SDG&E sold to SDG&E Funding LLC all of its rights to revenue streams collected from such customers. Consequently, the transaction is structured to cause such revenue streams not to be the property of SDG&E nor to be available to satisfy any claims of SDG&E's creditors.

In June 1998 a coalition of consumer groups received verification that its electric restructuring ballot initiative received the needed signatures to qualify for the November 1998 California ballot. The initiative seeks to amend or repeal AB 1890 in various respects, including requiring utilities to provide a 10-percent reduction in electricity rates charged to residential and small commercial customers in addition to the 10-percent rate reduction that became effective on January 1, 1998. Among other things, the initiative would require that this rate reduction be achieved through the elimination or reduction of CTC payments and prohibit the collection of the charge on customer bills that would finance the rate reduction. In May 1998 a statewide coalition of California's investor-owned electric utilities and business groups known as "Californians for Affordable and Reliable Electric Services" (CARES) filed a lawsuit with the Third District Court of Appeal to block the initiative. In July 1998 the Third District Court of Appeal issued a one-sentence order refusing to grant review of the lawsuit prior to the November balloting, the CARES coalition filed a petition in the California Supreme Court seeking to overturn the Third District Court of Appeal's denial, and that court rejected the CARES petition. Such ruling did not represent a ruling on the merits of the arguments presented; rather, the ruling was a decision by the court not to consider the merits of the petition prior to the November balloting. SDG&E cannot predict the outcome on the vote of the initiative; and the effect of the initiative on SDG&E's business, if passed by the voters, could be uncertain for some time. If the initiative were to be upheld by the courts in whole or in part, it could have a material adverse effect on SDG&E's results of operations and financial position. Upon voter approval of the initiative, a write-down of a portion of SDG&E's generation-related assets might be required under applicable accounting principles, depending on SDG&E's assessment of both the probability that the initiative would be determined to be invalid, in whole or in substantial part, through litigation and the manner in which the initiative or such part as remains in effect as of a final judgment would be interpreted and applied to SDG&E. If the most onerous interpretations of the initiative's provisions are applied, and it is assumed that SDG&E's nuclear-generation facilities have zero market value and that SDG&E's fossil-generation assets have a market value equal to their carrying amounts, the potential write-down of SDG&E's generation-related assets could amount to as much as approximately \$400 million after taxes. In addition, the annual after-tax earnings reductions could be as large as approximately \$50 million in 1999, followed by declining amounts for some years thereafter.

AB 1890 includes a rate freeze for all customers. Until the earlier of March 31, 2002, or when transition cost recovery is complete, SDG&E's system average rate will be frozen at the June 10, 1996 levels of 9.64 cents per kilowatt-hour (kwh), except for the impact of certain fuel cost changes and the 10-percent rate reduction described above. Beginning in 1998 rates were fixed at 9.43 cents per kwh, which includes the maximum-permitted increase related to fuel cost increases and the mandatory rate reduction.

#### INDUSTRY RESTRUCTURING -- FEDERAL ENERGY REGULATORY COMMISSION

In October 1997 the FERC approved key elements of the California IOUs' restructuring proposal. This included the transfer by the IOUs of the operational control of their transmission facilities to the ISO, which is under FERC jurisdiction. The FERC also approved the establishment of the California PX to operate as an independent wholesale power pool. The IOUs pay to the PX an up-front restructuring charge (in four annual installments) and an administrative-usage charge for each megawatt-hour of volume transacted. SDG&E's share of the restructuring charge is approximately \$10 million, which is being recovered as a transition cost. The IOUs have jointly guaranteed \$300 million of commercial loans to the ISO and PX for their development and initial start-up. SDG&E's share of the guarantee is \$30 million.

In July 1998, based on a settlement with the FERC and CPUC staffs, SDG&E filed its transmission revenue requirements of \$104 million with the FERC. A FERC decision is expected in the fourth quarter of 1998.

SDG&E is in discussions with the staffs of the FERC, CPUC and ISO to determine SDG&E's revenue-requirements for its "must run" generating plants. Excluding the cost of fuel, generation revenue requirements will be frozen for four years (even after SDG&E divests its fossil generation). Major capital additions to the plants during this period will be allowed by the ISO through separate filings with the FERC.

