

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549  
FORM 10-K

(Mark One)

Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 For the fiscal year ended December 31, 1995

OR

Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 For the transition period from to

| Commission File Number | Exact Name of Registrant as specified in its charter | State of Incorporation | IRS Employer Identification Number |
|------------------------|--|------------------------|------------------------------------|
| 1-3779                 | SAN DIEGO GAS & ELECTRIC COMPANY                     | California             | 95-1184800                         |
| 1-11439                | ENOVA CORPORATION                                    | California             | 33-0643023                         |

101 ASH STREET, SAN DIEGO, CALIFORNIA 92101

(Address of principal executive offices) (Zip Code)

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

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

| Title of each class   | Name of each exchange on which registered |
|---|---|
| San Diego Gas & Electric Company Preference Stock (Cumulative) Without Par Value (except \$1.70 and \$1.7625 Series) Cumulative Preferred Stock, \$20 Par Value (except 4.60% Series) | American American                         |

Enova Corporation  
Common Stock, Without Par Value New York and Pacific

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:

San Diego Gas & Electric Company None  
Enova Corporation None

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Exhibit Index on page 34. Glossary on page 42.

Aggregate market value of the voting stock held by non-affiliates of the registrant as of January 31, 1996:  
Enova Corporation Common Stock \$2.8 Billion  
San Diego Gas & Electric Company Preferred Stock \$18 Million

Common Stock outstanding without par value as of January 31, 1996:

Enova Corporation: 116,563,375

San Diego Gas & Electric Company: Wholly owned by Enova Corporation

DOCUMENTS INCORPORATED BY REFERENCE:

Portions of the 1995 Annual Report to Shareholders are incorporated by reference into Parts I, II, and IV.

Portions of the March 1996 Proxy Statement prepared for the April 1996 annual meeting of shareholders are incorporated by reference into Part III.

TABLE OF CONTENTS

PART I  
Item 1. Business . . . . . 3  
Item 2. Properties . . . . . 26

|          |  |    |
|----------|--|----|
| Item 3.  | Legal Proceedings . . . . .  | 27 |
| Item 4.  | Submission of Matters to a Vote of Security Holders.   | 31 |
|          | Executive Officers of the Registrant . . . . .   | 31 |
| PART II  |  |    |
| Item 5.  | Market for Registrant's Common Equity and Related<br>Stockholder Matters . . . . .                 | 32 |
| Item 6.  | Selected Financial Data . . . . .  | 32 |
| Item 7.  | Management's Discussion and Analysis of Financial<br>Condition and Results of Operations . . . . . | 32 |
| Item 8.  | Financial Statements and Supplementary Data . . . .  | 32 |
| Item 9.  | Changes in and Disagreements with Accountants on<br>Accounting and Financial Disclosure . . . . .  | 32 |
| PART III |  |    |
| Item 10. | Directors and Executive Officers of the Registrant .   | 33 |
| Item 11. | Executive Compensation . . . . .   | 33 |
| Item 12. | Security Ownership of Certain Beneficial Owners<br>and Management . . . . .                        | 33 |
| Item 13. | Certain Relationships and Related Transactions . . .   | 33 |
| PART IV  |  |    |
| Item 14. | Exhibits, Financial Statement Schedules and Reports<br>on Form 8-K . . . . .                       | 34 |
|          | Independent Auditors' Consent . . . . .  | 41 |
|          | SIGNATURES . . . . .   | 42 |
|          | GLOSSARY . . . . .   | 43 |

PART I - Enova Corporation:

Part I - San Diego Gas & Electric Company beginning on page 3 of this Annual Report on Form 10-K incorporated herein by reference.

PART I - San Diego Gas & Electric Company:

ITEM 1. BUSINESS

Description of Business

On December 6, 1995 San Diego Gas & Electric Company announced the formation of Enova Corporation as the parent company for itself and its subsidiaries. On January 1, 1996 Enova Corporation became the parent of SDG&E. SDG&E's outstanding common stock was converted on a share-for-share basis into Enova Corporation common stock. SDG&E's debt securities, preferred stock and preference stock were unaffected and remain with SDG&E. On January 31, 1996 SDG&E's ownership interests in its subsidiaries were transferred to Enova Corporation at book value, completing the organizational restructuring into the new parent company framework. Thus, the consolidated financial statements of SDG&E incorporated herein, which include SDG&E and its subsidiaries, also reflect what is now Enova Corporation and its subsidiaries. Beginning on January 1, 1996, SDG&E's financial statements for periods prior to 1996 will be restated to reflect the net results of nonutility subsidiaries as discontinued operations in accordance with Accounting Principles Board Opinion No. 30 "Reporting the Effects of a Disposal of a Segment of Business."

SDG&E is an operating public utility engaged in the electric and gas businesses. It generates and purchases electric energy and distributes it to 1.2 million customers in San Diego County and an adjacent portion of Orange County, California. It also purchases and distributes natural gas to 700,000 customers in San Diego County and also transports gas for others in SDG&E's service territory. Factors affecting SDG&E's utility operations include regulation, deregulation, competition, nonutility generation, customers' bypass of its electric and gas systems, population growth, changes in interest and inflation rates, and environmental and other laws.

SDG&E has diversified into other businesses. Enova Financial, Inc. invests in limited partnerships representing approximately 800 affordable-housing projects located throughout the United States. Califia Company leases computer equipment. The investments in Enova Financial and Califia are expected to provide income tax benefits over the next several years. Enova Energy, Inc. is an energy management consulting firm offering services to utilities and large consumers. Pacific Diversified Capital Company is the parent company for non-utility subsidiaries, Phase One Development, Inc., which is engaged in real estate development, and Enova Technologies, Inc. Enova Technologies, whose ownership was transferred directly to Enova Corporation after December 31, 1995, is in the business of developing new technologies generally related to utilities and energy, including certain research transferred from the utility. Enova Technologies has entered into a joint venture with Philips Home Services to establish a new electronic consumer network using the Philips screen phone as the network platform. Enova International was formed after December 31, 1995 to develop and operate natural-gas and power projects outside the United States.

As a result of the formation of Enova Corporation and the subsequent restructuring, Enova and its subsidiaries have more flexibility to pursue non-regulated business opportunities than in the past. As new non-regulated businesses are undertaken, risks will increase. The intent is for rewards to increase correspondingly.

Additional information regarding SDG&E's subsidiaries is described in "Management's Discussion and Analysis of Financial Condition and Results of Operations" beginning on page 18 in the 1995 Annual Report to Shareholders and in Notes 1 and 3 of the "Notes to Consolidated Financial Statements" beginning on page 35 of the 1995 Annual Report to Shareholders.

## GOVERNMENT REGULATION

### Local Regulation

SDG&E has separate electric and gas franchises with the two counties and the 25 cities in its service territory. These franchises allow SDG&E to locate facilities for the transmission and distribution of electricity and gas in the streets and other public places. The franchises do not have fixed terms, except for the electric and gas franchises with the cities of Chula Vista (expiring in 1997), Encinitas (2012), San Diego (2021), and Coronado (2028); and the gas franchises with the city of Escondido (2036) and the county of San Diego (2030).

### State Regulation

The California Public Utilities Commission consists of five members appointed by the governor and confirmed by the senate for six-year terms. The commission regulates SDG&E's rates and conditions of service, sales of securities, rate of return, rates of depreciation, uniform systems of accounts, examination of records, and long-term resource procurement. The CPUC also conducts various reviews of utility performance and conducts investigations into various matters, such as deregulation, competition and the environment, to determine its future policies.

The California Energy Commission has discretion over electric-demand forecasts for the state and for specific service territories. Based upon these forecasts, the CEC determines the need for additional energy sources and for conservation programs. The CEC sponsors alternative-energy research and development projects, promotes energy conservation programs, and maintains a state-wide plan of action in case of energy shortages. In addition, the CEC certifies power-plant sites and related facilities within California.

### Federal Regulation

The Federal Energy Regulatory Commission regulates transmission access, the uniform systems of accounts, rates of depreciation and electric rates involving sales for resale. The FERC also regulates the interstate sale and transportation of natural gas.

The Nuclear Regulatory Commission oversees the licensing, construction and operation of nuclear facilities. NRC regulations require extensive review of the safety, radiological and environmental aspects of these facilities. Periodically, the NRC requires that newly developed data and techniques be used to reanalyze the design of a nuclear power plant and, as a result, requires plant modifications as a condition of continued operation in some cases.

## Licenses and Permits

SDG&E obtains a number of permits, authorizations and licenses in connection with the construction and operation of its generating plants. Discharge permits, San Diego Air Pollution Control District permits and NRC licenses are the most significant examples. The licenses and permits may be revoked or modified by the granting agency if facts develop or events occur that differ significantly from the facts and projections assumed in granting the approval. Furthermore, discharge permits and other approvals are granted for a term less than the expected life of the facility. They require periodic renewal, which results in continuing regulation by the granting agency.

Other regulatory matters are described throughout this report.

## COMPETITION

This topic is discussed in "Electric Operations" and "Rate Regulation" herein, in "Management's Discussion and Analysis of Financial Condition and Results of Operations" beginning on page 18 of the 1995 Annual Report to Shareholders, and in Note 11 of the "Notes to Consolidated Financial Statements" beginning on page 35 of the 1995 Annual Report to Shareholders.

## SOURCES OF REVENUE

(In Millions of Dollars)

|                                      | 1995    | 1994    | 1993    |
|--------------------------------------|---------|---------|---------|
| -----                                |         |         |         |
| Utility revenue by type of customer: |         |         |         |
| Electric-                            |         |         |         |
| Residential                          | \$ 610  | \$ 612  | \$ 615  |
| Commercial                           | 589     | 600     | 572     |
| Industrial                           | 250     | 231     | 250     |
| Other                                | 55      | 67      | 77      |
|                                      | -----   | -----   | -----   |
| Total Electric                       | 1,504   | 1,510   | 1,514   |
|                                      | -----   | -----   | -----   |
| Gas-                                 |         |         |         |
| Residential                          | 189     | 204     | 195     |
| Commercial                           | 60      | 65      | 63      |
| Industrial                           | 25      | 31      | 40      |
| Other                                | 36      | 46      | 49      |
|                                      | -----   | -----   | -----   |
| Total Gas                            | 310     | 346     | 347     |
|                                      | -----   | -----   | -----   |
| Total Utility                        | 1,814   | 1,856   | 1,861   |
|                                      | -----   | -----   | -----   |
| Diversified Operations               | 57      | 56      | 36      |
|                                      | -----   | -----   | -----   |
| Total                                | \$1,871 | \$1,912 | \$1,897 |
|                                      | =====   | =====   | =====   |

Industry segment information is contained in "Statements of Consolidated Financial Information by Segments of Business" on page 34 of the 1995 Annual Report to Shareholders.

## CONSTRUCTION EXPENDITURES

Construction expenditures, excluding nuclear fuel and the allowance for equity funds used during construction, were \$221 million in 1995 and are estimated to be about \$220 million in 1996.

## ELECTRIC OPERATIONS

### Introduction

In December 1995 the CPUC issued its policy decision on the restructuring of California's electric utility industry to stimulate competition and reduce rates. These matters are discussed in "Competition-California" herein, "Management's Discussion and Analysis of Financial Condition and Results of Operations" beginning on page 18 of the 1995 Annual Report to Shareholders, and in Note 11 of the "Notes to Consolidated Financial Statements" beginning on page 35 of the 1995 Annual Report to Shareholders.

### Resource Planning

SDG&E's ability to provide energy at the lowest possible cost has been based on a combination of production from its own plants and purchases from other producers. The purchases have been a combination of short-term and long-term contracts and spot purchases. Most resource acquisitions are obtained through a competitive bidding process. In December 1994 the CPUC issued a decision ordering SDG&E, Pacific Gas & Electric and Southern California Edison to go forward with the Biennial Resource Plan Update proceeding, allowing qualified nonutility power producers that cogenerate or use renewable energy technologies to bid for a portion of SDG&E's future capacity needs. As a result of the decision, SDG&E would be required to enter into contracts (ranging in term from 17 to 30 years) to purchase 500 mw of power, including 341 mw from cogenerators, 94 mw from geothermal sources, and the remainder from wind and other sources. The present value of ratepayer payments beginning in 1997 over the life of these contracts was estimated to be \$2.3 billion. Prices under these contracts could significantly exceed the future market price. In February 1995 the FERC issued an order declaring the BRPU auction procedures unlawful under federal law. In July 1995 the CPUC issued a ruling encouraging SDG&E, PG&E and Edison to reach settlements with the auction winners. SDG&E has reached settlement with two auction winners. Settlement discussions with the others are ongoing.

In 1995 SDG&E also negotiated contracts for 760 mw of short-term purchased power.

The CPUC has also ordered utilities in the state to implement pilot demonstration projects to allow others to bid to supply utilities' customers with energy-conservation services, which could reduce the need for generation capacity.

Additional information concerning resource planning is provided in "Management's Discussion and Analysis of Financial Condition and Results of Operations" beginning on page 18 of the 1995 Annual Report to Shareholders and in Notes 10 and 11 of the "Notes to Consolidated Financial Statements" beginning on page 35 of the 1995 Annual Report to Shareholders.

Electric Resources

Based on generating plants in service and purchased-power contracts in place as of January 31, 1996, the net megawatts of electric power expected to be available to SDG&E during the next summer (normally the time of highest demand) are as follows:

| Source                                    | Net Megawatts |
|---|---------------|
| Gas/oil generating plants                 | 1,641         |
| Combustion turbines                       | 332           |
| Nuclear generating plants                 | 430           |
| Long-term contracts with other utilities  | 675           |
| Short-term contracts with other utilities | 350           |
| Contracts with others                     | 510           |
|   | -----         |
| Total                                     | 3,938         |
|   | =====         |

SDG&E's 1995 system peak demand of 3,260 mw occurred on August 30, when the net system capability, including power purchases, was 3,857 mw. The all-time record is 3,335 mw which was reached on August 17, 1992.

Gas/Oil Generating Plants: SDG&E's South Bay and Encina power plants are equipped to burn either natural gas or fuel oil. The four South Bay units went into operation between 1960 and 1971 and can generate 690 mw. The five Encina units began operation between 1954 and 1978 and can generate 951 mw. SDG&E sold and leased back Encina Unit 5 (330 mw) in 1978. The lease term is through 2004, with renewal options for up to 15 additional years.

SDG&E has 19 combustion turbines that were placed in service from 1966 to 1979. They are located at various sites and are used only in times of peak demand.

Nuclear Generating Plants: SDG&E owns 20 percent of the three nuclear units at San Onofre Nuclear Generating Station. The cities of Riverside and Anaheim own a total of 5 percent of SONGS 2 and 3. Southern California Edison Company owns the remaining interests and operates the units.

SDG&E is currently recovering its existing capital investment in SONGS 1 over a four-year period that began in November 1992, when the CPUC issued a decision to permanently shut down the unit. SDG&E and Edison filed a decommissioning plan in November 1994, although final decommissioning will not occur until SONGS 2 and 3 are also decommissioned. The unit's spent nuclear fuel has been removed from the reactor and stored on-site. In March 1993 the NRC issued a Possession-Only License for SONGS 1, and the unit was placed in a long-term storage condition in May 1994.

SONGS 2 and 3 began commercial operation in August 1983 and April 1984, respectively. SDG&E's share of the capacity is 214 mw of SONGS 2 and 216 mw of SONGS 3.

Between 1993 and 1995, SDG&E spent \$69 million on capital modifications and additions for all three units and expects to spend \$16 million in 1996 on SONGS. SDG&E deposits funds in an external trust to provide for

the future dismantling and decontamination of the units. The shutdown of SONGS 1 does not affect contributions to the trust.

In 1983 the CPUC adopted performance-based incentive plans for SONGS that set a Target Capacity Factor range of 55 percent to 80 percent for Units 2 and 3. Energy costs or savings outside that range were shared equally by SDG&E and its customers. Since the TCF was adopted, these units have operated above 55 percent for each of their fuel cycles and have exceeded 80 percent a total of seven times in the fourteen completed cycles. However, there can be no assurance that they will continue to achieve a 55 percent capacity factor.

In January 1996 the CPUC approved the accelerated recovery of the existing capital costs of Units 2 and 3. The decision allows SDG&E to recover more than \$750 million over an eight-year period beginning in 1996, rather than over the anticipated operational life of the units, which is expected to extend to 2013. During the eight-year period, the authorized rate of return on the equity portion of the investment will be 90 percent of SDG&E's embedded cost of debt and the return on the debt-financed component will be at 7.52 percent (SDG&E's 1995 authorized cost of debt). The decision includes a performance incentive plan that encourages continued, efficient operation of the plant during the eight-year period. During the eight-year period, customers will pay about four cents per kilowatt-hour. This pricing structure replaces the traditional method of recovering the units' operating expenses and capital improvements. This is intended to make the units more competitive with other sources.

Additional Information: Additional information concerning SDG&E's power plants, the SONGS units, nuclear decommissioning and the CPUC's industry restructuring proposal is presented under "Environmental Matters," "Electric Properties" and "Legal Proceedings" herein, in "Management's Discussion and Analysis of Financial Condition and Results of Operations" beginning on page 18 of the 1995 Annual Report to Shareholders, and in Notes 6, 10 and 11 of the "Notes to Consolidated Financial Statements" beginning on page 35 of the 1995 Annual Report to Shareholders.



Purchased Power: The following table lists contracts with the various suppliers:

| Supplier                                   | Period                                 | Megawatt<br>Commitment | Source                |
|--|--|------------------------|-----------------------|
| -----                                      |  |                        |                       |
| Long-Term Contracts with Other Utilities:  |  |                        |                       |
| Bonneville Power Administration            | May Through September 1996             | 300                    | Hydro Power           |
| Comision Federal de Electricidad (Mexico)  | Through August 1996                    | 150                    | Geothermal            |
| Portland General Electric                  | Through December 1998                  | 50                     | Hydro storage<br>Coal |
|  | Through December 2013                  | 75                     |                       |
| Public Service Company of New Mexico       | Through April 2001                     | 100                    | System supply         |
|  | Total summer availability (see page 7) | -----<br>675<br>=====  |                       |
| Short-Term Contracts with Other Utilities: |  |                        |                       |
| Portland General Electric                  | July Through September 1996            | 100                    | System Supply         |
|  | October 1996                           | 40*                    |                       |
| Public Service Company of New Mexico       | January through May 1996               | 130*                   | System Supply         |
|  | June through September 1996            | 110                    |                       |
|  | October through December 1996          | 130*                   |                       |
| Puget Sound Power & Light                  | June through September 1996            | 40                     | System Supply         |
| Salt River Project                         | Through December 1996                  | 100                    | System Supply         |
|  | Total summer availability (see page 7) | -----<br>350<br>=====  |                       |
| Contracts with Others:                     |  |                        |                       |
| Cities of Azusa, Banning and Colton        | Through December 1996                  | 40                     | Coal                  |
| Electric Clearinghouse                     | Through December 1996                  | 50                     | System Supply         |
| Enron Power Marketing                      | Through December 1996                  | 120                    | System Supply         |
|  | September 1996                         | 150*                   |                       |
| Goal Line Limited Partnership              | Through December 2024                  | 50                     | Cogeneration          |
| Illinova Power Marketing                   | Through December 1996                  | 70                     | System Supply         |
| Sithe Energies USA                         | Through December 2019                  | 102                    | Cogeneration          |
| Yuma Cogeneration                          | Through June 2024                      | 50                     | Cogeneration          |
| Other                                      | Various                                | 28                     | Various               |
|  | Total summer availability (see page 7) | -----<br>510<br>=====  |                       |

\* Not included in total summer availability.

The commitments with CFE and BPA are for energy and capacity. All short-term contracts with other utilities and the commitments with Electric Clearinghouse and Enron are for firm energy only. All other contracts are for capacity only.

Costs under contracts with qualifying facilities (identified above as sourced from cogeneration) represent SDG&E's avoided cost. Contracts with power marketers are at market value at the time the contracts were negotiated. Charges under contracts with other utilities are based on

the selling utility's costs, including a return on and depreciation of the utility's rate base (or lease payments in cases where the utility does not own the property), fuel expenses, operating and maintenance expenses, transmission expenses, administrative and general expenses, and state and local taxes.

Energy costs under the CFE contract are indexed to changes in Mayan crude oil prices and the dollar/peso exchange rate.

The locations of the utilities which have long-term supply contracts with SDG&E and the primary transmission lines (and their capacities) used by SDG&E are shown on the following map of the Western United States. Where applicable, interconnection to the primary lines is provided by contract.

[ MAP ]

#### Long-Term Contracts with Other Utilities

Bonneville Power Administration: In 1993 SDG&E and BPA entered into a four-year agreement for the exchange of capacity and energy. SDG&E provides BPA with off-peak, non-firm energy in exchange for firm summer capacity and associated energy. In addition, SDG&E makes energy available for BPA to purchase during the period of January through April of each year. To facilitate the exchange, SDG&E has agreements with Southern California Edison and the Los Angeles Department of Water and Power for 200 MW of firm transmission service from the Nevada-Oregon border to SONGS.

Comision Federal de Electricidad: The 10-year agreement under which SDG&E purchases firm energy and capacity of 150 MW from CFE will terminate on September 1, 1996.

Portland General Electric: In 1985 SDG&E and PGE entered into an agreement for the purchase of 75 MW of capacity from PGE's Boardman Coal Plant from January 1989 through December 2013. SDG&E pays a monthly capacity charge plus a charge based upon the amount of energy received. In addition, SDG&E has 50 MW of available hydro storage service with PGE through December 1998. SDG&E has also purchased 75 MW of transmission service from PGE in the northern section of the Pacific Intertie through December 2013.

Public Service Company of New Mexico: In 1985 SDG&E and PNM entered into an agreement for the purchase of 100 MW of capacity from PNM's system from June 1988 through April 2001. SDG&E pays a capacity charge plus a charge based on the amount of energy received.

#### Short-Term Contracts with Other Utilities

Portland General Electric: In November 1995 SDG&E and PGE entered into agreements for the purchase of up to 100 MW of firm energy from July 1996 through September 1996 and 40 MW in October 1996. The energy charge is based on the amount of energy received.

Public Service Company of New Mexico: In November 1995 SDG&E and PNM entered into an agreement for the purchase of up to 130 MW of firm energy through 1996, of which 110 MW will be available during the summer peak. The energy charge is based on the amount of energy received.

Puget Sound Power & Light: In November 1995 SDG&E and PSP&L entered into an agreement for the purchase of up to 40 MW of firm energy from June through September 1996. The energy charge is based on the amount of energy received.

Salt River Project: In October 1995 SDG&E and SRP entered into an agreement for the purchase of up to 100 MW of firm energy through December 1996. The energy charge is based on the amount of energy received.

#### Contracts with Others

Cities of Azusa, Banning and Colton: In 1993 SDG&E and the cities entered into an agreement for the purchase of 40 MW of capacity. The agreement was extended through December 1996. SDG&E pays a capacity charge plus a charge based on the amount of energy received.

Electric Clearinghouse: In October 1995 SDG&E and EC entered into an agreement for the purchase of up to 50 MW of firm energy through December 1996. The energy charge is based on the amount of energy received.

Enron Power Marketing: In October 1995 SDG&E and Enron entered into an agreement for the purchase of 120 MW of firm energy through December 1996 and an option on an additional 150 MW in September 1996. The energy charge is based on the amount of energy received.

Goal Line Limited Partnership: In December 1990 SDG&E and Goal Line entered into a 30-year agreement for the purchase of 50 MW of firm

capacity, beginning in February 1995. SDG&E pays a firm capacity charge plus a charge based on the amount of energy received.

Illinova Power Marketing: In November 1995 SDG&E and Illinova entered into an agreement for the purchase of up to 70 MW of capacity from January 1996 through December 1996. SDG&E pays a capacity charge for the months of June through September plus a charge based on the amount of energy received.

Sithe Energies USA: In April 1985 SDG&E entered into three 30-year agreements for the purchase of 102 MW of firm capacity from December 1989 through December 2019. SDG&E pays a firm capacity charge plus a charge based on the amount of energy received.

Yuma Cogeneration: In March 1990 SDG&E and Yuma Cogeneration entered into a 30-year agreement for the purchase of 50 MW of firm capacity which began in June 1994. SDG&E pays a firm capacity charge plus a charge based on the amount of energy received.

Other: SDG&E currently purchases capacity and energy from 115 as-available Qualifying Facilities. SDG&E also has two 20-year agreements with Pacific Energy and two 22-year agreements with Landfill Generating Partners for the purchase of 5 MW of firm capacity through the years 2007-2011. SDG&E pays a capacity charge plus a charge based on the amount of energy received. These account for 28 MW of capacity annually.

Additional information concerning SDG&E's purchased-power contracts is described in "Legal Proceedings" herein, in "Management's Discussion and Analysis of Financial Condition and Results of Operations" beginning on page 18 of the 1995 Annual Report to Shareholders, and in Notes 10 and 11 of the "Notes to Consolidated Financial Statements" beginning on page 35 of the 1995 Annual Report to Shareholders.

#### Power Pools

In 1964 SDG&E, PG&E, and Edison entered into the California Power Pool Agreement. It provides for the transfer of electrical capacity and energy by purchase, sale or exchange during emergencies and at other mutually determined times.

SDG&E is a participant in the Western Systems Power Pool, which includes an electric power and transmission rate agreement with utilities and power agencies located throughout the United States and Canada. More than 100 investor-owned and municipal utilities, state and federal power agencies, energy brokers, and power marketers share power and information in order to increase efficiency and competition in the bulk power market. Participants are able to target and coordinate delivery of cost-effective sources of power from outside their service territories through a centralized exchange of information.

#### Transmission Arrangements

In addition to interconnections with other California utilities, SDG&E has firm transmission capabilities for purchased power from the Northwest, the Southwest and Mexico.

Pacific Intertie: The Pacific Intertie, consisting of AC and DC transmission lines, enables SDG&E to purchase and receive surplus coal and hydroelectric power from the Northwest. SDG&E, PG&E, Edison and others share transmission capacity on the Pacific Intertie under an agreement that expires in July 2007. SDG&E's share of the intertie is

266 MW through July 2007, and SDG&E has obtained 200 MW of additional transfer capacity through 1996. (Repairs necessitated by damages caused by the January 17, 1994 Northridge earthquake and by a major fire at the DC terminal at Sylmar in October 1994 have been completed.)

Southwest Powerlink: SDG&E's 500-kilovolt Southwest Powerlink transmission line, which it shares with Arizona Public Service Company and Imperial Irrigation District, extends from Palo Verde, Arizona to San Diego and enables SDG&E to import power from the Southwest. SDG&E's share of the line is 914 MW, although it can be less, depending on specific system conditions.

Mexico Interconnection: Mexico's Baja California Norte system is connected to SDG&E's system via two 230-kilovolt interconnections with firm capability of 408 MW. SDG&E uses this interconnection for transactions with CFE.

Additional Transmission Capabilities: Various studies have been undertaken or are ongoing to determine the extent to which various path ratings may be increased. SDG&E expects to receive an allocation of approximately 64 MW East-of-the-Colorado-River and 94 MW West-of-the-Colorado-River as a result of these various studies.

#### Transmission Access

As a result of the enactment of the National Energy Policy Act of 1992, the FERC has established rules to implement the Act's transmission access provisions. These rules specify FERC-required procedures for others' requests for transmission service. Additional information regarding transmission access is described in "Management's Discussion and Analysis of Financial Condition and Results of Operations" beginning on page 18 of the 1995 Annual Report to Shareholders.

#### Fuel and Purchased-Power Costs

The following table shows the percentage of each electric fuel source used by SDG&E and compares the costs of the fuels with each other and with the total cost of purchased power:

|                     | Percent of Kwhr |        |        | Cents per Kwhr |      |      |
|---------------------|-----------------|--------|--------|----------------|------|------|
|                     | 1995            | 1994   | 1993   | 1995           | 1994 | 1993 |
| Natural gas         | 21.7%           | 22.4%  | 24.4%  | 2.3            | 3.1  | 3.4  |
| Nuclear fuel        | 16.5            | 21.8   | 17.2   | 0.5            | 0.5  | 0.6  |
| Fuel oil            | 0.1             | 1.4    | 3.7    | 2.1            | 2.6  | 2.5  |
| Total generation    | 38.3            | 45.6   | 45.3   |                |      |      |
| Purchased power-net | 61.7            | 54.4   | 54.7   | 3.3            | 3.7  | 3.5  |
| Total               | 100.0%          | 100.0% | 100.0% |                |      |      |

The cost of purchased power includes capacity costs as well as the costs of fuel. The cost of natural gas includes transportation costs. The costs of natural gas, nuclear fuel and fuel oil do not include SDG&E's capacity costs. While fuel costs are significantly less for nuclear units than for other units, capacity costs are higher.

#### Electric Fuel Supply

Natural Gas: Information concerning natural gas is provided in "Natural Gas Operations" herein.

Nuclear Fuel: The nuclear-fuel cycle includes services performed by others. These services and the dates through which they are under contract are as follows:

|  |      |
|--|------|
| Mining and milling of uranium concentrate(1)                 | --   |
| Conversion of uranium concentrate to uranium hexafluoride(1) | --   |
| Enrichment of uranium hexafluoride(2)                        | 1998 |
| Fabrication of fuel assemblies                               | 2000 |
| Storage and disposal of spent fuel(3)                        | --   |

(1) Competitive bids are currently being sought for a multi-year contract to supply uranium and conversion services beginning in mid-1996.

(2) The United States Enrichment Corporation, a government-owned corporation, is committed to offer any required enrichment services through 2014.

(3) Spent fuel is being stored at SONGS, where storage capacity will be adequate at least through 2003. If necessary, modifications in fuel-storage technology can be implemented to provide on-site storage capacity for operation through 2014, the expiration date of the NRC operating license. The DOE's plan is to provide a permanent storage site for the spent nuclear fuel by 2010.

Pursuant to the Nuclear Waste Policy Act of 1982, SDG&E entered into a contract with the DOE for spent-fuel disposal. Under the agreement, the DOE is responsible for the ultimate disposal of spent fuel. SDG&E is paying a disposal fee of \$0.91 per megawatt-hour of net nuclear generation. Disposal fees average \$2.7 million per year.

To the extent not currently provided by contract, the availability and the cost of the various components of the nuclear-fuel cycle for SDG&E's nuclear facilities cannot be estimated at this time.

Additional information concerning nuclear-fuel costs is discussed in Note 10 of the "Notes to Consolidated Financial Statements" beginning on page 35 of the 1995 Annual Report to Shareholders.

Fuel Oil: SDG&E has no long-term commitments to purchase fuel oil. The use of fuel oil is dependent upon price differences between it and natural gas. During 1995 SDG&E burned 36,000 barrels of fuel oil.

#### NATURAL-GAS OPERATIONS

SDG&E purchases natural gas for resale to its customers and for fuel in its generating plants. All natural gas is delivered to SDG&E under a transportation and storage agreement with Southern California Gas Company through two transmission pipelines with a combined capacity of 430 million cubic feet per day.

During 1995 SDG&E purchased approximately 89 billion cubic feet of natural gas. The majority of SDG&E's natural-gas requirements are met through contracts of less than one year. SDG&E purchases natural gas primarily from various spot-market suppliers and from suppliers under short-term contracts. These supplies originate in New Mexico, Oklahoma and Texas, and are transported to the SoCal Gas Company pipeline at the California border by El Paso Natural Gas Company and by Transwestern Pipeline Company. SDG&E also purchases natural gas under long-term

contracts with four Canadian suppliers. These contracts have varying terms through 2004. Two of these suppliers have suspended sales to SDG&E while contractual disputes are in litigation. Natural gas from Canada is transported to SDG&E's system over Alberta Natural Gas, Pacific Gas Transmission, and PG&E pipelines. The natural gas transportation contracts have varying terms through 2023.

Additional information concerning SDG&E's gas operations is provided under "Legal Proceedings" herein, in "Management's Discussion and Analysis of Financial Condition and Results of Operations" beginning on page 18 of the 1995 Annual Report to Shareholders, and in Note 10 of the "Notes to Consolidated Financial Statements" beginning on page 35 of the 1995 Annual Report to Shareholders.

## RATE REGULATION

### Competition-California

In December 1995 the CPUC issued its policy decision on the restructuring of California's electric utility industry to stimulate competition and reduce rates. The decision provides that, beginning in January 1998, customers can buy their electricity through a power exchange that will obtain power from the lowest-bidding suppliers. The exchange is a spot market with published pricing. An independent system operator (ISO) will schedule power transactions and access to the transmission system. Consumers also may continue to purchase from their local utility under regulated tariffs. As a third option, a cross section of all customer groups (residential, industrial, commercial and agricultural) will be able to go directly to any energy supplier and enter into private contracts with generators, brokers or others (direct access). As the direct access mechanism has many technical issues to be resolved, a five-year phase-in is planned. All California electricity customers of investor-owned utilities will have the option to purchase generation services directly by 2003. The utilities will continue to provide transmission and distribution services to customers that choose to purchase their energy from other providers.

Utilities will, within certain limits, be allowed recovery of generation-related regulatory assets and the excess carrying amount of existing generation-investment costs over fair-market value over a transition period that ends in 2005. Obligations under long-term purchased-power contracts in excess of fair-market value will be recoverable over the duration of the contracts. The CPUC is currently working on building a consensus on the new market structure with the California legislature, the governor, utilities and customers. In addition, plans to implement the exchange and the ISO must be presented by the utilities to both the CPUC and the FERC by May 1996 for review and approval. This decision will change significantly some of the existing ratemaking mechanisms that are described below.

