

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, 1993

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 1-3779

SAN DIEGO GAS & ELECTRIC COMPANY

(Exact name of registrant as specified in its charter)

CALIFORNIA

(State or other jurisdiction of incorporation or organization)

95-1184800

(I.R.S. Employer Identification No.)

101 ASH STREET, SAN DIEGO, CALIFORNIA

(Address of principal executive offices)

92101

(Zip code)

(619) 696-2000

(Registrant's telephone number, including area code)

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

Title of each class	Name of each exchange on which registered
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Preference Stock (Cumulative)	
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Without Par Value (except \$1.70	
----------------------------------	--

and \$1.7625 Series)	American and Pacific
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Cumulative Preferred Stock, \$20	
----------------------------------	--

Par Value (except 4.60% Series)	American and Pacific
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Common Stock, Without Par Value	New York and Pacific
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SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:

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 31.

Aggregate market value of the voting stock held by non-affiliates of the registrant as of January 31, 1994:

Common Stock	\$2.8 Billion
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Preferred Stock	\$18 Million
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As of January 31, 1994, there were 116,480,387 shares of common stock, without par value, outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the 1993 Annual Report to Shareholders are incorporated by reference into Parts I, II, and IV.

Portions of the March 1994 Proxy Statement prepared for the April 1994 annual meeting of shareholders are incorporated by reference into Part III.

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PART I

ITEM 1. BUSINESS

DESCRIPTION OF BUSINESS

San Diego Gas & Electric Company is an operating public utility organized and existing under the laws of the State of California. SDG&E is engaged principally in the electric and natural gas business. It generates and purchases electric energy and distributes it to 1.1 million customers in San Diego County and a portion of Orange County, California. It also purchases natural gas and distributes it to 690,000 customers in San Diego County. In addition, it transports electricity and natural gas for others. Factors affecting SDG&E's utility operations include competition, population growth, customers' bypass of its electric and gas system, nonutility generation, changes in interest and inflation rates, environmental and other laws, regulation, and deregulation.

SDG&E's diversified interests include three wholly owned subsidiaries: Enova Corporation, which invests in affordable-housing projects; Califia Company, which conducts leasing activities; and Pacific Diversified Capital Company, which is a holding company for SDG&E's other subsidiaries. PDC owns an 80-percent share in Wahlco Environmental Systems, a supplier of air pollution control and energy-saving products and services for utilities and other industries. PDC's wholly owned subsidiary, Phase One Development is a commercial real estate developer. Additional information concerning 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 1993 Annual Report to Shareholders and in Note 2 of the "Notes to Financial Statements" beginning on Page 32 of the 1993 Annual Report to Shareholders.

GOVERNMENT REGULATION

Local Regulation

SDG&E has separate electric and gas franchises with the two counties and 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 following:

GRANTOR	TYPE	EXPIRATION
City of Chula Vista	Electric and gas	1997
City of Encinitas	Electric and gas	2012
City of San Diego	Electric and gas	2021
City of Coronado	Electric and gas	2028

State Regulation

The California Public Utilities Commission consists of five members appointed by the governor and confirmed by the senate. The commissioners serve six-year terms and have the authority to regulate 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 the environment, deregulation and competition, 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 plants and for conservation programs. The CEC sponsors alternative-energy research and development projects, promotes energy conservation programs, and maintains a statewide 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 electric rates involving sales for resale, transmission access, rates of depreciation and uniform systems of accounts. 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 electric 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 "Management's Discussion and Analysis of Financial Condition and Results of Operations" beginning on Page 18 of the 1993 Annual Report to Shareholders and in "Rate Regulation" and "Electric Operations" herein.

SOURCES OF REVENUE

(In Millions of Dollars)	1993	1992	1991

Utility revenue by type of customer:			
Electric -			
Residential	\$ 615	\$ 601	\$ 561
Commercial	572	543	503
Industrial	250	245	230
Other	77	58	64

Total Electric	1,514	1,447	1,358

Gas -			
Residential	195	181	184
Commercial	63	61	67
Industrial	40	54	68
Other	49	41	19

Total Gas	347	337	338

Total Utility	1,861	1,784	1,696

Diversified Operations	119	87	93

Total	\$1,980	\$1,871	\$1,789

Industry segment information is contained in "Statements of Consolidated Financial Information by Segments of Business" on Page 31 of the 1993 Annual Report to Shareholders.

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ELECTRIC OPERATIONS

INTRODUCTION

SDG&E's philosophy of providing adequate 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. All resource acquisitions are obtained through a competitive bidding process. This method of acquisition is encouraged by both the CPUC and the CEC. It is likely this process will continue into the foreseeable future in California. To date, competitive bidding has been limited to generation sources and has not included energy conservation measures that could reduce the need for generation capacity. However, the CPUC has recently ordered utilities in the state to implement pilot demonstration projects to allow others to competitively bid to supply energy conservation services to utilities' customers.

RESOURCE PLANNING

In 1992 the CPUC issued a decision on the Biennial Resource Plan Update proceedings. As a result of the decision, SDG&E was required to allow qualified nonutility power producers that cogenerate or use renewable energy technologies to competitively bid for a portion of SDG&E's future capacity needs. The decision also required SDG&E to implement energy-conservation programs which would reduce SDG&E's future need for additional capacity. In addition, the CPUC granted SDG&E the flexibility to determine how best to meet its remaining capacity requirements.

In 1993 SDG&E was involved in various stages of completing three separate solicitations for new power sources. These three solicitations include contract negotiations for short-term purchased power ranging from 200 to 700 mw for the period 1994 through 1997, the BRPU auction for 491 mw of capacity by 1997, and competitive bidding to determine whether the proposed 500-mw South Bay Unit 3 Repower project could be replaced by lower-cost power. Additional information concerning resource planning is discussed in "Management's Discussion & Analysis of Financial Condition and Results of Operations" beginning on Page 18 of the 1993 Annual Report to Shareholders.

ELECTRIC RESOURCES

Based on generating plants in service and purchased power contracts in place as of January 31, 1994, the net megawatts of firm electric power available to SDG&E during the next summer (normally the time of highest demand) are as follows:

SOURCE	NET MEGAWATTS
Nuclear generating plants	430
Oil/gas generating plants	1,611
Combustion turbines	332
Long-term contracts with other utilities	675
Short-term contracts with other utilities	342

Contracts with others	217

Total	3,607

SDG&E'S 1993 system peak demand of 2,850 mw occurred on September 8, when the net system capability, including power purchases, was 3,474 mw. SDG&E's record system peak demand of 3,285 mw occurred on August 17, 1992, when the net system capability was 3,669 mw.

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.

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In November 1992 the CPUC issued a decision to permanently shut down SONGS 1.

The NRC requires that SDG&E and Edison file a decommissioning plan in 1994, although final dismantling will not occur until SONGS 2 and 3 are also retired. 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 is expected to be in its final long-term permanently defueled storage condition by April 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 1991 and 1993, SDG&E spent \$83 million on capital modifications and additions for all three units and expects to spend \$26 million in 1994 on SONGS 2 and 3. SDG&E deposits funds in an external trust to provide for the future dismantling and decontamination of the units. The shutdown of SONGS 1 will not affect contributions to the trust. For additional information, see Note 5 of the "Notes to Consolidated Financial Statements" beginning on Page 32 of the 1993 Annual Report to Shareholders.

In 1983 the CPUC adopted performance incentive plans for SONGS that set a Target Capacity Factor range of 55 to 80 percent for SONGS 2 and 3. Energy costs or savings outside that range are 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. In addition to always attaining the minimum TCF, SONGS 2 and 3 have exceeded the range a total of four times in the eleven completed cycles. However, there can be no assurance that they will continue to achieve a 55 percent capacity factor.

Additional information concerning the SONGS units is described under "Environmental, Health and Safety" and "Legal Proceedings" herein and in "Management's Discussion & Analysis of Financial Condition and Results of Operations" beginning on Page 18 of the 1993 Annual Report to Shareholders and in Notes 5 and 9 of the "Notes to Consolidated Financial Statements" beginning on Page 32 of the 1993 Annual Report to Shareholders.

OIL/GAS GENERATING PLANTS

SDG&E's South Bay and Encina power plants are equipped to burn either fuel oil or natural gas. 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 921 mw. SDG&E sold and leased back Encina Unit 5 (315 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.

The Silver Gate plant is in storage and its 230 mw are not included in the system's capability. Silver Gate is not currently scheduled to return to service. The plant would have to comply with various environmental rules and regulations before returning to service. The cost of compliance could be significant.

Additional information concerning SDG&E's power plants is described under "Environmental, Health and Safety," "Electric Resources" and "Electric Properties" herein and in "Management's Discussion and Analysis of Financial Condition and Results of Operations" beginning on Page 18 of the 1993 Annual Report to Shareholders.

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PURCHASED POWER

The following table lists significant contracts with other utilities and others:

Supplier	Period	Megawatt Commitment	Source

Long-Term Contracts with Other Utilities:			
Bonneville Power Administration	May Through September (1994, 1995, 1996)	300	Hydro Power
Comision Federal de Electricidad (Mexico)	Through September 1997	150	Geothermal
Portland General Electric Company	Through December 1998 Through December 2013	50 75	Hydro storage Coal
Public Service Company of New Mexico	Through April 2001	100	System supply
Short-Term Contracts with Other Utilities:			
Imperial Irrigation District	Through March 1994	150	System Supply
PacifiCorp	Through December 1994	200	System Supply
Rocky Mountain Generation Cooperative	Through December 1994	67	Coal
Salt River Project	Through December 1994	75	System Supply
Contracts with Others:			
Bayside Cogeneration	June 1995 through June 2025	50	Cogeneration
Cities of Azusa, Banning and Colton	Through December 1994 January-December 1995	65 40	Coal
Goal Line Limited Partnership	November 1994 through November 2024	50	Cogeneration
Sithe Energies USA, Inc.	Through December 2019	102	Cogeneration
Yuma Cogeneration Associates	June 1994 through June 2024	50	Cogeneration

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The commitment with CFE is for energy and capacity. The others are for capacity only. The capacity charges are based on the costs of the generating facilities from which purchases are made. These charges generally cover costs such as lease payments, operating and maintenance expenses, transmission expenses, administrative and general expenses, depreciation, state and local taxes, and a return on the seller's rate base (if a utility) or other markup on the seller's cost.

Energy costs under the CFE contract are indexed to changes in Mayan crude oil prices and the dollar/peso exchange rate. Energy costs under the other contracts are based primarily on the cost of fuel used to generate the power.

The locations of the suppliers which have long-term 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. The transmission capacity shown for the Pacific Intertie does not reflect the effects of the temporary earthquake damage discussed under "Transmission Arrangements - Pacific Intertie" herein. 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 an agreement for the exchange of capacity and energy. SDG&E provides BPA with off-peak, non-firm energy in exchange for capacity and associated energy. In addition, SDG&E makes energy available for BPA to purchase during the period January through April of each year. To facilitate the exchange, SDG&E has an agreement with Edison for 100 mw of firm transmission service from the Nevada-Oregon border to SONGS.

COMISION FEDERAL DE ELECTRICIDAD: In 1986 SDG&E began the 10-year term of a purchase agreement under which SDG&E purchases firm energy and capacity of 150 mw from CFE. In March 1990 SDG&E obtained an option, exercisable on or before September 1, 1994, to extend the purchase agreement by up to 13 months.