#### NUCLEAR INSURANCE

SDG&E and the co-owners of the San Onofre units have purchased primary insurance of \$200 million, the maximum amount available, for public liability claims. An additional \$8.7 billion of coverage is provided by secondary financial protection required by the Nuclear Regulatory Commission and provides for loss sharing among utilities owning nuclear reactors if a costly accident occurs. SDG&E could be assessed retrospective premium adjustments of up to \$32 million in the event of a nuclear incident involving any of the licensed, commercial reactors in the United States, if the amount of the loss exceeds \$200 million. In the event the public-liability limit stated above is insufficient, the Price-Anderson Act provides for Congress to enact further revenue-raising measures to pay claims, which could include an additional assessment on all licensed reactor operators.

Insurance coverage is provided for up to \$2.75 billion of property damage and decontamination liability. Coverage is also provided for the cost of replacement power, which includes indemnity payments for up to three years, after a waiting period of 17 weeks. Coverage is provided through mutual insurance companies owned by utilities with nuclear facilities. If losses at any of the nuclear facilities covered by the risk-sharing arrangements were to exceed the accumulated funds available from these insurance programs, SDG&E could be assessed retrospective premium adjustments of up to \$6 million.

#### CANADIAN GAS

SDG&E has long-term pipeline capacity commitments related to its contracts for Canadian natural-gas supplies. Certain of these supply contracts are in litigation, while others have been settled.



If the supply of Canadian natural gas to SDG&E is not resumed to a level approximating the related committed long-term pipeline capacity, SDG&E intends to continue using the capacity in other ways, including the release of a portion of this capacity to third parties and the transport of replacement gas.

ITEM 2.

SAN DIEGO GAS & ELECTRIC COMPANY  
MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with the financial statements contained in this Form 10-Q and Management's Discussion and Analysis of Financial Condition and Results of Operations contained in SDG&E's 1997 Form 10-K.

INFORMATION REGARDING FORWARD-LOOKING STATEMENTS

The following discussion includes forward-looking statements within the definition of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. The words "estimates", "believes", "expects", "anticipates", "plans" and "intends," variations of such words, and similar expressions are intended to identify forward-looking statements that involve risks and uncertainties. These statements are necessarily based upon various assumptions involving judgments with respect to the future including, among others, national, regional and local economic, competitive and regulatory conditions, technological developments, inflation rates, interest rates, energy markets, weather conditions, business and regulatory or legal decisions, and other uncertainties, all of which are difficult to predict and many of which are beyond the control of the Company. Accordingly, while the Company believes that the assumptions are reasonable, there can be no assurance that they will approximate actual experience, or that the expectations will be realized.

RESULTS OF OPERATIONS

The following discussions reflect the results for the three-month and six-month periods ended June 30, 1998 compared to the corresponding periods in 1997:

NET INCOME

The decreases in earnings in 1998 are primarily due to business combination costs, partially offset by the favorable resolution of income-tax matters and rewards reflecting SDG&E's performance under the Gas Procurement Performance-Based Ratemaking (PBR) mechanism.

UTILITY OPERATIONS  
Electric Sales

	1998		1997	
	Volumes	Revenue	Volumes	Revenue
(Volumes in millions of Kwhrs, revenues in millions of dollars)	-----	-----	-----	-----
Six Months Ended June 30				
Residential	3,011	\$ 305	2,939	\$ 325
Commercial	3,249	288	3,242	303
Industrial	1,683	112	1,775	120
Direct access	93	6	-	-
Street lighting	43	4	41	4
Off-System sales	639	13	1,359	25
	-----	-----	-----	-----
Total in rates	8,718	728	9,356	777
Balancing accounts and other		246*		14
		-----		-----
Total operating revenues		\$ 974		\$ 791
		=====		=====

\* See "Operating Revenues" below

## Gas Sales, Transportation and Exchanges

	Gas Sales		Transportation and Exchanges		Total	
	Throughput	Revenue	Throughput	Revenue	Throughput	Revenue
(Volumes in billion cubic feet, revenues in millions of dollars)	-----	-----	-----	-----	-----	-----
Six Months Ended						
June 30, 1998						
Residential	21	\$ 163			21	\$ 163
Commercial/industrial	11	59	10	\$ 9	21	68
Utility electric generation	21	5*			21	5*
Wholesale						
	-----	-----	-----	-----	-----	-----
Total in rates	53	\$ 227	10	\$ 9	63	236
Balancing accounts and other						(34)
						-----
Total operating revenues						\$ 202
						=====
Six Months Ended						
June 30, 1997						
Residential	18	\$ 139			18	\$ 139
Commercial/industrial	11	65	9	\$ 11	20	76
Utility electric generation	23	10			23	10
	-----	-----	-----	-----	-----	-----
Total in rates	52	\$ 214	9	\$ 11	61	225
Balancing accounts and other						(29)
						-----
Total operating revenues						\$ 196
						=====