Performance-based regulation will replace cost-of-service regulation for distribution services. SDG&E is currently participating in a performance-based ratemaking process on an experimental basis which commenced in 1993 and is expected to run through 1998.

These matters are discussed in "Performance-Based Ratemaking" herein, "Management's Discussion and Analysis of Financial Condition and Results of Operations" beginning on page 18 of the 1995 Annual Report to Shareholders, and in Note 11 of the "Notes to Consolidated Financial

Statements" beginning on page 35 of the 1995 Annual Report to Shareholders.

#### Competition-Federal

In March 1995 the FERC issued a proposed rule that, if adopted, would require all public utilities to offer wholesale "open-access" transmission service on a nondiscriminatory basis. In addition, public utilities would be required to functionally price their generation and transmission services separately from each other. The FERC also stated its belief that utilities should be allowed to recover the costs of assets and obligations made uneconomic by the changed regulatory environment. In October 1995 SDG&E filed for approval of its open-access tariffs for its service territory with the FERC in conjunction with its request for a marketing license for Enova Energy, a wholly-owned subsidiary which desires to transact business at market-based rates in the wholesale energy market. In December 1995 the FERC issued a draft order approving SDG&E's open-access tariff, but rejecting Enova Energy's filing. This limits Enova Energy to cost-based rates. All non-rate terms and conditions were accepted subject to the outcome of the FERC's restructuring rulemaking. Final approval of the FERC's rule and the CPUC's industry restructuring plan would result in the creation of a bid-based wholesale electricity spot market with open-access transmission. The FERC is expected to issue a final rule during the first half of 1996.

#### Base Rates

SDG&E files annually under its base-rates performance-based ratemaking mechanism formula to offset the effects of inflation. Base rates allow SDG&E to recover the cost of operating and maintaining the utility system, taxes, depreciation, and other non-fuel business costs. In addition, SDG&E files an annual application to establish its cost of capital (see "Cost of Capital" below), which reflects the cost of debt and equity. Additional information concerning PBR is described under "Performance-Based Ratemaking" herein.

#### Cost of Capital

In November 1995 the CPUC issued its decision on the 1996 Cost of Capital proceeding, adopting an 11.6 percent return on equity for 1996 for SDG&E, PG&E, Edison, SoCal Gas, and Sierra Pacific Power, resulting in an overall rate of return for SDG&E of 9.37 percent. SDG&E's 1995 authorized return on equity and rate of return were 12.05 percent and 9.76 percent, respectively.

In October 1995 SDG&E filed a proposal with the CPUC to implement a mechanism, in lieu of the existing, litigated proceeding, to establish its cost of capital beginning in January 1997. Under the mechanism, each October SDG&E's authorized rate of return would be adjusted if single-A bond rates change by one percent or more from a previously established benchmark rate. For example, a one-percent change in single-A bond rates would result in a one-half percent change in SDG&E's return on equity. In addition, SDG&E's embedded costs of debt and preferred stock would be adjusted to reflect SDG&E's outstanding long-term debt and preferred stock at each September 30 if the return on equity adjustment described above is triggered. The adjustments would be effective on January 1 of the following year. The proposal suggests a three-year trial period during which SDG&E's authorized capital structure would not change.



## Balancing Accounts

The CPUC requires balancing accounts for fuel and purchased energy costs and for sales volumes. The CPUC sets balancing account rates based on estimated costs and sales volumes. Revenues are adjusted upward or downward to reflect the differences between authorized and actual volumes and costs. These differences are accumulated in the balancing accounts and represent amounts to be either recovered from customers or returned to them. These balancing accounts were overcollected by \$171 million at December 31, 1995 and by \$112 million at December 31, 1994. The CPUC adjusts SDG&E's rates annually to amortize the accumulated balances. As a result, changes in SDG&E's fuel and purchased-power costs or changes in electric and natural-gas sales volumes normally have not affected SDG&E's net income. As described under "Performance-Based Rate-making," SDG&E can realize rewards or penalties depending on the achievement of certain benchmarks for operations and expenses.

It is uncertain whether the CPUC will continue to allow these or some other form of balancing accounts once its electric industry restructuring decision takes effect in 1998.

## Electric Fuel Costs and Sales Volumes

Rates to recover electric-fuel and purchased-power costs are determined in the Energy Cost Adjustment Clause proceeding. This proceeding normally takes place annually, in two phases. In the forecast phase, prices are set based on the estimated cost of fuel and purchased power for the following year and are adjusted to reflect any changes from the previous period. These adjustments are made by amortizing any accumulation in the balancing accounts described above. In the second phase, the reasonableness review, the CPUC evaluates the prudence of SDG&E's nuclear and natural-gas-storage operations. As described under "Performance-Based Rate-making," reviews of fuel and purchased-power transactions, electric operations and natural-gas transactions now are required only if SDG&E's fuel and energy expenses vary significantly from the established benchmarks. The Electric Revenue Adjustment Mechanism compensates for variations in sales volume compared to the estimates used for setting the non-fuel component of rates. ERAM is designed to stabilize revenues, which otherwise may vary due to changes in sales volumes resulting from weather fluctuations and other factors. Any accumulation in the ERAM balancing account is amortized when new rates are set in the ECAC proceeding.

## Natural-Gas Costs and Sales Volumes

Rates to recover the cost of purchasing and transporting natural gas to SDG&E are determined in the Biennial Cost Allocation Proceeding. The BCAP proceeding normally occurs every two years and is updated in the interim year for purposes of amortizing any accumulation in the balancing accounts. Balancing accounts for natural-gas costs and sales volumes are similar to those for electric fuel costs and sales volumes. The natural-gas balancing accounts include the Purchased Gas Account for natural-gas costs and the Gas Fixed Cost Account for sales volumes. Balancing account coverage includes both core customers (primarily residential and commercial customers) and noncore customers (primarily large industrial customers). However, SDG&E does not receive balancing account coverage on 25 percent of noncore GFCA overcollections and undercollections.

## Performance-Based Ratemaking

SDG&E implemented performance-based ratemaking in 1993 for natural-gas procurement and transportation, and for electric generation and purchased energy; and in 1994 for base rates.

The CPUC has authorized the first two mechanisms to remain in effect beyond their authorized July 31, 1995 expiration until the Division of Ratepayer Advocates and the Commission Advisory and Compliance Division file their final reports for the year ended July 31, 1995 (expected during the first quarter of 1996). Thereafter, SDG&E will be applying for an extension and modification in conjunction with the restructuring of California's electric utility industry, and the existing mechanisms are expected to remain in place until the CPUC acts on the application. These mechanisms measure SDG&E's ability to purchase and transport natural gas, and to generate or purchase energy at the lowest possible cost, by comparing SDG&E's performance against various market benchmarks. SDG&E's shareholders and customers share in any savings or excess costs within predetermined ranges.

**Natural Gas:** Under the natural-gas procurement and transportation mechanism, if SDG&E's actual commodity cost exceeds the benchmark by more than two percent or falls below the benchmark, the excess costs or savings is shared equally between customers and shareholders. If the delivered cost of gas (including interstate transmission charges) falls below the index, 95 percent of the savings goes to customers and five percent of the savings goes to SDG&E's shareholders.

**Electric Generation & Dispatch:** The benchmark to measure SDG&E's electric generation and purchased energy performance ("generation and dispatch") is based upon the difference between SDG&E's actual and authorized electric-fuel and short-term purchased-energy expenses. SDG&E shareholders will receive 30 percent to 50 percent of over- or under-expenditures in specified bands within six percent of the benchmark. SDG&E is allowed to recover expenses exceeding the six percent range, subject to a reasonableness review by the CPUC. SDG&E's customers will receive 100 percent of the additional savings should expenses fall below the benchmark by more than six percent.

In October 1995 SDG&E filed reports with the CPUC on the results of the generation and dispatch and the gas procurement mechanisms for the year ended July 31, 1995. SDG&E's fuel and purchased power expenses fell below the benchmarks for these mechanisms by a total of \$27.9 million (\$2.8 million for G&D and \$25.1 million for gas). As a result, SDG&E's ECAC application (see above) and its current Biennial Cost Allocation Proceeding application request a total shareholder award of \$3.4 million (\$0.8 million for G&D and \$2.6 million for gas) and that the remainder of these savings be given to customers through lower rates.

**Base Rates:** The base-rate component of SDG&E's Performance-Based Ratemaking mechanism is expected to continue through 1998, replacing the traditional general rate case application. The base-rate mechanism has three segments. The first is a formula similar to the traditional attrition mechanism used to determine SDG&E's annual revenue requirement for operating, maintenance and capital costs. SDG&E's initial revenue requirements were based on SDG&E's 1993 General Rate Case decision. The second is a set of indicators which determine performance standards for customer rates, employee safety, electric system reliability and

customer satisfaction. Each indicator specifies a range of possible shareholder benefits and risks. SDG&E can be penalized up to a total of \$21 million should it fall significantly below these standards or earn up to \$19 million if it exceeds all of the performance targets. The third segment sets limits on SDG&E's rate of return. If SDG&E realizes an actual rate of return that exceeds its authorized rate of return by one percent to one-and-one-half percent, it is required to return 25 percent of the excess over one percent to customers. If SDG&E's rate of return exceeds the authorized level by more than one-and-one-half percent, SDG&E also will return 50 percent of the excess over one-and-one-half percent to customers. SDG&E will be at risk if its rate of return falls below the authorized level. However, if SDG&E's rate of return is three percent or more below or above the authorized level, a rate case review would automatically occur. SDG&E may request a rate case review if at any time its rate of return drops one-and-one-half percent or more below the authorized level.

SDG&E must file a report with the CPUC on the results of the 1995 PBR base-rates mechanism by May 15, 1996. SDG&E expects to determine the final 1995 PBR base-rate award or penalty in September 1996 when the Edison Electric Institute publishes its final report on 1995 national electric rates.

SONGS: In 1983 the CPUC adopted performance incentive plans for SONGS that set a Target Capacity Factor range of 55 percent to 80 percent for Units 2 and 3. Energy costs or savings outside that range were shared equally by shareholders and customers. In January 1996 the CPUC approved the accelerated recovery of the units' existing capital costs. The decision includes a performance incentive plan. Additional information concerning the SONGS units, including its new incentive plan, is presented under "Nuclear Generating Plants" herein.

#### Energy Conservation Program

Over the past several years, SDG&E has promoted conservation programs to encourage efficient use of energy. The programs are designed to conserve energy through the use of energy-efficiency measures that will reduce customers' energy costs and reduce the need to build additional power plants. The costs of these programs are recovered from customers. The programs contain an incentive mechanism that could increase or decrease SDG&E's earnings, depending upon the performance of the programs in meeting specified efficiency and expenditure targets. The CPUC has encouraged expansion of these programs, authorizing annual expenditures ranging from \$54 million in 1993 to \$60 million in 1996. However, the CPUC has also ordered utilities to conduct a test program to determine if unaffiliated suppliers could offer energy conservation services at a lower cost.

#### Low-Emission Vehicle Programs

SDG&E has conducted a CPUC-approved natural-gas-vehicle program since 1991. The program includes building refueling stations, demonstrating new technology, providing incentives and converting portions of SDG&E's fleet vehicles to natural gas. The cost of this program is being recovered in natural-gas rates. In November 1995 the CPUC issued its decision authorizing funding for limited electric-vehicle and natural-gas-vehicle programs through the year 2000 to allow recovery of costs for operation and maintenance of SDG&E's EV and NGV fleets and NGV fueling stations, and to allow recovery of transition costs to meet

existing commitments to customers. The decision requires the sale of SDG&E's NGV fueling stations located on customer property within six years. The CPUC approved a six-year program that provides a total of \$5.3 million for SDG&E's electric-vehicle program and \$6.7 million for its natural-gas-vehicle program over the six-year period.

#### Electric Rates

The average price per kilowatt-hour charged to electric customers was 9.8 cents in 1995 and 9.7 cents in 1994.

#### Natural-Gas Rates

The average price per therm of natural gas charged to customers was 55.7 cents in 1995 and 59.9 cents in 1994.

Additional information concerning rate regulation is provided in "Management's Discussion and Analysis of Financial Condition and Results of Operations" beginning on page 18 of the 1995 Annual Report to Shareholders.

#### ENVIRONMENTAL MATTERS

SDG&E's operations are guided by federal, state and local environmental laws and regulations governing air quality, water quality, hazardous substance handling and disposal, land use, and solid waste. Compliance programs to meet these laws and regulations increase the cost of electric and natural-gas service by requiring changes and/or delays in the location, design, construction and operation of new facilities. SDG&E may also incur significant costs to operate its facilities in compliance with these laws and regulations and to clean up the environment as a result of prior operations of SDG&E or others. The costs of compliance with environmental laws and regulations are normally recovered in customer rates. However, the CPUC has issued a decision for restructuring the California electric utility industry to stimulate competition (see "Rate Regulation" herein). This decision will change the way utility rates are set and costs are recovered. Depending on the final outcome of industry restructuring and the impact of competition, the costs of compliance with environmental regulations may not be fully recoverable.

#### Electric and Magnetic Fields

Scientists are researching the possibility that exposure to low-frequency magnetic fields causes adverse health effects. This research, although often referred to as relating to electric and magnetic fields, or EMFs, focuses on magnetic fields. To date, some laboratory studies suggest that such exposure creates biological effects, but those effects have not been shown to be harmful.

The studies that have most concerned the public are certain epidemiological studies. Some of those studies reported a weak correlation between childhood leukemia and the proximity of homes to certain power lines and equipment. Other studies reported weak correlations between computer estimates of historic exposure and disease. Various wire-configuration categories and computer calculations were used as substitutes for historical exposure measurements, which were not available. However, some of the studies also measured actual field levels. When actual field levels were measured, no correlation was found with disease.

Other epidemiological studies found no correlation between estimated exposure and any disease. No studies correlate measured fields with disease. Scientists cannot explain why some studies using estimates of past exposure report correlations between estimated fields and disease, while others do not.

To respond to public concern and scientific uncertainty, the CPUC created the California Consensus Group in 1991 and assigned this group the responsibility of reaching agreement on interim measures which could be implemented until science provides direction. In November 1993 the CPUC adopted an interim EMF policy, which implemented the Consensus Group's recommendations. Consistent with the more-than-twenty major scientific reviews of available research literature, the CPUC concluded that no health risk has been identified with exposure to low-frequency magnetic fields. The November 1993 decision created two utility-funded programs (a public education program and a research program) and directed utilities to adopt a low-cost EMF-reduction policy for new projects. This policy entails design changes to new projects to achieve a noticeable reduction of magnetic-field levels. The CPUC indicated that utilities should use four percent of the cost of new or upgraded facilities as a benchmark in developing low-cost measures which produce a noticeable reduction in field levels. In May 1994 SDG&E adopted design guidelines which implement the low-cost measures, subject to safety, reliability, efficiency and other operational criteria.

Litigation concerning EMFs is discussed under "Legal Proceedings" herein.

#### Hazardous Substances

In May 1994 the CPUC issued its decision on the Hazardous Waste Collaborative, approving a mechanism for utilities to recover their hazardous waste costs, including those related to Superfund sites or similar sites requiring cleanup. Basically, the decision allows utilities to recover 90 percent of their cleanup costs and related third-party litigation costs, and 70 percent of the related insurance-litigation expenses.

SDG&E disposes of its hazardous wastes at facilities owned and operated by other entities. Operations at these facilities may result in actual or threatened risks to the environment or public health. Where the owner or operator of such a facility fails to complete any corrective action required by regulatory agencies to abate such risks, applicable environmental laws may impose an obligation on SDG&E and others who disposed of hazardous wastes at the facility to undertake corrective actions.

Rosens: The above-mentioned type of obligation has been imposed upon SDG&E with respect to the Rosen's Electrical Equipment Supply Company located in Pico Rivera, California. In December 1993, SDG&E and eight other entities were named as potentially responsible parties with respect to the Rosen's site. In December 1995 SDG&E and the other entities received an Imminent and Substantial Endangerment Determination and Remedial Action Order from the California Department of Toxic Substances Control requiring site assessment and remediation. Additional information concerning this site is described in "Management's Discussion and Analysis of Financial Condition and Results of Operations" beginning on page 18 of the 1995 Annual Report to Shareholders.

Underground Storage: California has enacted legislation to protect ground water from contamination by hazardous substances. Underground storage containers require permits, inspections and periodic reports, as well as specific requirements for new tanks, closure of old tanks and monitoring systems for all tanks. It is expected that cleanup of sites previously contaminated by underground tanks will occur for an unknown number of years. SDG&E cannot predict the cost of such cleanup. Specific known underground locations requiring assessment and/or remediation are indicated below:

In May 1987 the San Diego Regional Water Quality Control Board issued SDG&E a cleanup and abatement order for gasoline contamination originating from an underground storage tank located at SDG&E's Mountain Empire Operation and Maintenance facility. SDG&E assessed the extent of the contamination and removed all contaminated soil and completed remediation of the site. SDG&E will continue to monitor the site to confirm its remediation. After such confirmation, SDG&E will apply for a site-closure letter from the Regional Board.

In January 1993 SDG&E was issued a Notice of Unauthorized Release order by the San Diego County Division of Environmental Health Services relative to soil contamination from used motor oil associated with an underground tank located at SDG&E's South Bay Operation and Maintenance facility. SDG&E removed the tank and the associated contaminated soil. No actionable levels of contamination remain on the site. SDG&E has applied for and is awaiting the issuance of a site-closure letter from the San Diego County Division of Environmental Health Services.

In 1993 SDG&E discovered a shallow underground tank-like structure while installing underground electric facilities under a public street immediately west of a former manufactured-gas plant. The past ownership, operation and use of the structure is unknown. Hydrocarbon contamination has been found in the vicinity of the structure, but it has not been established whether the structure was the source of the contamination. The San Diego County Division of Environmental Health Services has issued a Notice of Unauthorized Release order to SDG&E. The order requires SDG&E to conduct a site assessment to delineate the nature and scope of the contamination. SDG&E's duty to meet these requirements has been postponed pending the resolution of property ownership. SDG&E is unable to determine the extent of its responsibility, if any, or to estimate the nature and extent of the contamination or the potential remediation costs if SDG&E is found at all responsible.

Station B: Station B is located in downtown San Diego and was operated as a steam and generating facility between 1911 and June 1993. During 1986, three 100,000-gallon underground diesel-fuel storage tanks were removed from an adjacent substation. Pursuant to a cleanup and abatement order, SDG&E remediated the existing hydrocarbon contamination. In the course of the remediation effort, detectable levels of PCBs were discovered. Further information regarding the PCB contamination in the area was submitted by SDG&E, evidencing that no further action is required. SDG&E has applied for and is awaiting the issuance of a site-closure letter from the San Diego County Division of Environmental Health Services.

Asbestos was used in the construction of the Station B power plant. Renovation, reconditioning or demolition of the facility will require the removal of the asbestos in a manner complying with all applicable environmental, health and safety laws. Additionally, reuse of the

facility may require the removal or cleanup of PCBs, paints containing heavy metals, fuel oil or other substances. SDG&E has assessed the extent of any possible contamination by these or other hazardous materials at the facility. The estimated cost of this removal effort is estimated to be between \$4 million and \$5 million.

Encina Power Plant: During 1993 SDG&E discovered the presence of hydrocarbon contamination in subsurface soil at its Encina power plant. This contamination was located near the fuel-storage facilities and believed to be fuel oil originating from a 1950s refueling spill. SDG&E believes that it has remediated the contamination to the extent required by the San Diego County Division of Environmental Health Services and has applied for and is awaiting the issuance of a site-closure letter.

Manufactured-Gas Plant Sites: During the early 1900s SDG&E and its predecessors manufactured gas from oil at its Station A facility and at small facilities in Escondido and Oceanside.

In 1995 SDG&E commenced an environmental assessment of Station A. Some significant amounts of residual by-products from the gas-manufacturing process have been discovered on portions of the facility during the assessment. However, the magnitude of such contamination has yet to be determined. The assessment will be completed in 1996 at which time the extent of any required remediation activities can be determined. Sufficient information is not currently available to estimate clean-up costs. SDG&E will be able to estimate a range of costs after completion of the site assessment.

Residual by-products from the gas-manufacturing process at the Escondido facility were remediated at a cost of approximately \$3 million during the period of 1990 through 1993. A site-closure letter for SDG&E's Escondido's facility was obtained from the San Diego County Department of Environmental Health Services. However, contaminants similar to the ones found on the Escondido site have been observed on adjacent parcels of property. SDG&E will assess these contaminants in 1996.

SDG&E will also undertake an environmental assessment of its Oceanside facility in 1996. Some materials similar to residual by-products from the operation of town gas sites have been observed on an adjacent parcel of property. SDG&E's assessment of the Oceanside facility will include an evaluation of such materials.

#### Air Quality

The San Diego Air Pollution Control District (APCD) regulates air quality in San Diego County in conformance with the California and federal Clean Air Acts. California's standards are more restrictive than federal standards.

Although SDG&E facilities comply with very strict emission limits and contribute only about three percent of the air emissions in San Diego County, the APCD is required by the California Clean Air Act to further reduce emissions from all San Diego industry. In January 1994 the APCD adopted Rule 69 to further reduce nitrogen dioxide (NOx) emissions from SDG&E's power plants. As adopted, the rule required the retrofit of each of the nine boilers at Encina and South Bay power plant generating units with catalytic converters to remove approximately 87 percent of current NOx emissions. In addition, the NOx emissions from all units were required to remain below a system-wide cap. The estimated capital cost to comply with Rule 69 was \$110 million, with annual operating costs

expected to increase about \$6 million after all units were retrofitted. In December 1995 the APCD adopted amendments to Rule 69 which eliminated the requirement that each unit be retrofitted with catalytic converters, but which retained the system-wide cap with further system-wide emission reductions to be achieved by 2005. The rule change provides SDG&E with greater flexibility to utilize effective and cost-efficient methods to achieve the required NOx emission reduction milestones. The estimated capital costs for compliance with the amended rule is approximately \$60 million. The California Air Resources Board (ARB) expressed concern that the amendments to Rule 69 did not meet the requirements of the California Clean Air Act. However, the ARB withheld any formal objections pending its review of SDG&E's Rule 69 compliance plan to be submitted in 1996. The ARB may seek to overturn some or all of the Rule 69 amendments or otherwise impose more restrictive emissions limitations which would cause SDG&E's Rule 69 compliance costs to increase.

In 1990 the South Coast Air Quality Management District passed a rule which will require SDG&E's older natural-gas-compressor engines at its Moreno facility to either meet new, stringent nitrogen oxide emission levels or be converted to electric drive. In October 1993 the Air Quality District adopted a new program called RECLAIM, which replaced existing rules and requires SDG&E's natural-gas-compressor engines at its Moreno facility to reduce their nitrogen oxide emission levels by about 10 percent a year through 2003. This will be accomplished through the installation of new emission-monitoring equipment, operational changes to take advantage of low-emitting engines, and engine retrofits. SDG&E has concluded negotiations with the Air Quality District, reclassifying three of these engines and thus eliminating the need for certain expensive monitoring equipment for those engines. The cost of complying with RECLAIM may be as much as \$3 million.

#### Water Quality

Discharge permits are required to enable SDG&E to discharge its cooling water and its treated in-plant waste water, and are, therefore, a prerequisite to the continued operation of SDG&E's power plants. The promulgation or modification of water-quality-control plans by state and federal agencies may impose increasingly stringent cooling-water and treated-waste-water-discharge requirements on SDG&E in the future.

SDG&E is unable to predict the terms and conditions of any renewed permits or their effects on plant or unit availability, the cost of constructing new cooling-water-treatment facilities, or the cost of modifying the existing treatment facilities. However, any modifications required by such permits could involve substantial expenditures, and certain plants or units may be unavailable for electric generation during such modification. Additional information concerning discharge permits for the South Bay, Encina and SONGS plants is provided in "Management's Discussion and Analysis of Financial Condition and Results of Operations" beginning on page 18 of the 1995 Annual Report to Shareholders.

#### Wood Pole Preservatives

The Pacific Justice Center (Pacific), a for-profit law firm, and the Mateel Environmental Justice Foundation (Mateel), a nonprofit corporation, claim that SDG&E, other utilities and other parties have violated California's Safe Drinking Water and Toxic Enforcement Act (Proposition 65) by failing to warn persons who may come into contact with the preservatives used in treated wood utility poles and by allowing these preservatives to be released into sources of drinking



water. Some preservatives used in wood poles are included on California's list of chemicals known to cause cancer or reproductive harm. Proposition 65 requires that prior warning be given to individuals who may be exposed to such chemicals unless the exposure will not pose a significant risk and that these substances not be released into sources of drinking water in significant quantities or otherwise in violation of the law. Violations of the Proposition 65 warning requirement can result in penalties of up to \$2,500 per violation. SDG&E believes, on the basis of studies and other information, that exposure to wood poles containing these preservatives does not give rise to a significant risk and, therefore, no warning is required, and that significant quantities of these preservatives are not released into any source of drinking water. SDG&E and others have responded to the claims by denying their validity. On June 20, 1995 Mateel, represented by Pacific, filed a complaint in San Francisco County Superior Court against Pacific Bell, PG&E and two wood-pole manufacturers alleging the violations noted above. Although SDG&E was not named in this lawsuit, it is anticipated that Mateel may file a separate lawsuit against SDG&E and other utilities on the same grounds. SDG&E is cooperating with PG&E, Pacific Bell and others to achieve an effective and favorable resolution of this matter.

Additional information concerning SDG&E's environmental matters is provided in "Management's Discussion and Analysis of Financial Condition and Results of Operations" beginning on page 18 of the 1995 Annual Report to Shareholders and in Note 10 of the "Notes to Consolidated Financial Statements" beginning on page 35 of the 1995 Annual Report to Shareholders.

#### OTHER

##### Research, Development and Demonstration

SDG&E conducts research and development in areas that provide value to SDG&E and its customers. Annual research, development and demonstration costs averaged \$7 million over the past three years. The CPUC historically has permitted rate recovery of research, development and demonstration expenditures.

##### Wages

SDG&E and Local 465, International Brotherhood of Electrical Workers have a labor agreement through February 29, 1996. Negotiations are ongoing.

##### Employees of Registrant

As of December 31, 1995 SDG&E had 3,880 employees, compared to 3,998 at December 31, 1994. SDG&E's subsidiaries had 13 employees at December 31, 1995 compared to 550 at December 31, 1994 (of which 542 were employees of Wahlco Environmental Systems, Inc., which was sold on June 6, 1995).

##### Foreign Operations

SDG&E foreign operations in 1995 included power purchases and sales with CFE in Mexico; purchases of power and natural gas from suppliers in Canada; and purchases of uranium from suppliers in Canada, Australia, France, Niger, People's Republic of China and South Africa.

SDG&E's subsidiary Wahlco Environmental Systems, which it sold on June 6, 1995, operated in various foreign locations in 1995, including Great Britain, Australia and Italy, and sold products and services to customers in additional foreign countries.

Additional information concerning foreign operations is provided under "Electric Operations" and "Natural Gas Operations" herein, in "Management's Discussion and Analysis of Financial Condition and Results of Operations" beginning on page 18 of the 1995 Annual Report to Shareholders, and in Note 10 of the "Notes to Consolidated Financial Statements" beginning on page 35 of the 1995 Annual Report to Shareholders.

## ITEM 2. PROPERTIES

Substantially all utility plant is subject to the lien of the July 1, 1940 mortgage and deed of trust and its supplemental indentures between SDG&E and the First Trust of California N.A. as trustee, securing the outstanding first-mortgage bonds.

Information concerning SDG&E's properties is provided below. Additional information is provided under "Electric Operations" and "Gas Operations" herein, in "Management's Discussion and Analysis of Financial Condition and Results of Operations" beginning on page 18 of the 1995 Annual Report to Shareholders, and in Notes 1 through 3, 6, 10 and 11 of the "Notes to Consolidated Financial Statements" beginning on page 35 of the 1995 Annual Report to Shareholders.

### Electric Properties

As of December 31, 1995 SDG&E's installed generating capacity based on summer ratings, was as follows:

| Plant                    | Location              | Net Megawatts |
|--------------------------|-----------------------|---------------|
| -----                    | -----                 | -----         |
| Encina                   | Carlsbad              | 951           |
| South Bay                | Chula Vista           | 690           |
| San Onofre               | South of San Clemente | 430*          |
| Combustion Turbines (19) | Various               | 332           |
| -----                    | -----                 | -----         |

\*SDG&E's 20 percent share.

Except for San Onofre and some of the combustion turbines, these plants are equipped to burn either oil or gas.

The 1995 system load factor was 58 percent and ranged from 56 percent to 64 percent for the past five years.

SDG&E's electric transmission and distribution facilities include substations, and overhead and underground lines. Periodically various areas of the service territory require expansion to handle customer growth.

SDG&E owns an approved nuclear power-plant site near Blythe, California.

### Natural-Gas Properties

SDG&E's natural-gas facilities are located in San Diego and Riverside counties and consist of the Moreno and Rainbow compressor stations, various high-pressure transmission pipelines, high-pressure and low-pressure distribution mains, and service lines. SDG&E's natural-gas system is sufficient to meet customer demand and short-term growth. SDG&E is currently undergoing an expansion of its high-pressure transmission lines to accommodate expected long-term customer growth.

## General Properties

The 21-story corporate office building at 101 Ash Street, San Diego is occupied pursuant to a capital lease through the year 2005. The lease has four separate five-year renewal options. SDG&E also occupies an office complex at Century Park Court in San Diego pursuant to an operating lease ending in the year 2007. The lease can be renewed for two five-year periods.

In addition, SDG&E occupies eight operating and maintenance centers, two business centers, six district offices, and five branch offices.

## Subsidiary Properties

Phase One Development, a subsidiary of Pacific Diversified Capital, holds one property in San Diego County for future development and sale. Other, developed properties were sold during 1995. Wahlco Environmental Systems, sold on June 6, 1995, had manufacturing facilities in the continental United States, Puerto Rico, Great Britain and Australia, and a sales office in Italy.

## ITEM 3. LEGAL PROCEEDINGS

The McCartin proceeding, described in SDG&E's 1994 Annual Report on Form 10-K, was concluded during the year ended December 31, 1995. Information concerning the conclusion of this proceeding is contained in SDG&E's Quarterly Report on Form 10-Q for the three-month period ended June 30, 1995.

### Century Power

This FERC proceeding, arising from a rate dispute among Century Power Corporation, Tucson Electric Power Company, and SDG&E, has been resolved. On October 23, 1995 SDG&E filed with the FERC an offer of settlement which would result in the dismissal of all claims among SDG&E, Tucson and Century with prejudice. On January 18, 1996 FERC approved the settlement and all claims were dismissed.

### American Trails

Prior to Pacific Diversified Capital's purchase of Wahlco Environmental Systems, a complaint was filed in 1985 in the Superior Court of San Diego County against Wahlco and others by Michael Bessey and others who owned American Trails, a membership campground company, for, among other things, breach of contract, negligence and fraud. In 1993 the court found in favor of Wahlco for all claims and causes of action by the plaintiffs against Wahlco. Subsequently, the plaintiffs filed a notice of appeal from the court's judgment and the appeal is pending. Wahlco intends to continue defending this lawsuit vigorously.

Robert R. Wahler, as Trustee of the Wahler Family Trust; John H. McDonald; and Westfore, a California limited partnership; agreed, subject to certain exceptions, to indemnify Pacific Diversified and its subsidiaries in connection with the American Trails litigation. Under a settlement agreement entered into on November 26, 1995, Wahlco agreed to continue to pay all attorneys' fees and costs incurred in the pending

American Trails appeal on behalf of all defendants, provided that all of the above parties are represented by the same counsel throughout. Costs at subsequent retrial, appeal and judgment, if any, would be borne by Wahlco subject to reimbursement by Wahler, McDonald and Westfore, under certain circumstances.

On June 6, 1995 Pacific Diversified sold its interest in Wahlco and, therefore, no longer retains any ownership or interest in Wahlco.

#### Public Service Company of New Mexico

On October 27, 1993 SDG&E filed a complaint with the FERC against Public Service Company of New Mexico, alleging that charges under a 1985 power-purchase agreement are unjust, unreasonable and discriminatory. SDG&E requested that the FERC investigate the rates charged under the agreement and establish December 26, 1993 as the effective refund date. The relief, if granted, would reduce annual demand charges paid by SDG&E to PNM by up to \$11 million per year through April 2001. If approved, the proceeds would be refunded principally to SDG&E customers.

On December 8, 1993 PNM answered the complaint and moved that it be dismissed. PNM denied that the rates are unjust, unreasonable or discriminatory and asserted that SDG&E's claims were barred by certain orders issued by the FERC in 1988.

There have been no further developments in this case. SDG&E is unable to predict the ultimate outcome of this litigation.

#### Canadian Natural Gas

During early 1991 SDG&E signed four long-term natural-gas-supply contracts with Husky Oil Ltd., Canadian Hunter Ltd. and Noranda Inc., Bow Valley Energy Inc., and Summit Resources Ltd. Canadian-sourced natural gas began flowing to SDG&E under these contracts in 1993. Disputes have arisen with each of these producers with respect to events which are alleged by the producers to have occurred and to have justified a revision to the pricing terms of each contract, and possibly their termination. Consequently, during December 1993 SDG&E filed complaints in the United States Federal District Court, Southern District of California, seeking a declaration of SDG&E's contract rights. Specifically, SDG&E states that neither price revision nor contract termination is warranted.