PORTLAND GENERAL ELECTRIC COMPANY: 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 firm hydro storage service with PGE through

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December 1998. SDG&E has also purchased from PGE 75 mw of transmission service 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

IMPERIAL IRRIGATION DISTRICT: In September 1993 SDG&E and IID entered into an agreement for the purchase of 150 mw of firm energy through March 1994. The energy charge is based on the amount of energy received.

PACIFICORP: In October 1993 SDG&E entered into an agreement with PacifiCorp for the purchase of 200 mw of capacity during 1994. SDG&E pays a capacity charge plus a charge based on the amount of energy received.

ROCKY MOUNTAIN GENERATION COOPERATIVE: In October 1993 SDG&E and RMGC

entered into an agreement for the purchase of 67 mw of capacity through December 1994. SDG&E pays a capacity charge plus a charge based on the amount of energy received.

SALT RIVER PROJECT: In December 1993 SDG&E and SRP entered into an agreement for the purchase of 75 mw of capacity through December 1994. SDG&E pays a capacity charge plus a charge based on the amount of energy received.

CONTRACTS WITH OTHERS

BAYSIDE COGENERATION: SDG&E and Bayside have entered into a 30-year agreement for the purchase of 50 mw of capacity which is scheduled to begin in June 1995. SDG&E will pay a capacity charge plus a charge based on the amount of energy received.

CITIES OF AZUSA, BANNING AND COLTON: In 1993 SDG&E and the cities entered into an agreement for the purchase of 65 mw of capacity from January 1994 through December 1994 and 40 mw of capacity from January 1995 through December 1995. SDG&E pays a capacity charge plus a charge based on the amount of energy received.

GOAL LINE LIMITED PARTNERSHIP: SDG&E and Goal Line have entered into a 30-year agreement for the purchase of 50 mw of capacity which is scheduled to begin in November 1994. SDG&E will pay a capacity charge plus a charge based on the amount of energy received.

SITHE ENERGIES USA, INC.: In April 1985 SDG&E entered into three 30-year agreements for the purchase of 102 mw of capacity from December 1989 through December 2019. SDG&E pays a capacity charge plus a charge for the amount of energy received.

YUMA COGENERATION ASSOCIATES: SDG&E and Yuma Cogeneration Associates have entered into a 30-year agreement for 50 mw of capacity which is scheduled to begin in June 1994. SDG&E will pay a capacity charge plus a charge for the amount of energy received.

Additional information concerning SDG&E's purchased power contracts is described in "Legal Proceedings" herein and in Note 9 of the "Notes to Consolidated Financial Statements" beginning on Page 32 of the 1993 Annual Report to Shareholders.

POWER POOLS

In 1964 SDG&E, Pacific Gas & Electric 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.

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SDG&E is a participant in the Western Systems Power Pool, which involves an electric power and transmission rate agreement with utilities and power agencies located from British Columbia through the western states and as far east as the Mississippi River. The 54 investor-owned and municipal utilities, state and federal power agencies, and energy brokers 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

SDG&E, PG&E and Edison share transmission capacity on the Pacific Intertie under an agreement that expires in July 2007. The Pacific Intertie enables SDG&E to purchase and receive surplus coal and hydroelectric power from the Northwest. SDG&E's share of the intertie is 266 mw. SDG&E recently purchased up to an additional 200 mw of firm rights on the Pacific Intertie through 1996. In January 1994 a major earthquake centered in Los Angeles

County, California temporarily reduced SDG&E's share of the intertie's available capacity to about 100 mw. Repairs to the transmission facilities are scheduled to be completed in December 1994. SDG&E does not expect this to have a significant impact on its transmission capabilities within California.

Southwest Powerlink

SDG&E's 500-kilovolt Southwest Powerlink transmission line, which it shares with Arizona Public Service Company and IID, 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

Through an agreement with Edison, SDG&E has obtained the option to purchase 100 mw of transmission service on the existing Palo Verde - Devers transmission line in the late 1990s. The agreement is contingent upon Edison's construction of its second transmission line connecting the Palo Verde Nuclear Generating Station in Arizona to the Devers substation near Palm Springs, California. This agreement also provides SDG&E with the option to exchange up to 200 mw of Southwest Powerlink transmission rights for up to 200 additional mw of Edison's rights on the first Palo Verde - Devers transmission line. This exchange would enable both utilities to further diversify their transmission paths.

SDG&E has indicated an interest in projects to obtain additional transmission capabilities from the Rocky Mountain and Southwest regions and within California.

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 & Analysis of Financial Condition and Results of Operations" beginning on Page 18 of the 1993 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 Kwh			Cents per Kwh		
	1993	1992	1991	1993	1992	1991
Fuel oil	3.7%	0.6%	0.7%	2.7	4.0	4.2
Natural gas	24.4	27.4	22.7	3.4	3.1	3.2
Nuclear fuel	17.2	22.3	20.9	0.6	0.8	0.9
Total generation	45.3	50.3	44.3			
Purchased power-net	54.7	49.7	55.7	3.5	3.8	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 fuel oil, natural gas and nuclear fuel 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

Uranium

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)	1994
Conversion of uranium concentrate to uranium hexafluoride	1995
Enrichment of uranium hexafluoride(2)	1998
Fabrication of fuel assemblies	2000
Storage and disposal of spent fuel(3)	-

1 SDG&E's contracted supplier of uranium concentrate is Pathfinder Mines Corporation. However, the majority of the requirements will be supplied by purchases from the spot market.

2 The Department of Energy 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 that would provide, at additional cost, on-site storage capacity for operation through 2014, the expiration date of the NRC operating license. The DOE's plan is to make a permanent storage site for the spent nuclear fuel available by 2010.

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.

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 \$1 per megawatt-hour of net nuclear generation. Disposal fees average \$3 million per year. SDG&E recovers these disposal fees in customer rates.

Additional information concerning nuclear fuel costs is discussed in Note 9 of the "Notes to Consolidated Financial Statements" beginning on Page 32 of the 1993 Annual Report to Shareholders.

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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 alternative fuels, primarily natural gas. During 1993 SDG&E burned 1.1 million barrels of fuel oil. Fuel oil usage in 1994 will depend on its price relative to natural gas and the availability of natural gas and other alternatives. The lowest-priced fuel will be used in order to minimize fuel costs for electric generation.

NATURAL GAS OPERATIONS

SDG&E purchases natural gas for resale to its customers and for fuel in its electric generating plants. All natural gas is delivered to SDG&E under transportation and storage agreement with Southern California Gas Company through two transmission pipelines with a combined capacity of 400 million cubic feet per day. During 1993 SDG&E purchased approximately 102 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 by El Paso Natural Gas Company and by Transwestern Pipeline Company. In November 1993 natural gas deliveries to SDG&E commenced under long-term contracts with four Canadian suppliers when the Alberta-to-California pipeline expansion project began commercial operation. This natural gas is transported over Pacific Gas Transmission and PG&E pipelines to SDG&E's system. The contracts have varying terms through 2004.

Additional information concerning SDG&E's gas operations is described under "Legal Proceedings" herein and in "Management's Discussion & Analysis of Financial Condition and Results of Operations" beginning on Page 18 of the 1993 Annual Report to Shareholders and Note 9 of the "Notes to Consolidated Financial Statements" beginning on Page 32 of the 1993 Annual Report to Shareholders.

RATE REGULATION

The following ratemaking procedures are changing under SDG&E's proposed incentive-based ratemaking process which is described further under "Performance-Based Ratemaking" below:

BASE RATES

Traditionally, SDG&E has filed a general rate application with the CPUC every three years to determine its base rates. This allows SDG&E to recover its basic non-fuel business costs such as the cost of operating and maintaining the utility system, taxes, depreciation and the cost of accommodating system growth. Between these general rate cases, an attrition procedure allows adjustments in rates based on inflation and system growth. In addition, SDG&E files an annual application to establish its cost of capital, which reflects the cost of debt and equity. The most recent attrition and cost of capital proceeding went into effect on January 1, 1994.

FUEL AND ENERGY RATES

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 the authorized and actual volumes and costs. These differences are accumulated in the balancing accounts and represent amounts to be either recovered from customers or refunded to them. Periodically, the CPUC adjusts SDG&E's rates to amortize the accumulated differences. As a result, changes in SDG&E's fuel and purchased power costs or changes in electric and gas sales volumes normally have not affected SDG&E's net income.

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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 take place annually, although a semi-annual review is required if the anticipated rate change exceeds a specified threshold. The proceedings take place 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 other phase, the reasonableness review, the CPUC evaluates the prudence of SDG&E's fuel and purchased power transactions, electric operations, and natural gas transactions and operations. As described under "Performance-Based Ratemaking" these reviews will now only be required if SDG&E's recorded fuel and energy expenses result in significant variances 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 may otherwise vary due to changes in sales volumes largely resulting from weather fluctuations. Any accumulation in the ERAM balancing account is amortized when new rates are set in the ECAC proceeding.

NATURAL GAS COSTS AND SALES VOLUMES

Customer rates to recover the cost of purchasing and transporting natural gas are determined in the Biennial Cost Allocation Proceeding. The BCAP proceeding normally occurs every two years and is updated in the following year for purposes of amortizing any accumulation in the gas balancing accounts. Transportation costs include intrastate and interstate pipeline charges, take-or-pay obligations, industry restructuring costs resulting from

changes in federal and state regulations, and transportation and storage fees.

Balancing accounts for natural gas costs and sales volumes are similar to those for electric costs and sales volumes. The natural gas balancing accounts include the Purchased Gas Account for 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 receives balancing account coverage on 75 percent of noncore GFCA overcollections and undercollections.

OTHER COSTS

Energy Conservation Programs

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 offset the need to build additional power plants.

The costs of these programs are being recovered through electric and natural gas rates. 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 expenditures annually of \$54 million for 1993 through 1995. However, the CPUC has also ordered utilities to conduct a test program to determine if others could offer energy conservation services at a lower cost than the utilities'.

Low Emission Vehicle Programs

Since 1991 SDG&E has conducted a CPUC-approved natural gas vehicle program. 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 1993 SDG&E opened 14 refueling stations at existing gasoline stations under cost-sharing arrangements with major oil companies in order to demonstrate that natural gas is an economical alternative vehicle fuel that

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could assist automobile companies in meeting federal and state clean air standards. SDG&E plans to add eight more natural gas refueling stations in 1994. During 1993 there were 356 natural gas vehicles operating in San Diego.

In July 1993 the CPUC issued a decision adopting guidelines for utility participation in the CPUC's low-emission vehicle program to encourage the use of electric and natural gas-powered vehicles. The six-year program will provide funding to build natural gas vehicle refueling stations and electric vehicle recharging stations, offer incentives for purchasing EVs and NGVs, convert existing vehicles, and educate the public on the benefits of alternative fuels. On November 1, 1993 SDG&E filed an application with the CPUC, requesting \$26 million to fund an EV program and to expand its existing NGV program beginning in 1995. On February 3 the CPUC approved a portion of SDG&E's EV program request by establishing a memorandum account for planned expenditures of \$530,000 for EV recharging stations and customer incentives to purchase EVs. A final CPUC decision is expected in late 1994.

PERFORMANCE-BASED RATEMAKING

In October 1992 SDG&E applied to the CPUC to implement performance-based ratemaking, requesting incentive regulation for: 1) natural gas procurement and transportation; 2) electric generation and purchased energy; 3) base rates and 4) long-term electric resource procurement.