\* Represents margin only

The increases in electric operating revenues are primarily due to stranded costs that are being recovered via the competition transition charge (CTC), and to alternate costs incurred (including fuel and short-term purchased-power) due to the delay from January 1 to March 31, 1998 in the startup of operations of the California Power Exchange and Independent System Operator. The alternate costs incurred as a result of the delay have been deferred and did not impact 1998 earnings. Stranded costs included the January 1998 application for stranded cost recovery of the \$130-million balance in the Interim Transition Cost Balancing Account at December 31, 1997.

Revenues from the ISO/PX were \$114 million for the three-month and six-month periods ended June 30, 1998. These reflect sales at market prices of energy from SDG&E's power plants and from long-term purchased-power contracts to the California Power Exchange and Independent System Operator commencing April 1, 1998.

#### OPERATING EXPENSES

Purchased power from long-term contracts decreased \$25 million and \$16 million for the three-month and six-month periods ended June 30 1998, respectively, compared to the corresponding periods in 1997, as a result of purchases from the ISO/PX replacing short-term energy sources.

Electric fuel expenses decreased \$2 million and \$11 million for the three-month and six-month periods ended June 30 1998, respectively, compared to the corresponding periods in 1997, due to purchases from the California Power Exchange and the replacement of natural-gas-fired generation with lower-cost nuclear generation. The decrease is also due to lower natural-gas prices in the three-month period ended March 31, 1998 compared to the corresponding period of 1997.

Gas purchased for resale increased for the three months ended June 30, 1998 due to increases in natural-gas prices.

Depreciation and decommissioning expense increased \$98 million and \$216 million for the three-month and six-month periods ended June 30 1998, respectively, compared to the corresponding periods in 1997 due to the recovery of stranded costs via the CTC. The increases in depreciation and amortization are offset by CTC revenue (see above).

Operating expenses increased \$64 million and \$70 million for the three-month and six-month periods ended June 30 1998, respectively, compared to the corresponding periods in 1997 primarily due to nonrecurring charges for business combination costs and costs of providing "must run" energy from SDG&E's power plants to the ISO to help maintain utility-system reliability.

Income tax expense decreased \$38 million and \$49 million for the three-month and six-month periods ended June 30 1998, respectively, compared to the corresponding periods in 1997 due to changes in the treatment and timing of the recognition of certain items due to electric-industry restructuring. This results in income taxes associated with certain regulatory items being deferred rather than recorded as current tax expense.

#### OTHER

Nonoperating income increased \$11 million and \$15 million for the three-month and six-month periods ended June 30 1998, respectively, compared to the corresponding periods in 1997 due to higher interest income from short-term investments.

Interest expense related to long-term debt increased \$6 million and \$15 million for the three-month and six-month periods ended June 30 1998, respectively, compared to the corresponding periods in 1997, due to the rate reduction bonds that were issued in December 1997, partly offset by the affects of repayments.

#### LIQUIDITY AND CAPITAL RESOURCES

Utility operations continue to be a major source of liquidity. Liquidity has been favorably impacted by the issuance of Rate Reduction Bonds (see above). In addition, financing needs are met primarily through issuances of short-term and long-term debt. These capital resources are expected to remain available. Cash requirements include utility capital expenditures, and repayments and retirements of long-term debt. Major changes in cash flows not described elsewhere are described below. Cash and cash equivalents at June 30, 1998 are available for capital projects, the retirement of debt and other corporate purposes.

#### OPERATING ACTIVITIES

The decrease in cash flows from operations is due to undercollections for fuel, short-term purchased power and various operating costs incurred as a result of the delay of the ISO/PX startup, and undercollections of CTC charges, partially offset by overcollections in the gas balancing accounts attributable to decreasing natural-gas prices. In addition, cash flows from operations decreased due the 10-percent rate reduction reflected in customers' bills in 1998.

#### FINANCING ACTIVITIES

The increase in long-term debt repayments in 1998 is due to the tender of \$147 million of first mortgage bonds and repayment of \$22 million of rate-reduction-bonds. This, coupled with the \$32 million of variable-rate, taxable IDBs retired previously and the \$83 million of debt offset (for regulatory purposes) by temporary assets, completes the anticipated debt-related use of rate-reduction bond proceeds. SDG&E does not anticipate the need for additional long- or short-term debt during the remainder of 1998.