In 1994 SDG&E voluntarily dismissed its complaint against Bow Valley without prejudice. In addition, the court denied the other defendants' motions to dismiss SDG&E's complaints. These motions were based on jurisdictional grounds. Two of the defendants, Bow Valley and Husky Oil, filed claims against SDG&E with the Queens Bench in Alberta, Canada, seeking a declaration that they are entitled to damages or, in the alternative, that they may terminate their respective natural-gas shipments to SDG&E. SDG&E has answered these claims. In March 1995 SDG&E and Husky Oil reached an agreement dismissing all of their respective claims with prejudice.

Bow Valley and Summit Resources gave SDG&E notice that their natural-gas-supply contracts with SDG&E were terminated pursuant to provisions in the contract that purportedly give them the right to do so. SDG&E has responded that the notices were inappropriate and that it will seek both contract and tort damages.

In July 1995 the United States Federal District Court, Southern District of California, dismissed SDG&E's lawsuit against Summit Resources. SDG&E's lawsuit in Federal District Court against Canadian Hunter is still proceeding.

SDG&E is unable to predict the ultimate outcome of this litigation.

#### Electric and Magnetic Fields

Covalt: On December 16, 1993 Martin and Joyce Covalt filed a complaint against SDG&E in Orange County Superior Court. The Covalt lawsuit involves the same lawyers and issues as the lawsuits brought by McCartin and Zuidema, in which SDG&E prevailed and which were reported in previous Annual Reports on Form 10-K. On April 13, 1994 SDG&E filed a demurrer to the Covalts' claims. On June 22, 1994 an Orange County Superior Court judge, different from the judge who presided over the McCartin case, denied SDG&E's demurrer. On July 15, 1994 SDG&E petitioned the California Court of Appeal to review the trial judge's decision on the grounds that the California Public Utilities Commission, not the courts, has exclusive jurisdiction over power-line health and safety issues. On February 28, 1995 the California Court of Appeal granted SDG&E's petition, completely dismissing the plaintiffs' lawsuit, ruling that the CPUC has exclusive jurisdiction over these claims. On March 30, 1995 the Court of Appeal denied the plaintiffs' petition for rehearing. On May 11, 1995 the California Supreme Court granted plaintiffs' request for review of the California Court of Appeal decision to dismiss the case. A decision is not expected before late 1996.

SDG&E is unable to predict the ultimate outcome of this litigation.

North City West: On June 14, 1993 the Peninsula at Del Mar Highlands Homeowners Association filed a complaint with the Superior Court of San Diego County against the City of San Diego and SDG&E to prevent SDG&E from constructing and operating an electric substation in an area which is known as North City West. In the complaint, plaintiffs sought to have the city either revoke previously issued permits or reopen the hearing process to address alleged EMF concerns. In 1993 the court denied the plaintiffs' motion for a temporary restraining order and motion for a preliminary injunction. Subsequently, the plaintiffs withdrew their complaint and the court dismissed it without prejudice.

On August 18, 1993 the plaintiffs filed a complaint with the CPUC, requesting that the CPUC conduct an environmental assessment. This complaint is still pending.

SDG&E is unable to predict the ultimate outcome of this litigation.

#### SONGS Personal Injury Litigation

James v. Southern California Edison Company, San Diego Gas & Electric Company and Combustion Engineering was tried and successfully defended in Federal District Court, Southern District of California. Mr. James, an employee of a SONGS contractor, was diagnosed with chronic myelogenous leukemia. He alleged his leukemia was caused by radiation exposure and from "fuel fleas" (radioactive fuel particles) from failed fuel rods. Plaintiffs sought \$25 million in compensatory damages and \$100 million in punitive damages. On October 12, 1995 the jury

determined there was no scientific link between the plaintiff's illness and the amount of radiation he was exposed to while at SONGS. The case is currently on appeal to the Ninth Circuit Court of Appeal.

Three wrongful death lawsuits have been filed against Southern California Edison, San Diego Gas & Electric Company, Combustion Engineering, and the Institute of Nuclear Power Operations in Federal District Court, Southern District of California, by the heirs of former SONGS employees: McLandrich filed February 6, 1995, Mettler filed July 5, 1995, and Knapp filed August 31, 1995. In McLandrich, the former employee allegedly developed leiomyosarcoma, a rare form of cancer. In Mettler and Knapp, the former employees allegedly developed acute myelogenous leukemia. All plaintiffs attribute the illnesses to radiation exposure and "fuel fleas". Southern California Edison, co-owner and operator of SONGS, was dismissed from McLandrich based on the workers' compensation exclusive-remedy rule. SDG&E's motion on the same theory was denied. SDG&E has been granted permission to file a motion for summary judgment. The heirs of the plaintiffs in each case seek unspecified amounts in compensatory and punitive damages. SDG&E is defending the lawsuits on the basis that the workers' compensation exclusive-remedy rule should apply for SDG&E as co-owner of the plant and that there is no scientific link between the illnesses and the alleged radiation exposure. All the SONGS personal injury lawsuits, including the two listed below, have involved the same lawyers for the plaintiffs.

Two additional lawsuits have been filed wherein SDG&E was not named as a defendant. Kennedy v. Southern California Edison and Combustion Engineering, Inc., was filed in Federal District Court, Southern District of California on November 17, 1995. In this case, the wife of a current SONGS worker was diagnosed with chronic myelogenous leukemia (CML). She and her husband allege the CML was caused by exposure to radioactive particles that were transported home on the employee's clothing. In Rock v. Southern California Edison and Combustion Engineering, Inc. (filed November 28, 1995 in Federal District Court, Southern District of California), plaintiffs allege that the 18-year-old son of a former temporary SONGS employee developed acute myelogenous leukemia from exposure to radioactive material that was transported home on the worker's clothing. Plaintiffs seek unspecified amounts in compensatory and punitive damages in both cases.

SDG&E is unable to predict the ultimate outcome of this litigation.

#### Environmental and Regulatory Issues

Other legal matters related to environmental and regulatory issues are described under "Environmental Matters" and "Regulatory Matters" herein.

Item 4. Submission of Matter to a Vote of Security Holders

NONE.

Item 4. Executive Officers of the Registrant

| Name                 | Age | Positions* (1991 - Current)  |
|----------------------|-----|--|
| Thomas A. Page       | 62  | Chairman (Enova) since December 1994. Chairman since January 1983. President and Chief Executive Officer (Enova) from December 1994 through December 1995. Chief Executive Officer from January 1983 through December 1995. President from 1983 through 1991 and from January 1994 through December 1995.  |
| Stephen L. Baum      | 55  | President and Chief Executive Officer (Enova) since January 1996. Executive Vice President (Enova) from December 1994 through December 1995. Executive Vice President from January 1993 through December 1995. Senior Vice President - Law and Corporate Affairs and General Counsel from January 1992 through December 1992. Senior Vice President and General Counsel from 1987 through 1991.          |
| Donald E. Felsing    | 48  | President and Chief Executive Officer since January 1996. Executive Vice President (Enova) from December 1994 through December 1995. Executive Vice President from January 1993 through December 1995. Senior Vice President - Marketing and Resource Development from January 1992 through December 1992. Vice President - Marketing and Resource Development from February 1989 through December 1991. |
| Gary D. Cotton       | 55  | Senior Vice President - Customer Operations since January 1993. Senior Vice President - Customer Services from January 1992 through December 1992. Senior Vice President - Engineering and Operations from 1986 through 1991.  |
| Edwin A. Guiles      | 46  | Senior Vice President - Energy Supply since January 1993. Vice President - Engineering and Operations from January 1992 through December 1992. Vice President - Corporate Planning from 1990 through 1991.   |
| David R. Kuzma       | 50  | Senior Vice President, Chief Financial Officer and Treasurer (Enova) since November 1995. Senior Vice President, Chief Financial Officer and Treasurer since June 1995. Chief Financial Officer, Senior Vice President and Treasurer of Florida Progress Corporation from 1991 to 1995.  |
| Frank H. Ault        | 51  | Vice President and Controller (Enova) since December 1994. Vice President and Controller since January 1993. Controller from May 1986 through December 1992.   |
| Kathleen A. Flanagan | 45  | Vice President - Corporate Communications since July 1994. Manager - Corporate Communications at Southern California Edison from 1991 to 1994. Director - Government Relations and Public Affairs at Luz International from 1989 to 1991.  |
| Ronald K. Fuller     | 58  | Vice President - Governmental and Regulatory Services from April 1984 until his retirement in December 1995.   |
| Margot A. Kyd        | 42  | Vice President - Human Resources (Enova) since January 1996. Vice President - Human Resources since January 1993. Vice President - Administrative Services from 1988 through 1992.   |
| John L. Laun, III    | 48  | Vice President - Customer and Marketing Services since July 1994. Division Manager - Corporate Communications from June 1993 to July 1994. Manager - Special Projects from January 1992 to June 1993. Director - Utility Consulting at Xenergy Inc. from 1991 through 1992. Senior Vice President - Utility Consulting at Palmer Bellevue Corporation from 1989 through 1991.                            |
| William L. Reed      | 44  | Vice President - Regulatory Affairs since January 1996. Vice President - Strategic Planning from August 1995 through December 1995. Division Manager - Strategic Plans & Projects from August 1994 through July 1995. Director - Energy Management from April 1993 through July 1994. Director - Regulatory Affairs from 1990 through March 1993.  |

\*All positions are at SDG&E unless otherwise noted.



PART II - Enova Corporation:

Part II - San Diego Gas & Electric Company beginning on page 32 of this Annual Report on Form 10-K is incorporated herein by reference.

PART II - San Diego Gas & Electric Company:

Item 5. Market for Registrant's Common Equity and Related Stockholder Matters

Common stock is traded on the New York and Pacific stock exchanges. At December 31, 1995 there were 84,158 holders of common stock. The quarterly common stock information required by Item 5 is incorporated by reference from page 43 of the 1995 Annual Report to Shareholders.

Item 6. Selected Financial Data

In millions of dollars except per share amounts

|  | 1995      | 1994      | 1993      | 1992      | 1991      |
|--|-----------|-----------|-----------|-----------|-----------|
| For the years ended December 31  |           |           |           |           |           |
| Operating revenues   | \$1,870.7 | \$1,912.2 | \$1,897.5 | \$1,789.0 | \$1,700.2 |
| Operating income   | \$345.7   | \$332.2   | \$303.9   | \$308.9   | \$304.9   |
| Income from continuing operations  | \$233.3   | \$206.9   | \$227.5   | \$221.1   | \$198.7   |
| Net income (before preferred dividend requirements)  | \$233.5   | \$143.5   | \$218.7   | \$210.7   | \$208.1   |
| Earnings per common share from continuing operations   | \$1.94    | \$1.71    | \$1.89    | \$1.86    | \$1.68    |
| Earnings per common share  | \$1.94    | \$1.17    | \$1.81    | \$1.77    | \$1.76    |
| Dividends declared per common share  | \$1.56    | \$1.52    | \$1.48    | \$1.44    | \$1.3875  |
| At December 31   |           |           |           |           |           |
| Total assets   | \$4,670.4 | \$4,598.4 | \$4,642.9 | \$4,429.3 | \$3,978.4 |
| Long-term debt and preferred stock subject to mandatory redemption (excludes current portion)* | \$1,490.1 | \$1,479.2 | \$1,523.6 | \$1,647.3 | \$1,323.2 |

\*Includes long-term debt redeemable within one year.

This summary should be read in conjunction with the consolidated financial statements and notes to consolidated financial statements contained in the 1995 Annual Report to Shareholders. Prior periods have been restated to reflect discontinued operations, as described in note 3

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The information required by Item 7 is incorporated by reference from pages 18 through 26 of the 1995 Annual Report to Shareholders.

Item 8. Financial Statements and Supplementary Data

The information required by Item 8 is incorporated by reference from pages 28 through 43 of the 1995 Annual Report to Shareholders. See Item 14 herein for a listing of financial statements included in the 1995 Annual Report to Shareholders.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure  
None.

PART III - Enova Corporation:

Part III - San Diego Gas & Electric Company beginning on page 33 of this Annual Report on Form 10-K is incorporated herein by reference.

PART III - San Diego Gas & Electric Company:

Item 10. Directors and Executive Officers of the Registrant

The information required on Identification of Directors is incorporated by reference from "Election of Directors" in the March 1996 Proxy Statement. The information required on executive officers is incorporated by reference from Item 4 herein.

Item 11. Executive Compensation

The information required by Item 11 is incorporated by reference from "Executive Compensation and Transactions with Management and Others" in the March 1996 Proxy Statement.

Item 12. Security Ownership of Certain Beneficial Owners and Management

The information required by Item 12 is incorporated by reference from "Security Ownership of Management and Certain Beneficial Holders" in the March 1996 Proxy Statement.

Item 13. Certain Relationships and Related Transactions  
None.

PART IV - Enova Corporation:

Part IV - San Diego Gas & Electric Company beginning on page 34 of this Annual Report on Form 10-K is incorporated herein by reference.

PART IV - San Diego Gas & Electric Company:

Item 14. Exhibits, Financial Statement Schedules and Reports on Form 8-K

(a) The following documents are filed as part of this report:

1. Financial statements

|  | Page in<br>Annual Report* |
|--|---------------------------|
| Responsibility Report for the Consolidated Financial Statements . . . . .  | 27                        |
| Independent Auditors' Report . . . . .   | 27                        |
| Statements of Consolidated Income for the years ended December 31, 1995, 1994 and 1993 . . . . .   | 28                        |
| Consolidated Balance Sheets at December 31, 1995 and 1994 . .  | 29                        |
| Statements of Consolidated Cash Flows for the years ended December 31, 1995, 1994 and 1993 . . . . .                                     | 30                        |
| Statements of Consolidated Changes in Capital Stock and Retained Earnings for the years ended December 31, 1995, 1994 and 1993 . . . . . | 31                        |
| Statements of Consolidated Capital Stock at December 31, 1995 and 1994 . . . . .   | 32                        |
| Statements of Consolidated Long-Term Debt at December 31, 1995 and 1994 . . . . .  | 33                        |
| Statements of Consolidated Financial Information by Segments of Business for the years ended December 31, 1995, 1994 and 1993 . . . . .  | 34                        |
| Notes to Consolidated Financial Statements . . . . .   | 35                        |
| Quarterly Financial Data (Unaudited) . . . . .   | 43                        |

\*Incorporated by reference from the indicated pages of the 1995 Annual Report to Shareholders.

2. Financial statement schedules

None

### 3. Exhibits

The Forms 8, 8-B/A, 8-K, S-4, 10-K and 10-Q referred to herein were filed under Commission File Number 1-3779 (SDG&E) or Commission File Number 1-11439 (Enova Corporation).

#### Exhibit 3 -- Bylaws and Articles of Incorporation

##### Bylaws

- 3.1 Restated Bylaws (Incorporated by reference from the Registration Statement on Form 8-B/A of Enova Corporation (Exhibit 3.2)).

##### Articles of Incorporation

- 3.2 Restated Articles of Incorporation of Enova Corporation (Incorporated by reference from the Registration Statement on Form 8-B/A of Enova Corporation (Exhibit 3.1)).

#### Exhibit 4 -- Instruments Defining the Rights of Security Holders, Including Indentures

- 4.1 Mortgage and Deed of Trust dated July 1, 1940. (Incorporated by reference from SDG&E Registration No. 2-49810, Exhibit 2A.)
- 4.2 Second Supplemental Indenture dated as of March 1, 1948. (Incorporated by reference from SDG&E Registration No. 2-49810, Exhibit 2C.)
- 4.3 Ninth Supplemental Indenture dated as of August 1, 1968. (Incorporated by reference from SDG&E Registration No. 2-68420, Exhibit 2D.)
- 4.4 Tenth Supplemental Indenture dated as of December 1, 1968. (Incorporated by reference from SDG&E Registration No. 2-36042, Exhibit 2K.)
- 4.5 Sixteenth Supplemental Indenture dated August 28, 1975. (Incorporated by reference from SDG&E Registration No. 2-68420, Exhibit 2E.)
- 4.6 Thirtieth Supplemental Indenture dated September 28, 1983. (Incorporated by reference from SDG&E Registration No. 33-34017, Exhibit 4.3.)

Exhibit 10 -- Material Contracts (Previously filed exhibits are incorporated by reference from Forms S-4, 10-K or 10-Q as referenced below).

##### Compensation

- 10.1 Form of San Diego Gas & Electric Company Deferred Compensation Agreement for Officers #1 (1996 compensation, 1997 bonus).
- 10.2 Form of San Diego Gas & Electric Company Deferred Compensation Agreement for Officers #1 (1995 compensation, 1996 bonus)(1994 SDG&E Form 10-K Exhibit 10.2).
- 10.3 Form of San Diego Gas & Electric Company Deferred Compensation Agreement for Officers #3 (1996 compensation, 1997 bonus).
- 10.4 Form of San Diego Gas & Electric Company Deferred Compensation Agreement for Officers #3 (1995 compensation, 1996 bonus)(1994 SDG&E Form 10-K Exhibit 10.1).

- 10.5 Form of San Diego Gas & Electric Company Deferred Compensation Agreement for Nonemployee Directors (1996 compensation).
- 10.6 Form of San Diego Gas & Electric Company Deferred Compensation Agreement for Nonemployee Directors (1995 compensation)(1994 SDG&E Form 10-K Exhibit 10.3).
- 10.7 Form of San Diego Gas & Electric Company 1986 Long-Term Incentive Plan 1995 restricted stock award agreement.
- 10.8 Form of San Diego Gas & Electric Company 1986 Long-Term Incentive Plan Special 1995 restricted stock award agreement.
- 10.9 Form of San Diego Gas & Electric Company 1986 Long-Term Incentive Plan 1994 restricted stock award agreement two-year vesting.
- 10.10 Form of San Diego Gas & Electric Company 1986 Long-Term Incentive Plan 1994 restricted stock award agreement (1994 SDG&E Form 10-K Exhibit 10.4).
- 10.11 Form of San Diego Gas & Electric Company 1986 Long-Term Incentive Plan 1993 restricted stock award agreement (1993 SDG&E Form 10-K Exhibit 10.4).
- 10.12 Form of San Diego Gas & Electric Company 1986 Long-Term Incentive Plan 1992 restricted stock award agreement (1992 SDG&E Form 10-K Exhibit 10.4).
- 10.13 Amended 1986 Long-Term Incentive Plan, amended and restated effective April 25, 1995 (SDG&E's Amendment No. 2 to Form S-4 filed February 28, 1995).
- 10.14 Amended 1986 Long-Term Incentive Plan, Restatement as of October 25, 1993 (1993 SDG&E Form 10-K Exhibit 10.6).
- 10.15 San Diego Gas & Electric Company Retirement Plan for Directors, restated as of October 24, 1994 (1994 SDG&E Form 10-K Exhibit 10.5).
- 10.16 Executive Incentive Plan dated April 23, 1985 (1991 SDG&E Form 10-K Exhibit 10.39).
- 10.17 Employment agreement between San Diego Gas & Electric Company and Thomas A. Page, dated June 15, 1988 (1988 SDG&E Form 10-K Exhibit 10E).
- 10.18 Supplemental Pension Agreement with Thomas A. Page, dated as of April 3, 1978 (1988 SDG&E Form 10-K Exhibit 10V).
- 10.19 Supplemental Executive Retirement Plan restated as of July 1, 1994 (1994 SDG&E Form 10-K Exhibit 10.14).

#### Financing

- 10.20 Loan agreement with the City of San Diego in connection with the issuance of \$16.7 million of Industrial Development Bonds, dated as of June 1, 1995 (June 30, 1995 SDG&E Form 10-Q Exhibit 10.2).
- 10.21 Loan agreement with the City of San Diego in connection with the issuance of \$57.7 million of Industrial Development Bonds, dated as of June 1, 1995 (June 30, 1995 SDG&E Form 10-Q Exhibit 10.3).

- 10.22 Loan agreement with the City of San Diego in connection with the issuance of \$92.9 million of Industrial Development Bonds 1993 Series C dated as of July 1, 1993 (June 30, 1993 SDG&E Form 10-Q Exhibit 10.2).
- 10.23 Loan agreement with the City of San Diego in connection with the issuance of \$70.8 million of Industrial Development Bonds 1993 Series A dated as of April 1, 1993 (March 31, 1993 SDG&E Form 10-Q Exhibit 10.3).
- 10.24 Loan agreement with the City of San Diego in connection with the issuance of \$14.9 million of Industrial Development Bonds 1993 Series B dated as of April 1, 1993 (March 31, 1993 SDG&E Form 10-Q Exhibit 10.4).
- 10.25 Loan agreement with the City of San Diego in connection with the issuance of \$118.6 million of Industrial Development Bonds dated as of September 1, 1992 (Sept. 30, 1992 SDG&E Form 10-Q Exhibit 10.1).
- 10.26 Loan agreement with the City of Chula Vista in connection with the issuance of \$250 million of Industrial Development Bonds, dated as of December 1, 1992 (1992 SDG&E Form 10-K Exhibit 10.5).
- 10.27 Loan agreement with the City of San Diego in connection with the issuance of \$25 million of Industrial Development Bonds, dated as of September 1, 1987 (1992 SDG&E Form 10-K Exhibit 10.6).
- 10.28 Loan agreement with the City of San Diego in connection with the issuance of \$44.25 million of Industrial Development Bonds, dated as of July 1, 1986 (1991 SDG&E Form 10-K Exhibit 10.36).
- 10.29 Loan agreement with the City of San Diego in connection with the issuance of \$81.35 million of Industrial Development Bonds, dated as of December 1, 1986 (1991 SDG&E Form 10-K Exhibit 10.37).
- 10.30 Loan agreement with the California Pollution Control Financing Authority in connection with the issuance of \$60 million of Pollution Control Bonds dated as of June 1, 1993 (June 30, 1993 SDG&E Form 10-Q Exhibit 10.1).
- 10.31 Loan agreement with the California Pollution Control Financing Authority, dated as of December 1, 1991, in connection with the issuance of \$14.4 million of Pollution Control Bonds (1991 SDG&E Form 10-K Exhibit 10.11).
- 10.32 Loan agreement with the California Pollution Control Financing Authority, dated as of December 1, 1985, in connection with the issuance of \$35 million of Pollution Control Bonds (1991 SDG&E Form 10-K Exhibit 10.10).
- 10.33 Loan agreement with the California Pollution Control Financing Authority dated as of December 1, 1984, in connection with the issuance of \$27 million of Pollution Control Bonds (1991 SDG&E Form 10-K Exhibit 10.40).
- 10.34 Loan agreement with the California Pollution Control Financing Authority dated as of May 1, 1984, in connection with the issuance of \$53 million of Pollution Control Bonds (1991 SDG&E Form 10-K Exhibit 10.41).

## Natural Gas Commodity, Transportation and Storage

- 10.35 Long-Term Natural Gas Storage Service Agreement dated January 12, 1994 between Southern California Gas Company and SDG&E (1994 SDG&E Form 10-K Exhibit 10.42).
- 10.36 Amendment to San Diego Gas & Electric Company and Southern California Gas Company Restated Long-Term Wholesale Natural Gas Service Contract dated March 26, 1993 (1993 SDG&E Form 10-K Exhibit 10.53).
- 10.37 San Diego Gas & Electric Company and Southern California Gas Company Restated Long-Term Wholesale Natural Gas Service Contract, dated September 1, 1990 (1990 SDG&E Form 10-K Exhibit 10.9).
- 10.38 Gas Purchase Agreement, dated March 12, 1991 between Husky Oil Operations Limited and San Diego Gas & Electric Company (1991 SDG&E Form 10-K Exhibit 10.1).
- 10.39 Gas Purchase Agreement, dated March 12, 1991 between Canadian Hunter Marketing Limited and San Diego Gas & Electric Company (1991 SDG&E Form 10-K Exhibit 10.2).
- 10.40 Gas Purchase Agreement, dated March 12, 1991 between Bow Valley Industries Limited and San Diego Gas & Electric Company (1991 SDG&E Form 10-K Exhibit 10.3).
- 10.41 Gas Purchase Agreement, dated March 12, 1991 between Summit Resources Limited and San Diego Gas & Electric Company (1991 SDG&E Form 10-K Exhibit 10.4).
- 10.42 Service Agreement Applicable to Firm Transportation Service under Rate Schedule FS-1, dated May 31, 1991 between Alberta Natural Gas Company Ltd. and San Diego Gas & Electric Company (1991 SDG&E Form 10-K Exhibit 10.5).
- 10.43 Firm Transportation Service Agreement, dated December 31, 1991 between Pacific Gas and Electric Company and San Diego Gas & Electric Company (1991 SDG&E Form 10-K Exhibit 10.7).
- 10.44 Firm Transportation Service Agreement, dated April 25, 1991 between Pacific Gas Transmission Company and San Diego Gas & Electric Company (March 31, 1991 SDG&E Form 10-Q Exhibit 28.2).

## Nuclear

- 10.45 Uranium enrichment services contract between the U.S. Department of Energy (DOE assigned its rights to the U.S. Enrichment Corporation, a U.S. government-owned corporation, on July 1, 1993) and Southern California Edison Company, as agent for SDG&E and others; Contract DE-SC05-84UE07541, dated November 5, 1984, effective June 1, 1984, as amended (1991 SDG&E Form 10-K Exhibit 10.9).
- 10.46 Fuel Lease dated as of September 8, 1983 between SONGS Fuel Company, as Lessor and San Diego Gas & Electric Company, as Lessee, and Amendment No. 1 to Fuel Lease, dated September 14, 1984 and Amendment No. 2 to Fuel Lease, dated March 2, 1987 (1992 SDG&E Form 10-K Exhibit 10.11).
- 10.47 Nuclear Facilities Qualified CPUC Decommissioning Master Trust Agreement for San Onofre Nuclear Generating Station, approved November 25, 1987 (1992 SDG&E Form 10-K Exhibit 10.7).
- 10.48 Amendment No. 1 to the Qualified CPUC Decommissioning Master

Trust Agreement dated September 22, 1994 (see Exhibit 10.47 herein).

- 10.49 Second Amendment to the San Diego Gas & Electric Company Nuclear Facilities Qualified CPUC Decommissioning Master Trust Agreement for San Onofre Nuclear Generating Station (see Exhibit 10.47 herein).
- 10.50 Nuclear Facilities Non-Qualified CPUC Decommissioning Master Trust Agreement for San Onofre Nuclear Generating Station, approved November 25, 1987 (1992 SDG&E Form 10-K Exhibit 10.8).
- 10.51 Second Amended San Onofre Agreement among Southern California Edison Company, SDG&E, the City of Anaheim and the City of Riverside, dated February 26, 1987 (1990 SDG&E Form 10-K Exhibit 10.6).
- 10.52 U. S. Department of Energy contract for disposal of spent nuclear fuel and/or high-level radioactive waste, entered into between the DOE and Southern California Edison Company, as agent for SDG&E and others; Contract DE-CR01-83NE44418, dated June 10, 1983 (1988 SDG&E Form 10-K Exhibit 10N).

#### Purchased Power

- 10.53 Public Service Company of New Mexico and San Diego Gas & Electric Company 1988-2001 100 mw System Power Agreement dated November 4, 1985 and Letter of Agreement dated April 28, 1986, June 4, 1986 and June 18, 1986 (1988 SDG&E Form 10-K Exhibit 10H).
- 10.54 San Diego Gas & Electric Company and Portland General Electric Company Long-Term Power Sale and Transmission Service agreements dated November 5, 1985 (1988 SDG&E Form 10-K Exhibit 10I).
- 10.55 Comision Federal de Electricidad and San Diego Gas & Electric Company Contract for the Purchase and Sale of Electric Capacity and Energy dated November 20, 1980 and additional Agreement to the contract dated March 22, 1985 (1988 SDG&E Form 10-K Exhibit 10J).
- 10.56 Agreement with Arizona Public Service Company for Arizona transmission system participation agreement - contract 790116 (1988 SDG&E Form 10-K Exhibit 10P).

#### Other

- 10.57 U. S. Navy contract for electric service, Contract N62474-70-C-1200-P00414, dated September 29, 1988 (1988 SDG&E Form 10-K Exhibit 10C).
- 10.58 City of San Diego Electric Franchise (Ordinance No. 10466) (1988 SDG&E Form 10-K Exhibit 10Q).
- 10.59 City of San Diego Gas Franchise (Ordinance No. 10465) (1988 SDG&E Form 10-K Exhibit 10R).
- 10.60 County of San Diego Electric Franchise (Ordinance No. 3207) (1988 SDG&E Form 10-K Exhibit 10S).
- 10.61 County of San Diego Gas Franchise (Ordinance No. 5669) (1988 SDG&E Form 10-K Exhibit 10T).
- 10.62 Lease agreement dated as of March 25, 1992 with American National Insurance Company as lessor of an office complex at Century Park (1994 SDG&E Form 10-K Exhibit 10.70).



- 10.63 Lease agreement dated as of June 15, 1978 with Lloyds Bank California, as owner-trustee and lessor - Exhibit B to financing agreement of SDG&E's Encina Unit 5 equipment trust (1988 SDG&E Form 10-K Exhibit 10W).
- 10.64 Amendment to Lease agreement dated as of July 1, 1993 with Sanwa Bank California, as owner-trustee and lessor - Exhibit B to secured loan agreement of SDG&E's Encina Unit 5 equipment trust (See Exhibit 10.63 herein).
- 10.65 Lease agreement dated as of July 14, 1975 with New England Mutual Life Insurance Company, as lessor (1991 SDG&E Form 10-K Exhibit 10.42).
- 10.66 Assignment of Lease agreement dated as of November 19, 1993 to Shapery Developers as lessor by New England Mutual Life Insurance Company (See Exhibit 10.65 herein).

Exhibit 12 -- Statement re: computation of ratios

- 12.1 Computation of Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends for the years ended December 31, 1995, 1994, 1993, 1992 and 1991.

Exhibit 13 -- The financial statements and other documents listed under Part IV Item 14(a)1. and Management's Discussion and Analysis of Financial Condition and Results of Operations listed under Part II Item 7 of this Form 10-K are incorporated by reference from the 1995 Annual Report to Shareholders.

Exhibit 22 - Subsidiaries - See "Part I, Item 1. Description of Business."

Exhibit 24 - Independent Auditors' Consent, page 41.

Exhibit 27 - Financial Data Schedules

- 27.1 Financial Data Schedule for the year ended December 31, 1995.

(b) Reports on Form 8-K:

A Current Report on Form 8-K was filed on December 7, 1995 announcing the CPUC's approval of SDG&E's application to form a holding company, the January 1, 1996 effective date of the new parent company, and associated changes in officers' responsibilities.

A Current Report on Form 8-K was filed on February 2, 1996 to report that on January 31, 1996 SDG&E's ownership interests in its subsidiaries were transferred to Enova Corporation at book value, completing the organizational restructuring into the new parent company framework.

INDEPENDENT AUDITORS' CONSENT

We consent to the incorporation by reference of our report dated February 16, 1996 on San Diego Gas & Electric Company, appearing on page 27 of the 1995 Annual Report to Shareholders of Enova Corporation and San Diego Gas & Electric Company incorporated by reference in this Annual Report on Form 10-K for the year ended December 31, 1995.

We also consent to the incorporation by reference of the above-mentioned report in the Enova Corporation Post-Effective Amendment No. 1 to Registration Statement No. 33-59681 on Form S-3, Post-Effective Amendment No. 1 to Registration Statement No. 33-59683 on Form S-8 and Post-Effective Amendment No. 1 to Registration Statement No. 33-7108 on Form 8; and in the San Diego Gas & Electric Company Registration Statement No. 33-45599 on Form S-3, Registration Statement No. 33-52834 on Form S-3 and Registration Statement No. 33-49837 on Form S-3.

DELOITTE & TOUCHE LLP

San Diego, California  
February 28, 1996

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, hereunto duly authorized. The signatures of the undersigned companies relate only to matters having reference to such companies and their respective subsidiaries.

ENOVA CORPORATION.