On June 23, 1993 the CPUC approved the first two mechanisms on a two-year experimental basis beginning August 1, 1993. These mechanisms will measure SDG&E's ability to purchase and transport natural gas, and to generate energy or purchase short-term energy at the lowest possible cost, by comparing SDG&E's performance against various market benchmarks. SDG&E's shareholders and customers will share in any savings or excess costs within predetermined

ranges.

Under the natural gas procurement and transportation mechanism, if SDG&E's natural gas supply and transportation expenses exceed the benchmark by more than 2 percent, SDG&E will recover one-half of the excess. However, if expenses fall below the index, SDG&E's shareholders and customers will share equally in the savings.

The benchmark to measure SDG&E's electric generation and purchased energy performance is based upon the difference between SDG&E's actual and authorized electric fuel and short-term purchased energy expenses. SDG&E would be at risk for about one-half of the expenses that exceed the authorized amount by 6 percent or less. SDG&E would be allowed to recover expenses exceeding the 6 percent range, subject to a reasonableness review by the CPUC. However, SDG&E would receive about one-half of the savings if expenses fall below the authorized amount by 6 percent or less. SDG&E's customers would receive 100 percent of the savings if expenses fall below the 6 percent range.

Under the proposed base-rate mechanism, SDG&E would forego its next General Rate Case, scheduled for 1996, and utilize the proposed base-rate mechanism for a 5-year period beginning in May 1994. SDG&E's initial revenue requirements would be based on its 1993 General Rate Case Decision. This would replace the CPUC's requirement for a costly and detailed examination of SDG&E's costs every three years in the traditional General Rate Case. However, SDG&E's annual cost of capital proceeding would be continued. This streamlined approach would also allow SDG&E to respond more effectively to competition and to other factors affecting rates.

The proposed base-rate mechanism has three components. The first is a formula similar to the current attrition mechanism used to determine SDG&E's annual revenue requirement for operating, maintenance and capital expenditures. 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 could 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 component would set 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 a half percent, it would be required to refund 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 a half percent, SDG&E would also refund 50 percent of that excess to customers. SDG&E would be at risk if its rate of return falls less than three percent below the authorized level. However, if SDG&E's rate of return falls three percent or more below

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the authorized level, a rate case review would automatically occur. SDG&E may request a rate case review any time its rate of return drops one and one half percent or more below the authorized level. A CPUC decision is expected in the second quarter of 1994.

SDG&E expects the long-term electric resource procurement mechanism to be addressed after proceedings on the base-rate mechanism. This mechanism calls for a bidding system under which SDG&E would compete with other utilities and nonutility producers to provide long-term generating resources, including long-term purchased-power capacity, to SDG&E customers. This mechanism would eliminate the Biennial Resource Plan Update proceeding, replacing it with a market-based approach to long-term electric-resource procurement. The CPUC would have final approval of the resources selected by SDG&E.

ELECTRIC RATES

The average price per kilowatt-hour charged to electric customers was 9.4 cents in 1993 and 9.3 cents in 1992.

NATURAL GAS RATES

The average price per therm of natural gas charged to customers was to 55.1 cents in 1993 and 50.7 cents in 1992.

Additional information concerning rate regulation is described in "Management's Discussion and Analysis of Financial Condition and Results of

Operations" beginning on Page 18 of the 1993 Annual Report to Shareholders.

ENVIRONMENTAL, HEALTH AND SAFETY

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 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 mitigate or 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. The CPUC is expected to continue allowing the recovery of such costs, subject to reasonableness reviews.

ELECTRIC AND MAGNETIC FIELDS

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

Other epidemiological studies found no correlation between estimated exposure and any disease. Scientists cannot explain why some studies using estimates of past exposure report correlations between estimated fields and disease, while others do not. Neither can scientists explain why no studies correlate measured fields with disease.

In November 1993 the CPUC adopted an interim policy regarding EMFs. 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. To be responsive to public concern and scientific uncertainty, the CPUC created two utility-funded programs, a \$2-million public-education program and a

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\$6-million research program, and directed utilities to adopt a low-cost EMF reduction policy for new projects. The latter program, which will be implemented until science provides more direction, entails reasonable design changes to new projects to achieve a noticeable reduction of magnetic-field levels. The CPUC indicated that these low-cost measures to reduce field levels should not exceed 4 percent of the cost of new or upgraded facilities.

Such design changes will be subject to safety, reliability, efficiency and other normal operational criteria. It is difficult at this time to predict the impact of the CPUC's directives on SDG&E's operations. Final design guidelines should be completed by mid-1994, following a series of workshops scheduled by the CPUC.

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

HAZARDOUS SUBSTANCES

BKK Corporation

SDG&E was one of several hundred companies using the BKK Corporation's West Covina facility, which operated under a permit for the disposal of hazardous waste prior to its 1984 closure. The site is listed for cleanup in the California Superfund Site Priority List under the Hazardous Substance Account Act, which imposes cleanup liability on the sites' owners, operators or users. The California Department of Toxic Substances Control is working with

the site owner/operator to determine whether a post-closure permit should be issued for the facility. In addition, the U.S. Environmental Protection Agency is overseeing BKK's assessment of potential releases from the site, including releases into the groundwater, to determine whether any remediation will be required. SDG&E believes the site owner/operator will perform any required assessment and remedial activities. SDG&E is unable to estimate the cost of cleaning up the site or what liability, if any, it may have for such cleanup costs.

SDG&E was named as a potentially responsible party with respect to two other sites, the Rosen's Electrical Equipment Supply Company site in Pico Rivera, California and the North American Environmental, Inc. site in Clearfield, Utah. Additional information concerning these sites is described in "Management's Discussion & Analysis of Financial Condition and Results of Operations" beginning on Page 18 of the 1993 Annual Report to Shareholders.

Waste Water Treatment

SDG&E is authorized to operate the waste water treatment facilities at the Encina and South Bay power plants under the California Hazardous Waste Treatment Permit Reform Act of 1992. To comply with the state's regulations, construction of secondary containment for the waste water treatment facilities will be completed in 1994 at a total cost of \$3 million. New waste water storage tanks for these facilities, completed in 1991, may not be operated under the plants' existing permits. SDG&E received authorization to operate the new tanks from the California Department of Toxic Substances Control pursuant to a variance from the hazardous waste facility permitting requirements. In June 1993 this variance was withdrawn due to a change in the department's policy. SDG&E is negotiating the terms and conditions of a stipulation and order which would allow the continued operation of these storage tanks. However, the state could withhold authorization and initiate an enforcement action (and the imposition of fines and penalties), preventing continued operation of the storage tanks. Alternative treatment methods, which would not require the use of such tanks, may require additional expenditures of approximately \$2 million per year. However, the state is expected to issue new regulations in 1994 which would allow continued operation of the existing storage tanks.

Aboveground Tanks

California's 1989 Aboveground Petroleum Storage Act requires SDG&E to establish and maintain monitoring programs to detect leaks in fuel oil storage tanks. All diesel oil storage tanks which could pose a threat to the environment have been reconstructed with a secondary bottom and a leak detection system. The conversion began in 1991 and was completed in 1993 at a total cost of \$2 million.

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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. SDG&E's capital program to comply with these requirements has cost \$3 million to date. 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. Additionally, if a facility is reactivated, the removal and replacement of existing tanks may be required.

Specific underground locations requiring assessment and/or remediation are indicated below:

On May 29, 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. To comply with the order SDG&E has implemented a "pump and treat" program to remediate the site. Because the source of the area's drinking water is near the contamination, the Department of Health Services and the Board are expected to require SDG&E to further assess the extent of the contamination and undertake alternative remediation to further protect the drinking water from contamination. SDG&E is unable to estimate the costs for the assessment or for alternative remediation.

On January 7, 1993 SDG&E was issued a notice of corrective action by the Department of Health Services relative to soil contamination from used lubrication oil associated with an underground tank located at SDG&E's South Bay Operation and Maintenance facility. At present, SDG&E is unable to estimate the extent of the contamination or the potential cleanup costs.

In 1993 SDG&E discovered a shallow underground tank-like structure while installing underground electric facilities. The structure was located under a public street immediately west of SDG&E's Station A facility. 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 Department of Health Services has issued a cleanup and abatement 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 is unable to estimate the nature and extent of the contamination or the potential cleanup costs.

Station B

Station B is located in downtown San Diego and was operated as a generating facility from 1911 until June 1993. During 1986, three 100,000-gallon underground diesel-fuel storage tanks were removed. Pursuant to a cleanup and abatement order, SDG&E remediated the existing hydrocarbon contamination.

Further analysis of PCB contamination in the area is required before site closure. SDG&E is unable to estimate the extent of such PCB contamination or what remediation, if any, will be required.

In addition, asbestos was used in the construction of the facility. 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. The estimated capital cost of this removal is between \$6 million and \$12 million.

Additionally, reuse of the facility would require the removal or cleanup of PCBs, paints containing heavy metals and fuel oil. SDG&E is unable to estimate the extent of this contamination or the cost of cleaning up these materials.

Encina Power Plant

During 1993 SDG&E discovered the presence of hydrocarbon contamination in subsurface soil at its Encina power plant. This contamination is located north of its western fuel-storage facilities and is believed to be fuel oil originating from a 1950s refueling spill. SDG&E has reported the discovery of the contamination to governmental agencies and has determined it does not pose a significant risk to the environment or to public health. SDG&E is unable to estimate the cost of assessment and of cleaning up the contamination.

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Manufactured Gas Plant Sites

During the late 1800s and early 1900s SDG&E and its predecessors manufactured gas from the combustion of fuel oil at a manufactured gas plant in downtown San Diego (Station A) and at small facilities in the nearby cities of Escondido and Oceanside. Although no tar pits common to town gas sites have been found at the facilities, ash and other residual hazardous byproducts from the gas-manufacturing process were found at the Escondido site during grading for expansion of a substation. Remediation of the Escondido site has been completed at a total cost of about \$3 million. Based upon its assessment and remediation activities, SDG&E has applied to the Department of Health Services for a closure certification for the Escondido site.

SDG&E and the Department of Health Services are aware that hazardous substances resulting from the operation of the Escondido manufactured gas plant may be present on adjacent locations. SDG&E will coordinate any required assessment or cleanup of any such locations with the department.

SDG&E has not found any similar town gas site residuals at the Station A site. However, ash residue similar to that at Escondido was found on property adjacent to SDG&E's Oceanside gas regulator station. This ash residue has been covered with asphalt to prevent public exposure. Some ash

residue has also been observed in soil adjacent to Station A.

Due to the possibility that town gas residuals exist under the Station A and Oceanside sites, SDG&E will implement an environmental assessment of the sites in 1994 and 1995. SDG&E is unable to estimate the cost of assessment and cleanup of these sites. However, the CPUC has approved SDG&E's application to recover these costs in a future rate proceeding through the reasonableness review process.

Litigation concerning hazardous substances is discussed in "Legal Proceedings - - Graybill/Metropolitan Transit Development Board" herein.

AIR QUALITY

The San Diego Air Pollution Control District 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 government standards.

Although SDG&E facilities already comply with very strict emission limits and contribute only about 3 percent of the air emissions in San Diego County, the APCD is obligated to quantify the benefits of further reducing emissions from all San Diego industry. The APCD has adopted Rule 69 to further reduce nitrogen oxide emissions. This rule will require the retrofit of the Encina and South Bay power plants with catalytic converters to remove approximately 87 percent of current nitrogen oxide emissions. The estimated capital cost to comply with Rule 69 is \$130 million. In addition, annual operating costs will increase about \$6 million after all units have been retrofitted. SDG&E expects this to be completed by 2001.