SDG&E has two short-term bank lines, including \$30 million expiring in April 1999 and \$60 million expiring in December 1998. These are expected to be extended. SDG&E also has long-term bank lines of \$280 million. Commitment fees are paid on the unused portion of the lines and there are no requirements for compensating balances.

Quarterly dividends are paid to Sempra Energy. The increase in dividends in the six-month period ended June 30, 1998, is due to the payment of three quarterly dividends. The payment of future dividends is within the discretion of the board of directors and is dependent upon future business conditions, earnings and other factors. The CPUC regulates SDG&E's capital structure, limiting the dividends it may pay Sempra Energy. Net cash flows provided by operating activities currently are sufficient to maintain the payment of dividends at the current level.

SDG&E maintains its capital structure so as to obtain long-term financing at the lowest possible rates. The following table shows the percentages of capital represented by the various components. The capital structures are net of the construction funds held by a trustee in 1993.

	1993	1994	1995	1996	1997		June 30, 1998	
					(A)	(B)	(A)	(B)
Common equity	47%	48%	49%	50%	51%	41%	52%	42%
Preferred stock	4	4	4	4	4	3	4	3
Debt and leases	49	48	47	46	45	56	44	55
Total	100%	100%	100%	100%	100%	100%	100%	100%

(A) Excludes the rate reduction bonds (\$658 million at December 31, 1997 and \$636 million at June 30, 1998).

(B) Includes the rate reduction bonds.

#### INVESTING ACTIVITIES

Capital expenditures are estimated to be \$233 million for the full year 1998. Construction, investment and financing programs are continuously reviewed and revised in response to changes in competition, customer growth, inflation, customer rates, the cost of capital, and environmental and regulatory requirements. Among other things, the level of utility expenditures in the next few years will depend heavily on the impacts of industry restructuring and the sale of SDG&E's Encina and South Bay power plants and other electric-generation assets, as well as the timing and extent of expenditures to comply with air-quality emission reduction and other environmental requirements.

#### BUSINESS COMBINATION

See Note 2 of the notes to consolidated financial statements.

#### REGULATORY MATTERS:

##### CALIFORNIA PUBLIC UTILITIES COMMISSION'S INDUSTRY RESTRUCTURING

See discussion of industry restructuring in Note 4 of the notes to consolidated financial statements.

##### AUCTION OF ELECTRIC GENERATION ASSETS

In November 1997 SDG&E announced a plan to auction its power plants and other electric-generation assets, enabling it to continue to concentrate its business on the transmission and distribution of electricity and natural gas in a competitive marketplace. In addition, the March 1998 CPUC decision approving the Enova/PE business combination requires, among other things, the divestiture by SDG&E of its gas-fired generation units. Further, in March 1998, Enova and PE reached an agreement with the U.S. Department of Justice (DOJ) to gain clearance for the business combination under the Hart-Scott-Rodino Antitrust Act. Under such agreement, Enova committed to follow through on its plan to divest SDG&E's fossil-fuel power plants, and Sempra is required to obtain DOJ's prior approval prior to acquiring or controlling any existing California generation facilities in excess of 500 megawatts. The auction plan includes the divestiture of SDG&E's fossil plants - the Encina (Carlsbad, California) and South Bay (Chula Vista, California) plants. The power plants, including the interest in SONGS, have a combined generating capacity of 2,400 megawatts. The proceeds from the auction will be applied directly to SDG&E's transition costs. SDG&E has proposed to the CPUC that the sale of its fossil plants

be completed by the end of 1998. An interim CPUC decision is expected by September 1998, with a final decision expected by year end. Procedures for the auction of the fossil plants commenced in August 1998 with the distribution of the Offering Memorandum.

#### PUBLIC POLICY PROGRAMS

The CPUC established a new administrative structure and initial funding levels to manage demand-side management, renewable-energy, low-income assistance, and research and development (R&D) programs beginning in January 1998. The CPUC formed independent boards to oversee a competitive bidding process to administer demand-side management and low-income-assistance programs. In an interim decision, the CPUC has required that the California IOUs transfer their administration of demand-side management and low-income programs to these independent boards by December 1998 and December 1999, respectively. Until the transition to a fully competitive energy-services market is complete, customers will be required to provide the funding. For 1998 SDG&E is being funded \$32 million and \$12 million for demand-side management and renewables programs, respectively. Low-income-assistance funding remains at 1997 authorized levels (\$12 million). The California Energy Commission is being allocated most of the \$63 million authorized to administer the R&D programs, from which SDG&E is funded \$4 million. SDG&E's earnings potential from DSM programs will be reduced when the transition to the competitive markets is complete.