SAN DIEGO GAS &amp; ELECTRIC COMPANY

By: /s/ Stephen L. Baum

By: /s/ Donald E. Felsinger

\_\_\_\_\_  
 Stephen L. Baum  
 President and Chief  
 Executive Officer

\_\_\_\_\_  
 Donald E. Felsinger  
 President and Chief  
 Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report is signed below by the following persons on behalf of the Registrant in the capacities and on the dates indicated. The signatures of the undersigned companies relate only to matters having reference to such companies and their respective subsidiaries.

| Signature                     | Title  | Date              |
|-------------------------------|--|-------------------|
| Principal Executive Officers: |  |                   |
| /s/ Stephen L. Baum           |  |                   |
| Stephen L. Baum               | President and Chief Executive Officer (Enova) and a Director (Enova and SDG&E) | February 26, 1996 |
| /s/ Donald E. Felsinger       |  |                   |
| Donald E. Felsinger           | President and Chief Executive Officer and a Director (SDG&E)                   | February 26, 1996 |
| Principal Financial Officer:  |  |                   |
| /s/ David R. Kuzma            |  |                   |
| David R. Kuzma                | Senior Vice President Chief Financial Officer and Treasurer (Enova and SDG&E)  | February 26, 1996 |
| Principal Accounting Officer: |  |                   |
| /s/ Frank H. Ault             |  |                   |
| Frank H. Ault                 | Vice President and Controller (Enova and SDG&E)                                | February 26, 1996 |
| Directors (Enova and SDG&E):  |  |                   |
| /s/ Thomas A. Page            |  |                   |
| Thomas A. Page                | Chairman   | February 26, 1996 |
| /s/ Ann L. Burr               |  |                   |
| Ann L. Burr                   | Director   | February 26, 1996 |
| /s/ Richard A. Collato        |  |                   |
| Richard A. Collato            | Director   | February 26, 1996 |
| /s/ Daniel W. Derbes          |  |                   |
| Daniel W. Derbes              | Director   | February 26, 1996 |
| /s/ Catherine T. Fitzgerald   |  |                   |
| Catherine T. Fitzgerald       | Director   | February 26, 1996 |
| /s/ Robert H. Goldsmith       |  |                   |
| Robert H. Goldsmith           | Director   | February 26, 1996 |
| /s/ William D. Jones          |  |                   |
| William D. Jones              | Director   | February 26, 1996 |
| /s/ Ralph R. Ocampo           |  |                   |
| Ralph R. Ocampo               | Director   | February 26, 1996 |
| /s/ Thomas C. Stickel         |  |                   |
| Thomas C. Stickel             | Director   | February 26, 1996 |



## GLOSSARY

|                  |   |
|------------------|---|
| APCD             | Air Pollution Control District                                    |
| BCAP             | Biennial Cost Allocation Proceeding                               |
| BPA              | Bonneville Power Administration                                   |
| BRPU             | Biennial Resource Plan Update                                     |
| CEC              | California Energy Commission                                      |
| CFE              | Comision Federal de Electricidad                                  |
| CPUC             | California Public Utilities Commission                            |
| DOE              | Department of Energy  |
| EC               | Electric Clearinghouse  |
| ECAC             | Energy Cost Adjustment Clause                                     |
| Edison           | Southern California Edison Company and/or its parent, SCEcorp     |
| EMF              | Electric and magnetic fields                                      |
| Enron            | Enron Power Marketing   |
| ERAM             | Electric Revenue Adjustment Mechanism                             |
| EV               | Electric vehicle  |
| FERC             | Federal Energy Regulatory Commission                              |
| G&D              | Electric Generation and Dispatch Mechanism                        |
| GFCA             | Gas Fixed Cost Account  |
| Goal Line        | Goal Line Limited Partnership                                     |
| IID              | Imperial Irrigation District                                      |
| Illinova         | Illinova Power Marketing  |
| ISO              | Independent System Operator                                       |
| kv               | Kilovolt  |
| kwhr             | Kilowatt hour   |
| mw               | Megawatt  |
| NGV              | Natural-Gas Vehicle   |
| NOx              | Nitrogen Dioxide  |
| NRC              | Nuclear Regulatory Commission                                     |
| Pacific Intertie | A transmission line connecting San Diego to the Pacific Northwest |
| PBR              | Performance-Based Ratemaking                                      |
| PCB              | Polychlorinated Biphenyl  |
| PG&E             | Pacific Gas and Electric Company                                  |

|                     |   |
|---------------------|---|
| PGE                 | Portland General Electric Company   |
| PNM                 | Public Service Company of New Mexico  |
| PSP&L               | Puget Sound Power & Light   |
| RECLAIM             | Regional Clean Air Incentive Market   |
| SDG&E               | San Diego Gas & Electric Company  |
| SoCal Gas           | Southern California Gas Company   |
| SONGS/San Onofre    | San Onofre Nuclear Generating Station                                       |
| SRP                 | Salt River Project  |
| Southwest Powerlink | A transmission line connecting San Diego to Phoenix and intermediate points |
| TCF                 | Target Capacity Factor  |

SAN DIEGO GAS & ELECTRIC COMPANY  
1996 DEFERRED COMPENSATION AGREEMENT  
FOR OFFICERS #1

(1996 BASE COMPENSATION)  
(1997 BONUS)

THIS AGREEMENT, made and entered into this \_\_\_\_\_ day of December, 1995, by and between San Diego Gas & Electric Company, (hereinafter "Company") and \_\_\_\_\_ (hereinafter "Officer"), an elected Officer of Company.

WITNESSETH:

WHEREAS, in addition to 1996 base compensation, incentive compensation payable in the form of a single sum cash bonus may be paid to Officer in 1997 for outstanding performance in 1996 ("1997 Bonus"); and

WHEREAS, Officer and Company desire that the payment of said 1996 base compensation and/or 1997 bonus to Officer be deferred, pursuant to the terms and provisions of this Agreement;

NOW, THEREFORE, the parties hereto hereby agree as follows:

1. This Agreement shall be effective on the first date after its execution upon which Officer's bonus would otherwise be payable to Officer for outstanding performance and shall continue in effect until this Agreement is terminated as provided herein.

2. Company shall credit to an account on Company's books, in Officer's name, that portion of such Officer's bonus otherwise payable to Officer as may be specified by Officer on an Election Form submitted to Company simultaneously with the execution of this Agreement. If an Officer has elected to defer 100% of such Officer's bonus (pursuant to Deferred Compensation Agreements for Officers #1 and #3) and the Officer is also participating in the Savings Plan of San Diego Gas & Electric to the maximum extent permissible, such Officer may also elect to defer, and Company shall credit to the Officer's account, a portion of such Officer's base compensation (in equal monthly installments of whole dollar amounts).

3. There shall be credited to Officer's account an additional amount equal to seven and four-tenths percent (7.4%) per annum computed on the balance in Officer's account as of the end of each month; provided, however, that Company reserves the right to increase or decrease from time to time such amounts to be credited to the account after the date of such increase or decrease, provided that upon a "change-in-control" (as defined in the SDG&E Amended 1986 Long-Term Incentive Plan) the percentage used shall not decrease to less than the last published

percentage shown in Moody's Average of Yields on Public Utility Bonds for a utility having a rating equivalent to SDG&E.

4. All amounts credited to Officer's account pursuant to paragraphs 2 and 3 hereof shall be paid to Officer on the date(s) specified by Officer on this Agreement's Election Form. In the event of Officer's death after installment payments to Officer have commenced hereunder, installment payments shall continue to be paid to the person(s) specified by Officer on the Election Form for the remainder of the period selected by Officer on this Agreement's Election Form. In the event of Officer's death before any payment has been made under this Agreement, Officer's account shall be distributed or commence to be distributed, as soon as administratively practicable after Officer's death, to the person(s) specified by Officer on this Agreement's Election Form in the form and over the period selected on such Election Form. The Company's Executive Compensation Committee may, in its sole discretion, provide instead for payment of the amount in Officer's account to Officer's beneficiary in a form and over a period determined by the Committee except that the Committee's authority and

discretion to change the form or period of distribution shall terminate upon such a "change-in-control." If Officer's spouse is the beneficiary, the annual amount of any installment payments under this paragraph 4 shall at least equal the entire annual income earned by the account and if the spouse dies prior to distribution of all amounts in Officer's account, all undistributed income on such account shall be distributed to the spouse's estate. Upon the death of Officer's beneficiary, the balance in Officer's account (after the application of the previous sentence, if the spouse is the beneficiary) shall be distributed to the person(s) designated by the beneficiary on a form provided by Company or, if no designation is made, to the beneficiary's estate.

5. No amounts credited to Officer's account may be assigned, transferred, encumbered, or made subject to any legal process for the payment of any claim against Officer, Officer's spouse or beneficiary. In no event shall Officer, Officer's spouse or beneficiary have the right to recover any amounts credited to Officer's account other than in accordance with this Agreement.

6. Nothing contained in this Agreement and no action taken pursuant to the provisions of this Agreement shall create or be construed to create a trust of any kind, or a fiduciary relationship between Company and the Officer or any other person. To the extent that any person acquires a right to receive payments from Company under this Agreement, such right shall be no greater than the right of any unsecured general creditor of Company. Title to and beneficial ownership of any assets, whether cash or investments which Company may earmark to pay the deferred compensation hereunder, shall at all times remain assets of Company and neither the Officer nor any other person shall, under this Agreement, have any property interest whatsoever in any specific assets of Company.

7. The existence of this Agreement shall not confer upon any Officer any right to continue to serve as an Officer for any period of time.

8. This Agreement may be terminated by Company upon 30 days written notice to the Officer. Such termination shall be applicable only with respect to bonuses and/or base





SAN DIEGO GAS & ELECTRIC COMPANY  
1996 DEFERRED COMPENSATION AGREEMENT  
FOR OFFICERS #3

THIS AGREEMENT is made and entered into this \_\_\_\_ day of December, 1995, by and between San Diego Gas & Electric Company (hereinafter "SDG&E") and \_\_\_\_\_ (hereinafter "Officer"), an elected officer of SDG&E.

WITNESSETH:

WHEREAS, SDG&E desires to provide Officer with the opportunity to defer base compensation and bonus that is payable for services to be rendered after the date of this Agreement and which, as a result of amendments to the Internal Revenue Code ("Code") made by the Tax Reform Act of 1986 ("1986 Tax Act"), cannot be contributed on Officer's behalf as Pretax Contributions to the SDG&E Savings Plan ("Savings Plan"); and

WHEREAS, SDG&E desires to match, as an additional SDG&E contribution, a percentage of the Officer's base compensation and bonus deferred pursuant to this Agreement; and

WHEREAS, Officer and SDG&E desire that the payment of a portion of Officer's base compensation and bonus and the additional matching contribution be deferred pursuant to the terms and provisions of this Agreement.

NOW, THEREFORE, THE PARTIES HERETO HEREBY AGREE AS FOLLOWS:

1. This Agreement shall be effective upon its execution by SDG&E and Officer with respect to base compensation and bonus which would otherwise be payable to Officer for services rendered after such execution and shall continue in effect until this Agreement is terminated as provided herein. Officer shall be eligible to enter into this Agreement only if Officer has elected the maximum Basic Contribution under the Savings Plan for which Officer is eligible.

2. SDG&E shall credit to an account on SDG&E's books, in Officer's name, that percentage of Officer's 1996 base compensation (in equal biweekly installments of whole dollar amounts) and 1997 bonus otherwise payable to Officer as may be specified by Officer in this Agreement's Election Form. The amount credited under this paragraph 2 may not exceed the percentage of Officer's 1996 base compensation and 1997 bonus that may be contributed as Pretax Contributions or After-tax Contributions under the terms of the Savings Plan (determined prior to any reduction of such percentage required under applicable law), reduced by any amount contributed by Officer as After-tax Contributions or on Officer's behalf as Pretax Contributions to the Savings Plan. Further, the amount credited under this paragraph 2 shall be limited to an amount which, when added to SDG&E's matching contribution under paragraph 3 of this Agreement and all allocations to his or her accounts under the Savings Plan, does not exceed the

maximum amount that could have been allocated to Officer's Savings Plan accounts pursuant to Section 415 of the Code, as in effect prior to the enactment of the 1986 Tax Act. For purposes of this paragraph 2, "base compensation and bonus" shall include Officer's Pretax Contributions to the Savings Plan. SDG&E shall have the sole and complete authority to determine the maximum amount that may be credited under this paragraph 2.

3. In addition, as amounts are credited to Officer's account under paragraph 2, SDG&E shall also credit to Officer's account, as a matching contribution, an amount equal to the SDG&E Matching Contributions that would have been contributed on Officer's behalf to the Savings Plan (reduced by Matching Contributions actually made to the Savings Plan for Officer) under the provisions of the Code prior to enactment of the 1986 Tax Act, if the amount deferred under paragraph 2 had been contributed to the Savings Plan as Pretax Contributions or After-tax

Contributions.

4. There shall be credited to Officer's account an additional amount equal to seven and four-tenths percent (7.4%) per annum computed on the balance in Officer's account as of the end of each month. SDG&E reserves the right to increase or decrease from time to time such percentage credited with respect to amounts to be credited under paragraphs 2 and 3 to the account after the date of such increase or decrease, provided that upon a "change-in-control" (as defined in the SDG&E Amended 1986 Long-Term Incentive Plan) no decrease will result in a percentage credited under the previous sentence of less than the last published interest rate shown in Moody's Average of Yields on Public Utility Bonds for a utility having a rating equivalent to SDG&E.

5. All amounts credited to Officer's account pursuant to paragraphs 2, 3, and 4 hereof shall be paid to Officer upon his or her termination of services as an Officer in the form and over the period specified by Officer on this Agreement's Election Form; provided, however, the SDG&E Compensation Committee ("Committee") may, in its sole discretion, provide instead for payment of the amount in Officer's account in a form and over a period determined by such Committee except that the Committee's authority and discretion to change the form or period of distribution shall terminate upon such a "change-in-control."

6. In the event of Officer's death after installment payments to Officer have commenced hereunder, installment payments shall continue to be paid to the person(s) specified by Officer on the Election Form for the remainder of the period selected by Officer on the Election Form. In the event of Officer's death before any payment has been made under this Agreement, Officer's account shall be distributed or commence to be distributed, as soon as administratively practicable after Officer's death, to the person(s) specified by Officer on this Agreement's Election Form in the form and over the period selected on such Election Form. The Committee may, in its sole discretion, provide instead for payment of the amount in Officer's account to Officer's beneficiary in a form and over a period determined by the Committee except that the Committee's authority and discretion to change the form or period of distribution shall terminate upon such a "change-in-control."

If Officer's spouse is the beneficiary, the annual amount of any installment payments under this paragraph 6 shall at least equal the entire annual income earned by the account and if the spouse dies prior to distribution of all amounts in Officer's account, all undistributed income on such account shall be distributed to the spouse's estate. Upon the death of Officer's beneficiary, the balance in Officer's account (after the application of the previous sentence, if the spouse is the beneficiary) shall be distributed to the person(s) designated by the beneficiary on a form provided by SDG&E or, if no designation is made, to the beneficiary's estate.

7. No amounts credited to Officer's account may be assigned, transferred, encumbered, or made subject to any legal process for the payment of any claim against Officer, Officer's spouse or other beneficiary. In no event shall Officer, Officer's spouse, or other beneficiary have the right to recover any amount credited to Officer's account other than in accordance with this Agreement.

8. Nothing contained in this Agreement and no action taken pursuant to the provisions of this Agreement shall create or be construed to create a trust of any kind, or a fiduciary relationship between SDG&E and Officer or any other person. To the extent that any person acquires a right to receive payments from SDG&E under this Agreement, such right shall be no greater than the right of any unsecured general creditor of SDG&E. Title to and beneficial ownership of any assets, whether cash or investments, which SDG&E may earmark to pay the deferred compensation hereunder, shall at all times remain assets of SDG&E and neither Officer nor any other person shall, under this Agreement, have any property interest whatsoever in any specific assets of SDG&E.

9. The existence of this Agreement shall not confer upon Officer the right to continue to serve as an Officer for any period of time.

10. This Agreement shall be deemed to modify any provisions in an employment agreement between Officer and SDG&E pertaining to the timing of payment of base compensation and bonus and, in the event of any conflict between this Agreement and such provisions of the employment agreement, this Agreement shall control.

11. This Agreement may be terminated by SDG&E upon thirty days' written notice to Officer. This Agreement will also terminate upon Officer's filing of an election of a Basic Contribution percentage which is less than the maximum for which he or she is eligible under the Savings Plan. Termination of the Agreement shall be applicable only with respect to base compensation and bonus payable to Officer on and after the first day of the calendar year following the date of termination. Funds previously deferred and credited (and income earned on such funds) will continue to be governed by the applicable year's Officer's Deferred Compensation Agreement Election Form and Section 4 of this Agreement.

12. Officer acknowledges that Officer has been advised that Officer may confer with and seek advice from a tax or financial advisor of Officer's choice concerning this deferral. Officer further acknowledges that Officer has not received tax advice from SDG&E nor has Officer relied upon information provided by SDG&E in electing to make this deferral.

IN WITNESS WHEREOF, this Agreement has been executed on the day and year written above.

OFFICER

SAN DIEGO GAS & ELECTRIC COMPANY

\_\_\_\_\_  
Signature of Officer

By: \_\_\_\_\_

SAN DIEGO GAS & ELECTRIC COMPANY  
1996 DEFERRED COMPENSATION AGREEMENT  
FOR NONEMPLOYEE DIRECTORS

THIS AGREEMENT, made and entered into this \_\_\_\_ day of December, 1995, by and between San Diego Gas & Electric Company, (hereinafter "SDG&E") and \_\_\_\_\_ (hereinafter "Director"), a member of the Board of Directors of SDG&E (hereinafter the "Board"),

WITNESSETH:

WHEREAS, fees are paid to Directors as a retainer; and

WHEREAS, Director and SDG&E desire that the payment of said fees to Director be deferred, pursuant to the terms and provisions of this Agreement;

NOW, THEREFORE, the parties hereto hereby agree as follows:

1. This Agreement shall be effective on the first date subsequent to its execution upon which Director's fees would otherwise be payable to Director for service as a member of the Board and shall continue in effect until this Agreement is terminated as provided herein.

2. SDG&E shall credit to an account on SDG&E's books, in Director's name, that portion of such Director's fees otherwise payable to Director as may be specified by Director on an election form submitted to SDG&E simultaneously with the execution of this Agreement.

3. There shall be credited to Director's account an additional amount equal to seven and four-tenths percent (7.4%) per annum computed on the balance in Director's account as of the end of each month; provided, however, that SDG&E reserves the right to increase or decrease from time to time such amount with respect to amounts to be credited to the account subsequent to the date of such increase or decrease, provided that upon a "change-in-control" (as defined in the SDG&E Amended 1986 Long-Term Incentive Plan) the percentage used shall not decrease to less than the last published rate shown in Moody's Average of Yields on Public Utility Bonds for a utility having a rating equivalent to SDG&E.

4. All amounts credited to Director's account pursuant to paragraphs 2 and 3 hereof shall be paid to Director in a lump sum on the date specified by Director on the Director's election form. In the event of Director's death before any payment due under this paragraph 4 has been paid, such payment due shall be paid in a lump sum to the person specified by the Director on the election form as soon as administratively practicable.

5. No amounts credited to Director's account may be assigned, transferred, encumbered, or made subject to any legal process for the payment of any claim against Director, Director's spouse or beneficiary. In no event shall Director, Director's spouse or beneficiary have the right to recover any fees credited to Director's account other than in accordance with this Agreement.

6. Nothing contained in this Agreement and no action taken pursuant to the provisions of this Agreement shall create or be construed to create a trust of any kind, or a fiduciary relationship between SDG&E and the Director or any other person. To the extent that any person acquires a right to receive payments from SDG&E under this Agreement, such right shall be no greater than the right of any unsecured general creditor of SDG&E. Title to and beneficial ownership of any assets, whether cash or investments which SDG&E may earmark to pay the deferred compensation hereunder, shall at all times remain assets of SDG&E and neither the Director nor any other person shall, under this Agreement, have any property interest whatsoever in any specific assets of SDG&E.

7. The existence of this Agreement shall not confer upon any Director any right to continue to serve as a



SAN DIEGO GAS & ELECTRIC COMPANY  
1986 LONG-TERM INCENTIVE PLAN  
1995 RESTRICTED STOCK AWARD AGREEMENT

THIS RESTRICTED STOCK AWARD AGREEMENT (the "Agreement") is entered into this \_\_\_\_\_ day of \_\_\_\_\_, 1995, by and between SAN DIEGO GAS & ELECTRIC COMPANY, a California corporation ("SDG&E") and \_\_\_\_\_ ("Participant").

WHEREAS, the Board of Directors of SDG&E ("the Board") has adopted the 1986 Long-Term Incentive Plan (the "Plan"), which provides for the granting to selected employees of SDG&E and its subsidiaries of awards of Common Stock of SDG&E ("Restricted Stock Awards");

WHEREAS, the grant of Restricted Stock Awards is intended as an incentive which will attract and retain highly competent persons as officers and key employees of SDG&E and its subsidiaries;

WHEREAS, Participant is a selected employee of SDG&E; and

WHEREAS, the Executive Compensation Committee of the Board (the "Committee") has authorized, and the Board has approved, the grant of a Restricted Stock Award to Participant pursuant to the terms of the Plan.

NOW, THEREFORE, in consideration of the foregoing and of the mutual covenants hereinafter set forth and other good and valuable consideration, the receipt of which is hereby acknowledged, the parties hereto hereby agree as follows:

1. Grant of Restricted Stock Award

SDG&E hereby grants to Participant, on the terms, conditions and restrictions hereinafter set forth, and in accordance with the Plan which is incorporated herein, as a matter of separate inducement to achieve a certain goal set by the Board and not in lieu of any salary or other compensation for Participant's services, a Restricted Stock Award consisting of \_\_\_\_\_

(\_\_\_\_\_) shares of the authorized but unissued shares of SDG&E Common Stock, (the "Shares").

2. Purchase and Sale of Shares

Participant hereby purchases and acquires the Shares, and SDG&E hereby sells and transfers the Shares to Participant. Concurrently with the execution hereof, SDG&E has delivered to Participant, and Participant acknowledges receipt into escrow of, a certificate or certificates evidencing the Shares, duly issued to Participant by SDG&E. Concurrently with the execution hereof, Participant acknowledges that the Secretary or Assistant Secretary of SDG&E, holds on behalf of Participant all

1

certificates evidencing the Shares. Participant also acknowledges prior receipt of a prospectus for the Plan, a copy of the Plan, and the most recent Annual Report of SDG&E. Participant shall execute all such stock powers and other instruments of transfer in favor of SDG&E as are necessary at any time in the future to perform this contract.

3. Purchase Price; Payment

The purchase price for the Shares shall be Two Dollars and Fifty Cents (\$2.50) per share. In payment thereof, Participant has delivered to SDG&E, on the date first written above, and SDG&E acknowledges receipt of, a check payable to SDG&E in the amount of \_\_\_\_\_ Dollars (\$\_\_\_\_\_). SDG&E agrees that Participant shall be deemed a shareholder of record with respect to the Shares on the date first written above.



#### 4. Restricted Term

The Restricted Term with respect to the Shares shall commence on the date first above written. The restrictions will be removed from and the restricted term will expire on one quarter of the restricted shares after the end of each of the years 1996, 1997, 1998 and 1999:

(1) If, at the end of each of such year the Corporation's earnings per share meet or exceed the target earnings per share as set by the Executive Compensation Committee.

(2) If, beginning in 1997, at the end of any quarter, the published quarterly earnings meet or exceed the previous year's target earnings plus 25% of the annual target increase per quarter.

(3) At the end of 1999, the remaining restricted shares not released previously may be released in the discretion of the Board dependent upon the impact on 1996 through 1999 earnings of industry and corporate restructuring during such period.

(4) The Board, in response to industry or corporate restructuring, may elect to change the Plan design and performance goals to align the Plan with a new long term direction.

#### 5. Voting and Other Rights

During the Restricted Term, Participant shall, except as otherwise provided herein, have all of the rights of a stockholder with respect to all of the Shares subject to the Restricted Term, including without limitation the right to vote such Shares and the right to receive all dividends or other distributions with respect to such Shares. In connection with the payment of such dividends or other distributions, there shall be deducted any taxes or other amounts required by any governmental authority to be withheld and paid over to such authority for the account of Participant.

6. Restrictions On Inter Vivos Transfer

During the Restricted Term, the Shares subject to the Restricted Term shall not be sold, assigned, transferred, hypothecated or otherwise alienated, disposed of or encumbered except as provided in the Plan. The certificate for such Shares shall bear the following legend, or any other similar legend as may be required by SDG&E:

"THE SHARES OF STOCK REPRESENTED BY THIS CERTIFICATE MAY NOT BE SOLD, ASSIGNED, TRANSFERRED, PLEDGED, HYPOTHECATED OR OTHERWISE ENCUMBERED OR DISPOSED OF EXCEPT AS PERMITTED BY SAN DIEGO GAS & ELECTRIC COMPANY'S 1986 LONG-TERM INCENTIVE PLAN OR THE COMMITTEE WHICH ADMINISTERS THAT PLAN."

7. Termination of Participant's Employment

In the event Participant ceases to be employed by SDG&E at any time before the end of the Restricted Term for any reason, Participant shall sell, and SDG&E shall purchase all Shares subject to the Restricted Term for a price of Two Dollars and Fifty Cents (\$2.50) per share. Upon the delivery by SDG&E to its Secretary or Assistant Secretary of (i) notice that Participant has ceased to be so employed, and (ii) its check, payable to the order of Participant, in the amount of such purchase price, said Secretary or Assistant Secretary shall deliver to SDG&E all certificates evidencing the Shares subject to the Restricted Term, accompanied by stock powers and other instruments of transfer duly executed by Participant, and shall deliver to Participant the check in the amount of the purchase price for such Shares.

8. Election to Recognize Income

Check one:

a.  Participant elects, pursuant to the Internal Revenue Code as amended, and the comparable provisions of state tax law, to include in gross income in connection with the grant of this Restricted Stock Award, all amounts now recognizable.

b.  Participant shall not elect, pursuant to the Internal Revenue Code as amended, or comparable provisions of any state tax law, to include any amount in gross income in connection with the grant of this Restricted Stock Award.

9. Withholding and Registration

a. Upon recognition of income as elected in paragraph 8 above, Participant shall, with respect to such Shares, make payment, in the form of cash or a cashier's check or in the manner stated in paragraph 9(b) below, to SDG&E in an amount sufficient to satisfy any taxes or other amounts SDG&E determines is required by any governmental authority to be withheld and paid over by SDG&E or any of its subsidiaries to such authority for the account of Participant (collectively, "Withholding Taxes"), or shall otherwise make arrangements satisfactory to SDG&E for the payment

of such amounts through withholding or otherwise. For purposes of paragraph 8(a), such payment or arrangements shall be made by December 8, 1995. For purposes of paragraph 8(b), the date shall be 30 days after the restrictions are removed. Participant shall, if requested by SDG&E, make appropriate representations in a form satisfactory to SDG&E that such Shares will not be sold other than pursuant to an effective registration statement under the Securities Act of 1933, as amended, or an applicable exemption from the registration requirements of such Act.

b. Subject to the restrictions set forth in paragraph 9(c) and such rules as the Committee may from time to time adopt and upon approval by the Committee in its sole discretion, Participant may elect to satisfy all or any portion of such Participant's tax withholding obligations set forth in paragraph 9(a) by electing (i) to have SDG&E withhold from delivery of any Shares otherwise deliverable to Participant in the manner set forth in paragraph 10 hereof, a portion of such Shares to satisfy Withholding Taxes or (ii) to deliver to SDG&E shares of Common Stock, no par value, of SDG&E, other than those delivered to Participant in the manner set forth in paragraph 10 hereof, to satisfy all or any portion of such Participant's Withholding Taxes. The number of Shares withheld from delivery or such other shares delivered shall equal the number of shares the Committee, in its sole discretion, determines to have a fair market value equal to the amount of such Participant's Withholding Taxes required to be withheld or paid over by SDG&E or any of its subsidiaries and which Participant elected to be satisfied by withholding or delivery of shares.

c. Participant's election to satisfy all or any portion of Participants Withholding Taxes under paragraph 9(b) is subject to the following restrictions:

(i) such election must be made in writing on or before the date when the amount of Withholding Taxes is required to be determined (the "Tax Date");

(ii) such election shall be irrevocable;

(iii) such election shall be subject to the approval or disapproval of the Committee, in its sole discretion;

(iv) the fair market value of the Shares to be withheld or other shares of Common Stock to be delivered to SDG&E for the purposes of satisfying all or any portion of such Participant's Withholding Taxes shall be deemed to be the average of the highest and lowest selling prices of such stock as reported on the New York Stock Exchange Composite Transactions Tape on the Tax Date, or if such stock is not traded that day, then on the next preceding day on which such stock was traded; and

(v) if Participant is or becomes subject to Section 16(b) of the Securities Exchange Act of 1934, as amended (the "1934 Act"), such election must be made either six months or more prior to the Tax Date or within a ten-day period beginning on the third and ending on the twelfth business day following release for publication of SDG&E's quarterly or annual summary statement of earnings in accordance with Rule 16b-3(e)(3)(iii) under the 1934 Act; provided that no such

election may be made within six months of the grant of such Restricted Stock award, except in the case of death or disability of Participant."

#### 10. Delivery of Shares

Upon expiration of the Restricted Term applicable to any shares as provided in the manner stated in paragraph 4 above and payment by the Participant as required in paragraph 9 above, the Secretary or Assistant Secretary of SDG&E shall deliver to Participant all certificates evidencing the Shares free of legend and no longer subject to the Restricted Term and all restrictions set forth herein with respect to such Shares shall terminate.

If at the end of 1999 the restrictions have not been removed from and the Restricted Term has not expired on any of the shares purchased by Participant under this Agreement, Participant shall sell and SDG&E shall purchase all such shares for a price of Two Dollars and Fifty Cents (\$2.50) per share no later than February 1, 2000. The Secretary or Assistant Secretary shall deliver to SDG&E all certificates evidencing such shares accompanied by stock powers and other instruments of transfer duly executed by Participant and shall deliver to Participant a check in the amount of the purchase price for such shares.

#### 11. Effects On Participant's Continued Employment

Participant's right, if any, to continue to serve SDG&E and its subsidiaries as an officer or employee shall not be enlarged or otherwise affected by the grant to him or her of this Restricted Stock Award, nor shall such grant in any way restrict the right of SDG&E or any of its subsidiaries to terminate Participant's employment at any time.

#### 12. Further Action

Each party hereto agrees to perform any further acts and to execute and deliver any documents which may be reasonably necessary to carry out the provisions hereof.

#### 13. Parties in Interest and Governing Law

This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective assigns and successors-in-interest, and shall be governed by and interpreted in accordance with the laws of the State of California.

#### 14. Entire Agreement

This Agreement contains the entire agreement and understanding between the parties as to the subject matter hereof.

15. Invalid Provisions

The invalidity or unenforceability of any particular provision hereto shall not affect the other provisions hereof, and this Agreement shall be construed in all respects as if such invalid or unenforceable provisions were omitted.

16. Amendment

No amendment or modification hereof shall be valid unless it shall be in writing and signed by both parties hereto.

17. Counterparts

This Agreement may be executed in counterparts, each of which shall be deemed to be an original, and taken together shall constitute one and the same document.

18. Notices

All notices or other communications required or permitted hereunder shall be in writing, and shall be sufficient in all respects only if delivered in person or sent via certified mail, postage prepaid, addressed as follows:

If to SDG&E: San Diego Gas & Electric Company  
P.O. Box 1831  
San Diego, CA 92112

Attention: Corporate Secretary

If to Participant: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

or such other address as shall be furnished in writing by any such party. Any such notice or communication shall be deemed to have been delivered when delivered in person or 48 hours after the date it has been mailed in the manner described above.

IN WITNESS WHEREOF, the parties hereto have executed this Restricted Stock Award Agreement on the day and year first above written.

PARTICIPANT

\_\_\_\_\_  
Signature of Participant

SAN DIEGO GAS & ELECTRIC COMPANY

By:\_\_\_\_\_

Title:\_\_\_\_\_

SAN DIEGO GAS & ELECTRIC COMPANY  
1986 LONG-TERM INCENTIVE PLAN  
SPECIAL 1995 RESTRICTED STOCK AWARD AGREEMENT

THIS SPECIAL RESTRICTED STOCK AWARD AGREEMENT (the "Agreement") is entered into this \_\_\_\_ day of \_\_\_\_\_, 1995, by and between SAN DIEGO GAS & ELECTRIC COMPANY, a California corporation ("SDG&E") and \_\_\_\_\_ ("Participant").

WHEREAS, the Board of Directors of SDG&E ("the Board") has adopted the 1986 Long-Term Incentive Plan (the "Plan"), which provides for the granting to selected employees of SDG&E and its subsidiaries of awards of Common Stock of SDG&E ("Restricted Stock Awards");

WHEREAS, the grant of Restricted Stock Awards is intended as an incentive which will attract and retain highly competent persons as officers and key employees of SDG&E and its subsidiaries;

WHEREAS, Participant is a selected employee of SDG&E; and

WHEREAS, the Executive Compensation Committee of the Board (the "Committee") has authorized, and the Board has approved, the grant of a Restricted Stock Award to Participant pursuant to the terms of the Plan.

NOW, THEREFORE, in consideration of the foregoing and of the mutual covenants hereinafter set forth and other good and valuable consideration, the receipt of which is hereby acknowledged, the parties hereto hereby agree as follows:

1. Grant of Restricted Stock Award

SDG&E hereby grants to Participant, on the terms, conditions and restrictions hereinafter set forth, and in accordance with the Plan which is incorporated herein, as a matter of separate inducement to achieve a certain goal set by the Board and not in lieu of any salary or other compensation for Participant's services, a Restricted Stock Award consisting of \_\_\_\_\_ (\_\_\_\_\_) shares of the authorized but unissued shares of SDG&E Common Stock, (the "Shares").

2. Purchase and Sale of Shares

Participant hereby purchases and acquires the Shares, and SDG&E hereby sells and transfers the Shares to Participant. Concurrently with the execution hereof, SDG&E has delivered to Participant, and Participant acknowledges receipt into escrow of, a certificate or certificates evidencing

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the Shares, duly issued to Participant by SDG&E. Concurrently with the execution hereof, Participant acknowledges that the Secretary or Assistant Secretary of SDG&E, holds on behalf of Participant all certificates evidencing the Shares. Participant also acknowledges prior receipt of a prospectus for the Plan, a copy of the Plan, and the most recent Annual Report of SDG&E. Participant shall execute all such stock powers and other instruments of transfer in favor of SDG&E as are necessary at any time in the future to perform this contract.

3. Purchase Price; Payment

The purchase price for the Shares shall be Two Dollars and Fifty Cents (\$2.50) per share. In payment thereof, Participant has delivered to SDG&E, on the date first written above, and SDG&E acknowledges receipt of, a check payable to SDG&E in the amount of \_\_\_\_\_ Dollars (\$\_\_\_\_\_). SDG&E agrees that Participant shall be deemed a shareholder of record with respect to the Shares on the date first written above.