The acid rain section of the federal Clean Air Act Amendments of 1990 requires SDG&E to upgrade the continuous emission monitors at its Encina and South Bay power plants to provide more-complete emissions data. Installation of the required continuous emission monitor upgrades will be completed in 1994 at an estimated cost of \$5 million.

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 will replace existing rules and require 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. The cost of complying with the proposed rule is expected to be \$3 million.

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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 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.

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 & Analysis of Financial Condition and Results of Operations" beginning on Page 18 of the 1993 Annual Report to Shareholders.

ASBESTOS

The corporate office building at 101 Ash Street in San Diego is being retrofitted with sprinklers over a two-year period in response to a City of

San Diego ordinance requiring all high-rise office buildings to be retrofitted for fire protection by 1996. This is expected to be completed in 1994. Asbestos is being removed in the areas where the sprinklers are being installed. The total cost of the asbestos removal will be about \$2 million.

TRANSMISSION LINE AERIAL SAFETY

Criteria have been established by the State of California to determine the necessity for installing aerial warning devices on overhead powerlines to promote air-space safety. Nine spans on the Southwest Powerlink transmission line in Imperial County fall within the criteria and will be marked at a cost of approximately \$115,000. Study of another 132 spans will determine whether or not additional spans will be marked at a cost of approximately \$13,000 per span.

Based upon FAA recommendation, SDG&E is also installing aerial warning markers on various segments of the 230-kv and other transmission lines within its service territory. The cost of this project through 1993 was \$2 million, and \$1 million is budgeted for 1994.

Additional information concerning SDG&E's environmental matters is described in "Management's Discussion and Analysis of Financial Condition and Results of Operations" beginning on Page 18 of the 1993 Annual Report to Shareholders and in Note 9 of the "Notes to Consolidated Financial Statements" beginning on Page 32 of the 1993 Annual Report to Shareholders.

OTHER

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RESEARCH, DEVELOPMENT AND DEMONSTRATION

SDG&E conducts research and development in areas that provide value to SDG&E and its customers. The Research, Development and Demonstration activities are focused in the following areas:

1. The improvement of electric generation efficiency.
2. Development of technologies that enhance electric transmission, distribution and customer utilization efficiency.
3. Participation in the Gas Research Institute and the Electric Power Research Institute.

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Highlights of the program include demonstration of molten carbonate fuel cells, evaluation and implementation of distributed generation systems, application of advanced telecommunication systems, and the development of technology to reduce service interruptions and make other power quality improvements for customers.

Research, development and demonstration costs averaged \$7 million annually 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 that ended on February 28, 1994. Negotiations for a new agreement are expected to be concluded in early 1994.

EMPLOYEES OF REGISTRANT

As of December 31, 1993 SDG&E had 4,166 full-time employees and 63 part-time employees compared to 4,249 full-time and 61 part-time employees at December 31, 1992. SDG&E's subsidiaries had 818 full-time employees at December 31, 1993 compared to 793 at December 31, 1992.

FOREIGN OPERATIONS

SDG&E foreign operations in 1993 included power purchases and sales with CFE in Mexico and purchases of energy and natural gas from suppliers in Canada and purchases of uranium from suppliers in Canada, Germany and Namibia.

SDG&E's subsidiaries operated in various foreign locations in 1993, including

Great Britain, Australia, Canada and Italy.

Additional information concerning foreign operations is described under "Electric Operations" and "Natural Gas Operations" herein and in "Management's Discussion and Analysis of Financial Condition and Results of Operations" beginning on Page 18 of the 1993 Annual Report to Shareholders and in Note 9 of the "Notes to Consolidated Financial Statements" beginning on Page 32 of the 1993 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.

ELECTRIC PROPERTIES

As of December 31, 1993 SDG&E's installed generating capacity in megawatts, based on summer ratings, was as follows:

PLANT	LOCATION	NET MEGAWATTS
Encina	Carlsbad	921
South Bay	Chula Vista	690
San Onofre	South of San Clemente	430*
Combustion Turbines (19)	Various	332
Silver Gate**	San Diego	0

*SDG&E's 20 percent share.

**Placed in storage in 1984. Net generating capability is 230 mw.

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

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The system load factor was 64.2 percent in 1993 and ranged from 55.1 percent to 64.2 percent for the past five years.

SDG&E's electric transmission and distribution facilities include sufficient substations, and overhead and underground lines to accommodate current customer needs. Various areas of the service territory require expansion periodically 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 Encanto storage facility in San Diego, transmission facilities and 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 an operating lease through the year 2005. The lease has four separate five-year renewal options. The building is currently undergoing a \$15 million renovation which is expected to be completed during 1994. Additional information is provided under "Environmental, Health and Safety" herein.

SDG&E also occupies an office complex at Century Park Court in San Diego pursuant to a lease ending in the year 2007. The lease can be renewed for two five-year periods. SDG&E also leases other office space in San Diego to house its computer center under a three-year lease with options to renew for

an additional five years.

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

SUBSIDIARY PROPERTIES

Wahlco Environmental Systems, Inc. has manufacturing facilities in the continental United States, Puerto Rico, Canada, Great Britain, Australia and Italy, and a sales office in Singapore.

Additional information concerning SDG&E's properties is described under "Electric Operations" and "Gas Operations" herein and in "Management's Discussion and Analysis of Financial Condition and Results of Operations" beginning on Page 18 of the 1993 Annual Report to Shareholders and in Notes 2, 5 and 9 of the "Notes to Consolidated Financial Statements" beginning on Page 32 of the 1993 Annual Report to Shareholders.

ITEM 3. LEGAL PROCEEDINGS

The following proceedings, described in SDG&E's 1992 Annual Report on Form 10-K, were concluded during the year ended December 31, 1993: San Onofre Nuclear Generating Station Unit 1, Springerville, Zuidema, Energy Factors, American Tool and NCR. Information concerning the conclusion of these proceedings is contained in SDG&E's Quarterly Reports on Form 10-Q for the three-month periods ended March 31, 1993 and September 30, 1993 and in SDG&E's Current Report on Form 8-K dated March 19, 1993.

CENTURY POWER LITIGATION

On April 1, 1987 Century Power Corporation, formerly Alamito Company, submitted a filing to justify its rates for the following 24 months under a power sales and interconnection agreement with SDG&E. The Federal Energy Regulatory Commission permitted the rates to become effective as of June 1, 1987 subject to refund. In 1988 an administrative law judge ruled

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unreasonable a component of rates based on the return on equity of Tucson Electric Power Company, a supplier and former affiliate of Century. If the decision stands, demand charges paid by SDG&E could be reduced by \$12 million, plus interest, to be refunded principally to SDG&E customers. On September 23, 1993 SDG&E filed a motion requesting the FERC to decide this matter. On December 23, 1993 the FERC issued an order denying SDG&E's motion on the grounds that the matter had been resolved under a settlement reached by the parties in 1991 and approved by the FERC. On January 24, 1994 SDG&E filed a request for rehearing.

On February 11, 1993 SDG&E filed a complaint with the FERC against Tucson and Century seeking to adjust its purchase costs under the power sales and interconnection agreement with Century. The complaint seeks summary disposition and moves for an order directing Century and Tucson to refund amounts that they improperly billed SDG&E in violation of the agreement. If successful, SDG&E would be entitled to approximately \$15 million, plus interest, which would be refunded principally to SDG&E's customers. On April 23, 1993 Tucson and Century filed answers to the complaint, denying liability. In addition, Tucson brought a counterclaim of approximately \$3 million against SDG&E based on alleged underbillings.

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

CITY OF SAN DIEGO FRANCHISE

On February 13, 1990 following the announcement of the proposed merger of SDG&E into Southern California Edison Company, the City of San Diego filed a lawsuit in San Diego County Superior Court to confirm its position that SDG&E's franchises with the city could not be transferred to Edison without the consent of the city pursuant to the city charter and to SDG&E's franchises. On December 28, 1993 the parties dismissed the complaint without prejudice.

On August 23, 1985 Michael Bessey and others who owned American Trails, a membership campground company, filed a complaint against Wahlco, Inc. and others in the Superior Court of San Diego County for breach of contract, negligence, fraud, intentional interference with contract, breach of the implied covenant of good faith and fair dealing, and breach of fiduciary duty in connection with contingent payments, which were not realized following the redemption of plaintiffs' interest in American Trails Partners No. 1. The plaintiffs are seeking compensatory damages in the amount of approximately \$12 million and punitive damages in an unspecified amount. Wahlco has cross-complained against the plaintiffs for defrauding Wahlco into investing \$3 million in American Trails.

The trial took place in late 1991 before a superior court judge sitting without a jury. On March 25, 1992 the trial judge indicated that the plaintiffs would be awarded approximately \$2 million plus fees. However, on April 20, 1992, prior to entry of any judgments, the trial judge removed himself from the case.

Another judge was assigned to the case and a new trial began on February 8, 1993. On March 24, 1993 the jury returned verdicts favorable to all defendants on all of the plaintiffs' causes of action, except for breach of contract and interference with contract claims against defendants Wahlco and Robert Wahler, as to which the jury was not able to reach a verdict. On July 23, 1993 the trial court granted the motions of Wahlco and Robert Wahler for summary judgment on the two remaining causes of action against them and denied the plaintiffs' motion for a new trial. On September 21, 1993 judgment was entered by the court in favor of Wahlco and the other defendants. As a result, all claims and causes of action by the plaintiffs against Wahlco have been determined in favor of Wahlco. On October 7, 1993 the plaintiffs filed a notice of appeal from the court's judgment.

Wahlco intends to continue defending this lawsuit vigorously.

By agreements dated September 19, 1987, October 28, 1987, and March 1, 1990, Robert R. Wahler, as Trustee of the Wahler Family Trust; John H. McDonald; and Westfore, a California limited partnership, agreed, subject to certain

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exceptions, to indemnify Pacific Diversified Capital Company and its subsidiaries in connection with the American Trails litigation in diminishing amounts through 1992, when the indemnification amount would decrease to zero.

Wahlco, Inc. notified these parties that it has a claim for indemnification pursuant to the indemnification agreements. However, they have denied that a current claim for indemnification exists.

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

SUBSIDIARY SHAREHOLDER

On June 22, 1990 an action was instituted in the U.S. District Court for the Southern District of California against SDG&E; PDC; Wahlco Environmental Systems, Inc.; each of the persons who was a director and/or an officer at the time of WES's initial public offering (including an officer and certain directors of SDG&E); and the managing underwriters for the offering, Prudential-Bache Securities, Inc. and Salomon Brothers, Inc. This action, for which class certification has been granted, was brought by Ronald Kassover on behalf of all persons (other than defendants in the action) who purchased WES's common stock during the class period of April 25, 1990 to June 15, 1990.

The complaint, as amended, alleges various violations of federal and state securities laws and various state law claims based upon alleged misrepresentations made in WES's registration statement and prospectus prepared in connection with the offering, WES's Report on Form 10-Q for the first quarter of 1990, press releases, and other public documents and statements. The alleged misrepresentations relate to WES's earnings, customer orders, financial condition and future prospects. The amended complaint further purports that, based upon these alleged misrepresentations and omissions, the price of WES's common stock was inflated during the class

period and the plaintiff and the plaintiff class suffered damages as a result of purchasing WES's common stock at inflated prices. The amended complaint seeks a judgment for damages incurred by the plaintiff class during the class period, for costs and attorneys' fees, for punitive damages, and for injunctive relief against the disposition of defendants' assets.

