Preliminary Agreement With State to Eliminate Future Customer 'Balloon Payments' for $750 Million Under Collection

Agreement to Resolve Major Regulatory Issues, Provide for Sale of SDG&E's Transmission Assets

SAN DIEGO, June 18, 2001 - In a significant step toward reducing the financial impact of the state's energy crisis on San Diego Gas & Electric (SDG&E) customers, California Gov. Gray Davis and SDG&E today jointly announced a preliminary agreement to eliminate any future "balloon payments" by SDG&E customers related to the approximately $750 million in undercollected power costs the utility has incurred over the past year.

Gov. Davis, SDG&E and the utility's parent company, Sempra Energy, have entered into a Memorandum of Understanding (MOU) to settle several outstanding regulatory cases before the California Public Utilities Commission (CPUC), resulting in the resolution of the utility's undercollection. Under the MOU, SDG&E also agreed to sell its transmission network to the state for 2.3 times book value, or approximately $1 billion, plus retirement of related debt of approximately $180 million.

The agreement is divided into two parts, with the sale of transmission assets subject to ratification by the state legislature, Federal Energy Regulatory Commission approval and completion of certain actions by the CPUC. The regulatory settlements are subject to independent review and approval by the CPUC and are not contingent upon the sale of the transmission assets.

"Throughout these long and complex negotiations, Governor Davis and we have had the mutual objective of reducing the financial impact of California's crisis on SDG&E's customers and helping the state gain more control over its energy destiny," said Stephen L. Baum, chairman, president and chief executive officer of Sempra Energy. "Today's agreement represents a winning proposition for our customers, the state and our company: It reduces the future financial burden on our customers, protects the state's economic future, and creates a clear path for future growth and profitability for our company. Going forward, we are committed to working with Governor Davis and the state to implement his recovery plan."

As it stands today, the MOU will not result in any additional electric-base-rate increases for SDG&E customers to recover the $750 million undercollection. Without the MOU, future balloon payments to recover this sum could have been as much as $400 for each residential customer, $1,400 for each small-commercial customer and $12,000 for each medium-sized commercial customer.

The regulatory balancing account for SDG&E's undercollected power costs has grown to approximately $750 million since September 2000, when the state imposed an electric-commodity rate cap of 6.5 cents per kilowatt-hour, retroactive to May 2000. California state law AB265 provided for SDG&E's recovery of all its prudently incurred power costs, but delegated responsibility to the CPUC for determining the method and timeline for recovery.

"We know that many of our customers are extremely concerned about the potential of large balloon payments looming in the future to address our past undercollections," said Edwin A. Guiles, group president of Sempra Energy's regulated business units and chairman of SDG&E. "We are pleased that today's agreement provides the framework to resolve major regulatory issues to the benefit of our customers. Many challenges remain, but this agreement demonstrates that, by working together, we can surmount these challenges in a way that benefits all the key stakeholders in California's energy future."

Principal issues to be addressed in the regulatory settlements include resolution of the CPUC's reasonableness review of SDG&E's power-procurement practices and the disposition of two medium-term power contracts totaling 250 megawatts that SDG&E executed at the time of deregulation. As a settlement of the issues related to reasonableness of power-purchasing practices, SDG&E would pay $100 million to be credited against the balancing account.

In the case involving the power contracts, the state would treat the contracts as shareholder assets. In past years, the CPUC had audited the contracts and approved the accounting and ratemaking treatment that had been adopted for them, under which the contracts were purchased with shareholder funds. The company's shareholders bore the risk of any losses if power prices fell below contracted levels. In return, SDG&E would drop its litigation against the state on this issue and apply $219 million toward reducing the balancing account. SDG&E would sell the remaining power under the contracts -- which terminate at the end of the year -- to the state at a discount to recent market prices.

The other regulatory settlements in the MOU involve allocating some costs to SDG&E's rate base and applying proceeds from other regulatory accounts to reduce the balancing account.

"We believe that the implementation of these elements of the MOU, even apart from the sale of the transmission assets, will favorably resolve many of the financial and other uncertainties affecting SDG&E and its customers arising from the California energy crisis," Baum said. "Excluding the transmission sale, they will not adversely affect SDG&E's financial position, liquidity or results of operations.

"Additionally, the sale of SDG&E's transmission system would return to our shareholders fair value for these assets and provide the state with control over a critical part of California's power grid -- a key element of Governor Davis' plans to resolve the state's energy crisis."

SDG&E's transmission network includes 170 electric lines exceeding 69 kilovolts in capacity and spanning about 1,800 circuit miles from southern Orange County to the Mexican border. The network also includes about 135 electric substations and transmission interties with Southern California Edison's system at the San Onofre Nuclear Generating Station.

The MOU also calls for the California Department of Water Resources (DWR) to continue to buy power for SDG&E's customers through Dec. 31, 2002. Under certain conditions, which include establishment of guidelines for procurement and timely cost recovery, SDG&E may resume power purchases at an earlier date. The DWR has been purchasing power for SDG&E customers since early February.

SDG&E is a regulated utility that provides service to 3 million consumers through 1.2 million electric meters and 740,000 natural gas meters in San Diego and southern Orange counties.

Sempra Energy (NYSE: SRE), based in San Diego, is a Fortune 500 energy services holding company with annualized 2001 revenues of about $13 billion. Through its eight principal subsidiaries -- Southern California Gas Company, San Diego Gas & Electric, Sempra Energy Solutions, Sempra Energy Trading, Sempra Energy International, Sempra Energy Resources, Sempra Communications and Sempra Energy Financial -- the Sempra Energy companies' 12,000 employees serve more than 9 million customers in the United States, Europe, Canada, Mexico, South America and Asia.

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