#### 4. Restricted Term

The Restricted Term with respect to the Shares shall commence on the date first above written. The restrictions will be removed from and the restricted term will expire on all of such restricted shares after the end of the year 1997;

(1) If, at the end of the year 1997, the Corporation's earnings per share meet or exceed the target earnings per share for the year 1997 as set by the Executive Compensation Committee.

(2) After the end of 1997, any remaining restricted shares may be released in the discretion of the Board dependent upon the impact on 1997 earnings of industry and corporate restructuring.

(3) The Board, in response to industry or corporate restructuring, may elect to change the Plan design and performance goals to align the Plan with a new long term direction.

#### 5. Voting and Other Rights

During the Restricted Term, Participant shall, except as otherwise provided herein, have all of the rights of a stockholder with respect to all of the Shares subject to the Restricted Term, including without limitation the right to vote such Shares and the right to receive all dividends or other distributions with respect to such Shares. In connection with the payment of such dividends or other distributions, there shall be deducted any taxes or other amounts required by any governmental authority to be withheld and paid over to such authority for the account of Participant.

#### 6. Restrictions On Inter Vivos Transfer



During the Restricted Term, the Shares subject to the Restricted Term shall not be sold, assigned, transferred, hypothecated or otherwise alienated, disposed of or encumbered except as provided in the Plan. The certificate for such Shares shall bear the following legend, or any other similar legend as may be required by SDG&E:

"THE SHARES OF STOCK REPRESENTED BY THIS CERTIFICATE MAY NOT BE SOLD, ASSIGNED, TRANSFERRED, PLEDGED, HYPOTHECATED OR OTHERWISE ENCUMBERED OR DISPOSED OF EXCEPT AS PERMITTED BY SAN DIEGO GAS & ELECTRIC COMPANY'S 1986 LONG-TERM INCENTIVE PLAN OR THE COMMITTEE WHICH ADMINISTERS THAT PLAN."

#### 7. Termination of Participant's Employment

In the event Participant ceases to be employed by SDG&E at any time before the end of the Restricted Term for any reason, Participant shall sell, and SDG&E shall purchase all Shares subject to the Restricted Term for a price of Two Dollars and Fifty Cents (\$2.50) per share. Upon the delivery by SDG&E to its Secretary or Assistant Secretary of (i) notice that Participant has ceased to be so employed, and (ii) its check, payable to the order of Participant, in the amount of such purchase price, said Secretary or Assistant Secretary shall deliver to SDG&E all certificates evidencing the Shares subject to the Restricted Term, accompanied by stock powers and other instruments of transfer duly executed by Participant, and shall deliver to Participant the check in the amount of the purchase price for such Shares.

#### 8. Election to Recognize Income

Check one:

a.  Participant elects, pursuant to the Internal Revenue Code as amended, and the comparable provisions of state tax law, to include in gross income in connection with the grant of this Restricted Stock Award, all amounts now recognizable.

b.  Participant shall not elect, pursuant to the Internal Revenue Code as amended, or comparable provisions of any state tax law, to include any amount in gross income in connection with the grant of this Restricted Stock Award.

#### 9. Withholding and Registration

a. Upon recognition of income as elected in paragraph 8 above, Participant shall, with respect to such Shares, make payment, in the form of cash or a cashier's check or in the manner stated in paragraph 9(b) below, to SDG&E in an amount sufficient to satisfy any taxes or other amounts SDG&E determines is required by any governmental authority to be withheld and paid over by SDG&E or any of its subsidiaries to such authority for the account of Participant (collectively, "Withholding Taxes"), or shall otherwise make arrangements satisfactory to SDG&E for the payment of such amounts through withholding or otherwise. For purposes of paragraph 8(a), such payment or arrangements shall be made by December 8, 1995. For purposes of paragraph 8(b), the date shall be

30 days after the restrictions are removed. Participant shall, if requested by SDG&E, make appropriate representations in a form satisfactory to SDG&E that such Shares will not be sold other than pursuant to an effective registration statement under the Securities Act of 1933, as amended, or an applicable exemption from the registration requirements of such Act.

b. Subject to the restrictions set forth in paragraph 9(c) and such rules as the Committee may from time to time adopt and upon approval by the Committee in its sole discretion, Participant may elect to satisfy all or any portion of such Participant's tax withholding obligations set forth in paragraph 9(a) by electing (i) to have SDG&E withhold from delivery of any Shares otherwise deliverable to Participant in the manner set forth in paragraph 10 hereof, a portion of such Shares to satisfy Withholding Taxes or (ii) to deliver to SDG&E shares of Common Stock, no par value, of SDG&E, other than those delivered to Participant in the manner set forth in paragraph 10 hereof, to satisfy all or any portion of such Participant's Withholding Taxes. The number of Shares withheld from delivery or such other shares delivered shall equal the number of shares the Committee, in its sole discretion, determines to have a fair market value equal to the amount of such Participant's Withholding Taxes required to be withheld or paid over by SDG&E or any of its subsidiaries and which Participant elected to be satisfied by withholding or delivery of shares.

c. Participant's election to satisfy all or any portion of Participants Withholding Taxes under paragraph 9(b) is subject to the following restrictions:

(i) such election must be made in writing on or before the date when the amount of Withholding Taxes is required to be determined (the "Tax Date");

(ii) such election shall be irrevocable;

(iii) such election shall be subject to the approval or disapproval of the Committee, in its sole discretion;

(iv) the fair market value of the Shares to be withheld or other shares of Common Stock to be delivered to SDG&E for the purposes of satisfying all or any portion of such Participant's Withholding Taxes shall be deemed to be the average of the highest and lowest selling prices of such stock as reported on the New York Stock Exchange Composite Transactions Tape on the Tax Date, or if such stock is not traded that day, then on the next preceding day on which such stock was traded; and

(v) if Participant is or becomes subject to Section 16(b) of the Securities Exchange Act of 1934, as amended (the "1934 Act"), such election must be made either six months or more prior to the Tax Date or within a ten-day period beginning on the third and ending on the twelfth business day following release for publication of SDG&E's quarterly or annual summary statement of earnings in accordance with Rule 16b-3(e)(3)(iii) under the 1934 Act; provided that no such election may be made within six months of the grant of such Restricted Stock award, except in the case of death or disability of Participant."

#### 10. Delivery of Shares

Upon expiration of the Restricted Term applicable to any shares as provided in the manner stated in paragraph 4 above and payment by the Participant as required in paragraph 9 above, the Secretary or Assistant Secretary of SDG&E shall deliver to Participant all certificates evidencing the Shares free of legend and no longer subject to the Restricted Term and all restrictions set forth herein with respect to such Shares shall terminate.

If at the end of 1999 the restrictions have not been removed from and the Restricted Term has not expired on any of the shares purchased by Participant under this Agreement, Participant shall sell and SDG&E shall purchase all such shares for a price of Two Dollars and Fifty Cents (\$2.50) per share no later than February 1, 2000. The Secretary or Assistant Secretary shall deliver to SDG&E all certificates evidencing such shares accompanied by stock powers and other instruments of transfer duly executed by Participant and shall deliver to Participant a check in the amount of the purchase price for such shares.

#### 11. Effects On Participant's Continued Employment

Participant's right, if any, to continue to serve SDG&E and its subsidiaries as an officer or employee shall not be enlarged or otherwise affected by the grant to him or her of this Restricted Stock Award, nor shall such grant in any way restrict the right of SDG&E or any of its subsidiaries to terminate Participant's employment at any time.

#### 12. Further Action

Each party hereto agrees to perform any further acts and to execute and deliver any documents which may be reasonably necessary to carry out the provisions hereof.

#### 13. Parties in Interest and Governing Law

This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective assigns and successors-in-interest, and shall be governed by and interpreted in accordance with the laws of the State of California.

#### 14. Entire Agreement

This Agreement contains the entire agreement and understanding between the parties as to the subject matter hereof.

#### 15. Invalid Provisions

The invalidity or unenforceability of any particular provision hereto shall not affect the other provisions hereof, and this Agreement shall be construed in all respects as if such invalid or unenforceable provisions were omitted.

16. Amendment

No amendment or modification hereof shall be valid unless it shall be in writing and signed by both parties hereto.

17. Counterparts

This Agreement may be executed in counterparts, each of which shall be deemed to be an original, and taken together shall constitute one and the same document.

18. Notices

All notices or other communications required or permitted hereunder shall be in writing, and shall be sufficient in all respects only if delivered in person or sent via certified mail, postage prepaid, addressed as follows:

If to SDG&E: San Diego Gas & Electric Company  
P.O. Box 1831  
San Diego, CA 92112

Attention: Corporate Secretary

If to Participant: \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

or such other address as shall be furnished in writing by any such party. Any such notice or communication shall be deemed to have been delivered when delivered in person or 48 hours after the date it has been mailed in the manner described above.

IN WITNESS WHEREOF, the parties hereto have executed this Restricted Stock Award Agreement on the day and year first above written.

PARTICIPANT

\_\_\_\_\_  
Signature of Participant

SAN DIEGO GAS & ELECTRIC COMPANY

By: \_\_\_\_\_  
Title: \_\_\_\_\_

SAN DIEGO GAS & ELECTRIC COMPANY  
1986 LONG-TERM INCENTIVE PLAN  
1994 RESTRICTED STOCK AWARD AGREEMENT  
TWO-YEAR VESTING

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THIS RESTRICTED STOCK AWARD AGREEMENT (the "Agreement") is entered into this \_\_\_\_\_ day of \_\_\_\_\_, 1994, by and between SAN DIEGO GAS & ELECTRIC COMPANY, a California corporation ("SDG&E") and \_\_\_\_\_ ("Participant").

WHEREAS, the Board of Directors of SDG&E ("the Board") has adopted the 1986 Long-Term Incentive Plan (the "Plan"), which provides for the granting to selected employees of SDG&E and its subsidiaries of awards of Common Stock of SDG&E ("Restricted Stock Awards");

WHEREAS, the grant of Restricted Stock Awards is intended as an incentive which will attract and retain highly competent persons as officers and key employees of SDG&E and its subsidiaries;

WHEREAS, Participant is a selected employee of SDG&E; and

WHEREAS, the Executive Compensation Committee of the Board (the "Committee") has authorized, and the Board has approved, the grant of a Restricted Stock Award to Participant pursuant to the terms of the Plan.

NOW, THEREFORE, in consideration of the foregoing and of the mutual covenants hereinafter set forth and other good and valuable consideration, the receipt of which is hereby acknowledged, the parties hereto hereby agree as follows:

1. Grant of Restricted Stock Award

SDG&E hereby grants to Participant, on the terms, conditions and restrictions hereinafter set forth, and in accordance with the Plan which is incorporated herein, as a matter of separate inducement to achieve a certain goal set by the Board and not in lieu of any salary or other compensation for Participant's services, a Restricted Stock Award consisting of Two Thousand Five Hundred (2,500) shares of the authorized but unissued shares of SDG&E Common Stock, (the "Shares").

2. Purchase and Sale of Shares

Participant hereby purchases and acquires the Shares, and SDG&E hereby sells and transfers the Shares to Participant. Concurrently with the execution hereof, SDG&E has delivered to

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Participant, and Participant acknowledges receipt into escrow of, a certificate or certificates evidencing the Shares, duly issued to Participant by SDG&E. Concurrently with the execution hereof, Participant acknowledges that the Secretary or Assistant Secretary of SDG&E, holds on behalf of Participant all certificates evidencing the Shares. Participant also acknowledges prior receipt of a prospectus for the Plan, a copy of the Plan, and an Annual Report of SDG&E for the year 1993. Participant shall execute all such stock powers and other instruments of transfer in favor of SDG&E as are necessary at any time in the future to perform this contract.

3. Purchase Price; Payment

The purchase price for the Shares shall be Two Dollars and Fifty Cents (\$2.50) per share. In payment thereof, Participant has delivered to SDG&E, on the date first written above, and SDG&E acknowledges receipt of, a check payable to SDG&E in the amount of Six Thousand Two Hundred and Fifty Dollars (\$6,250.00). SDG&E agrees that Participant shall be deemed a shareholder of record with respect to the Shares on the date first written above.

4. Restricted Term

(a) The Restricted Term with respect to the Shares shall commence on the date first above written. The restrictions will be removed from and the restricted term will expire on the Shares if:

(1) After the end of the year 1996 if at the end of the year 1996 the Corporation's earnings per share meets or exceeds the target earnings per share for the year 1996 as set by the Committee.

(2) After the end of 1996, any remaining restricted shares may be released in the discretion of the Board dependent upon the impact on 1996 earnings of industry and corporate restructuring.

#### 5. Voting and Other Rights

During the Restricted Term, Participant shall, except as otherwise provided herein, have all of the rights of a stockholder with respect to all of the Shares subject to the Restricted Term, including without limitation the right to vote such Shares and the right to receive all dividends or other distributions with respect to such Shares. In connection with the payment of such dividends or other distributions, there shall be deducted any taxes or other amounts required by any governmental authority to be withheld and paid over to such authority for the account of Participant.

6. Restrictions On Inter Vivos Transfer

During the Restricted Term, the Shares subject to the Restricted Term shall not be sold, assigned, transferred, hypothecated or otherwise alienated, disposed of or encumbered except as provided in the Plan. The certificate for such Shares shall bear the following legend, or any other similar legend as may be required by SDG&E:

"THE SHARES OF STOCK REPRESENTED BY THIS CERTIFICATE MAY NOT BE SOLD, ASSIGNED, TRANSFERRED, PLEDGED, HYPOTHECATED OR OTHERWISE ENCUMBERED OR DISPOSED OF EXCEPT AS PERMITTED BY SAN DIEGO GAS & ELECTRIC COMPANY'S 1986 LONG-TERM INCENTIVE PLAN OR THE COMMITTEE WHICH ADMINISTERS THAT PLAN."

7. Termination of Participant's Employment

In the event Participant ceases to be employed by SDG&E at any time before the end of the Restricted Term for any reason, Participant shall sell, and SDG&E shall purchase all Shares subject to the Restricted Term for a price of Two Dollars and Fifty Cents (\$2.50) per share. Upon the delivery by SDG&E to its Secretary or Assistant Secretary of (i) notice that Participant has ceased to be so employed, and (ii) its check, payable to the order of Participant, in the amount of such purchase price, said Secretary or Assistant Secretary shall deliver to SDG&E all certificates evidencing the Shares subject to the Restricted Term, accompanied by stock powers and other instruments of transfer duly executed by Participant, and shall deliver to Participant the check in the amount of the purchase price for such Shares.

8. Election to Recognize Income

Check one:

a.  Participant elects, pursuant to the Internal Revenue Code as amended, and the comparable provisions of state tax law, to include in gross income in connection with the grant of this Restricted Stock Award, all amounts now recognizable.

b.  Participant shall not elect, pursuant to the Internal Revenue Code as amended, or comparable provisions of any state tax law, to include any amount in gross income in connection with the grant of this Restricted Stock Award.

9. Withholding and Registration

(a) Upon recognition of income as elected in paragraph 8 above, Participant shall, with respect to such Shares, make payment, in the form of cash or a cashier's check or in the manner stated



in paragraph 9(b) below, to SDG&E in an amount sufficient to satisfy any taxes or other amounts SDG&E determines is required by any governmental authority to be withheld and paid over by SDG&E or any of its subsidiaries to such authority for the account of Participant (collectively, "Withholding Taxes"), or shall otherwise make arrangements satisfactory to SDG&E for the payment of such amounts through withholding or otherwise. For purposes of paragraph 8(a), such payment or arrangements shall be made by December 9, 1994. For purposes of paragraph 8(b), the date shall be 30 days after the restrictions are removed. Participant shall, if requested by SDG&E, make appropriate representations in a form satisfactory to SDG&E that such Shares will not be sold other than pursuant to an effective registration statement under the Securities Act of 1933, as amended, or an applicable exemption from the registration requirements of such Act.

(b) Subject to the restrictions set forth in paragraph 9(c) and such rules as the Committee may from time to time adopt and upon approval by the Committee in its sole discretion, Participant may elect to satisfy all or any portion of such Participant's tax withholding obligations set forth in paragraph 9(a) by electing (i) to have SDG&E withhold from delivery of any Shares otherwise deliverable to Participant in the manner set forth in paragraph 10 hereof, a portion of such Shares to satisfy Withholding Taxes or (ii) to deliver to SDG&E shares of Common Stock, no par value, of SDG&E, other than those delivered to Participant in the manner set forth in paragraph 10 hereof, to satisfy all or any portion of such Participant's Withholding Taxes. The number of Shares withheld from delivery or such other shares delivered shall equal the number of shares the Committee, in its sole discretion, determines to have a fair market value equal to the amount of such Participant's Withholding Taxes required to be withheld or paid over by SDG&E or any of its subsidiaries and which Participant elected to be satisfied by withholding or delivery of shares.

(c) Participant's election to satisfy all or any portion of Participants Withholding Taxes under paragraph 9(b) is subject to the following restrictions:

(i) such election must be made in writing on or before the date when the amount of Withholding Taxes is required to be determined (the "Tax Date");

(ii) such election shall be irrevocable;

(iii) such election shall be subject to the approval or disapproval of the Committee, in its sole discretion;

(iv) the fair market value of the Shares to be withheld or other shares of Common Stock to be delivered to SDG&E for the purposes of satisfying all or any portion of such Participant's Withholding Taxes shall be deemed to be the average of the highest and lowest selling prices of such stock as reported on the New York Stock Exchange Composite Transactions Tape on the Tax Date, or if such stock is not traded that day, then on the next preceding day on which such stock was traded; and

(v) if Participant is or becomes subject to Section 16(b) of the Securities Exchange Act of 1934, as amended (the "1934 Act"), such election must be made either six months or more prior to the Tax Date or within a ten-day period beginning on the third and ending on the twelfth business day following release for publication of SDG&E's quarterly or annual summary statement of earnings in accordance with Rule 16b-3(e)(3)(iii) under the 1934 Act; provided that no such election may be made within six months of the grant of such Restricted Stock award, except in the case of death or disability of Participant."

#### 10. Delivery of Shares

Upon expiration of the Restricted Term applicable to any shares as provided in the manner stated in paragraph 4 above and payment by the Participant as required in paragraph 9 above, the Secretary or Assistant Secretary of SDG&E shall deliver to Participant all certificates evidencing the Shares free of legend and no longer subject to the Restricted Term and all restrictions set forth herein with respect to such Shares shall terminate.

If at the end of 1997 the restrictions have not been removed from and the Restricted Term has not expired on any of the shares purchased by Participant under this Agreement, Participant shall sell and SDG&E shall purchase all such shares for a price of Two Dollars and Fifty Cents (\$2.50) per share no later than February 1, 1998. The Secretary or Assistant Secretary shall deliver to SDG&E all certificates evidencing such shares accompanied by stock powers and other instruments of transfer duly executed by Participant and shall deliver to Participant a check in the amount of the purchase price for such shares.

#### 11. Effects On Participant's Continued Employment

Participant's right, if any, to continue to serve SDG&E and its subsidiaries as an officer or employee shall not be enlarged or otherwise affected by the grant to him or her of this Restricted Stock Award, nor shall such grant in any way restrict the right of SDG&E or any of its subsidiaries to terminate Participant's employment at any time.

#### 12. Further Action

Each party hereto agrees to perform any further acts and to execute and deliver any documents which may be reasonably necessary to carry out the provisions hereof.

13. Parties in Interest and Governing Law

This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective assigns and successors-in-interest, and shall be governed by and interpreted in accordance with the laws of the State of California.

14. Entire Agreement

This Agreement contains the entire agreement and understanding between the parties as to the subject matter hereof.

15. Invalid Provisions

The invalidity or unenforceability of any particular provision hereto shall not affect the other provisions hereof, and this Agreement shall be construed in all respects as if such invalid or unenforceable provisions were omitted.

16. Amendment

No amendment or modification hereof shall be valid unless it shall be in writing and signed by both parties hereto.

17. Counterparts

This Agreement may be executed in counterparts, each of which shall be deemed to be an original, and taken together shall constitute one and the same document.

18. Notices

All notices or other communications required or permitted hereunder shall be in writing, and shall be sufficient in all respects only if delivered in person or sent via certified mail, postage prepaid, addressed as follows:

If to SDG&E: San Diego Gas & Electric Company  
P.O. Box 1831  
San Diego, CA 92112  
Attention: Corporate Secretary

If to Participant: \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

or such other address as shall be furnished in writing by any such party. Any such notice or communication shall be deemed to have been delivered when delivered in person or 48 hours after the date it has been mailed in the manner described above.

IN WITNESS WHEREOF, the parties hereto have executed this Restricted Stock Award Agreement on the day and year first above written.

PARTICIPANT

\_\_\_\_\_  
Signature of Participant

SAN DIEGO GAS & ELECTRIC COMPANY

By: \_\_\_\_\_  
Title: \_\_\_\_\_

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

|  | 1991      | 1992      | 1993      | 1994      | 1995      |
|--|-----------|-----------|-----------|-----------|-----------|
| -----  |           |           |           |           |           |
| Fixed Charges:   |           |           |           |           |           |
| Interest:  |           |           |           |           |           |
| Long-Term Debt   | \$ 98,000 | \$99,900  | \$ 92,596 | \$ 92,770 | \$ 95,523 |
| Short-Term Debt  | 7,429     | 5,319     | 7,173     | 10,015    | 15,345    |
| Amortization of Debt<br>Discount and Expense,<br>Less Premium                | 2,471     | 2,881     | 4,162     | 4,604     | 4,870     |
| Interest Portion of<br>Annual Rentals  | 18,067    | 14,563    | 19,081    | 21,838    | 19,371    |
| -----  |           |           |           |           |           |
| Total Fixed<br>Charges   | 125,967   | 122,663   | 123,012   | 129,227   | 135,109   |
| -----  |           |           |           |           |           |
| Preferred Dividends<br>Requirements  | 10,535    | 9,600     | 8,565     | 7,663     | 7,663     |
| Ratio of Income Before<br>Tax to Net Income                                  | 1.61473   | 1.74291   | 1.70580   | 1.94788   | 1.57657   |
| -----  |           |           |           |           |           |
| Preferred Dividends<br>for Purpose of Ratio                                  | 17,011    | 16,732    | 14,610    | 14,927    | 12,081    |
| -----  |           |           |           |           |           |
| Total Fixed Charges<br>and Preferred<br>Dividends for<br>Purpose of Ratio    | \$142,978 | \$139,395 | \$137,622 | \$144,154 | \$147,190 |
| =====  |           |           |           |           |           |
| Earnings:  |           |           |           |           |           |
| Net Income (before<br>preferred dividend<br>requirements)                    | \$208,060 | \$210,657 | \$218,715 | \$143,477 | \$233,457 |
| Add:   |           |           |           |           |           |
| Fixed Charges<br>(from above)  | 125,967   | 122,663   | 123,012   | 129,227   | 135,109   |
| Less: Fixed Charges<br>Capitalized   | 2,907     | 2,407     | 2,596     | 2,472     | 2,785     |
| Taxes on Income  | 127,900   | 156,500   | 154,369   | 135,999   | 134,605   |
| -----  |           |           |           |           |           |
| Total Earnings for<br>Purpose of Ratio                                       | \$459,020 | \$487,413 | \$493,500 | \$406,231 | \$500,386 |
| =====  |           |           |           |           |           |
| Ratio of Earnings<br>to Combined Fixed<br>Charges and Preferred<br>Dividends | 3.21      | 3.50      | 3.59      | 2.82      | 3.40      |
| =====  |           |           |           |           |           |

ENOVA CORPORATION PARENT COMPANY OF SDG&E  
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND  
RESULTS OF OPERATIONS

RESULTS OF OPERATIONS

On December 6, 1995, San Diego Gas & Electric Company announced the formation of Enova Corporation as the parent company for SDG&E, an operating public utility, and unregulated subsidiaries. On January 1, 1996, Enova Corporation became the parent of SDG&E. SDG&E's outstanding common stock was converted on a share-for-share basis into Enova Corporation common stock. SDG&E's debt securities, preferred stock and preference stock were unaffected and remain with SDG&E. On January 31, 1996, SDG&E's ownership interests in its subsidiaries were transferred to Enova Corporation at book value, completing the parent company structure. The consolidated financial statements include SDG&E and its subsidiaries and, therefore, also reflect what is now Enova and its subsidiaries. Beginning on January 1, 1996, SDG&E's financial statements for periods prior to 1996 will be restated to reflect the net results of non-utility subsidiaries as discontinued operations in accordance with Accounting Principles Board Opinion No. 30 "Reporting the Effects of a Disposal of a Segment of Business."

SDG&E is engaged in electric and gas businesses. It generates and purchases electric energy and distributes it to 1.2 million customers in San Diego County and an adjacent portion of Orange County, California. It also purchases and distributes natural gas to 700,000 customers in San Diego County and transports gas for others. SDG&E has diversified into other businesses. Enova Financial, Inc., invests in limited partnerships representing approximately 800 affordable-housing projects located throughout the United States. Califia Company leases computer equipment. The investments in Enova Financial and Califia are expected to provide income tax benefits over the next several years. Enova Energy, Inc., is an energy management consulting firm offering services to utilities and large consumers. Pacific Diversified Capital Company is the parent company for non-utility subsidiaries, Phase One Development, Inc., which is engaged in real estate development, and Enova Technologies, Inc. Enova Technologies, whose ownership was transferred directly to Enova Corporation after December 31, 1995, is in the business of developing new technologies generally related to utilities and energy, including certain research transferred from the utility. Enova International was formed after December 31, 1995, to develop and operate natural gas and power projects outside the United States. Additional information regarding SDG&E's subsidiaries is described in Notes 1 and 3 of the notes to consolidated financial statements.

**OPERATING REVENUES** Electric revenues did not change significantly in 1995 or in 1994, decreasing less than one percent each year. Gas revenues decreased 10 percent in 1995, reflecting lower purchased-gas prices and lower sales volume due to warmer weather and an increase in customers' purchases of gas directly from other suppliers (for whom SDG&E provides transportation).

Revenues from diversified operations increased in 1994, primarily due to Califia's leasing activities.

**OPERATING EXPENSES** Electric fuel expense decreased 30 percent in 1995 and 18 percent in 1994. The decrease in 1995 was primarily due to lower prices for natural gas and the shifting of energy supply sources from generation to purchased power as a result of nuclear refuelings during the year. The decrease in 1994 was due to lower prices for natural gas and the replacement of fossil fuel generation with lower-cost nuclear generation.

Purchased-power expenses decreased in 1995, reflecting a decrease in purchased-power prices, offset by higher volumes. The 5 percent increase in 1994 was primarily due to increased purchases from higher-cost, independent power producers.

Gas purchased for resale decreased 23 percent in 1995 and 12 percent in 1994. The decrease in 1995 was primarily due to lower prices for natural gas and lower sales volumes due to warmer weather and an increase in customers' purchases of gas directly from other suppliers (for whom SDG&E provides transportation). The decrease in 1994 was due to lower natural gas prices and lower sales volumes due to customers' purchases of gas directly from others.

The changes in maintenance expenses reflect unusually low charges in 1994, a year which included no nuclear plant refuelings.

**OTHER INCOME AND DEDUCTIONS** Other income and deductions increased in 1995 and decreased in 1994. These changes, including the change in "Other-net," were primarily due to the 1994 writedowns described in

EARNINGS 1995 earnings per common share were \$1.94, compared to \$1.17 in 1994 and \$1.81 in 1993. Earnings per common share from continuing operations were \$1.94 in 1995, compared with \$1.71 in 1994 and \$1.89 in 1993. Excluding the impact of writedowns of utility and non-utility real property and other assets (\$0.20 per share), 1994 earnings per share from continuing operations were \$1.91. The increase in earnings in 1995 is due to numerous offsetting factors, including the increased utility authorized rate of return and changes in incentive awards for performance-based ratemaking and demand-side management programs. The increase in earnings in 1994 was the result of several offsetting factors, including lower operating and maintenance expense, performance-based ratemaking awards and lower utility authorized return.

Earnings per share for the quarter ended December 31, 1995, were \$0.50 compared to \$0.47 for the same period in 1994. Earnings per share from continuing operations for the quarter were \$0.45 in 1995 and \$0.49 in 1994. The latter decrease is due to numerous offsetting factors, including changes in incentive awards for performance-based ratemaking and demand-side management programs, and the increased authorized rate of return.

Califia and Enova Financial's contributions to earnings for the year were \$0.17 in 1995, \$0.15 in 1994 and \$0.09 in 1993. The impact of the remaining subsidiaries on earnings from continuing operations was not material.

#### LIQUIDITY AND CAPITAL RESOURCES

Utility operations continue to be a major source of liquidity. In addition, financing needs are met primarily through issuances of short-term and long-term debt, and of common and preferred stock. These capital resources are expected to remain available. Cash requirements include plant construction and other capital expenditures; subsidiaries' affordable-housing, leasing and other investments; and repayments and retirements of long-term debt. In addition to changes described elsewhere, major changes in cash flows are described below.

**CASH FLOWS FROM OPERATING ACTIVITIES** The major changes in cash flows from operations among the three years result from changes in regulatory balancing accounts, income taxes, and accounts payable and other current liabilities. The changes related to regulatory balancing accounts were due primarily to changes in prices for natural gas. The changes related to income taxes (and other current assets) were due primarily to the differences in timing of income tax payments related to regulatory balancing account activity in 1994. The changes related to accounts payable and other current liabilities were due primarily to greater demand-side management activity in December 1995, lower employee incentive compensation and lower construction activity in December 1994.

Quarterly cash dividends of \$0.39 per share have been declared for each quarter during the year ended December 31, 1995. The dividend payout ratio for the years ended December 31, 1995, 1994, 1993, 1992 and 1991 were 80 percent, 130 percent, 82 percent, 81 percent and 79 percent, respectively. The increase in the payout ratio for the year ended December 31, 1994, was due to the writedowns recorded during 1994. Additional information regarding the writedowns is provided in Notes 2 and 3 of the notes to consolidated financial statements. The payment of future dividends is within the discretion of the directors and is dependent upon future business conditions, earnings and other factors. Net cash flows provided by operating activities currently are sufficient to maintain the payment of dividends at the present level.

**CASH FLOWS FROM FINANCING ACTIVITIES** SDG&E had only short- and intermediate-term financing needs during 1995 and does not expect to issue any intermediate-term debt in 1996. The utility did not issue stock or long-term debt in 1995, except for refinancings, and does not plan any issuances in 1996, other than refinancings. Subsidiaries Enova Financial, Califia, Pacific Diversified Capital and Phase One Development repaid \$40 million in long-term debt in 1995 during the ordinary course of business. To date, it has not been determined whether the nonutility subsidiaries will issue debt in 1996.

SDG&E's utility capital structure is one factor that has enabled it to obtain long-term financing at attractive 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 1992 and 1993.

|                 | 1991        | 1992        | 1993        | 1994        | 1995        | Goal        |
|-----------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Common equity   | 47%         | 47%         | 47%         | 48%         | 49%         | 45-48%      |
| Preferred stock | 5           | 5           | 4           | 4           | 4           | 5-7         |
| Debt and leases | 48          | 48          | 49          | 48          | 47          | 46-49       |
| <b>Total</b>    | <b>100%</b> | <b>100%</b> | <b>100%</b> | <b>100%</b> | <b>100%</b> | <b>100%</b> |

In December 1995, Standard & Poor's and Moody's Investors Service affirmed the ratings of SDG&E following the CPUC's decision on restructuring California's electric utility industry. Moody's affirmed its long-term bond rating of A1 and stable outlook. Standard & Poor's affirmed its long-term bond rating of A+ and negative outlook. Standard & Poor's said the outlook would remain negative pending further study of the financial implications of the restructuring decision, as well as the potential for modification or approval by the



governor and the California Legislature.

On December 19, 1995, the Securities and Exchange Commission approved SDG&E's application to delist its preferred and preference stock from the Pacific Stock Exchange. All SDG&E preferred and preference stock is now listed on the American Exchange only.

On January 15, 1996, SDG&E redeemed its \$7.20 series preference stock. The entire \$15 million issue was called for mandatory redemption at \$101 per share.

DERIVATIVES SDG&E's policy is to use derivative financial instruments to reduce its exposure to fluctuations in interest rates and foreign currency exchange rates. These financial instruments are with major investment firms and, along with cash and cash equivalents and accounts receivable, expose SDG&E to market and credit risks. These risks may at times be concentrated with certain counterparties. SDG&E presently contemplates use of similar instruments to reduce its exposure to fluctuations in natural gas prices. SDG&E does not use derivatives for trading or speculative purposes.

SDG&E periodically enters into interest rate swap and cap agreements to moderate its exposure to interest rate changes and to lower its overall cost of borrowing. These swap and cap agreements generally remain off the balance sheet as they involve the exchange of fixed- and variable-rate interest payments without the exchange of the underlying principal amounts. The related gains or losses are reflected in the income statement as part of interest expense. SDG&E would be exposed to interest-rate fluctuations on the underlying debt should other parties to the agreement not perform. Such non-performance is not anticipated. At December 31, 1995, SDG&E had two such agreements, including an index cap agreement on \$75 million of bonds maturing in 1996, and a floating-to-fixed-rate swap associated with \$45 million of variable-rate bonds maturing in 2002.

SDG&E's pension fund periodically uses foreign currency forward contracts to reduce its exposure from exchange-rate fluctuations associated with certain investments in foreign equity securities. These contracts generally have maturities ranging from three to six months. At December 31, 1995, the pension fund held forward Yen-U.S. Dollar contracts totaling \$20 million. SDG&E's pension fund is exposed to credit loss if the counterparties fail to perform. Such non-performance is not anticipated.

Additional information on derivative financial instruments is provided in Note 9 of the notes to consolidated financial statements.