On November 5, 1990 a second complaint was filed by Ralph Amanna. The amended Amanna complaint makes allegations similar to those made in the Kassover complaint and has been consolidated with the Kassover action. On November 9, 1992 the court granted the defendants' motion for partial summary judgment, resolving the majority of the material allegations in favor of the defendants. The remaining allegations concern alleged wrong-doing associated with an attempted debenture offering after the initial public offering.

The plaintiffs have filed a motion for reconsideration of the partial summary judgment. The underwriters have filed a motion to dismiss all claims against them, and the other defendants have joined in this motion. Hearings on these motions were taken off the court's calendar pending the conclusion of settlement negotiations.

In November 1993 a settlement in principle was reached whereby the entire action would be resolved. The settlement requires the defendants to pay a total of approximately \$1 million to the plaintiffs in exchange for a dismissal of the action in its entirety. The settlement will bind all of the plaintiff class members who elect to participate in the settlement. It is anticipated that the court will approve the settlement, and the action will be dismissed.

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 a refund date effective December 26, 1993. 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 principally would be used to reduce customer bills.

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. SDG&E expects a decision from the FERC in 1994.

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

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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 on November 1, 1993. Disputes have arisen with each of these producers with respect to events which are alleged by the producers to have occurred justifying 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.

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

Additional information concerning these contracts is provided under "Natural Gas Operations" herein and in "Management's Discussion and Analysis of Financial Condition and Results of Operations" beginning on Page 18 of the 1993 Annual Report to Shareholders and in Note 9 of the "Notes to Consolidated Financial Statements" beginning on Page 32 of the 1993 Annual Report to Shareholders.

ELECTRIC AND MAGNETIC FIELDS

MCCARTIN

On November 13, 1992 a group of 25 individual plaintiffs filed a complaint against SDG&E in the Orange County Superior Court for medical monitoring, intentional infliction of emotional distress, negligent infliction of emotional distress, strict products liability, negligent product liability, trespass, nuisance, diminution in property value, inverse condemnation and injunctive relief, alleging that plaintiffs have been damaged by EMF radiation from SDG&E's power lines. The plaintiffs have not specified damages.

On March 31, 1993 the trial court denied SDG&E's request to set aside all but two of the plaintiffs' claims. On May 25, 1993 the California Court of Appeals denied SDG&E's appeal of the trial court's denial of SDG&E's request to set aside. A subsequent petition for review filed with the California Supreme Court was also denied. On May 27, 1993 SDG&E filed its answer to the complaint and discovery commenced.

On December 16, 1993 Martin and Joyce Covalt filed a complaint against SDG&E in Orange County Superior Court for claims identical to those of the original McCartin plaintiffs. The attorneys for the Covalts have indicated that they will attempt to consolidate their complaint with the McCartin complaint.

SDG&E believes that the allegations made in both complaints are without merit and intends to defend the lawsuit vigorously. The trial is scheduled to begin on April 11, 1994.

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 continuing construction of 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. On July 6, 1993 the court denied the plaintiffs' motion for a temporary restraining order. On July 30, 1993 the court denied the plaintiffs' motion for a preliminary injunction. On September 28, 1993 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 construction of the substation be immediately halted until the CPUC conducts an initial environmental assessment and determines whether an

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environmental impact report is necessary. On September 22, 1993 SDG&E moved to dismiss the complaint on the grounds that the city's environmental review of the project in 1989 was proper and that the city, not the CPUC, has the authority, under the California Environmental Quality Act, to review the potential environmental impacts of substations. On January 7, 1994 the CPUC dismissed the plaintiffs' complaint, ruling that the city had performed all appropriate environmental reviews. One of the plaintiffs has filed an application with the CPUC asking it to reconsider its January 7 decision.

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

BLACKBURN VS. WATT

Beginning on April 4, 1991 approximately 30 homeowners in the "Mar Lado Highlands" real estate development filed a series of complaints in San Diego Superior Court against the developer of the subdivision, TBSD Development, and certain of its affiliates. The complaints allege, among other things, that the defendants made fraudulent and negligent misrepresentations to the plaintiffs in the course of the sale of the plaintiffs' homes. One of the allegations involves the defendants' failure to adequately disclose the siting of a SDG&E electric transmission line near a gasoline pipeline, which the plaintiffs allege creates a significant risk of accident. Furthermore, the plaintiffs allege that the defendants failed to disclose the health risks associated with living in proximity to such power lines. The plaintiffs are seeking rescission, restitution, certain specified and unspecified compensatory damages, punitive damages, and attorneys' fees.

Beginning on June 23, 1993 the defendants filed a series of cross-complaints against several other parties, including SDG&E, for indemnity, breach of warranty, breach of contract, negligence, contribution, declaratory relief and other remedies. The cross-complaints pertaining to SDG&E essentially allege that the defendants had no duty to independently investigate the risks associated with the power lines and that they merely passed along information regarding such risks provided by SDG&E. Therefore, the defendants allege that any liability arising from disclosures or nondisclosures relative to the power lines are the sole responsibility of SDG&E.

SDG&E has filed answers to all of the cross-complaints. SDG&E believes the cross-complaints are without merit and intends to defend these lawsuits vigorously.

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

GRAYBILL/ METROPOLITAN TRANSIT DEVELOPMENT BOARD

GRAYBILL

On February 14, 1992 Graybill Terminal Company and others who own an oil storage tank farm in San Diego filed a complaint against Union Oil Company of California and others in the U.S. District Court for the Southern District of California. The complaint alleges that the land on which the tank farm is situated is contaminated with petroleum products and other chemicals.

On July 21, 1992 three of the defendants, Olson Development Company, 550 El Camino Company and Carl Olson, filed a complaint in the same court against SDG&E and others, alleging, among other things, violation of the Comprehensive Environmental Response Compensation and Liability Act, California Superfund, and other environmental laws. Olson Development and 550 El Camino are previous owners of the allegedly contaminated property. This complaint alleges that SDG&E leased certain tanks, property and pipelines on or adjacent to the allegedly contaminated property and that contamination of soil, ground water, sewer systems and the San Diego Bay occurred during the course of SDG&E's leasing of the tanks, property and pipelines. The plaintiffs are seeking unspecified compensatory damages, indemnity or contribution, and certain declaratory and equitable relief.

On August 10, 1992 SDG&E filed a counterclaim to the third-party complaint. On August 17, 1992 SDG&E also filed a third-party complaint against Union Oil Company. The court has dismissed all negligence causes of action against SDG&E, but all other causes of action remain. Trial has been set for April 1994.

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

METROPOLITAN TRANSIT DEVELOPMENT BOARD

On October 13, 1993 MTDB filed a complaint in the San Diego County Superior Court against certain of the defendants in the Graybill litigation, including SDG&E. MTDB owns property located adjacent to the Graybill site and has alleged that contamination from the Graybill site migrated beneath its property, contaminating the soil and ground water. (MTDB had attempted to intervene in the Graybill litigation, but the judge denied its motion.)

MTDB has alleged that SDG&E stored petroleum products at the Graybill site and was also responsible for certain renovations to the site's fixtures and equipment which stored and/or transported hazardous substances. MTDB has also stated that SDG&E, at one time, owned and operated the MTDB property and also owned certain fuel oil pipelines located on the property. MTDB's complaint alleges, among other things, nuisance, trespass and negligence, and seeks unspecified compensatory and special damages, indemnity, and certain equitable and declaratory relief. On November 24, 1993 SDG&E filed an answer to the complaint denying all of MTDB's allegations.

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

TRANSPHASE SYSTEMS LITIGATION

On May 3, 1993 Transphase Systems, Inc. filed a complaint against Southern California Edison Company and SDG&E in the United States District Court for the Central District of California. The complaint alleged that Edison and SDG&E unlawfully constrained Transphase from selling its thermal energy storage systems under utility-sponsored demand-side management programs in violation of federal and state antitrust and unfair competition laws. The plaintiff claimed not less than \$50 million in actual damages, attorneys' fees, prejudgment interest and costs. The plaintiff also sought certain injunctive relief.

On August 25, 1993 Transphase filed a motion for a preliminary injunction to order SDG&E to cease competitive bidding activities for all generation resources until demand-side-resource providers were permitted to participate.

On October 7, 1993 the court dismissed all of Transphase's causes of action with prejudice. On October 19, 1993 Transphase filed a notice of appeal of the court's dismissal. The appeal is scheduled to be heard by the Ninth Circuit Court of Appeals in May 1994.

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

Additional information concerning competitive bidding is described under "Resources Planning" herein and in the "Management's Discussion & Analysis of Financial Condition and Results of Operations" beginning on Page 18 of the 1993 Annual Report to Shareholders.

TANG LITIGATION

On August 10, 1993 R.C. Tang filed a complaint in the Los Angeles County Superior Court against Southern California Edison Company, SDG&E, and SONGS contractors Westinghouse, Bechtel and Combustion Engineering, for negligence, strict products liability, express and implied warranty, statutory liability, negligent and fraudulent misrepresentation, fraudulent concealment, and negligent infliction of emotional distress, alleging that the plaintiff was damaged by the emission of radiation while serving as an on-site Nuclear Regulatory Commission inspector at SONGS from June 1985 through December 1986. The plaintiff has asked for general compensatory damages and punitive damages.

The defendants removed the case to the United States District Court for the Southern District of California in San Diego on September 2, 1993 and filed an answer on September 14, 1993. On December 13, 1993 the court denied the defendants' motion for summary judgment based on the defendants' compliance with applicable permissive-dose limits of radiation. On February 7, 1994 the

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judge declared a mistrial after the jury deadlocked with a vote of seven to two in favor of R.C. Tang. A new trial date for the case has been set for March 15, 1994.

The defendants believe that the allegations made in this complaint are without merit and intend to defend this lawsuit vigorously.

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

ENVIRONMENTAL ISSUES

Other legal matters related to environmental issues are described under "Environmental, Health and Safety" herein.

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ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

ITEM 4. EXECUTIVE OFFICERS OF THE REGISTRANT

NAME	AGE	POSITIONS (1989 - CURRENT)
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Thomas A. Page	60	Chairman and Chief Executive Officer since January 1983 and President from 1983 through 1991 and since January 1994.
Jack E. Thomas	61	President and Chief Operating Officer from January 1992 until his retirement in January 1994. Executive Vice President and Chief Operating Officer from 1986 through 1991.
Stephen L. Baum	53	Executive Vice President since January 1993. 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	46	Executive Vice President since January 1993. Senior Vice President - Marketing and Resource Development from January 1992 through December 1992. Vice President - Marketing and Resource Development from February 1989 through 1991. Vice President - Marketing from 1986 through January 1989.
Gary D. Cotton	53	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	44	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. Director - Merger Transition from January through December 1989.
R. Lee Haney	54	Senior Vice President - Customer and Marketing Services since January 1993. Senior Vice President - Finance and Chief Financial Officer from 1990 through 1992. Vice President - Finance, Chief Financial Officer and Treasurer from 1988 through 1989.
Nad A. Peterson	67	Senior Vice President and General Counsel since June 1993 and Corporate Secretary since January 1994.
Frank H. Ault	49	Vice President and Controller since January 1993. Controller from May 1986 through December 1992.
Ronald K. Fuller	56	Vice President - Governmental and Regulatory Services since April 1984.
Margot A. Kyd	40	Vice President - Human Resources since January 1993. Vice President - Administrative Services

Item 11. Executive Compensation

The information required by Item 11 is incorporated by reference from "Executive Compensation and Transactions with Management and Others" in SDG&E's March 1994 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 SDG&E's March 1994 Proxy Statement.