In May 1998 SDG&E filed an application for 1997 shareholder rewards totaling \$4 million (\$12 million for 1996) for its DSM programs. The rewards will be collected and recorded in earnings over ten years and are subject to CPUC approval. The revenue requirement increase is effective on January 1, 1999, but, due to the rate cap, there will be no rate increase. If, during the industry-restructuring transition period, SDG&E is able to recover its transition costs and has revenue available under the rate cap, SDG&E will be able to recover these DSM earnings.

#### PERFORMANCE-BASED RATEMAKING

In December 1997 the CPUC eliminated SDG&E's 1999 General Rate Case filing requirement and replaced it with a 1999 Cost of Service study in its new Distribution PBR application for electric distribution and gas operations (filed in January 1998, to begin in 1999). The application requests an increase in SDG&E's revenue requirements for electric distribution and natural-gas operations. The electric distribution increase does not affect rates and, therefore, if approved, reduces the amount available for transition cost recovery. Hearings are scheduled for August and September 1998 and a CPUC decision is expected by March 1999.

#### DISTRIBUTION COST OF CAPITAL

Electric industry restructuring has changed the method of calculating SDG&E's annual cost of capital. SDG&E's 1998 cost of capital, as regulated by the CPUC, remains at 1997 authorized levels of 11.6 percent for the rate of return on equity (ROE) and 9.35 percent for the rate of return on rate base (ROR). These rates apply only to electric distribution and natural-gas rate base, excluding electric transmission (regulated by the FERC) and electric generation (recovered through contracts with the PX and the ISO or as transition costs). In May 1998 SDG&E filed with the CPUC its unbundled Cost of Capital application for 1999 rates. Historically, SDG&E's cost of capital has been determined on an incremental basis, with annual adjustment made to reflect market conditions. However, the current application seeks approval to establish new, separate rates for SDG&E's electric distribution and natural-gas businesses. The application proposes a 12.00% ROE, which would produce an overall ROR of 9.33%. A CPUC decision is expected by early 1999.

Other than as discussed below and in SDG&E's Quarterly Report on Form 10Q for the three-month period ended March 31, 1998, there have been no significant subsequent developments in litigation proceedings that were outstanding at December 31, 1997 and there have been no significant new litigation proceedings since that date.

#### SONGS PERSONAL INJURY LITIGATION

As described in the "Legal Proceedings -- SONGS Personal Injury Litigation" section in SDG&E's Annual Report on Form 10-K, seven personal-injury radiation cases have been filed against various parties in which plaintiffs allege that their various types of leukemia or other forms of cancers were caused by radiation exposure to "fuel fleas" (radioactive fuel particles). On May 28, 1998 the Ninth Circuit Court of Appeals affirmed the District Court's decision in the McLandrich and Mettler cases granting Southern California Edison's (Edison) motion of summary judgment. The District Court had ruled that Edison is an employer and that workers' compensation is plaintiff's exclusive remedy against Edison. As a result of the Ninth Circuit's decision, the previous stays in the McLandrich, Mettler and Knapp cases will be lifted and these cases will proceed against SDG&E.

#### SONGS PRICING

As described in the "Legal Proceedings -- SONGS Pricing" section in SDG&E's Annual Report on Form 10-K, on January 20, 1998 a hearing was held before the U.S. District Court regarding SDG&E's motion to dismiss the SONGS pricing litigation. On July 6, 1998 the U.S. District Court dismissed the federal claims contained in plaintiff's complaint with prejudice and dismissed the pendant state-law claims without prejudice.

#### CANADIAN NATURAL GAS

SDG&E and Bow Valley settled their dispute, and on April 23, 1998 the parties filed a notice of discontinuance of action with the Queen's Bench of Alberta.

(a) Exhibits

Exhibit 12 - Computation of ratios

12.1 Computation of Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends as required under SDG&E's August 1993 registration of 5,000,000 shares of Preference Stock (Cumulative).

Exhibit 27 - Financial Data Schedules

27.1 Financial Data Schedule for the six months ended June 30, 1998 for SDG&E.

(b) Reports on Form 8-K

A Current Report on Form 8-K filed on July 1, 1998 announced the completion of the business combination between Enova Corporation and Pacific Enterprises, and the related changes in control.