**CASH FLOWS FROM INVESTING ACTIVITIES** Cash used in investing activities in 1995 included utility construction expenditures and payments to its nuclear decommissioning trust. Construction expenditures, excluding nuclear fuel and the allowance for equity funds used during construction, were \$221 million in 1995 and are estimated to be \$220 million in 1996. The company continuously reviews its construction, investment and financing programs and revises them 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 expenditures in the next few years will depend heavily on the impact of the CPUC's industry restructuring decision, on the timing of expenditures to comply with air emission reduction and other environmental requirements, on the company's plan to transport natural gas to Mexico and, on the scope of Enova Technologies' investment in new technologies. These matters are discussed below.

Payments to the nuclear decommissioning trust are expected to continue until SONGS is decommissioned, which is not expected to occur before 2013. Although Unit 1 was permanently shut down in 1992, it is expected to be decommissioned concurrently with Units 2 and 3.

#### REGULATORY MATTERS

**ELECTRIC RATES** In April 1995, the CPUC issued its decision on SDG&E's May 1995 Energy Cost Adjustment Clause Application, approving an \$81 million decrease in electric rates effective May 1, 1995. The decrease reflects, among other things, lower fuel and purchased-power costs and the return of previous overcollections from customers. The \$81 million ECAC decrease was combined with previously approved increases for cost of capital (\$31 million) and base rates (\$41 million), resulting in an authorized system average electric rate of \$0.0987.

In October 1995, SDG&E filed its 1996 ECAC rate request with the CPUC for an \$18 million decrease in electric rates which, if approved, would result in an authorized system average electric rate of \$0.0967 on June 1, 1996. The request reflects lower forecasted prices for fuel and purchased power, lower cost of capital, balancing account activity, and inflation and customer growth based on SDG&E's performance-based ratemaking Base Rates Mechanism formula. Settlement discussions are currently ongoing among SDG&E, the CPUC's Division of Ratepayer Advocates and other parties.

In December 1995, the CPUC found SDG&E operations to be reasonable for the record period August 1, 1992, through July 31, 1993, except for \$1.8 million associated with a wholesale transaction. This is the last comprehensive reasonableness review, since performance-based ratemaking (see below) limits such reviews to those issues causing expenses to fall outside certain parameters.

**GAS RATES** In July 1995, the CPUC issued its decision on SDG&E's June 1995 application to lower core gas rates by \$16 million, effective August 1, 1995. The decrease was based on the decline in gas prices to levels below the Biennial Cost Allocation Proceeding's price forecast that became effective January 1, 1995, and lowered the gas portion of a typical residential SDG&E natural gas bill by \$1.60 per month or 6.5 percent.

In December 1995, the CPUC authorized SDG&E to implement a \$21 million natural gas refund as a result of balancing account overcollections from lower-than-expected natural gas commodity costs. The typical customer's refund, distributed in February 1996, averaged \$22. In December 1995, the CPUC also authorized a \$25 million natural gas rate increase for residential and small-business customers. In January 1996, the typical customer's gas bill increased approximately \$1.78 per month, primarily due to an increase in natural gas transportation prices from Southern California Gas and an update of balancing account activity.

**PERFORMANCE-BASED RATEMAKING** In December 1995, the CPUC issued its decision, authorizing rewards of \$3.7 million for electric generation and dispatch (G&D) and \$3.8 million for gas procurement based on first-year (August 1993 through July 1994) results of performance-based ratemaking (PBR). The CPUC also found SDG&E's nuclear and gas-storage operations reasonable for the same period.

In October 1995, SDG&E filed reports with the CPUC on the results of its electric generation and dispatch and gas procurement mechanisms for the year ended July 31, 1995. SDG&E's fuel and purchased-power expenses fell below the benchmarks for these mechanisms by a total of \$27.9 million (\$2.8 million for G&D and \$25.1 million for gas). In its filing for a rate adjustment effective June 1, 1996, SDG&E requested a total shareholder reward of \$3.4 million (\$0.8 million for G&D and \$2.6 million for gas) and that the remainder of these savings be given to customers through lower rates.

In July 1995, the CPUC authorized \$7 million in rewards to shareholders as a result of SDG&E's exceeding CPUC-approved 1994 benchmarks under the base-rates PBR mechanism. Performance measures in the base-rates mechanism include customer satisfaction, national rates comparison, system reliability and employee safety.

These PBR rewards are recorded in advance of receipt only when the entire reward will be collected in rates within 24 months of the CPUC's approval.

The gas procurement and G&D mechanisms are effective under a previously authorized two-year experiment that began in August 1993. Both have been extended until the Division of Ratepayer Advocates and the Commission Advisory and Compliance Division file their final reports for the year ended July 31, 1995 (expected during the first quarter of 1996). Thereafter, SDG&E will be applying for an extension and modification in conjunction with the restructuring of California's electric utility industry (see "Competition" below), and the existing mechanisms are expected to remain in place until the CPUC acts on the application. The base-rates mechanism was established as a 5-year experimental mechanism that is intended to run from January 1994 through December 1998.

**COST OF CAPITAL** In November 1995, the CPUC issued its decision authorizing SDG&E, Pacific Gas and Electric, Southern California Edison, Southern California Gas and Sierra Pacific Power 11.60 percent returns on common equity for 1996. (SDG&E's was 12.05 percent in 1995.) SDG&E's resulting rate of return on ratebase is 9.37 percent, compared to 9.76 percent in 1995.

In October 1995, SDG&E filed a proposal with the CPUC to implement a mechanism to establish its cost of capital beginning in January 1997. Each October, SDG&E's authorized rate of return would be adjusted if single A bond rates change by 1 percent or more from the prior year's benchmark. A 100-basis-point change in single A bond rates would result in a one-half percent change in SDG&E's return-on-equity. In addition, SDG&E's embedded costs of debt and preferred stock would be adjusted to reflect SDG&E's outstanding long-term debt and preferred stock at each September 30 if the return-on-equity adjustment described above is triggered. The adjustments would be effective on January 1 of the following year. The proposal suggests a 3-year trial period during which SDG&E's authorized capital structure would not change.

**SAN ONOFRE NUCLEAR GENERATING STATION** SDG&E is currently recovering its existing capital investment in San Onofre Nuclear Generating Station Unit 1 over a 4-year period that began in November 1992, when the CPUC issued a decision to permanently shut down the unit. The decision authorized Southern California Edison (majority owner and operator of SONGS) and SDG&E to recover their investments in Unit 1, of which SDG&E's share was \$111 million. SDG&E is recovering its investment, earning a return of 9.1 percent. At December 31, 1995, \$18 million remained to be recovered.

In January 1996, the CPUC approved the accelerated recovery of SONGS Units 2 and 3 existing capital costs. The decision allows SDG&E to recover its investment of approximately \$750 million over an 8-year period beginning in 1996, rather than over the anticipated operational life of the units, which is expected to extend to 2013. During the 8-year period, the authorized rate of return on the equity portion of the investment will be 90 percent of SDG&E's embedded cost of debt and the return on the debt-financed component will be at 7.52 percent (SDG&E's 1995 authorized cost of debt). The decision includes a performance incentive plan that encourages continued, efficient operation of the plant during the 8-year period. During this period,

customers will pay about \$0.04 per kilowatt-hour. This pricing structure replaces the traditional method of recovering the units' operating expenses and capital improvements. This is intended to make the units more competitive with other sources.

#### COMPETITION

ELECTRIC - CALIFORNIA In December 1995, the CPUC issued its policy decision on the restructuring of California's electric utility industry to stimulate competition and reduce rates. Beginning in January 1998, customers can buy their electricity through a power exchange that will obtain power from the lowest-bidding suppliers. The exchange is a spot market with visible pricing. Consumers also may choose to continue

to purchase from their local utility under regulated tariffs. As a third option, a cross section of all customer groups (residential, industrial, commercial and agricultural) will be able to go directly to any energy supplier and enter into private contracts with generators, brokers or others (direct access). As the direct access mechanism has many technical issues to be resolved, a five-year phase-in is planned. All California electricity customers of investor-owned utilities will have the option to purchase generation services directly by 2003. Key points of the CPUC decision as it relates to SDG&E include:

- An independent system operator (ISO) will schedule power transactions and access to the state transmission system, enabling competing power producers to have equal opportunity to deliver their supplies. Participation in the power exchange or "pool-based" wholesale electricity market will be voluntary for buyers and sellers, except for the investor-owned utilities. The ISO and the power exchange will be separate, independent entities under Federal Energy Regulatory Commission jurisdiction.

- Utilities will be allowed to fully recover their "stranded" costs incurred for facilities approved by the CPUC, purchased-power and other contracts, and regulatory assets through the establishment of a non-bypassable competition transition charge (CTC) which all customers will be assessed.

- Utilities will continue to have the obligation to provide distribution service to all customers and provide least-cost generation service to those customers who do not choose the direct-access option. Performance-based regulation rather than cost-of-service regulation will be used to encourage efficient utility operation.

- Utilities will continue to have direct control and operation of the distribution business and procurement of generation services for customers who continue to purchase from the utility, which will continue to be regulated by the CPUC. Transmission facilities will be owned by the utilities and operated by the ISO.

- For purposes of transition cost recovery, rates for customers taking bundled utility service (energy, transmission and distribution included into one rate) will be capped at levels consistent with January 1, 1996, revenue requirements. Including the CTC, rates cannot exceed the cap and, therefore, recovery of the CTC is limited by the cap. If rates not including the CTC meet or exceed the cap for a particular period, no CTC can be recouped, but rather will be accumulated in a balancing account for future recovery (see below).

- The CPUC supports a non-bypassable surcharge to fund public policy programs.

The decision identifies three primary sources of transition costs: uneconomic utility-owned generating assets (that portion of fossil units not recoverable in the energy price), existing purchased-power obligations (including qualifying facilities), and regulatory assets and obligations (including deferred operating costs and deferred taxes). By September 1996, the utilities must identify and value investments for inclusion in a transitional balancing account, subject to CPUC review and approval. The transition-balancing account can be adjusted through 2003 for errors or omissions. Collection of any investment-related transition costs must be completed by 2005. Thereafter, participation in the power exchange by investor-owned utilities will be voluntary.

The decision allows for recovery of all remaining generation investment costs, with a reduced rate of return on any investment-related transition costs. The rate of return for the debt component would be equal to the utility's embedded cost of debt and the rate of return on the equity component would be equal to 90 percent of the embedded cost of debt. SDG&E's authorized cost of debt is 7.52 percent for 1995. The CPUC reduced the rate of return to reflect the perception of lower risk, due to the non-bypassable CTC on distribution customers, and the reduced risk that the plants will be found no longer used and useful and removed from rate base.

The CPUC's concerns over market-power problems may require investor-owned utilities to divest themselves of a substantial portion of their generating assets. PG&E and Edison are required to file plans to voluntarily divest themselves of at least 50 percent of their fossil-fueled generating assets through a spin-off or sale to a non-affiliated entity. SDG&E is not included in this requirement, as the CPUC does not perceive these market-power problems in San Diego. In

order to encourage the voluntary divestiture or spin-off of a utility's fossil generation, the decision provides for a 0.1 percent increase in equity return for each 10 percent of fossil plants disposed of in excess of the mandatory percentage.

In addition, the utilities are required to file plans with the CPUC to implement direct access and new or revised PBR proposals. Plans to establish the power exchange and ISO are also required to be filed by the utilities with both the CPUC and the FERC, as the FERC has jurisdiction over the exchange, the ISO and interstate transmission.

The California Legislature has passed a resolution forming an oversight committee to ensure the legislature's involvement in the policies presented by the CPUC, and that the policies comply with federal and state laws, and achieve the objectives both of competition and the various social programs that are currently funded through utility rates.

The CPUC is currently working on building a consensus on the new market structure with the California Legislature, the governor, utilities and customers.

ELECTRIC-FEDERAL In March 1995, the FERC issued a proposed rule that, if adopted, would require all public utilities to offer wholesale "open-access" transmission service on a nondiscriminatory basis. In addition, public utilities would be

required to functionally price their generation and transmission services separately. The FERC also stated its belief that utilities should be allowed to recover the costs of assets and obligations made uneconomic by the changed regulatory environment. Although SDG&E's cost-recovery mechanisms are not currently under the jurisdiction of the FERC, the recognition by the FERC of the propriety of such cost recovery supports the CPUC's similar position.

In October 1995, SDG&E filed for approval of its open-access tariffs for its service territory with the FERC in conjunction with its request for a marketing license for Enova Energy. In December 1995, the FERC issued a draft order approving SDG&E's open-access tariff, but rejecting Enova Energy's filing. This limits Enova Energy to cost-based rates. All non-rate terms and conditions were accepted subject to the outcome of the FERC's restructuring rulemaking.

Final approval of the FERC's rule and the CPUC's industry-restructuring plan would result in the creation of a bid-based wholesale electricity spot market with open-access transmission. The FERC is expected to issue a final rule during the first half of 1996.

GAS The ongoing restructuring of the gas utility industry has allowed customers to bypass utilities as suppliers and, to a lesser extent, as transporters of natural gas. Currently, non-utility electricity producers and other large customers may use a utility's facilities to transport gas purchased from non-utility suppliers. Also, smaller customers may form groups to buy gas from another supplier. SDG&E would face significant competition if a major pipeline were to operate in or near SDG&E's service territory.

In September 1995, SDG&E signed an agreement with Pacific Enterprises International, an affiliate of Southern California Gas, and Proxima, a Mexican company, to develop and operate natural gas distribution networks in Baja California, Mexico. Representing SDG&E will be an Enova Corporation subsidiary, Enova International.

In November 1995, Mexico issued new regulations allowing privately owned companies, including companies with foreign ownership, to participate in infrastructure projects involving natural gas transportation, storage and distribution. Previously, these activities were conducted by the government-owned oil company, Pemex.

In November 1995, the three-company consortium submitted a Statement of Interest to the Mexican government requesting a permit to distribute natural gas in the city of Mexicali and surrounding areas. Other companies have also expressed an interest in the project. Under the new regulations, the government will conduct a bidding process before a permit is issued. If the consortium is awarded the permit, it will have an exclusive right to distribute natural gas in that region for 12 years.

The proposed project would deliver gas to Mexicali through the pipeline network of Southern California Gas in the Imperial Valley. The initial capital will be \$10 million to \$15 million, and the initial load will be about 10 million cubic feet per day, serving mostly industrial customers. The proposed pipeline network would be continuously expanded to serve residential and commercial customers.

EFFECTS OF REGULATION SDG&E currently accounts for the economic effects of regulation in accordance with Statement of Financial Accounting Standards No. 71, "Accounting for the Effects of Certain Types of Regulation," under which a regulated utility may record a regulatory asset if it is probable that, through the rate-making process, the utility will recover that asset from its customers. In the event that recovery of specific costs through rates becomes unlikely or uncertain, whether resulting from the effects of competition or regulatory actions, it could result in the writeoff of portions of these regulatory assets. In addition, once the restructuring transition is final, SDG&E may not continue to meet the criteria for applying SFAS 71 to all of its operations in the new regulatory framework.

As the restructuring of the industry evolves, SDG&E will become more vulnerable to competition. However, based on recent CPUC decisions, recovery of stranded costs is provided for, including recovery of investment in SONGS Units 2 and 3, and SDG&E does not anticipate incurring a material charge against earnings for its generating facilities, the related regulatory assets and other long-term commitments. In addition, although California utilities' rates are significantly higher than the national average, SDG&E has a lower concentration of industrial customers and for 7 years has been the



lowest-cost provider among the investor-owned utilities in California, which make its customers a less likely target for outside competitors.

#### RESOURCE PLANNING

BIENNIAL RESOURCE PLAN UPDATE PROCEEDING In December 1994, the CPUC issued a decision ordering SDG&E, Pacific Gas and Electric and Southern California Edison to proceed with the BRPU auction. SDG&E was ordered to begin negotiating contracts (ranging from 17 to 30 years) to purchase 500 mw of power from qualifying facilities at an estimated cost of \$4.8 billion beginning in 1997. In February 1995, the FERC issued an order declaring the BRPU auction procedures unlawful under federal law. In July 1995, the CPUC issued a ruling encouraging SDG&E, PG&E and Edison to reach settlements with the auction winners. Settlement discussions are ongoing. Additional information on potential stranded costs and SDG&E's purchased-power commitments is described in Notes 10 and 11 of the notes to consolidated financial statements.

**SOURCES OF FUEL AND ENERGY** SDG&E's primary sources of fuel and purchased power include natural gas from Canada and the Southwest, surplus power from other utilities in the Southwest and the Northwest, and uranium from Canada. SDG&E expects its fuel and purchased-power costs to remain relatively low in the next few years due to the continued availability of surplus power in the Southwest and the continued availability of natural gas. Although short-term natural-gas supplies are volatile due to weather and other conditions, these sources should provide SDG&E with an adequate supply of low-cost natural gas. SDG&E is currently involved in litigation concerning its long-term contracts for natural gas with certain Canadian suppliers. SDG&E has settled with one supplier. SDG&E cannot predict the outcome of the litigation with the other suppliers, but does not expect that an unfavorable outcome would have a material effect on its financial condition or results of operations.

#### **ENVIRONMENTAL MATTERS**

SDG&E's operations are conducted in accordance with federal, state and local environmental laws and regulations governing hazardous wastes, air and water quality, land use and solid-waste disposal. SDG&E incurs significant costs to operate its facilities in compliance with these laws and regulations, and to clean up the environment as a result of prior operations of SDG&E or of others. The costs of compliance with environmental laws and regulations are normally recovered in customer rates. However, the CPUC's decision for restructuring the California electric utility industry (see above) will change the way utility rates are set and costs are recovered. Depending on the final outcome of industry restructuring and the impact of competition, the costs of compliance with future environmental regulations may not be fully recoverable.

Capital expenditures to comply with environmental laws and regulations were \$4 million in 1995, \$5 million in 1994 and \$8 million in 1993, and are expected to aggregate \$38 million over the next 5 years. These expenditures primarily include the estimated cost of retrofitting SDG&E's power plants to reduce air emissions. They do not include potential expenditures to comply with water-discharge requirements for the Encina, South Bay and SONGS power plants, which are discussed below.

**HAZARDOUS WASTES** In May 1994, the CPUC approved a mechanism for utilities to recover their costs to clean up hazardous waste contamination at sites at which the utility may have responsibility or liability under the law to conduct or participate in any required cleanup. Basically, the mechanism allows utilities to recover 90 percent of their cleanup costs and any related costs of litigation with responsible parties, and 70 percent of their costs related to obtaining recovery of such cleanup costs from insurance carriers providing coverage for such costs.

SDG&E disposes of its hazardous wastes at facilities owned and operated by other entities. Operations at these facilities may result in actual or threatened risks to the environment or public health. Where the owner or operator of such a facility fails to complete any corrective action required by regulatory agencies to abate such risks, applicable environmental laws may impose an obligation on SDG&E and others who disposed of hazardous wastes at the facility to undertake corrective actions.

This type of obligation has been imposed upon SDG&E with respect to the Rosen's Electrical Equipment Supply Company site located in Pico Rivera, California. In December 1993, SDG&E received notification that the California Department of Toxic Substances Control (DTSC) considered SDG&E and eight other entities to be potentially responsible parties (PRPs) liable for any required corrective action regarding polychlorinated biphenyls contamination at the Rosen's site. The site was operated between approximately 1948 and 1984. As a part of its operations, Rosen's acquired and scrapped used electrical transformers. SDG&E sold some of its used electrical transformers to Rosen's. The DTSC considers SDG&E to be responsible for about 7 percent of the transformer-related contamination at the site. SDG&E is continuing to investigate this matter. In December 1995, the DTSC issued an Imminent and Substantial Endangerment Determination and Remedial Action Order to SDG&E and 10 other PRPs requiring them to assess and remove the risks of contamination from the site. However, SDG&E and the other PRPs have been negotiating with Rosen's and the DTSC to effect, before April 20, 1996, an alternative consent order which would separate the development of the cleanup plan from the actual cleanup. This would provide the PRPs with greater flexibility to manage and implement the required actions. Based on available information, SDG&E is unable to estimate the range of liability, if any, it may have for the necessary corrective action at this site.

During the early 1900s SDG&E and its predecessors manufactured gas from oil at its Station A facility and at two other small facilities in Escondido and Oceanside. In 1995, SDG&E commenced an environmental assessment of Station A. Some significant amounts of residual by-products from the gas-manufacturing process have been discovered on portions of the facility during the assessment. However, the magnitude of such contamination has yet to be determined. The assessment will be completed in 1996, at which time the extent of any required remediation activities and a range of costs will be determined. Sufficient information is not currently available to estimate cleanup costs. The Escondido facility has been remediated at a cost of approximately \$3 million during the period of 1990 through 1993. A site closure letter for this

facility has been obtained from the San Diego County Department of Environmental Health Services. However, contaminants similar to the ones found on the Escondido site have been observed on adjacent parcels of property. SDG&E will assess these contaminants in 1996.

SDG&E has identified various other sites for which it may bear some responsibility or liability for any corrective action that may be required under federal, state or local environmental laws. SDG&E may be held partially or indirectly responsible for remediation of some of these sites. However, SDG&E is unable to estimate the extent of its responsibility, if any, for remediation. Furthermore, the timing for assessing the costs of remediation at these sites and the number and identities of other parties that may also be responsible (and their respective responsibilities and abilities to share in the cost of the remediation) are also unknown.

**ELECTRIC AND MAGNETIC FIELDS (EMF)** SDG&E and other utilities are involved in litigation concerning electric and magnetic fields. An unfavorable outcome of this litigation could have a significant impact on the future operations of the electric utility industry, especially if relocation of existing power lines is ultimately required. To date, science has demonstrated no cause-and-effect relationship between cancer and exposure to the type of EMFs emitted by utilities' transmission lines and generating facilities. To respond to public concerns, the CPUC has directed the California utilities to adopt a low-cost EMF-reduction policy that requires reasonable design changes to achieve noticeable reduction of EMF levels that are anticipated from new projects. However, consistent with the major scientific reviews of available research literature, the CPUC has indicated that no health risk has been identified with exposure to EMFs.

**AIR QUALITY** In 1996, SDG&E must begin to comply with nitrogen dioxide emission limits that the San Diego Air Pollution Control District imposed on electric generating boilers through its Rule 69. Under the initial rule, SDG&E would have been required to retrofit each of its nine boilers with expensive pollution-control equipment to reduce nitrogen dioxide emissions and to maintain the total nitrogen oxide emissions from the entire system below a prescribed emissions cap (having graduated emission reductions to be achieved through 2001). The capital costs of compliance with the initial rule were expected to be approximately \$110 million. However, in December 1995, the district amended the rule to remove the individual boiler retrofit requirements, but retained the system-wide emissions cap with further system-wide emission reductions to be achieved by 2005. The estimated capital costs for compliance with the amended rule are approximately \$60 million. The California Air Resources Board (ARB) expressed concern that the amendments to Rule 69 did not meet the requirements of the California Clean Air Act. However, the ARB withheld any formal objections pending its review of SDG&E's Rule 69 compliance plan to be submitted in 1996. The ARB may seek to overturn some or all of the Rule 69 amendments or to otherwise impose more restrictive emissions limitations, which would cause SDG&E's Rule 69 compliance costs to increase.

In 1990 the South Coast Air Quality Management District (AQMD) passed a rule which will require SDG&E's older natural gas compressor engines at its Moreno facility to either meet new stringent nitrogen oxide emission levels or be converted to electric drive. In October 1993, the AQMD adopted a new program called RECLAIM, which replaced existing rules and requires SDG&E's natural-gas compressor engines at its Moreno facility to reduce their nitrogen oxide emission levels by about 10 percent a year through 2003. This will be accomplished through the installation of new emission-monitoring equipment, operational changes to take advantage of low-emission engines and engine retrofits. SDG&E has concluded negotiations with the AQMD that resulted in the reclassification of three of these engines and eliminated the need for certain expensive monitoring equipment for those engines. The cost of complying with RECLAIM may be as much as \$3 million.

**WATER QUALITY** In 1989, SDG&E submitted applications to the San Diego Regional Water Quality Control Board to renew the discharge permits for its South Bay and Encina power plants. Supplemental applications were submitted in 1993. These discharge permits are required to enable SDG&E to discharge its cooling water and certain other treated and nontreated nonhazardous wastewaters into the Pacific Ocean and into San Diego Bay. The permits are, therefore, prerequisites to the continued operation of its power plants as they are now configured. Increasingly stringent cooling-water and wastewater discharge limitations may be imposed in the future, and SDG&E may be required to build additional facilities to comply with these requirements. Such

facilities could include wastewater treatment facilities, cooling towers or offshore- discharge pipelines.

SDG&E anticipates that the regional board will issue a new permit for SDG&E's South Bay power plant in 1996. Pending the regional board's action, the previous permit remains effective.

The regional board issued SDG&E a new discharge permit for its Encina power plant in November 1994. However, SDG&E's application for an exception to certain thermal-discharge requirements is still pending until the completion of thermal studies to be conducted in 1996. If SDG&E's exception application is denied, SDG&E could be required to construct offshore-discharge facilities at a cost of up to \$75 million.

The California Coastal Commission required a study of the offshore impact on the marine environment from the cooling-water discharge by SONGS Units 2 and 3. The study concluded that some environmental damage is caused by the discharge. To mitigate the environmental damage, the California Coastal Commission ordered Edison and SDG&E to improve the plant's fish-protection system, build a 300-acre artificial reef to help restore kelp beds and restore 150 acres of coastal wetlands. SDG&E may be required to incur capital costs of up to \$30 million to comply with this order. The new pricing structure contained in the CPUC's decision regarding accelerated recovery of SONGS Units 2 and 3 (see "San Onofre Nuclear Generating Station" above) accommodates these added mitigation costs. In addition, SDG&E and Edison have asked the California Coastal Commission to reconsider and modify this mitigation plan to reduce the size of the artificial reef and shorten the monitoring period. Negotiations are ongoing.

**WOOD-POLE PRESERVATIVES** The Pacific Justice Center (Pacific), a for-profit law firm, and the Mateel Environmental Justice Foundation (Mateel), a nonprofit corporation, claim that SDG&E and other utilities and parties have violated California's Safe Drinking Water and Toxic Enforcement Act (Proposition 65) by failing to warn persons who may come into contact with the preservatives used in treated wood utility poles and by allowing such preservatives to be released into sources of drinking water. Some preservatives used in woodpoles are included on California's list of chemicals known to cause cancer or reproductive harm. Proposition 65 requires that prior warning be given to individuals who may be exposed to such chemicals unless the exposure will not pose a significant risk and that these substances not be released into sources of drinking water in significant quantities or otherwise in violation of the law. Violations of the Proposition 65 warning requirement can result in penalties of up to \$2,500 per violation. SDG&E believes, on the basis of studies and other information, that exposure to wood poles containing these preservatives does not give rise to a significant risk and, therefore, no warning is required and that significant quantities of these preservatives are not released to any source of drinking water. SDG&E and the other utilities and parties have responded to the claims by denying their validity. In June 1995, Mateel, represented by Pacific, filed a complaint in San Francisco Superior Court against Pacific Bell, PG&E and two wood-pole manufacturers alleging the violations noted above. Although SDG&E was not named in this lawsuit, it is anticipated that Mateel may file a separate lawsuit against SDG&E and other utilities on the same grounds. SDG&E is cooperating with PG&E, Pacific Bell and others to achieve an effective and favorable resolution of this matter.

#### **NEW ACCOUNTING STANDARDS**

In March 1995, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." This statement, which is effective for 1996 financial statements, requires that long-lived assets and certain identifiable intangibles be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In performing the review of recoverability, the entity should estimate the future cash flows expected to result from the use of the asset and its eventual disposition. As discussed above and in Note 11 of the notes to consolidated financial statements, the CPUC has issued a decision for restructuring the California electric utility industry to stimulate competition and has indicated that the California utilities will, within certain limits, be allowed recovery of regulatory assets, the excess carrying amount of existing utility plant and obligations under long-term purchased-power contracts over fair-market value over a transition period that ends in 2005. As a result of this and preliminary indications from the FERC on recovery of transition costs arising from industry restructuring, SFAS 121 is not currently expected to have an adverse impact on SDG&E's financial condition or results of operations. However, this may change in the future as restructuring, deregulation and competitive factors take effect in the electric utility industry.

In October 1995, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation." SFAS 123 is effective for 1996 financial statements and establishes a fair-value-based method of accounting for stock-based compensation plans. SFAS 123 provides a voluntary alternative to the provisions of Accounting Principles Board Opinion 25, "Accounting for Stock Issued to Employees." However, it requires pro forma disclosure of the stock-based compensation arrangement's impact on net income and earnings per share as though SFAS 123's fair-value provisions had been adopted. SDG&E currently issues restricted-stock awards under its Long-Term Incentive Plan and expects to adopt

the disclosure-only requirement of SFAS 123. Additional information on SDG&E's stock-based compensation plans is provided in Note 7 of the notes to consolidated financial statements.

## Responsibility Report for the Consolidated Financial Statements

SDG&E and Enova (collectively referred to as "SDG&E") are responsible for the consolidated financial statements and other data in this annual report. To meet its responsibility for the reliability of the consolidated financial statements, SDG&E has developed a system of internal accounting controls and engages a firm of independent auditors. The board of directors of SDG&E carries out its responsibility for the consolidated financial statements through its audit committee, composed of directors who are not officers or employees of SDG&E.

Management maintains the system of internal accounting controls, which it believes is adequate to provide reasonable, but not absolute, assurance that its assets are safeguarded, that transactions are executed in accordance with its objectives, and that the financial records and reports are reliable for preparing the consolidated financial statements in accordance with generally accepted accounting principles.

The concept of reasonable assurance recognizes that the cost of a system of internal accounting controls should not exceed the benefits derived and that management makes estimates and judgments of these cost/benefit factors. The system of internal accounting controls is supported by an extensive program of internal audits, selection and training of qualified personnel, and written policies and procedures.

SDG&E's independent auditors, Deloitte & Touche LLP, are engaged to audit SDG&E's consolidated financial statements in accordance with generally accepted auditing standards for the purpose of expressing their opinion as to whether SDG&E's consolidated financial statements are presented fairly, in all material respects, in accordance with generally accepted accounting principles.

The audit committee discusses with SDG&E's internal auditors and the independent auditors the overall scope and specific plans for their respective audits. The committee also discusses SDG&E's consolidated financial statements and the adequacy of SDG&E's internal controls. The committee met twice during the fiscal year with the internal auditors, the independent auditors and management to discuss the results of their examinations, their evaluations of SDG&E's internal controls, and the overall quality of SDG&E's financial reporting. The internal auditors and the independent auditors have full and free access to the committee throughout the year.

SDG&E's management has prepared the consolidated financial statements and other data in this annual report. In the opinion of SDG&E, the consolidated financial statements, which include amounts based on estimates and judgments of management, have been prepared in conformity with generally accepted accounting principles.

DAVID R. KUZMA  
Senior Vice President, Chief Financial Officer and Treasurer

## Independent Auditors' Report

To the Shareholders and Board of Directors of Enova Corporation and San Diego Gas & Electric Company:

We have audited the accompanying consolidated balance sheets and the statements of consolidated capital stock and of long-term debt of San Diego Gas & Electric Company and subsidiaries as of December 31, 1995 and 1994, and the related statements of consolidated income, changes in capital stock and retained earnings, cash flows, and financial information by segments of business for each of the three years in the period ended December 31, 1995. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.



In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of San Diego Gas & Electric Company and subsidiaries as of December 31, 1995 and 1994, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1995 in conformity with generally accepted accounting principles.