Item 13. Certain Relationships and Related Transactions

None.

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PART IV

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 Annual Report*
Responsibility Report for the Consolidated Financial Statements	24
Statements of Consolidated Income for the years ended December 31, 1993, 1992 and 1991.	25
Consolidated Balance Sheets at December 31, 1993 and 1992.	26
Statements of Consolidated Cash Flows for the years ended December 31, 1993, 1992 and 1991	27
Statements of Consolidated Changes in Capital Stock and Retained Earnings for the years ended December 31, 1993, 1992 and 1991.	28
Statements of Consolidated Capital Stock at December 31, 1993 and 1992.	29
Statements of Consolidated Long-Term Debt at December 31, 1993 and 1992.	30
Statements of Consolidated Financial Information by Segments of Business for the years ended December 31, 1993, 1992 and 1991	31
Notes to Consolidated Financial Statements	32
Independent Auditors' Report	38
Quarterly Financial Data (Unaudited).	39

*Incorporated by reference from the indicated pages of the 1993 Annual Report to Shareholders.

2. Financial statement schedules

The following schedules for the years ended December 31, 1993, 1992 and 1991 and the related independent auditors' report will be filed as an amendment to this report:

Schedule II	Amounts Receivable from Related Parties and Underwriters, Promoters and Employees
Schedules V and VI	Property, Plant and Equipment; and Accumulated Depreciation, Depletion and Amortization of Property, Plant and Equipment
Schedule VIII	Valuation and Qualifying Accounts

Schedule IX Short-Term Borrowings

Schedule X Supplementary Income Statement Information

All other schedules are omitted because of the absence of the conditions under which they are required or because the required information is included in the consolidated financial statements and the notes to consolidated financial statements included herein.

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3. Exhibits

The Forms 8, 8-K, 10-K and 10-Q referred to herein were filed under Commission File Number 1-3779.

Exhibit 3 -- Bylaws and Articles of Incorporation

- - Bylaws

3.1 Restated Bylaws - December 20, 1993

- - Articles of Incorporation

3.2 Restated Articles of Incorporation - December 2, 1992 (Incorporated by reference from SDG&E's 1992 Form 10-K, Ex 3.2)

3.3 Certificate of Determination of Preferences of Preference Stock (cumulative), \$1.82 series, without par value, of San Diego Gas & Electric Company.

3.4 Certificate of Determination of Preferences of Preference Stock (cumulative), \$1.70 series, without par value, of San Diego Gas & Electric Company.

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 Registration No. 2-49810, Ex. 2A.)

4.2 Second Supplemental Indenture dated as of March 1, 1948. (Incorporated by reference from Registration No. 2-49810, Ex. 2C.)

4.3 Ninth Supplemental Indenture dated as of August 1, 1968. (Incorporated by reference from Registration No. 2-68420, Ex. 2D.)

4.4 Tenth Supplemental Indenture dated as of December 1, 1968. (Incorporated by reference from Registration No. 2-36042, Ex. 2K.)

4.5 Sixteenth Supplemental Indenture dated August 28, 1975. (Incorporated by reference from Registration No. 2-68420, Ex. 2E.)

4.6 Thirtieth Supplemental Indenture dated September 28, 1983. (Incorporated by reference from Registration No. 33-34017, Ex. 4.3.)

Exhibit 10 -- Material Contracts

10.1 Form of San Diego Gas & Electric Company Deferred Compensation Agreement for Officers #3 (1994 compensation).

10.2 Form of San Diego Gas & Electric Company Deferred Compensation Agreement for Officers #1 (1994 compensation, 1995 incentive).

10.3 Form of San Diego Gas & Electric Company Deferred Compensation Agreement for Nonemployee Directors (1994 compensation).

10.4 Form of San Diego Gas & Electric Company 1986 Long-Term Incentive Plan 1993 restricted stock award agreement.

10.5 Supplemental Executive Retirement Plan adopted on July 15, 1981 and amended on April 24, 1985, October 20, 1986, April 28, 1987, October 24, 1988, November 21, 1988, October 28, 1991, May 28, 1992, May 24, 1993 and November 22, 1993.

10.6 Amended 1986 Long-Term Incentive Plan, Restatement as of October 25,

1993.

10.7 Loan agreement with CIBC Inc. dated as of December 1, 1993.

10.8 Amendment to San Diego Gas & Electric Company and Southern California Gas Company Restated Long-Term Wholesale Natural Gas Service Contract (see Exhibit 10.53) dated March 26, 1993.

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THE FOLLOWING EXHIBITS ARE INCORPORATED BY REFERENCE FROM SDG&E'S JUNE 30, 1993 FORM 10-Q AS REFERENCED BELOW.

10.9 Loan agreement with the California Pollution Control Financing Authority in connection with the issuance of \$80 million of Pollution Control Bonds dated as of June 1, 1993 (Exhibit 10.1).

10.10 Loan agreement with the City of San Diego in connection with the issuance of \$92.7 million of Industrial Development Bonds 1993 Series C dated as of July 1, 1993 (Exhibit 10.2).

THE FOLLOWING EXHIBITS ARE INCORPORATED BY REFERENCE FROM SDG&E'S MARCH 31, 1993 FORM 10-Q AS REFERENCED BELOW.

10.11 Loan agreement with Mellon Bank, N.A dated as of April 15, 1993 (Exhibit 10.1).

10.12 Loan agreement with First Interstate Bank dated as of April 15, 1993 (Exhibit 10.2).

10.13 Loan agreement with the City of San Diego in connection with the issuance of Industrial Development Bonds 1993 Series A dated as of April 1, 1993 (Exhibit 10.3).

10.14 Loan agreement with the City of San Diego in connection with the issuance of Industrial Development Bonds 1993 Series B dated as of April 1, 1993 (Exhibit 10.4).

THE FOLLOWING EXHIBITS ARE INCORPORATED BY REFERENCE FROM SDG&E'S 1992 FORM 10-K AS REFERENCED BELOW.

10.15 Form of San Diego Gas & Electric Company Deferred Compensation Agreement for Officers #3 (1993 compensation) (Exhibit 10.1).

10.16 Form of San Diego Gas & Electric Company Deferred Compensation Agreement for Officers #1 (1993 compensation, 1994 incentive) (Exhibit 10.2).

10.17 Form of San Diego Gas & Electric Company Deferred Compensation Agreement for Nonemployee Directors (1993 compensation) (Exhibit 10.3).

10.18 Form of San Diego Gas & Electric Company 1986 Long-Term Incentive Plan 1992 restricted stock award agreement (Exhibit 10.4).

10.19 Loan agreement with the City of Chula Vista in connection with the issuance of \$250 million of Industrial Development Revenue Bonds, dated as of December 1, 1992 (Exhibit 10.5).

10.20 Loan agreement with the City of San Diego in connection with the issuance of \$25 million of Industrial Development Revenue Bonds, dated as of September 1, 1987 (Exhibit 10.6).

10.21 Nuclear Facilities Qualified CPUC Decommissioning Master Trust Agreement for San Onofre Nuclear Generating Station, approved November 25, 1987 (Exhibit 10.7).

10.22 Nuclear Facilities Non-Qualified CPUC Decommissioning Master Trust Agreement for San Onofre Nuclear Generating Station, approved November 25, 1987 (Exhibit 10.8).

10.23 Amended 1986 Long-Term Incentive Plan (Exhibit 10.9).

10.24 Loan agreement between Mellon Bank, N.A. and San Diego Gas & Electric Company dated December 15, 1992, as amended (Exhibit 10.10).

10.25 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 (Exhibit 10.11).

THE FOLLOWING EXHIBIT IS INCORPORATED BY REFERENCE FROM SDG&E'S SEPTEMBER 30, 1992 FORM 10-Q AS REFERENCED BELOW.

10.26 Loan Agreement with the City of San Diego in connection with the issuance of \$118.6 million of Industrial Development Revenue Bonds dated as of September 1, 1992 (Exhibit 10.1).

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THE FOLLOWING EXHIBITS ARE INCORPORATED BY REFERENCE FROM SDG&E'S 1991 FORM 10-K AS REFERENCED BELOW.

10.27 Gas Purchase Agreement, dated March 12, 1991 between Husky Oil Operations Limited and San Diego Gas & Electric Company (Exhibit 10.1).

10.28 Gas Purchase Agreement, dated March 12, 1991 between Canadian Hunter Marketing Limited and San Diego Gas & Electric Company (Exhibit 10.2).

10.29 Gas Purchase Agreement, dated March 12, 1991 between Bow Valley Industries Limited and San Diego Gas & Electric Company (Exhibit 10.3).

10.30 Gas Purchase Agreement, dated March 12, 1991 between Summit Resources Limited and San Diego Gas & Electric Company (Exhibit 10.4).

10.31 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 (Exhibit 10.5).

10.32 Firm Transportation Service Agreement, dated December 31, 1991 between Pacific Gas and Electric Company and San Diego Gas & Electric Company (Exhibit 10.7).

10.33 Supplemental Executive Retirement Plan adopted on July 15, 1981 and amended on April 24, 1985, October 20, 1986, April 28, 1987, October 24, 1988, November 21, 1988 and October 28, 1991 (Exhibit 10.8).

10.34 Uranium enrichment services contract between the U. S. Department of Energy 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 by modifications dated September 13, 1985, January 8, April 10, June 17 and August 8, 1986, March 26, 1987, February 20 and July 25, 1990, and October 7, 1991 (Exhibit 10.9).

10.35 Loan agreement with California Pollution Control Financing Authority, dated as of December 1, 1985, in connection with the issuance of \$35 million of pollution control bonds (Exhibit 10.10).

10.36 Loan agreement with California Pollution Control Financing Authority, dated as of December 1, 1991, in connection with the issuance of \$14.4 million of pollution control bonds (Exhibit 10.11).

10.37 Form of San Diego Gas & Electric Company Deferred Compensation Agreement for Officers #3 (1992 compensation) (Exhibit 10.16).

10.38 Form of San Diego Gas & Electric Company Deferred Compensation Agreement for Officers #1 (1992 compensation, 1993 incentive) (Exhibit 10.17).

10.39 Form of San Diego Gas & Electric Company Deferred Compensation Agreement for Nonemployee Directors (1992 compensation) (Exhibit 10.18).

10.40 Form of San Diego Gas & Electric Company Deferred Compensation Agreement for Officers #1 (1991 compensation, 1992 incentive) (Exhibit 10.20).

10.41 Loan agreement with the City of San Diego in connection with the issuance of \$44.25 million of Industrial Development Revenue Bonds, dated as of July 1, 1986 (Exhibit 10.36).

10.42 Loan agreement with the City of San Diego in connection with the issuance of \$81.35 million of Industrial Development Revenue Bonds, dated as

of December 1, 1986 (Exhibit 10.37).

10.43 Loan agreement with the City of San Diego in connection with the issuance of \$100 million of Industrial Development Revenue Bonds, dated as of September 1, 1985 (Exhibit 10.38).

10.44 Executive Incentive Plan dated April 23, 1985 (Exhibit 10.39).

10.45 Loan agreement with California Pollution Control Financing Authority dated as of December 1, 1984, in connection with the issuance of \$27 million of pollution control bonds (Exhibit 10.40).