A Current Report on Form 8-K filed on July 15, 1998 discussed the Voter Initiative which qualified for the November 1998 ballot (seeking to amend or repeal California electric industry restructuring legislation in various respects) and disclosed the potential impact on SDG&E.

A Current Report on Form 8-K filed on July 27, 1998 discussed the California Supreme Court denial of the petition which seeks to overturn the Third District Court of Appeal's denial to remove the Voter Initiative from the November 1998 ballot.



SIGNATURE

Pursuant to the requirement of the Securities Exchange Act of 1934, SDG&E has duly caused this quarterly report to be signed on its behalf by the undersigned thereunto duly authorized.

SAN DIEGO GAS & ELECTRIC COMPANY  
(Registrant)

Date: August 14, 1998

By: /s/ E.A. Guiles

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E.A. Guiles  
President

UT  
1,000

YEAR	DEC-31-1998	JUN-30-1998	PER-BOOK
	2,298,431		
	451,780		
	705,652		
	792,267		
		7,840	
		4,255,970	
			291,458
	566,233		
		415,162	
1,272,853			
	25,000		
		78,475	
	1,534,857		
		8,400	
	0		
	0		
65,861			
	0		
	77,764		
		6,779	
1,185,981			
4,255,970			
	1,288,834		
		50,966	
	1,115,770		
	1,166,736		
		122,098	
		14,500	
136,598			
	59,235		
		77,363	
	3,291		
	74,072		
	136,195		
	0		
	160,112		
		0	
		0	

EXHIBIT 12.1  
SAN DIEGO GAS & ELECTRIC COMPANY  
COMPUTATION OF RATIO OF EARNINGS TO COMBINED FIXED CHARGES  
AND PREFERRED STOCK DIVIDENDS

	1993	1994	1995	1996	1997	6 Months Ended 6/30/98*	6 Months Ended 6/30/98**
<b>Fixed Charges:</b>							
<b>Interest:</b>							
Long-Term Debt	\$ 84,830	\$ 81,749	\$ 82,591	\$ 76,463	\$ 69,546	\$ 29,393	\$ 29,393
Short-Term Debt	6,676	8,894	17,886	12,635	13,825	4,981	4,981
Rate Reduction Bonds	--	--	--	--	--	--	21,655
Amortization of Debt Discount and Expense, Less Premium	4,162	4,604	4,870	4,881	5,154	3,615	3,615
Interest Portion of Annual Rentals	9,881	9,496	9,631	8,446	9,496	4,317	4,317
<b>Total Fixed Charges</b>	<b>105,549</b>	<b>104,743</b>	<b>114,978</b>	<b>102,425</b>	<b>98,021</b>	<b>42,306</b>	<b>63,961</b>
Preferred Dividends Requirements	8,565	7,663	7,663	6,582	6,582	3,291	3,291
Ratio of Income Before Tax to Net Income	1.79353	1.83501	1.78991	1.88864	1.91993	1.77427	1.77427
Preferred Dividends for Purpose of Ratio	15,362	14,062	13,716	12,431	12,637	5,839	5,839
<b>Total Fixed Charges and Preferred Dividends for Purpose of Ratio</b>	<b>\$120,911</b>	<b>\$118,805</b>	<b>\$128,694</b>	<b>\$114,856</b>	<b>\$110,658</b>	<b>\$ 48,145</b>	<b>\$ 69,800</b>
<b>Earnings:</b>							
Net Income (before preferred dividend requirements)	\$215,872	\$206,296	\$219,049	\$222,765	\$238,232	\$ 77,363	\$ 77,363
Add:							
Fixed Charges (from above)	105,549	104,743	114,978	102,425	98,021	42,306	63,961
Less: Fixed Charges Capitalized	1,483	1,424	2,040	1,495	2,052	613	613
Taxes on Income	171,300	172,259	173,029	197,958	219,156	59,900	59,900
<b>Total Earnings for Purpose of Ratio</b>	<b>\$491,238</b>	<b>\$481,874</b>	<b>\$505,016</b>	<b>\$521,653</b>	<b>\$553,357</b>	<b>\$178,956</b>	<b>\$200,611</b>
Ratio of Earnings to Combined Fixed Charges and Preferred Dividends	4.06	4.06	3.92	4.54	5.00	3.72	2.87

\* Not including interest for rate reduction bonds.

\*\* Including interest for rate reduction bonds.