DELOITTE & TOUCHE LLP  
San Diego, California  
February 16, 1996

STATEMENTS OF CONSOLIDATED INCOME  
In thousands except per share amounts

| For the years ended December 31                       | 1995        | 1994        | 1993        |
|---|-------------|-------------|-------------|
| Operating Revenues                                    |             |             |             |
| Electric  | \$1,503,926 | \$1,510,320 | \$1,514,608 |
| Gas   | 310,142     | 346,183     | 346,658     |
| Diversified operations                                | 56,608      | 55,742      | 36,223      |
| Total operating revenues                              | 1,870,676   | 1,912,245   | 1,897,489   |
| Operating Expenses                                    |             |             |             |
| Electric fuel   | 100,256     | 143,339     | 174,444     |
| Purchased power                                       | 341,727     | 342,612     | 325,966     |
| Gas purchased for resale                              | 113,355     | 146,579     | 165,876     |
| Maintenance   | 91,740      | 70,776      | 81,788      |
| Depreciation and decommissioning                      | 278,239     | 262,238     | 245,144     |
| Property and other taxes                              | 45,566      | 44,746      | 44,902      |
| General and administrative                            | 210,207     | 207,908     | 204,290     |
| Other   | 209,358     | 208,533     | 196,564     |
| Income taxes  | 134,578     | 153,298     | 154,571     |
| Total operating expenses                              | 1,525,026   | 1,580,029   | 1,593,545   |
| Operating Income                                      | 345,650     | 332,216     | 303,944     |
| Other Income and (Deductions)                         |             |             |             |
| Writedown of real estate                              | --          | (25,000)    | --          |
| Allow for equity funds used during construction       | 6,435       | 6,274       | 17,909      |
| Taxes on nonoperating income                          | (27)        | 17,299      | 202         |
| Other - net   | (5,876)     | (19,117)    | 5,160       |
| Total other income and (deductions)                   | 532         | (20,544)    | 23,271      |
| Income Before Interest Charges                        | 346,182     | 311,672     | 327,215     |
| Interest Charges                                      |             |             |             |
| Long-term debt  | 95,523      | 92,770      | 92,596      |
| Short-term debt and other                             | 20,215      | 14,619      | 11,335      |
| Allowance for borrowed funds used during construction | (2,865)     | (2,658)     | (4,245)     |
| Net interest charges                                  | 112,873     | 104,731     | 99,686      |
| Income From Continuing Operations                     | 233,309     | 206,941     | 227,529     |
| Discontinued Operations, Net Of Income Taxes          | 148         | (63,464)    | (8,814)     |
| Net Income (before preferred dividend requirements)   | 233,457     | 143,477     | 218,715     |
| Preferred Dividend Requirements                       | 7,663       | 7,663       | 8,565       |
| Earnings Applicable to Common Shares                  | \$ 225,794  | \$ 135,814  | \$ 210,150  |
| Average Common Shares Outstanding                     | 116,535     | 116,484     | 116,049     |
| Earnings Per Common Share from Continuing operations  | \$ 1.94     | \$ 1.71     | \$ 1.89     |
| Earnings Per Common Share                             | \$ 1.94     | \$ 1.17     | \$ 1.81     |
| Dividends Declared Per Common Share                   | \$ 1.56     | \$ 1.52     | \$ 1.48     |

See notes to consolidated financial statements

CONSOLIDATED BALANCE SHEETS  
In thousands of dollars

| Balance at December 31  | 1995        | 1994        |
|---|-------------|-------------|
|   | -----       | -----       |
| <b>ASSETS</b>   |             |             |
| Utility plant - at original cost  | \$5,533,554 | \$5,329,179 |
| Accumulated depreciation and decommissioning  | (2,433,397) | (2,180,087) |
|   | -----       | -----       |
| Utility plant-net   | 3,100,157   | 3,149,092   |
|   | -----       | -----       |
| Investments and other property  | 532,289     | 465,918     |
|   | -----       | -----       |
| Current assets  |             |             |
| Cash and temporary investments  | 96,429      | 25,405      |
| Accounts receivable   | 178,155     | 187,988     |
| Notes receivable  | 34,498      | 31,806      |
| Inventories   | 67,959      | 75,607      |
| Other   | 41,012      | 34,022      |
|   | -----       | -----       |
| Total current assets  | 418,053     | 354,828     |
|   | -----       | -----       |
| Deferred taxes recoverable in rates   | 298,748     | 305,717     |
|   | -----       | -----       |
| Deferred charges and other assets   | 321,193     | 322,881     |
|   | -----       | -----       |
| Total   | \$4,670,440 | \$4,598,436 |
|   | =====       | =====       |
| <b>CAPITALIZATION AND LIABILITIES</b>   |             |             |
| Capitalization (see Statements of Consolidated Capital Stock and of Long-Term Debt) |             |             |
| Common equity   | \$1,520,070 | \$1,474,430 |
| Preferred stock not subject to mandatory redemption                                 | 93,475      | 93,493      |
| Preferred stock subject to mandatory redemption                                     | 25,000      | 25,000      |
| Long-term debt  | 1,350,094   | 1,339,201   |
|   | -----       | -----       |
| Total capitalization  | 2,988,639   | 2,932,124   |
|   | -----       | -----       |
| Current liabilities   |             |             |
| Short-term borrowings   | --          | 89,325      |
| Long-term debt redeemable within one year   | 115,000     | 115,000     |
| Current portion of long-term debt   | 36,316      | 35,031      |
| Accounts payable  | 145,517     | 130,157     |
| Dividends payable   | 47,383      | 46,200      |
| Taxes accrued   | --          | 5,519       |
| Interest accrued  | 22,537      | 23,372      |
| Regulatory balancing accounts overcollected-net                                     | 170,761     | 111,731     |
| Other   | 125,438     | 113,815     |
|   | -----       | -----       |
| Total current liabilities   | 662,952     | 670,150     |
|   | -----       | -----       |
| Customer advances for construction  | 34,698      | 36,250      |
| Accumulated deferred income taxes-net   | 523,335     | 513,592     |
| Accumulated deferred investment tax credits   | 104,226     | 109,161     |
| Deferred credits and other liabilities  | 356,590     | 337,159     |
| Contingencies and commitments (Notes 10 and 11)                                     | --          | --          |
|   | -----       | -----       |
| Total   | \$4,670,440 | \$4,598,436 |
|   | =====       | =====       |

See notes to consolidated financial statements

## STATEMENTS OF CONSOLIDATED CASH FLOWS

In thousands of dollars

For the years ended December 31

|   | 1995       | 1994       | 1993       |
|---|------------|------------|------------|
|   | -----      | -----      | -----      |
| Cash Flows from Operating Activities  |            |            |            |
| Income from continuing operations   | \$ 233,309 | \$ 206,941 | \$ 227,529 |
| Adjustments to reconcile income from continuing operations to net cash provided by operating activities |            |            |            |
| Writedown of real property and other assests  | --         | 37,000     | --         |
| Depreciation and decommissioning  | 278,239    | 262,238    | 245,144    |
| Amortization of deferred charges and other assets   | 12,068     | 12,944     | 12,309     |
| Amortization of deferred credits and other liabilities  | (32,975)   | (30,370)   | (18,616)   |
| Allowance for equity funds used during construction   | (6,435)    | (6,274)    | (17,909)   |
| Deferred income taxes and investment tax credits  | (30,748)   | (55,069)   | 49,511     |
| Other-net   | 57,475     | 57,734     | 8,764      |
| Changes in working capital components   |            |            |            |
| Accounts and notes receivable   | 7,141      | (9,110)    | (5,916)    |
| Regulatory balancing accounts   | 59,030     | 78,552     | (13,245)   |
| Inventories   | 7,648      | 506        | 113        |
| Other current assets  | (5,609)    | (1,518)    | 869        |
| Interest and taxes accrued  | 11,642     | 18,284     | (19,141)   |
| Accounts payable and other current liabilities  | 26,983     | (9,271)    | 19,999     |
| Cash flows provided(used) by discontinued operations  | 6,148      | 3,790      | (1,979)    |
|   | -----      | -----      | -----      |
| Net cash provided by operating activities   | 623,916    | 566,377    | 487,432    |
|   | -----      | -----      | -----      |
| Cash Flows from Financing Activities  |            |            |            |
| Dividends paid  | (188,288)  | (183,492)  | (178,708)  |
| Short-term borrowings-net   | (89,325)   | (27,872)   | 48,397     |
| Issuance of long-term debt  | 124,641    | --         | 369,893    |
| Repayment of long-term debt   | (165,871)  | (90,255)   | (522,983)  |
| Sale (redemption) of common stock   | (241)      | (558)      | 38,850     |
| Issuance of preferred stock   | --         | --         | 50,636     |
| Redemption of preferred stock   | (18)       | --         | (65,228)   |
|   | -----      | -----      | -----      |
| Net cash used by financing activities   | (319,102)  | (302,177)  | (259,143)  |
|   | -----      | -----      | -----      |
| Cash Flows from Investing Activities  |            |            |            |
| Utility construction expenditures   | (220,748)  | (263,709)  | (354,391)  |
| Withdrawals from construction trust funds - net   | --         | 58,042     | 190,225    |
| Contributions to decommissioning funds  | (22,038)   | (22,038)   | (22,038)   |
| Leasing investments   | --         | --         | (19,729)   |
| Other-net   | 3,874      | (6,463)    | (9,898)    |
| Discontinued operations   | 5,122      | (17,338)   | (9,708)    |
|   | -----      | -----      | -----      |
| Net cash used by investing activities   | (233,790)  | (251,506)  | (225,539)  |
|   | -----      | -----      | -----      |
| Net increase  | 71,024     | 12,694     | 2,750      |
| Cash and temporary investments, beginning of year   | 25,405     | 12,711     | 9,961      |
|   | -----      | -----      | -----      |
| Cash and temporary investments, end of year   | \$ 96,429  | \$ 25,405  | \$ 12,711  |
|   | =====      | =====      | =====      |
| Supplemental Schedule of Noncash Investing and Financing Activities                                     |            |            |            |
| Leasing investments   | \$ --      | \$ --      | \$ 150,880 |
| Real estate investments   | 50,496     | 28,311     | 84,278     |
|   | -----      | -----      | -----      |
| Total assets acquired   | 50,496     | 28,311     | 235,158    |
| Cash paid   | (2,550)    | (452)      | (28,209)   |
|   | -----      | -----      | -----      |
| Liabilities assumed   | \$ 47,946  | \$ 27,859  | \$ 206,949 |
|   | =====      | =====      | =====      |

See notes to consolidated financial statements

STATEMENTS OF CONSOLIDATED CHANGES IN  
CAPITAL STOCK AND RETAINED EARNINGS

In thousands of dollars

For the years ended December 31, 1993, 1994, 1995

|  | Preferred Stock                           |                                       | Common<br>Stock | Premium on<br>Capital<br>Stock | Retained<br>Earnings |
|--|---|---------------------------------------|-----------------|--------------------------------|----------------------|
|  | Not Subject<br>to Mandatory<br>Redemption | Subject to<br>Mandatory<br>Redemption |                 |                                |                      |
| Balance, December 31, 1992               | \$ 62,493                                 | \$ 68,200                             | \$287,585       | \$529,486                      | \$624,368            |
| Net income                               |   |                                       |                 |                                | 218,715              |
| Common stock sold (1,457,756 shares)     |   |                                       | 3,644           | 33,612                         |                      |
| Long-term incentive plan activity-net    |   |                                       | 59              | 1,535                          |                      |
| Preferred stock sold (2,040,000 shares)  | 51,000                                    |                                       |                 | (364)                          |                      |
| Preferred stock retired (633,700 shares) | (20,000)                                  | (43,200)                              |                 | 850                            | (2,878)              |
| Dividends declared                       |   |                                       |                 |                                |                      |
| Preferred stock                          |   |                                       |                 |                                | (8,526)              |
| Common stock                             |   |                                       |                 |                                | (171,846)            |
| -----                                    | -----                                     | -----                                 | -----           | -----                          | -----                |
| Balance, December 31, 1993               | 93,493                                    | 25,000                                | 291,288         | 565,119                        | 659,833              |
| Net income                               |   |                                       |                 |                                | 143,477              |
| Long-term incentive plan activity-net    |   |                                       | 53              | (611)                          |                      |
| Dividends declared                       |   |                                       |                 |                                |                      |
| Preferred stock                          |   |                                       |                 |                                | (7,663)              |
| Common stock                             |   |                                       |                 |                                | (177,066)            |
| -----                                    | -----                                     | -----                                 | -----           | -----                          | -----                |
| Balance, December 31, 1994               | 93,493                                    | 25,000                                | 291,341         | 564,508                        | 618,581              |
| Net income                               |   |                                       |                 |                                | 233,457              |
| Long-term incentive plan activity-net    |   |                                       | 117             | 1,530                          |                      |
| Preferred stock retired (880 shares)     | (18)                                      |                                       |                 | 8                              |                      |
| Dividends declared                       |   |                                       |                 |                                |                      |
| Preferred stock                          |   |                                       |                 |                                | (7,663)              |
| Common stock                             |   |                                       |                 |                                | (181,809)            |
| -----                                    | -----                                     | -----                                 | -----           | -----                          | -----                |
| Balance, December 31, 1995               | \$ 93,475                                 | \$ 25,000                             | \$291,458       | \$566,046                      | \$662,566            |
| =====                                    | =====                                     | =====                                 | =====           | =====                          | =====                |

See notes to consolidated financial statements.

31

STATEMENTS OF CONSOLIDATED CAPITAL STOCK

In thousands of dollars except call price

| Balance at December 31                           | 1995        | 1994        |
|--|-------------|-------------|
|  | -----       | -----       |
| COMMON EQUITY                                    |             |             |
| Common stock, without par value, authorized      |             |             |
| 255,000,000 shares, outstanding: 1995,           |             |             |
| 116,583,358 shares; 1994, 116,536,535 shares     | \$291,458   | \$291,341   |
| Premium on capital stock                         | 566,046     | 564,508     |
| Retained earnings                                | 662,566     | 618,581     |
|  | -----       | -----       |
| Total common equity                              | \$1,520,070 | \$1,474,430 |
|  | =====       | =====       |
| PREFERRED STOCK (A)                              |             |             |
| Not subject to mandatory redemption              | Trading     | Call        |
|  | Symbol(B)   | Price       |
| \$20 par value, authorized 1,375,000 shares      | -----       | -----       |
| 5% Series, 375,000 shares outstanding            | SDOPrA      | \$24.00     |
| 4.50% Series, 300,000 shares outstanding         | SDOPrB      | \$21.20     |
| 4.40% Series, 325,000 shares outstanding         | SDOPrC      | \$21.00     |
| 4.60% Series, 1995, 373,770 shares;              |             |             |
| 1994, 374,650 shares outstanding                 | --          | \$20.25     |
| Without par value (C)                            |             |             |
| \$7.20 Series, 150,000 shares outstanding (D)    | SDOPrG      | \$101.00    |
| \$1.70 Series, 1,400,000 shares outstanding      | --          | \$25.85(E)  |
| \$1.82 Series, 640,000 shares outstanding        | SDOPrH      | \$26.00(E)  |
|  | -----       | -----       |
| Total not subject to mandatory redemption        |             | \$93,475    |
|  | =====       | =====       |
| Subject to mandatory redemption                  |             |             |
| Without par value (C)                            |             |             |
| \$1.7625 Series, 1,000,000 shares outstanding(F) | --          | \$25.00(E)  |
|  |             | \$25,000    |
|  |             | \$25,000    |

Total subject to mandatory redemption

-----  
\$25,000

-----  
\$25,000  
=====

- (A) All series of preferred stock have cumulative preferences as to dividends. The \$20 par value preferred stock has two votes per share, whereas the no par value preferred stock is nonvoting. The \$20 par value preferred stock has a liquidation value at par. The no par value preferred stock has a liquidation value of \$25 per share, except for the \$7.20 series, which had a liquidation value of \$100 per share (see Note D).
- (B) All listed shares are traded on the American Stock Exchange.
- (C) Authorized 10,000,000 shares total (both subject to and not subject to mandatory redemption).
- (D) The \$7.20 series was fully redeemed on January 15, 1996.
- (E) The \$1.70 and \$1.7625 series are not callable until 2003; the \$1.82 series is not callable until 1998.
- (F) The \$1.7625 series has a sinking fund requirement to redeem 50,000 shares per year from 2003 to 2007. The remaining 750,000 shares must be redeemed in 2008.

See notes to consolidated financial statements.

STATEMENTS OF CONSOLIDATED LONG-TERM DEBT  
In thousands of dollars

| Balance at December 31   | First Call<br>Date | 1995        | 1994        |
|--|--------------------|-------------|-------------|
|  | -----              | -----       | -----       |
| <b>First mortgage bonds</b>  |                    |             |             |
| 5.5% Series I, due March 1, 1997   | 4/15/67            | \$ 25,000   | \$ 25,000   |
| 4.00% Series CC, due May 1, 2008(A)  | 9/1/96             | 53,000      | 53,000      |
| 4.00% Series DD, due December 1, 2008(A)   | 9/1/96             | 27,000      | 27,000      |
| 9.25% Series EE, due September 1, 2020(B)  | 9/1/95             | --          | 74,350      |
| 3.95% Series FF, due December 1, 2007(A)   | 8/1/96             | 35,000      | 35,000      |
| 7.625% Series GG, due July 1, 2021(B)  | 7/1/96             | 44,250      | 44,250      |
| 7.375% Series HH, due December 1, 2021(B)  | 12/1/96            | 81,350      | 81,350      |
| 8.75% Series II, due March 1, 2023(B)  | 9/1/97             | 25,000      | 25,000      |
| 9.625% Series JJ, due April 15, 2020   | 4/15/00            | 100,000     | 100,000     |
| 6.8% Series KK, due June 1, 2015(A)  | Non-callable       | 14,400      | 14,400      |
| 8.5% Series LL, due April 1, 2022  | 4/1/02             | 60,000      | 60,000      |
| 7.625% Series MM, due June 15, 2002  | Non-callable       | 80,000      | 80,000      |
| 6.1% and 6.4% Series NN, due September 1, 2018<br>and 2019(B)                                  | 9/1/02             | 118,615     | 118,615     |
| Various % Series OO, due December 1, 2027(C)   | (C)                | 250,000     | 250,000     |
| 5.9% Series PP, due June 1, 2018(B)  | 6/1/03             | 70,795      | 70,795      |
| Variable % Series QQ, due June 1, 2018(B)  | (D)                | 14,915      | 14,915      |
| 5.85% Series RR, due June 1, 2021(A)   | 6/1/03             | 60,000      | 60,000      |
| 5.9% Series SS, due September 1, 2018(B)   | 9/1/03             | 92,945      | 92,945      |
| Variable % Series TT, due September 1, 2020(B)   | (D)                | 57,650      | --          |
| Variable % Series UU, due September 1, 2020(B)   | (D)                | 16,700      | --          |
|  | -----              | -----       | -----       |
| Total  |                    | 1,226,620   | 1,226,620   |
|  |                    | -----       | -----       |
| Capitalized leases   |                    | 105,365     | 103,575     |
| Debt incurred to acquire limited partnerships,<br>various rates, payable annually through 2005 |                    | 142,198     | 109,473     |
| Bank loans, various rates  |                    | --          | 17,298      |
| Other long-term debt   |                    | 33,558      | 40,177      |
| Unamortized discount on long-term debt   |                    | (6,331)     | (7,911)     |
| Long-term debt redeemable within one year  |                    | (115,000)   | (115,000)   |
| Current portion of long-term debt  |                    | (36,316)    | (35,031)    |
|  |                    | -----       | -----       |
| Total  |                    | \$1,350,094 | \$1,339,201 |
|  |                    | =====       | =====       |

- (A) Issued to secure the company's obligation under a series of loan agreements with the California Pollution Control Financing Authority under which the Authority loaned proceeds from the sale of \$115 million of variable-rate/demand (series CC, DD and FF) and \$74 million in fixed-rate (series KK and RR) tax-exempt pollution control revenue bonds to the company to finance certain qualifying facilities associated with the company's 20 percent interest in San Onofre Units 2 and 3.
- (B) Issued to secure the company's obligation under a series of loan agreements with the City of San Diego under which the city loaned the proceeds from the sale of \$522 million in industrial development revenue bonds to the company to finance certain qualifying facilities. All series are tax-exempt except QQ and UU.
- (C) Issued to secure the company's obligation under a loan agreement with the City of Chula Vista under which the city loaned the proceeds from the sale of \$250 million in tax-exempt industrial development revenue bonds to the company to finance certain qualified facilities. The first call date for \$75 million is December 1, 2002. The remaining \$175 million of the bonds is currently variable rate and is callable at various dates within 1 year. Of this, \$45 million is subject to a floating-to-fixed rate swap, which expires December 15, 2002 (See Note 9).
- (D) Callable at various dates within 1 year.

See notes to consolidated financial statements.

STATEMENTS OF CONSOLIDATED FINANCIAL  
INFORMATION BY SEGMENTS OF BUSINESS

In thousands of dollars  
At December 31 or for the  
years then ended

|                                  | 1995        | 1994        | 1993        |
|----------------------------------|-------------|-------------|-------------|
| Operating Revenues (A), (B)      | \$1,870,676 | \$1,912,245 | \$1,897,489 |
| Operating Income                 |             |             |             |
| Electric operations              | \$ 263,346  | \$ 255,768  | \$ 242,143  |
| Gas operations                   | 51,654      | 50,375      | 46,071      |
| Diversified operations (B)       | 30,650      | 26,073      | 15,730      |
| Total                            | \$ 345,650  | \$ 332,216  | \$ 303,944  |
| Depreciation and Decommissioning |             |             |             |
| Electric operations              | \$ 227,616  | \$ 220,811  | \$ 210,890  |
| Gas operations                   | 33,225      | 31,009      | 28,215      |
| Diversified operations (B)       | 17,398      | 10,418      | 6,039       |
| Total                            | \$ 278,239  | \$ 262,238  | \$ 245,144  |
| Utility Plant Additions (C)      |             |             |             |
| Electric operations              | \$ 171,151  | \$ 203,887  | \$ 291,456  |
| Gas operations                   | 49,597      | 59,822      | 62,935      |
| Total                            | \$ 220,748  | \$ 263,709  | \$ 354,391  |
| Identifiable Assets              |             |             |             |
| Utility plant-net                |             |             |             |
| Electric operations              | \$2,659,017 | \$2,725,624 | \$2,724,139 |
| Gas operations                   | 441,140     | 423,468     | 393,494     |
| Total                            | 3,100,157   | 3,149,092   | 3,117,633   |
| Inventories                      |             |             |             |
| Electric operations              | 53,828      | 56,209      | 57,410      |
| Gas operations                   | 14,131      | 19,398      | 18,703      |
| Total                            | 67,959      | 75,607      | 76,113      |
| Other identifiable assets        |             |             |             |
| Electric operations              | 802,172     | 732,941     | 744,335     |
| Gas operations                   | 148,714     | 149,199     | 139,631     |
| Diversified operations (B)       | 434,940     | 373,076     | 467,691     |
| Total                            | 1,385,826   | 1,255,216   | 1,351,657   |
| Other Assets                     | 116,498     | 118,521     | 97,481      |
| Total Assets                     | \$4,670,440 | \$4,598,436 | \$4,642,884 |

(A) The detail to operating revenues is provided in the Statements of Consolidated Income. The gas operating revenues shown therein include \$9 million in 1995, \$18 million in 1994 and \$16 million in 1993, representing the gross margin on sales to the electric segment. These margins arose from interdepartmental transfers of \$85 million in 1995, \$119 million in 1994 and \$141 million in 1993, based on transfer pricing approved by the California Public Utilities Commission in tariff rates.

(B) As discussed in Note 3, during 1995 SDG&E sold its investment in Wahlco Environmental Systems, Inc. The sale of Wahlco is being accounted for as a disposal of a segment of business and SDG&E's prior periods' financial statements have been restated to reflect Wahlco as a discontinued operation.

(C) Excluding allowance for equity funds used during construction.

Utility income taxes and corporate expenses are allocated between electric and gas operations in accordance with regulatory accounting requirements.

See notes to consolidated financial statements.



## NOTE 1: SIGNIFICANT ACCOUNTING POLICIES

**NATURE OF OPERATIONS** On December 6, 1995, San Diego Gas and Electric Company announced the formation of Enova Corporation (Enova) as the parent company for SDG&E, an operating public utility, and its unregulated subsidiaries. On January 1, 1996, Enova became the parent of SDG&E. SDG&E's outstanding common stock was converted on a share-for-share basis into Enova common stock. SDG&E's debt securities, preferred and preference stock were unaffected and remain with SDG&E. On January 31, 1996, SDG&E's ownership interest in its non-utility subsidiaries was transferred to Enova at book value, completing the parent company structure.

The consolidated financial statements include SDG&E and its subsidiaries and, therefore, also reflect what is now Enova and its subsidiaries. The subsidiaries include Pacific Diversified Capital, Enova Financial, Enova Energy and Califia Company. The principal market for SDG&E's electric and gas business is in San Diego County and an adjacent portion of Orange County, California. SDG&E is subject to regulation by the California Public Utilities Commission and the Federal Energy Regulatory Commission. Califia and Enova Financial are engaged in non-utility investment activities throughout the United States. Enova Energy is an energy-management consulting firm offering services to utilities and large consumers. Pacific Diversified Capital is the parent company for non-utility subsidiaries, Phase One Development, which is engaged in real estate development, and Enova Technologies, which is in the business of developing new technologies generally related to utilities and energy. In 1995, non-utility subsidiaries, excluding Wahlco Environmental Systems, contributed 9 percent to operating income (8 percent in 1994). In June 1995, SDG&E sold its interest in Wahlco. Prior periods have been restated to account for the net results of Wahlco as discontinued operations in accordance with Accounting Principles Board Opinion No. 30 "Reporting the Effects of a Disposal of a Segment of Business." Additional information concerning Wahlco is described in Note 3.

**PRINCIPLES OF CONSOLIDATION** The accompanying consolidated financial statements include the accounts of San Diego Gas & Electric Company and its wholly-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

**UTILITY PLANT AND DEPRECIATION** Utility plant represents the buildings, equipment and other facilities used to provide electric and gas service. The cost of utility plant includes labor, material, contract services and other related items, and an allowance for funds used during construction. The cost of retired depreciable utility plant, plus removal costs minus salvage value, is charged to accumulated depreciation. Information regarding industry restructuring and its effect on utility plant is included in Note 11. Utility plant in service by major functional categories at December 31, 1995, are: electric generation \$1.8 billion (\$1.7 billion at December 31, 1994), electric distribution \$2.1 billion (\$2.0 billion at December 31, 1994), electric transmission \$0.7 billion (\$0.7 billion at December 31, 1994), other electric \$0.2 billion (\$0.2 billion at December 31, 1994) and gas \$0.7 billion (\$0.7 billion at December 31, 1994). Accumulated depreciation and decommissioning of electric and gas utility plant in service at December 31, 1995, are \$2.1 billion and \$0.3 billion, respectively (\$1.9 billion and \$0.3 billion at December 31, 1994).

Depreciation expense reflects the straight-line, remaining-useful-life method. The provisions for depreciation as a percentage of average depreciable utility plant (by major functional categories) are: electric generation 4.04 in 1995 (4.04 in 1994, 4.03 in 1993), electric distribution 4.36 in 1995 (4.35 in 1994, 4.35 in 1993), electric transmission 3.21 in 1995 (3.24 in 1994, 3.26 in 1993), other electric 5.89 in 1995 (5.88 in 1994, 5.80 in 1993) and gas 4.06 in 1995 (4.11 in 1994, 4.16 in 1993).

**INVENTORIES** Included in inventories at December 31, 1995, are SDG&E's \$42 million of materials and supplies (\$44 million in 1994), and \$26 million of fuel oil and natural gas (\$32 million in 1994). Materials and supplies are valued at average cost; fuel oil and natural gas are valued by the last-in, first-out (LIFO) method.

**OTHER CURRENT ASSETS** Included in other current assets at December 31, 1995, is SDG&E's \$18 million of investment in SONGS 1, which will be recovered in 1996. At December 31, 1994, \$28 million of SDG&E's SONGS 1 investment is included in other current assets and the \$17 million noncurrent portion of the investment is included in "Deferred Charges and Other Assets" on the Consolidated Balance Sheets.

OTHER CURRENT LIABILITIES Included in other current liabilities at December 31, 1995, is Califia's \$34 million current portion of deferred lease revenue (\$32 million in 1994). The \$54 million noncurrent portion (\$88 million in 1994) is included in "Deferred Credits and Other Charges." Deferred lease revenues are amortized over the lease terms, which expire in 1998.

ALLOWANCE FOR FUNDS USED DURING CONSTRUCTION (AFUDC) The allowance represents the cost of funds used to finance the construction of utility plant and is added to the cost of utility plant. AFUDC also increases income, partly as an offset to interest charges shown in the Statements of Consolidated Income, although it is not a current source of cash. The average rate used to compute AFUDC was 9.74 percent in 1995, 8.80 percent in 1994 and 9.57 percent in 1993.

EFFECTS OF REGULATION SDG&E's accounting policies conform with generally accepted accounting principles for regulated enterprises and reflect the policies of the California Public Utilities Commission and the Federal Energy Regulatory Commission. SDG&E prepares its financial statements in accordance with the provisions of Statement of Financial Accounting Standards No. 71 "Accounting for the Effects of

Certain Types of Regulation," under which a regulated utility may record a regulatory asset if it is probable that, through the rate-making process, the utility will recover that asset from customers. Regulatory liabilities represent future reductions in revenues for amounts due customers. Additional information concerning SDG&E's regulatory assets and liabilities is described below in "Revenues and Regulatory Balancing Accounts" and in Note 11. To the extent that a portion of SDG&E's operations are no longer subject to SFAS 71, and recovery is no longer probable as a result of changes in regulation and/or SDG&E's competitive position, the related regulatory assets and liabilities would be written off. In addition, a new standard effective for 1996 financial statements, SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," affects utility plant and regulatory assets such that a loss must be recognized whenever a regulator excludes all or part of an asset's cost from rate base. As discussed in Note 11, the CPUC has issued a decision for restructuring the California electric utility industry to stimulate competition. The CPUC has indicated that the California utilities will be allowed recovery of their existing utility plant and regulatory assets over a transition period that ends in 2005. SDG&E continues to evaluate the applicability of SFAS 71 as the electric industry restructuring progresses.

REVENUES AND REGULATORY BALANCING ACCOUNTS Revenues from utility customers consist of deliveries to customers and the changes in regulatory balancing accounts. Earnings fluctuations from changes in the costs of fuel oil, purchased energy and natural gas, and consumption levels for electricity and the majority of natural gas are eliminated by balancing accounts authorized by the CPUC. The balances of these accounts represent amounts that will be recovered from, or repaid to, customers by adjustments to future prices, generally over a one-year cycle. It is uncertain whether the CPUC will continue to allow these or some other form of balancing accounts once its electric industry restructuring decision takes effect in 1998.

DEFERRED CHARGES AND OTHER ASSETS Deferred charges include SDG&E's unrecovered premium on early retirement of debt and other regulatory-related expenditures that SDG&E expects to recover in future rates. These items are amortized as recovered in rates. Additional information is included in Note 11.

USE OF ESTIMATES IN THE PREPARATION OF FINANCIAL STATEMENTS The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

STATEMENTS OF CONSOLIDATED CASH FLOWS Temporary investments are highly liquid investments with original maturities of 3 months or less.

BASIS OF PRESENTATION Certain-prior year amounts have been reclassified to conform to the current year's format.

#### NOTE 2: WRITEDOWNS

In June 1994, SDG&E recorded writedowns related to the utility and its subsidiaries. SDG&E recorded a \$25 million writedown of various commercial properties, including \$19 million of subsidiary properties in Colorado Springs and in San Diego, to reflect continuing declines in commercial real estate values. SDG&E also recorded a \$12 million writedown of various non-earning utility assets, including the South Bay Repower project. Other writedowns, associated with discontinued operations, are described in Note 3.

#### NOTE 3: DISCONTINUED OPERATIONS - WAHLCO ENVIRONMENTAL SYSTEMS, INC.

On June 6, 1995, SDG&E sold its investment in Wahlco Environmental Systems, Inc., for \$5 million. The sale of Wahlco has been accounted for as a disposal of a segment of business and SDG&E's prior periods' financial statements have been restated to reflect Wahlco as a discontinued operation. Discontinued operations consist of the following:

| Year Ended December 31 | 1995 | 1994 | 1993 |
|------------------------|------|------|------|
| -----                  |      |      |      |
| in millions of dollars |      |      |      |
| Revenues               | \$24 | \$70 | \$82 |

|   |      |      |      |
|---|------|------|------|
| Loss from operations before<br>income taxes | -    | (70) | (14) |
| Loss on disposal before<br>income taxes     | (12) | -    | -    |
| Income tax benefits                         | 12   | 7    | 5    |

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The loss on disposal of Wahlco was recorded in 1995 and reflects the sale of Wahlco and Wahlco's net operating losses after 1994. The loss from discontinued operations for 1994 was primarily due to the \$59 million writedown of Wahlco's goodwill and other intangible assets as a result of the depressed air pollution-control market and increasing competition. The 1995 income tax benefit includes the effects of the 1994 writedown to the extent recognizable thus far.

Wahlco's net assets (included in "Investments and Other Property" on the Consolidated Balance Sheets) at December 31, 1994, are summarized as follows:

|                                      |         |
|--------------------------------------|---------|
| Current assets                       | \$ 40.2 |
| Non-current assets                   | 18.9    |
| Current liabilities                  | (27.1)  |
| Long-term debt and other liabilities | (24.2)  |
| -----                                |         |
| Net assets                           | \$ 7.8  |

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#### NOTE 4: LONG-TERM DEBT

Amounts and due dates of long-term debt are shown on the Statements of Consolidated Long-Term Debt. Excluding capital leases, which are described in Note 10, combined aggregate maturities and sinking fund requirements of long-term debt are \$28 million for 1996, \$55 million for 1997, \$31 million for 1998, \$27 million for 1999 and \$17 million for 2000. SDG&E has CPUC authorization to issue an additional \$138 million in long-term debt.

FIRST MORTGAGE BONDS First mortgage bonds are secured by a lien on substantially all of SDG&E's utility plant. Additional first mortgage bonds may be issued upon compliance with the provisions of the bond indenture, which provides for, among other things, the issuance of an additional \$1.2 billion of first mortgage bonds at December 31, 1995. Certain of the first mortgage bonds may be called at SDG&E's option.

First mortgage bonds totaling \$379 million have variable interest rate provisions. On \$115 million, bondholders may elect to redeem their bonds at the annual interest-adjustment dates. For purposes of determining the aggregate maturities listed above, it is assumed that these issues will not be redeemed before their scheduled maturity.

During 1995, SDG&E issued \$74 million of first mortgage bonds and retired \$74 million of first mortgage bonds prior to scheduled maturity.

OTHER DEBT At December 31, 1995, SDG&E had \$280 million of bank lines providing a committed source of long-term borrowings, of which no debt was outstanding. Bank lines, unless renewed by SDG&E, expire in 2000. Commitment fees are paid on the unused portion of the lines and there are no requirements for compensating balances.

Loans of \$161 million and \$151 million at December 31, 1995, and 1994, respectively, are secured by subsidiary equipment and real estate.

Interest payments, including those applicable to short-term borrowings, amounted to \$114 million in 1995, \$102 million in 1994 and \$104 million in 1993.