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10.46 Loan agreement with California Pollution Control Financing Authority dated as of May 1, 1984, in connection with the issuance of \$53 million of pollution control bonds (Exhibit 10.41).

10.47 Lease agreement dated as of July 14, 1975 with New England Mutual Life Insurance Company, as lessor (Exhibit 10.42).

THE FOLLOWING EXHIBIT IS INCORPORATED BY REFERENCE FROM SDG&E'S MARCH 31, 1991 FORM 10-Q AS REFERENCED BELOW.

10.48 Firm Transportation Service Agreement, dated April 25, 1991 between Pacific Gas Transmission Company and San Diego Gas & Electric Company (Exhibit 28.2).

THE FOLLOWING EXHIBITS ARE INCORPORATED BY REFERENCE FROM SDG&E'S 1990 FORM 10-K AS REFERENCED BELOW.

10.49 Agreement dated March 19, 1987, for the Purchase and Sale of Uranium Concentrates between SDG&E and Saarberg-Interplan Uran GmbH (assigned to Pathfinder Mines Corporation in June 1993) (Exhibit 10.5).

10.50 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 (Exhibit 10.6).

10.51 San Diego Gas & Electric Company Retirement Plan for Directors, adopted December 17, 1990 (Exhibit 10.7).

10.52 San Diego Gas & Electric Company Executive Severance Allowance Plan, as Amended and Restated, December 17, 1990 (Exhibit 10.8).

10.53 San Diego Gas & Electric Company and Southern California Gas Company Restated Long-Term Wholesale Natural Gas Service Contract, dated September 1, 1990 (Exhibit 10.9).

THE FOLLOWING EXHIBITS ARE INCORPORATED BY REFERENCE FROM SDG&E'S 1989 FORM 10-K AS REFERENCED BELOW.

10.54 Amendment to the San Diego Gas & Electric Company 1986 Long-Term Incentive Plan adopted January 23, 1989 (Exhibit 10B).

10.55 Loan agreement between San Diego Trust & Savings Bank and SDG&E dated January 1, 1989 as amended (Exhibit 10H).

10.56 Loan agreement between Union Bank and SDG&E dated November 1, 1988 as amended (Exhibit 10I).

10.57 Loan agreement between Bank of America National Trust & Savings Association and SDG&E dated November 1, 1988 as amended (Exhibit 10J).

10.58 Loan agreement between First Interstate Bank of California and SDG&E dated November 1, 1988 as amended (Exhibit 10K).

THE FOLLOWING EXHIBITS ARE INCORPORATED BY REFERENCE FROM SDG&E'S 1988 FORM 10-K AS REFERENCED BELOW.

10.59 Severance Plan as amended August 22, 1988 (Exhibit 10A).

10.60 U. S. Navy contract for electric service, Contract N62474-70-C-1200-P00414, dated September 29, 1988 (Exhibit 10C).

10.61 Employment agreement between San Diego Gas & Electric Company and Thomas A. Page, dated June 15, 1988 (Exhibit 10E).

10.62 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 (Exhibit 10H).

10.63 San Diego Gas & Electric Company and Portland General Electric Company Long-Term Power Sale and Transmission Service agreements dated November 5, 1985 (Exhibit 10I).

10.64 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 (Exhibit 10J).

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10.65 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 (Exhibit 10N).

10.66 Agreement with Arizona Public Service Company for Arizona transmission system participation agreement - contract 790116 (Exhibit 10P).

10.67 City of San Diego Electric Franchise (Ordinance No.10466) (Exhibit 10Q).

10.68 City of San Diego Gas Franchise (Ordinance No.10465) (Exhibit 10R).

10.69 County of San Diego Electric Franchise (Ordinance No.3207) (Exhibit 10S).

10.70 County of San Diego Gas Franchise (Ordinance No.5669) (Exhibit 10T).

10.71 Supplemental Pension Agreement with Thomas A. Page, dated as of April 3, 1978 (Exhibit 10V).

10.72 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 (Exhibit 10W).

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, 1993, 1992, 1991, 1990 and 1989.

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 1993 Annual Report to Shareholders.

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

Exhibit 24 - Independent Auditors' Consent, Page 37.

(b) Reports on Form 8-K:

A Current Report on Form 8-K was filed on December 22, 1993 to report the resignation of Douglas O. Allred from SDG&E's Board of Directors.

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We consent to the incorporation by reference of our report dated February 25, 1994 (which report contains an explanatory paragraph referring to the Company's consideration of alternative strategies for its 80 percent-owned subsidiary, Wahlco Environmental Systems, Inc.) appearing on page 38 of the 1993 Annual Report to Shareholders of San Diego Gas & Electric Company in this Annual Report on Form 10-K for the year ended December 31, 1993.

We also consent to the incorporation by reference of the above-mentioned report in San Diego Gas & Electric Company Post-Effective Amendment No. 1 to Registration Statement No. 33-46736 on Form S-3, Post-Effective Amendment No. 4 to Registration Statement No. 2-71653 on Form S-8, Registration Statement No. 33-7108 on Form S-8, Amendment No. 1 to Registration Statement No. 33-21971 on Form S-3, 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; and SDO Parent Co., Inc. Registration Statement No. 2-98332 on Form S-4 as amended by Post-Effective Amendment No. 1 on Form S-3.

Deloitte & Touche
San Diego, California
March 3, 1994

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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, thereunto duly authorized.

SAN DIEGO GAS & ELECTRIC COMPANY

February 28, 1994

By: /s/ Thomas A. Page

Thomas A. Page
Chairman, 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.

Signature	Title	Date
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Principal Executive Officer:

/s/ Thomas A. Page

Thomas A. Page Chairman, President and Chief February 28, 1994
Executive Officer and a
Director

Principal Financial Officer:

/s/ Malyn K. Malquist

Malyn K. Malquist Vice President-Finance and February 28, 1994
Treasurer

Principal Accounting Officer:

/s/ Frank H. Ault

Frank H. Ault Vice President and Controller February 28, 1994

Directors:

/s/ Richard C. Atkinson

Richard C. Atkinson Director

February 28, 1994

/s/ Ann Burr

Ann Burr Director

February 28, 1994

/s/ Richard A. Collato

Richard A. Collato Director

February 28, 1994

/s/ Daniel W. Derbes

Daniel W. Derbes Director

February 28, 1994

/s/ Robert H. Goldsmith

Robert H. Goldsmith Director

February 28, 1994

/s/ Ralph R. Ocampo

Ralph R. Ocampo Director

February 28, 1994

/s/ Catherine Fitzgerald Wiggs

Catherine Fitzgerald Wiggs Director

February 28, 1994

BYLAWS OF SAN DIEGO GAS & ELECTRIC COMPANY

RESTATED AS OF DECEMBER 20, 1993

ARTICLE ONE

Corporate Management

The business and affairs of the corporation shall be managed, and all corporate powers shall be exercised, by or under the direction of the Board of Directors ("the Board"), subject to the Articles of Incorporation and the California Corporations Code.

ARTICLE TWO

Officers

Section 1. DESIGNATION. The officers of the corporation shall consist of a Chairman of the Board ("Chairman") or a President, or both, one or more Vice Presidents, a Secretary, one or more Assistant Secretaries, a Treasurer, one or more Assistant Treasurers, a Controller, one or more Assistant Controllers, and such other officers as the Board may from time to time elect. Any two or more of such offices may be held by the same person.

Section 2. TERM. The officers shall be elected by the Board as soon as possible after the annual meeting of the Shareholders, and shall hold office for one year or until their successors are duly elected. Any officers may be removed from office at any time, with or without cause, by the vote of a majority of the authorized number of Directors. The Board may fill vacancies or elect new officers at any time.

Section 3. CHAIRMAN. The Chairman shall preside over meetings of the Shareholders and of the Board, make a full report to each Shareholders' annual meeting covering the next preceding fiscal year, and perform all other duties designated by the Board.

Section 4. THE PRESIDENT. The President shall have the general management and direction of the affairs of the corporation, subject to the control of the Board. In the absence or disability of the Chairman, the President shall perform the duties and exercise the powers of the Chairman.

Section 5. VICE PRESIDENTS. The Vice Presidents, one of whom shall be the chief financial officer, shall have such duties as the President or the Board shall designate.

Section 6. CHIEF FINANCIAL OFFICER. The Chief Financial Officer shall be responsible for the issuance of securities and the management of the corporation's cash, receivables and temporary investments.

Section 7. SECRETARY AND ASSISTANT SECRETARY. The Secretary shall attend all meetings of the Shareholders and the Board, keep a true and accurate record of the proceedings of all such meetings and attest the same by his or her signature, have charge of all books, documents and papers which appertain to the office, have custody of the corporate seal and affix it to all papers and documents requiring sealing, give all notices of meetings, have the custody of the books of stock certificates and transfers, issue all stock certificates, and perform all other duties usually appertaining to the office and all duties designated by the bylaws, the President or the Board. In the absence of the Secretary, any Assistant Secretary may perform the duties and shall have the powers of the Secretary.

Section 8. TREASURER AND ASSISTANT TREASURER. The Treasurer shall perform all duties usually appertaining to the office and all duties designated by the President or the Board. In the absence of the Treasurer, any Assistant Treasurer may perform the duties and shall have all the powers of the Treasurer.

Section 9. CONTROLLER AND ASSISTANT CONTROLLER. The Controller shall be responsible for establishing financial control policies for the corporation, shall be its principal accounting officer, and shall perform all duties usually appertaining to the office and all duties designated by the President or the Board. In the absence of the Controller, any Assistant Controller may perform the duties and shall have all the powers of the Controller.

Section 10. CHIEF EXECUTIVE OFFICER. Either the Chairman or the President shall be the chief executive officer.

Section 11. CHIEF OPERATING OFFICER. Either the President or any Vice President shall be the chief operating officer.

ARTICLE THREE

Directors

Section 1. NUMBER. The authorized number of Directors shall be from a minimum of seven to a maximum of thirteen, unless changed by the vote or written consent of holders of a majority of outstanding shares entitled to vote. The Board of Directors shall fix by resolution the number of Directors comprising the Board within the stated minimum and maximum number at its discretion and without Shareholder approval.

Section 2. ELECTION. A Board shall be elected at each annual meeting of the Shareholders, at any adjournment thereof, or at any special meeting of the Shareholders called for that purpose. The Directors shall hold office for one year or until their successors are duly elected. Any candidate nominated by management for election to the Board shall be so nominated without regard to his or her sex, race, color or creed.

Section 3. VACANCIES. Vacancies in the Board may be filled by a majority of the remaining Directors, though less than a quorum, and each Director so elected shall hold office for the unexpired term and until his or her successor is elected.

Section 4. COMPENSATION. Members of the Board shall receive such compensation as the Board may from time to time determine.

Section 5. REGULAR MEETINGS. The regular meetings of the Board shall be held immediately after each annual meeting of the Shareholders in April, and on the fourth Monday of each other month, at 1:00 p.m. at the principal office of the corporation in San Diego, California. If any such date is a legal holiday, the meeting shall be held on the next day which is not a holiday. The Board may cancel, or designate a different date, time or place for any regular meeting.

Section 6. SPECIAL MEETINGS. Special meetings of the Board may be called at any time by the Chairman, the President or any two Directors.