SDG&E periodically enters into interest-rate swap-and-cap agreements to moderate its exposure to interest-rate changes and to lower its overall cost of borrowings. At December 31, 1995, SDG&E had such agreements, maturing in 1996 and 2002, with underlying debt aggregating \$120 million. See additional information in Note 9.

NOTE 5: SHORT-TERM BORROWINGS

At December 31, 1995, and 1994, short-term borrowings and weighted average interest rates thereon were:

| in millions of dollars          | 1995    |               | 1994    |               |
|---------------------------------|---------|---------------|---------|---------------|
|                                 | Balance | Interest Rate | Balance | Interest Rate |
| Bank loans                      | \$--    | --            | \$58    | 6.4%          |
| Subsidiaries' bank credit lines | --      | --            | 31      | 7.1%          |
| Total                           | \$--    |               | \$89    |               |

In addition to the \$280 million of long-term bank lines (see "Other Debt" in Note 4), at December 31, 1995, SDG&E had \$30 million of bank lines available to support commercial paper. Commitment fees are paid on the unused portion of the lines and there are no requirements for compensating balances.

NOTE 6: FACILITIES UNDER JOINT OWNERSHIP

The San Onofre nuclear generating station and the Southwest Powerlink transmission line are jointly owned with other utilities. SDG&E's interests at December 31, 1995, were:

| in millions of dollars        | San Onofre | Southwest Powerlink |
|-------------------------------|------------|---------------------|
| Percentage ownership          | 20         | 89                  |
| Utility plant in service      | \$1,127    | \$ 216              |
| Accumulated depreciation      | \$ 397     | \$ 81               |
| Construction work in progress | \$ 9       | \$ -                |

Each participant in the projects must provide its own financing. The amounts specified above for San Onofre include nuclear production, transmission and other facilities.

SDG&E's share of operating expenses is included in its Statements of Consolidated Income.

SDG&E's share of future dismantling and decontamination costs for the San Onofre units is estimated to be \$343 million in current dollars and is based on studies performed by outside consultants, updated triennially. The most recent study was performed in 1993. These costs are included in setting rates and are expected to be fully recovered by 2013, the estimated last year of service.

The amount accrued each year is based on the amount allowed by regulators and is currently being collected in rates. This amount and the expected earnings of the trust fund are considered sufficient to cover SDG&E's share of future decommissioning costs. The depreciation and decommissioning expense reflected on the Statements of Consolidated Income includes \$22 million of decommissioning expense for each of the years 1995, 1994 and 1993.

Decontamination objectives, work scope and procedures must meet the requirements of the Nuclear Regulatory Commission, the Environmental Protection Agency, the California Public Utilities Code and the requirements of other regulatory bodies.

The amounts collected in rates are invested in externally managed trust funds. In accordance with SFAS 115, Accounting for Certain Investments in Debt and Equity Securities, the securities held by the trust are considered held for sale and are adjusted to market value (\$270 million at December 31, 1995, which is included in "Investments and Other Property" on the Consolidated Balance Sheets and which includes a \$25 million unrealized gain). The corresponding accumulated accrual is included in accumulated depreciation and decommissioning on the Consolidated Balance Sheets.

The Financial Accounting Standards Board is currently reviewing accounting for liabilities related to closure and removal of long-lived assets, such as nuclear power plants, including the recognition, measurement and classification of such costs. The Board could require, among other things, that SDG&E's future balance sheets include a liability for the estimated decommissioning costs, and a related regulatory asset reflecting anticipated rate recovery of this liability to the extent not already collected from customers. This is not expected to have an adverse effect on results of operations.

Additional information regarding San Onofre is included in Notes 10 and 11.

NOTE 7: EMPLOYEE BENEFIT PLANS

SDG&E has a defined-benefit pension plan, which covers substantially all utility employees. Benefits are related to the employees' compensation. Plan assets consist primarily of common stocks and bonds. SDG&E funds the plan based on the projected unit credit actuarial cost method. Net pension cost consisted of the following for the year ended December 31:

| in thousands of dollars                  | 1995      | 1994      | 1993      |
|--|-----------|-----------|-----------|
| Cost related to current service          | \$ 14,598 | \$ 18,733 | \$ 18,233 |
| Interest on projected benefit obligation | 30,760    | 33,254    | 29,745    |
| Return on plan assets                    | (132,674) | (1,319)   | (39,351)  |
| Net amortization and deferral            | 93,708    | (34,253)  | 5,342     |
| Cost pursuant to accounting standards    | 6,392     | 16,415    | 13,969    |
| Regulatory adjustment                    | 608       | (16,415)  | (13,969)  |
| Net cost                                 | \$7,000   | \$ -      | \$ -      |

The plan's status was as follows at December 31:

| in thousands of dollars                       | 1995       | 1994       |
|---|------------|------------|
| Accumulated benefit obligation                |            |            |
| Vested  | \$357,089  | \$308,672  |
| Nonvested                                     | 8,880      | 10,480     |
| Total   | \$365,969  | \$319,152  |
| Plan assets at fair value                     | \$542,336  | \$424,455  |
| Projected benefit obligation                  | 481,450    | 417,625    |
| Plan assets less projected benefit obligation | 60,886     | 6,830      |
| Unrecognized effect of accounting change      | (1,139)    | (1,328)    |
| Unrecognized prior service cost               | 11,869     | 12,956     |
| Unrecognized actuarial gains                  | (130,828)  | (71,278)   |
| Net liability                                 | \$(59,212) | \$(52,820) |

The projected benefit obligation assumes a 7.25 percent actuarial discount rate in 1995 (8.25 percent in 1994) and a 5.0 percent average annual compensation increase. The expected long-term rate of return on plan assets is 8.5 percent. The increase in the total accumulated benefit obligation and projected benefit obligation is due primarily to the decrease in the actuarial discount rate.

Eligible employees may make a contribution of 1 percent to 15 percent of their compensation to SDG&E's savings plan for investment in mutual funds or in SDG&E common stock. SDG&E contributes amounts equal to up to 3 percent of participants' compensation for investment in SDG&E common stock. SDG&E's expense for the pension and the savings plans and a supplemental retirement plan for a limited number of key employees was approximately \$13 million in 1995, \$6 million in 1994 and \$6 million in 1993.

SDG&E has a long-term incentive stock compensation plan that provides for aggregate awards of up to 2,700,000 shares of common stock. The plan terminates in April 2005. In each of the last 10 years, SDG&E issued approximately 45,000 shares to 65,000 shares of stock to officers and key employees for \$2.50 per share, subject to buy back over 4 years if certain corporate goals are not met.

SDG&E provides certain health and life insurance benefits to retired utility employees. Prior to 1993, SDG&E expensed these benefits when paid and such amounts were normally recovered in rates. Effective January 1, 1993, SDG&E adopted SFAS 106, Employers' Accounting for Postretirement Benefits Other Than Pensions, which requires that these benefits be accrued during the employee's years of service, up to the year of benefit eligibility. The unamortized transition obligation of approximately \$35 million is being amortized through 2012. SDG&E is recovering the cost of these benefits based

upon actuarial calculations and funding limitations. The amounts expensed for these benefits were \$5 million in 1995, in 1994 and in 1993.

NOTE 8: INCOME TAXES

SFAS 109, Accounting for Income Taxes, requires the use of the balance sheet method of accounting for income taxes. Under this method, a deferred tax asset or liability represents the tax effect of temporary differences between the financial statement and tax bases of assets and liabilities and is measured using the latest enacted tax rates.

As a result of adopting SFAS 109, SDG&E recorded additional deferred income taxes related to the allowance for funds used during construction and other temporary differences for which deferred income taxes had not been provided. Existing deferred income taxes were reduced due to intervening income tax rate reductions, and a deferred income tax asset related to unamortized investment tax credits was recorded.

The net effect of these changes is almost entirely offset by a regulatory asset of \$299 million at December 31, 1995 (\$306 million at December 31, 1994). This regulatory asset is expected to be recovered in future rates and will be adjusted as it is recovered through the ratemaking process and as tax rates and laws change. See additional discussion regarding regulatory assets in Note 11.

Income tax payments totaled \$148 million in 1995, \$167 million in 1994 and \$116 million in 1993.

Components of Accumulated Deferred Income Taxes

| in thousands of dollars                                 | 1995      | 1994      |
|---|-----------|-----------|
| -----   |           |           |
| Deferred tax liabilities                                |           |           |
| Differences in financial and tax bases of utility plant | \$619,062 | \$626,957 |
| Loss on reacquired debt                                 | 26,829    | 27,576    |
| Other   | 66,411    | 60,056    |
| -----   |           |           |
| Total deferred tax liabilities                          | 712,302   | 714,589   |
| -----   |           |           |
| Deferred tax assets                                     |           |           |
| Unamortized investment tax credits                      | 71,451    | 74,563    |
| Equipment leasing activities                            | 36,493    | 49,547    |
| Regulatory balancing accounts                           | 34,061    | 10,596    |
| Other   | 143,892   | 133,748   |
| -----   |           |           |
| Total deferred tax assets                               | 285,897   | 268,454   |
| -----   |           |           |
| Net deferred income tax liability                       | 426,405   | 446,135   |
| Current portion (net asset)                             | 96,930    | 67,457    |
| -----   |           |           |
| Non-current portion (net liability)                     | \$523,335 | \$513,592 |
| -----   |           |           |



Components of Income Tax Expense

| in thousands of dollars                  | 1995      | 1994      | 1993      |
|--|-----------|-----------|-----------|
| -----                                    |           |           |           |
| Current                                  |           |           |           |
| Federal                                  | \$134,212 | \$149,361 | \$ 84,555 |
| State                                    | 42,630    | 41,288    | 24,208    |
| -----                                    |           |           |           |
| Total current taxes                      | 176,842   | 190,649   | 108,763   |
| -----                                    |           |           |           |
| Deferred                                 |           |           |           |
| Federal                                  | (23,914)  | (37,605)  | 43,365    |
| State                                    | (13,464)  | (12,897)  | 7,001     |
| -----                                    |           |           |           |
| Total deferred taxes                     | (37,378)  | (50,502)  | 50,366    |
| -----                                    |           |           |           |
| Deferred investment<br>tax credits - net | (4,859)   | (4,148)   | (4,760)   |
| -----                                    |           |           |           |
| Total income tax<br>expense              | \$134,605 | \$135,999 | \$154,369 |

Federal and state income taxes are allocated between operating income and other income.

RECONCILIATION OF STATUTORY FEDERAL INCOME TAX RATE TO EFFECTIVE INCOME TAX RATE

|   | 1995  | 1994  | 1993  |
|---|-------|-------|-------|
| -----   |       |       |       |
| Statutory federal income tax rate                         | 35.0% | 35.0% | 35.0% |
| Depreciation  | 5.4   | 6.6   | 4.8   |
| State income taxes - net of<br>federal income tax benefit | 5.5   | 5.5   | 5.3   |
| Tax credits   | (7.4) | (5.4) | (3.7) |
| Equipment leasing activities                              | (3.3) | (3.2) | (1.7) |
| Repair allowance  | (3.0) | (2.8) | (2.0) |
| Allowance for funds used<br>during construction           | (0.7) | (0.7) | (1.9) |
| Other - net   | 5.1   | 4.7   | 4.6   |
| -----   |       |       |       |
| Effective income tax rate                                 | 36.6% | 39.7% | 40.4% |

NOTE 9: FINANCIAL INSTRUMENTS

The carrying amounts and related estimated fair values of SDG&E's financial instruments are as follows:

| in millions of dollars                                      | 1995               |               | 1994               |               |
|---|--------------------|---------------|--------------------|---------------|
|   | Carrying<br>Amount | Fair<br>Value | Carrying<br>Amount | Fair<br>Value |
| -----   |                    |               |                    |               |
| Assets  |                    |               |                    |               |
| Cash and temporary<br>investments                           | \$ 96.4            | \$ 96.4       | \$ 25.4            | \$ 25.4       |
| Funds held in trust   | 270.2              | 270.2         | 201.9              | 201.9         |
| Notes receivable  | 103.7              | 107.3         | 121.5              | 121.1         |
| Investments in limited<br>partnerships and<br>other assets  | 206.0              | 220.7         | 170.2              | 182.5         |
| -----   |                    |               |                    |               |
| Liabilities   |                    |               |                    |               |
| Dividends payable   | 47.4               | 47.4          | 46.2               | 46.2          |
| Short-term debt and<br>current portion<br>of long-term debt | 142.8              | 142.8         | 231.0              | 230.1         |
| Deposits from customers                                     | 55.8               | 51.5          | 56.2               | 50.2          |
| Long-term debt  | 1,253.2            | 1,307.9       | 1,244.0            | 1,210.1       |
| Preferred stock subject to<br>mandatory redemption          | 25.0               | 26.7          | 25.0               | 23.8          |

The estimated fair values may not be representative of actual amounts that could have been realized as of year end or that will be realized in the future.

The following methods and assumptions were used to estimate the fair value of each class of financial instruments.

CASH AND TEMPORARY INVESTMENTS AND DIVIDENDS PAYABLE The carrying amount approximates fair value due to the short maturity of these items.

NOTES RECEIVABLE The fair values of noncurrent notes receivable (included in "Deferred Charges and Other Assets" on the Consolidated Balance Sheets) are based on the present value of the estimated future cash flows discounted at current rates available for similar notes. The carrying amount of short-term notes receivable approximates fair value due to the short maturities.

FUNDS HELD IN TRUST Funds held in trust consist of the SONGS decommissioning trust (included in "Investments and Other Property" on the Consolidated Balance Sheets). The fair values of the funds' assets are based on quoted market values.

INVESTMENTS IN LIMITED PARTNERSHIPS AND OTHER ASSETS The fair values of Enova Financial's investments in limited partnerships for affordable housing projects, Califia's leasing investments and other assets (included in "Investments and Other Property" on the Consolidated Balance Sheets) acquired after 1993 are estimated to approximate carrying value due to the relatively short periods of time between the purchase dates and the valuation date, and the relative market stability during those periods. Fair values of investments acquired prior to 1993 are estimated based on the present value of the estimated future cash flows, discounted at yields currently available for similar investments.

DEPOSITS FROM CUSTOMERS Deposits from customers include deposits from residential and commercial customers (included in "Other Current Liabilities" on the Consolidated Balance Sheets) and customer advances for construction. The carrying amounts of deposits from residential and commercial customers approximate fair value due to the short maturity periods. The fair values of customer advances for construction are based on the present values of the estimated future cash flows discounted at current rates of return.

DEBT AND PREFERRED STOCK SUBJECT TO MANDATORY REDEMPTION The fair values of SDG&E's first mortgage bonds and preferred stock issues are estimated based on quoted market prices for them or for similar issues, or on the current rates offered to SDG&E for debt and stock of the same maturities. The fair values of long-term notes payable are based on the present values of the future cash flows, discounted at current rates available for similar notes with comparable maturities. The carrying amounts of short-term loans and notes payable approximate fair value due to the short maturities.

**OFF-BALANCE-SHEET FINANCIAL INSTRUMENTS** SDG&E's policy is to use derivative financial instruments to reduce its exposure to interest-rate and foreign-currency fluctuations. SDG&E does not use derivatives for trading or speculative purposes. These financial instruments are with major investment firms and, along with cash and cash equivalents and accounts receivable, expose SDG&E to market and credit risks and may at times be concentrated with certain counterparties. SDG&E presently contemplates use of similar instruments to reduce its exposure to fluctuations in natural gas prices.

**INTEREST RATE SWAP AND CAP AGREEMENTS** SDG&E periodically enters into interest rate swap and cap agreements to moderate its exposure to interest rate changes and to lower its overall cost of borrowing. These swap and cap agreements generally remain off the balance sheet as they involve the exchange of fixed- and variable-rate interest payments without the exchange of the underlying principal amounts. The related gains or losses are reflected in the income statement as part of the expense item applicable to what is being hedged (e.g., interest expense). At December 31, 1995, SDG&E had two such agreements, including an index cap agreement on \$75 million of bonds maturing in 1996, and a floating-to-fixed-rate swap associated with another \$45 million of variable-rate bonds maturing in 2002. SDG&E expects to hold these derivative financial instruments to their maturity. These cap and swap agreements have effectively fixed interest rates on the underlying variable-rate debt at 6.1 percent and 5.4 percent, respectively. SDG&E would be exposed to interest-rate fluctuations on the underlying debt should counterparties to the agreement not perform. Such nonperformance is not anticipated. The fair value of these derivative financial instruments is the estimated amount that would be realized or paid upon termination of the agreements based on quotes from dealers. These agreements, if terminated, would result in an obligation of \$3 million at December 31, 1995, compared to net proceeds to SDG&E of \$2 million at December 31, 1994.

**FOREIGN CURRENCY FORWARD EXCHANGE CONTRACTS** SDG&E's pension fund periodically uses foreign currency forward contracts to reduce its exposure to exchange-rate fluctuations associated with certain investments in foreign equity securities. These contracts generally have maturities ranging from three to six months. At December 31, 1995, the pension fund held forward Yen - U.S. Dollar contracts totaling \$20 million (\$27million in 1994). SDG&E's pension fund is exposed to credit loss if the counterparties fail to perform. Such nonperformance is not anticipated. The fair value of these derivative financial instruments is the estimated amount that would be realized or paid upon termination of the agreements based on quotes from dealers. These agreements, if terminated, would result in net proceeds to the pension fund of \$2.7 million at December 31, 1995, compared to a net obligation of \$0.2 million at December 31, 1994.

**NOTE 10: CONTINGENCIES AND COMMITMENTS**

**PURCHASED POWER CONTRACTS** SDG&E buys electric power under several short-term and long-term contracts. Purchases are for 2 percent to 10 percent of plant output under contracts with other utilities, and up to 100 percent of plant output under contracts with independent power producers and other non-utility suppliers. No one supplier provides more than 4 percent of SDG&E's total system requirements. The contracts expire on various dates between 1996 and 2024.

At December 31, 1995, the estimated future minimum payments under the contracts were:

in millions of dollars

|                        |         |
|------------------------|---------|
| 1996                   | \$ 265  |
| 1997                   | 172     |
| 1998                   | 176     |
| 1999                   | 175     |
| 2000                   | 156     |
| Thereafter             | 2,502   |
| -----                  |         |
| Total minimum payments | \$3,446 |

These payments represent capacity charges and minimum energy purchases. SDG&E is required to pay additional amounts for actual purchases of energy under the contracts. Total payments, including energy payments, under the contracts were \$329 million in 1995, \$325 million in 1994 and \$305 million in 1993. See discussion of the CPUC's decision on the Biennial Resource Plan Update proceeding in Note 11.

**NATURAL GAS CONTRACTS** SDG&E has a contract with Southern California

Gas Company that provides SDG&E with intrastate transportation capacity on SoCal's gas pipelines through August 1997. If a new agreement is not reached by then, SoCal has a continuing obligation to deliver gas to SDG&E under a CPUC-approved tariff. SDG&E's long-term contracts with interstate pipelines for transportation capacity expire on various dates between 2007 and 2023. SDG&E's contract with SoCal for 8 billion cubic feet of natural gas storage capacity expires in 1998. SDG&E also has four long-term gas supply contracts that expire between 2001 and 2004.

At December 31, 1995, the future minimum payments under natural gas contracts were:

in millions of dollars

|                               | Transportation<br>and Storage | Natural<br>Gas |
|-------------------------------|-------------------------------|----------------|
| 1996                          | \$ 80                         | \$ 20          |
| 1997                          | 58                            | 21             |
| 1998                          | 18                            | 21             |
| 1999                          | 17                            | 26             |
| 2000                          | 17                            | 27             |
| Thereafter                    | 289                           | 82             |
| <b>Total minimum payments</b> | <b>\$479</b>                  | <b>\$197</b>   |

Total payments under the contracts were \$95 million in 1995, \$125 million in 1994 and \$86 million in 1993.

LEASES Nuclear fuel, office buildings, a generating facility and other properties are financed by long-term capital leases. Utility plant included \$189 million at December 31, 1995, and \$173 million at December 31, 1994, related to these leases. The associated accumulated amortization was \$86 million and \$73 million, respectively. SDG&E also leases office facilities, computer equipment and vehicles under operating leases. Certain leases on office facilities contain escalation clauses requiring annual increases in rent ranging from 2 percent to 7 percent.

The minimum rental commitments payable in future years under all noncancellable leases were:

in millions of dollars

|                                 | Operating<br>Leases | Capitalized<br>Leases |
|---------------------------------|---------------------|-----------------------|
| 1996                            | \$ 55               | \$ 26                 |
| 1997                            | 49                  | 27                    |
| 1998                            | 33                  | 12                    |
| 1999                            | 9                   | 12                    |
| 2000                            | 7                   | 12                    |
| Thereafter                      | 44                  | 45                    |
| Total future rental commitments | \$197               | 134                   |
| Imputed interest (6% to 9%)     |                     | (29)                  |
| Net commitment                  |                     | \$105                 |

Rental payments totaled \$85 million in 1995, \$91 million in 1994 and \$89 million in 1993.

**ENVIRONMENTAL ISSUES** SDG&E's operations are conducted in accordance with federal, state and local environmental laws and regulations governing hazardous wastes, air and water quality, land use and solid waste disposal. SDG&E incurs significant costs to operate its facilities in compliance with these laws and regulations. The costs of compliance with environmental laws and regulations are normally recovered in customer rates. Capital expenditures to comply with environmental laws and regulations were \$4 million in 1995 and \$5 million in 1994, and are expected to be \$38 million over the next 5 years. These expenditures primarily include the estimated cost of retrofitting SDG&E's power plants to reduce air emissions.

SDG&E has identified, or has been associated with, various sites which may require remediation under federal, state or local environmental laws. SDG&E may be partially or indirectly responsible for cleaning up these sites. SDG&E is unable to determine the extent of its and/or others' responsibility for remediation of these sites until assessments are completed. Environmental liabilities that may arise from these assessments are recorded when environmental assessments and/or remedial efforts are probable, and when the minimum costs can be estimated. In 1994, the CPUC approved a mechanism allowing utilities to recover their hazardous waste costs, including those related to Superfund sites or similar sites requiring cleanup. The decision allows recovery of 90 percent of cleanup costs and related third-party litigation costs and 70 percent of the related insurance litigation expenses. As discussed in Note 11, the California Public Utilities Commission has issued a policy decision for restructuring the California electric utility industry to stimulate competition. The CPUC has indicated that the California utilities will be allowed recovery of existing utility plant and regulatory assets over a transition period that ends in 2005. Depending on the final outcome of industry restructuring and the impact of competition, SDG&E is uncertain whether the costs of compliance with environmental regulations will continue to be recoverable in rates.

**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 \$2.8 billion of property damage and decontamination liability. Coverage is also provided for the cost of replacement power, which includes indemnity payments for up to 2 years, after a waiting period of 21 weeks. Coverage is provided primarily 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 \$9 million.

DEPARTMENT OF ENERGY DECOMMISSIONING The Energy Policy Act of 1992 established a fund for the decontamination and decommissioning of the Department of Energy nuclear fuel enrichment facilities. Utilities using the DOE services are contributing a total of \$2.3 billion, subject to adjustment for inflation, over a 15-year period ending in 2006. Each utility's share is based on its share of enrichment services purchased from the DOE. SDG&E's share of the contribution is \$1 million per year.

LITIGATION SDG&E is involved in various legal matters arising out of the ordinary course of business. Management believes that these matters will not have a material adverse effect on SDG&E's results of operations, financial condition or liquidity.

DISTRIBUTION SYSTEM CONVERSION Under a CPUC-mandated program and through franchise agreements with various cities, SDG&E is committed, in varying amounts, to convert overhead distribution facilities to underground. As of December 31, 1995, the aggregate unexpended amount of this commitment was approximately \$85 million. Capital expenditures for underground conversions were \$12 million in 1995, \$11 million in 1994 and \$22 million in 1993.

**CONCENTRATION OF CREDIT RISK** SDG&E grants credit to its utility customers, substantially all of whom are located in its service territory, which covers all of San Diego County and the southern portion of Orange County.

**NOTE 11: INDUSTRY RESTRUCTURING**

In December 1995, the CPUC issued its policy decision on the restructuring of California's electric utility industry to stimulate competition and reduce rates. The decision provides that beginning in January 1998, customers will be able to buy their electricity through a power exchange that will obtain power from the lowest-bidding suppliers. The exchange is a spot market with published pricing. An independent system operator (ISO) will schedule power transactions and access to the transmission system. Consumers also may choose to continue to purchase their local utility under regulated tariffs. As a third option, a cross section of all customer groups (residential, industrial, commercial and agricultural) will be able to go directly to any energy supplier and enter into private contracts with generators, brokers or others (direct access). As the direct-access mechanism has many technical issues to be resolved, a 5-year phase-in is planned. All California electricity consumers will have the option to purchase generation services directly by 2003. The utilities will continue to provide transmission and distribution services to customers who choose to purchase their energy from other providers.

Utilities will be allowed to recover their "stranded" investment costs incurred for CPUC-approved facilities through the establishment of a non-bypassable competition transition charge (CTC). In addition to \$299 million of deferred taxes recoverable in rates, SDG&E has approximately \$215 million of other regulatory assets at December 31, 1995 (included in "Deferred Charges and Other Assets" on the Consolidated Balance Sheets). Included in these amounts are approximately \$112 million related to generation operations, of which \$52 million is related to nuclear operations. Recovery periods currently range from one to 30 years. It is estimated that at December 31, 1995, SDG&E had approximately \$950 million of net generating plant (including approximately \$750 million of nuclear facilities) currently being recovered in rates over various periods of time. Under the CPUC's industry restructuring decision, to the extent these investments exceed their market values, they must be recouped by 2005 via the CTC mechanism.

In addition, as described in Note 10, SDG&E has entered into significant long-term purchased-power commitments with various utilities and other providers totaling \$3.4 billion. Also, under the CPUC's Biennial Resource Plan Update decision, SDG&E may be required to contract for an additional 500 megawatts of power over 17-year terms at an estimated cost of \$4.8 billion beginning in 1997. Prices under these contracts could significantly exceed the future market price. SDG&E is challenging the decision and the FERC has declared the BRPU auction procedures unlawful under federal law. The CPUC has issued a ruling encouraging SDG&E and other utilities to reach settlements with the auction winners. Settlement discussions are ongoing. However, under the CPUC's industry restructuring decision, existing purchased-power obligations (including qualifying facilities) would be recovered via the CTC mechanism. For purposes of CTC, rates for customers choosing traditional utility service (instead of power exchange or direct access) will be capped at January 1, 1996, levels. Including the CTC, rates cannot exceed the cap and, therefore, recovery of the CTC is limited by the cap.

Performance-based regulation will replace cost-of-service regulation. SDG&E is currently participating in a performance-based ratemaking process on an experimental basis which commenced in 1993 and runs through 1998.

The utilities are required to file plans with the CPUC to implement direct access and new or revised PBR proposals. Plans to establish the power exchange and ISO are also required to be filed by the utilities with both the CPUC and the FERC, as the FERC has jurisdiction over the exchange, the ISO and interstate transmission.

The CPUC is currently working on building a consensus on the new market structure with the California Legislature, the governor, utilities and customers. The California Legislature has passed a resolution forming an oversight committee to ensure the legislature's involvement in the policies presented by the CPUC, and that the policies comply with federal and state laws and achieve the objectives both of competition and of the various social programs that are currently funded through utility rates.

As the restructuring of the industry evolves, SDG&E will become more vulnerable to competition. However, based on recent CPUC decisions, recovery of stranded costs is provided for, including recovery of investment in SONGS Units 2 and 3. Due to the recent decisions, SDG&E does not anticipate incurring a material charge against earnings for its generating facilities, the related regulatory assets and other long-term commitments. In addition, although California utilities' rates are significantly higher than the national average, SDG&E has a lower concentration of industrial customers and for 7 years has been the lowest-cost provider among the investor-owned utilities in California, which make its customers a less-likely target for outside competitors.

As described in Note 1, SDG&E currently accounts for the economic effects of regulation in accordance with Statement of Financial Accounting Standards No. 71, "Accounting for the Effects of Certain Types of Regulation." Once the restructuring transition is final, SDG&E may not continue to meet the criteria for applying SFAS 71 to all of its operations in the new regulatory framework. In a non-SFAS 71 environment, additions to plant, among other things, would need to be recovered through market prices.



QUARTERLY FINANCIAL DATA (UNAUDITED)  
In thousands except per share amounts

| Quarter ended  | March 31  | June 30    | September 30 | December 31 |
|--|-----------|------------|--------------|-------------|
| <b>1995</b>  |           |            |              |             |
| Operating revenues   | \$477,955 | \$445,239  | \$478,689    | \$468,793   |
| Operating expenses   | 384,300   | 365,751    | 388,387      | 386,588     |
| Operating income   | 93,655    | 79,488     | 90,302       | 82,205      |
| Other income and (deductions)                              | 1,744     | (499)      | (1,102)      | 389         |
| Net interest charges                                       | 28,059    | 29,095     | 27,380       | 28,339      |
| Income from continuing operations                          | 67,340    | 49,894     | 61,820       | 54,255      |
| Discontinued operations, net of income taxes               | (5,490)   | (678)      | --           | 6,316       |
| Net income (before preferred dividend requirements)        | 61,850    | 49,216     | 61,820       | 60,571      |
| Preferred dividend requirements                            | 1,916     | 1,915      | 1,916        | 1,916       |
| Earnings applicable to common shares                       | \$ 59,934 | \$ 47,301  | \$ 59,904    | \$ 58,655   |
| Average common shares outstanding                          | 116,533   | 116,534    | 116,538      | 116,545     |
| Earnings per common share from continuing operations       | \$ 0.56   | \$ 0.41    | \$ 0.51      | \$ 0.45     |
| Earnings per common share                                  | \$ 0.51   | \$ 0.41    | \$ 0.51      | \$ 0.50     |
| <b>1994</b>  |           |            |              |             |
| Operating revenues   | \$487,979 | \$444,050  | \$476,675    | \$503,541   |
| Operating expenses   | 403,897   | 380,241    | 392,361      | 403,530     |
| Operating income   | 84,082    | 63,809     | 84,314       | 100,011     |
| Other income and (deductions)                              | 2,880     | (13,879)   | 2,935        | (12,480)    |
| Net interest charges                                       | 24,180    | 25,124     | 27,075       | 28,352      |
| Income from continuing operations                          | 62,782    | 24,806     | 60,174       | 59,179      |
| Discontinued operations, net of income taxes               | (2,986)   | (58,025)   | (385)        | (2,068)     |
| Net income (loss) (before preferred dividend requirements) | 59,796    | (33,219)   | 59,789       | 57,111      |
| Preferred dividend requirements                            | 1,916     | 1,915      | 1,916        | 1,916       |
| Earnings (loss) applicable to common shares                | \$ 57,880 | \$(35,134) | \$ 57,873    | \$ 55,195   |
| Average common shares outstanding                          | 116,492   | 116,473    | 116,475      | 116,496     |
| Earnings per common share from continuing operations       | \$ 0.52   | \$ 0.20    | \$ 0.50      | \$ 0.49     |
| Earnings (loss) per common share                           | \$ 0.50   | \$ (0.30)  | \$ 0.50      | \$ 0.47     |

These amounts are unaudited, but in the opinion of SDG&E reflect all adjustments necessary for a fair presentation. Previously reported amounts have been restated to reflect discontinued operations.

Information for Item 5.

Quarterly Common Stock Data (Unaudited)

|                    | 1995          |                |               |                | 1994          |                |               |                |
|--------------------|---------------|----------------|---------------|----------------|---------------|----------------|---------------|----------------|
|                    | First Quarter | Second Quarter | Third Quarter | Fourth Quarter | First Quarter | Second Quarter | Third Quarter | Fourth Quarter |
| Market price       |               |                |               |                |               |                |               |                |
| High               | 21 5/8        | 22 7/8         | 23 1/4        | 23 7/8         | 25            | 23 1/4         | 20 7/8        | 20 1/8         |
| Low                | 19 1/8        | 20 1/8         | 20 3/4        | 21 7/8         | 21 1/2        | 17 1/2         | 18            | 18 5/8         |
| Dividends declared | \$0.39        | \$0.39         | \$0.39        | \$0.39         | \$0.38        | \$0.38         | \$0.38        | \$0.38         |

UT  
1,000

| YEAR      | DEC-31-1995 | DEC-31-1995 | PER-BOOK |
|-----------|-------------|-------------|----------|
|           | 3,100,157   |             |          |
|           | 532,289     |             |          |
|           | 418,053     |             |          |
|           | 251,456     |             |          |
|           |             | 368,485     |          |
|           |             | 4,670,440   |          |
|           |             |             | 291,458  |
|           | 566,046     |             |          |
|           |             | 662,566     |          |
| 1,520,070 |             |             |          |
|           | 25,000      |             |          |
|           |             | 93,475      |          |
|           | 1,120,159   |             |          |
|           |             | 0           |          |
|           | 133,068     |             |          |
|           | 0           |             |          |
| 142,818   |             |             |          |
|           | 0           |             |          |
|           | 96,867      |             |          |
|           |             | 8,498       |          |
| 1,530,485 |             |             |          |
| 4,670,440 |             |             |          |
|           | 1,870,676   |             |          |
|           |             | 134,578     |          |
|           | 1,390,448   |             |          |
|           | 1,525,026   |             |          |
|           |             | 345,650     |          |
|           |             |             | 532      |
| 346,182   |             |             |          |
|           | 112,873     |             |          |
|           |             | 233,457     |          |
|           | 7,663       |             |          |
| 225,794   |             |             |          |
|           | 181,809     |             |          |
|           | 84,414      |             |          |
|           | 623,916     |             |          |
|           |             |             | 1.94     |
|           |             |             | 1.94     |