Section 7. NOTICE OF MEETINGS. Written notice shall be given to each Director of the date, time and place of each regular meeting and each special meeting of the Board. If given by mail, such notice shall be mailed to each Director at least four days before the date of such meeting, or such notice may be given to each Director personally or by telegram at least 48 hours before the time of such meeting. Every notice of special meeting shall state the purpose for which such meeting is called. Notice of a meeting need not be given to any Director who signs a waiver of notice, whether before or after the meeting, or who attends the meeting without protesting, prior thereto or at its commencement, the lack of notice to such Director.

Section 8. QUORUM. A majority of the authorized number of Directors shall be necessary to constitute a quorum for the transaction of business, and every act or decision of a majority of the Directors present at a meeting at which a quorum is present shall be valid as the act of the Board, provided that a meeting at which a quorum is initially present may continue to transact business, notwithstanding the withdrawal of Directors, if any action taken is approved by at least a majority of the required quorum for such meeting. A majority of Directors present at any meeting, in the absence of a quorum, may adjourn to another time.

Section 9. ACTION UPON CONSENT. Any action required or permitted

to be taken by the Board may be taken without a meeting, if all members of the Board shall individually or collectively consent in writing to such action.

Section 10. TELEPHONIC PARTICIPATION. Members of the Board may participate in a meeting through use of conference telephone or similar communications equipment, so long as all members participating in the meeting can hear one another. Such participation constitutes presence in person at the meeting.

Section 11. DIRECTORS EMERITUS. The Board may from time to time elect one or more Directors Emeritus. Each Director Emeritus shall have the privilege of attending meetings of the Board, upon invitation of the Chairman or the President. No Director Emeritus shall be entitled to vote on any business coming before the Board or be counted as a member of the Board for any purpose whatsoever.

ARTICLE FOUR

Committees

Section 1. EXECUTIVE COMMITTEE. The Board shall appoint an Executive Committee. The Chairman shall be ex officio the Chairman thereof, unless the Board shall appoint another member as Chairman. The Executive Committee shall be composed of members of the Board, and shall at all times be subject to its control. The Executive Committee shall have all the authority of the Board, except with respect to:

- (a) The approval of any action which also requires Shareholders' approval.
- (b) The filling of vacancies on the Board or on any committee.
- (c) The fixing of compensation of the Directors for serving on the Board or on any committee.
- (d) The amendment or repeal of bylaws or the adoption of new bylaws.
- (e) The amendment or repeal of any resolution of the Board which by its express terms is not so amendable or repealable.
- (f) A distribution to the Shareholders.
- (g) The appointment of other committees of the Board or the members thereof.

Section 2. AUDIT COMMITTEE. The Board shall appoint an Audit Committee comprised solely of Directors who are neither officers nor employees of the corporation and who are free from any relationship that, in the opinion of the Board, would interfere with the exercise of independent judgment as committee members. The Audit Committee shall review and make recommendations to the Board with respect to:

- (a) The engagement of an independent accounting firm to audit the corporation's financial statements and the terms of such engagement.
- (b) The policies and procedures for maintaining the corporation's books and records and for furnishing appropriate information to the independent auditor.
- (c) The evaluation and implementation of any recommendations made by the independent auditor.
- (d) The adequacy of the corporation's internal audit controls and related personnel.
- (e) Such other matters relating to the corporation's financial affairs and accounts as the Committee deems desirable.

Section 3. OTHER COMMITTEES. The Board may appoint such other committees of its members as it shall deem desirable, and, within the

limitations specified for the Executive Committee, may vest such committees with such powers and authorities as it shall see fit, and all such committees shall at all times be subject to its control.

Section 4. NOTICE OF MEETINGS. Notice of each meeting of any committee of the Board shall be given to each member of such committee, and the giving of such notice shall be subject to the same requirements as the giving of notice of meetings of the Board, unless the Board shall establish different requirements for the giving of notice of committee meetings.

Section 5. CONDUCT OF MEETINGS. The provisions of these bylaws with respect to the conduct of meetings of the Board shall govern the conduct of committee meetings. Written minutes shall be kept of all committee meetings.

ARTICLE FIVE

Shareholder Meetings

Section 1. ANNUAL MEETING. The annual meeting of the Shareholders shall be held at 11:00 a.m. on the fourth Tuesday in April in each year or on a date and at a time determined to be appropriate by the Board of Directors. If such day is a legal holiday, the meeting shall be held on the next day which is not a holiday.

Section 2. SPECIAL MEETINGS. Special meetings of the Shareholders for any purpose whatsoever may be called at any time by the Chairman, the President, or the Board, or by one or more Shareholders holding not less than one-tenth of the voting power of the corporation.

Section 3. PLACE OF MEETINGS. All meetings of the Shareholders shall be held at the principal office of the corporation in San Diego, California, or at such other locations as may be designated by the Board.

Section 4. NOTICE OF MEETINGS. Written notice shall be given to each Shareholder entitled to vote of the date, time, place and general purpose of each meeting of Shareholders. Notice may be given personally, or by mail, or by telegram, charges prepaid, to the Shareholder's address appearing on the books of the corporation. If a Shareholder supplies no address to the corporation, notice shall be deemed to be given if mailed to the place where the principal office of the corporation is situated, or published at least once in some newspaper of general circulation in the county of said principal office. Notice of any meeting shall be sent to each Shareholder entitled thereto not less than 10 or more than 60 days before such meeting.

Section 5. VOTING. The Board may fix a time in the future not less than 10 or more than 60 days preceding the date of any meeting of Shareholders, or not more than 60 days preceding the date fixed for the payment of any dividend or distribution, or for the allotment of rights, or when any change or conversion or exchange of shares shall go into effect, as a record date for the determination of the Shareholders entitled to notice of and to vote at any such meeting or entitled to receive any such dividend or distribution, or any such allotment of rights, or to exercise the rights in respect to any such change, conversion, or exchange of shares. In such case only Shareholders of record at the close of business on the date so fixed shall be entitled to notice of and to vote at such meeting or to receive such dividend, distribution or allotment of rights, or to exercise such rights, as the case may be, notwithstanding any transfer of any shares on the books of the corporation after any record date fixed as aforesaid. The Board may close the books of the corporation against any transfer of shares during the whole or any part of such period.

Section 6. QUORUM. At any Shareholders' meeting a majority of the shares entitled to vote must be represented in order to constitute a quorum for the transaction of business, but a majority of the shares present, or represented by proxy, though less than a quorum, may adjourn the meeting to some other date, and from day to day or from time to time thereafter until a quorum is present.

Section 7. ELIMINATION OF CUMULATIVE VOTING. No holder of any class of stock of the corporation shall be entitled to cumulate votes at any election of Directors of the corporation.

ARTICLE SIX

Certificate of Shares

Section 1. FORM. The Certificates of Shares of the corporation shall state the name of the registered holder of the shares represented thereby, and shall be signed by the Chairman or the President or a Vice President, and by the Secretary or an Assistant Secretary. Any such signature may be by facsimile thereof.

Section 2. SURRENDER. Upon a surrender to the Secretary, or to a transfer agent or transfer clerk of the corporation, of a certificate or shares duly endorsed or accompanied by proper evidence of succession, assignment or authority to transfer, the corporation shall issue a new certificate to the party entitled thereto, cancel the old certificate and record the transaction upon its books.

Section 3. RIGHT OF TRANSFER. When a transfer of shares on the books is requested, and there is a reasonable doubt as to the rights of the persons seeking such transfer, the corporation, or its transfer agent or transfer clerk, before entering the transfer of the shares on its books or issuing any certificate therefor, may require from such person reasonable proof of his or her rights, and, if there remains a reasonable doubt in

respect thereto, may refuse a transfer unless such person shall give adequate security or a bond of indemnity executed by a corporate surety, or by two individual sureties, satisfactory to the corporation as to form, amount and responsibility of sureties.

Section 4. CONFLICTING CLAIMS. The corporation shall be entitled to treat the holder of record of any shares as the holder in fact thereof and shall not be bound to recognize any equitable or other claim to or interest in such shares on the part of any other person, whether or not it shall have express or other notice thereof, save as expressly provided by the laws of the State of California.

Section 5. LOSS, THEFT AND DESTRUCTION. In the case of the alleged loss, theft or destruction of any certificate of shares, another may be issued in its place as follows: (1) the owner of the lost, stolen or destroyed certificate shall file with the transfer agent of the corporation a duly executed Affidavit or Loss and Indemnity Agreement and Certificate of Coverage, accompanied by a check representing the cost of the bond as outlined in any blanket lost securities and avoid administration bond previously approved by the Directors of the corporation and executed by a surety company satisfactory to them, which bond shall indemnify the corporation, its transfer agents and registrars; or (2) the Board may, in its discretion, authorize the issuance of a new certificate to replace a lost, stolen or destroyed certificate on such other terms and conditions as it may determine to be reasonable.

ARTICLE SEVEN

Indemnification of Agents of the Corporation

Section 1: DEFINITIONS. For the purposes of this Article Seven, "agent" means any person who (i) is or was a director, officer, employee or other agent of the Corporation, (ii) is or was serving at the request of the Corporation as a director, officer, employee or agent of another foreign or domestic corporation, partnership, joint venture, trust or other enterprise or (iii) was a director, officer, employee or agent of a foreign or domestic Corporation which was a predecessor corporation of the Corporation or of another enterprise at the request of such predecessor Corporation; "proceeding" means any threatened, pending or completed action or proceeding, whether civil, criminal, administrative or investigative; and "expenses" includes, without limitation, attorneys' fees and any expenses of establishing a right to indemnification under Sections 4 or 5(c) of this Article Seven.

Section 2: INDEMNIFICATION FOR THIRD PARTY ACTIONS. The Corporation shall have the power to indemnify any person who is or was a

party, or is threatened to be made a party, to any proceeding (other than an action by or in the right of the Corporation to procure a judgment in its favor) by reason of the fact that such person is or was an agent of the Corporation against expenses, judgments, fines, settlements and other amounts actually and reasonably incurred in connection with such proceeding if such person acted in good faith and in a manner such person reasonably believed to be in the best interests of the Corporation and, in the case of a criminal proceeding, had no reasonable cause to believe the conduct of such person was unlawful. The termination of any proceeding by judgment, order, settlement, conviction or upon a plea of nolo contendere or its equivalent shall not, of itself, create a presumption that the person did not act in good faith and in a manner which the person reasonably believed to be in the best interests of the Corporation or that the person had reasonable cause to believe that the person's conduct was unlawful.

Section 3: INDEMNIFICATION FOR DERIVATIVE ACTIONS. The Corporation shall have the power to indemnify any person who is or was a party, or is threatened to be made a party, to any threatened, pending or completed action by or in the right of the Corporation to procure a judgment in its favor by reason of the fact that such person is or was an agent of the Corporation against expenses actually and reasonably incurred by such person in connection with the defense or settlement of such action if such person acted in good faith, in a manner such person believed to be in the best interests of the Corporation and its shareholders. No Indemnification shall be made under this Section 3:

- (a) In respect of any claim, issue or matter as to which such person shall have been adjudged to be liable to the Corporation in the performance of such person's duty to the Corporation and its shareholders, unless and only to the extent that the court in which such proceeding is or was pending shall determine upon application that, in view of all the circumstances of the case, such person is fairly and reasonably entitled to indemnity for expenses and then only to the extent that the court shall determine; or
- (b) Of amounts paid in settling or otherwise disposing of a pending action without court approval; or
- (c) Of expenses incurred in defending a pending action which is settled or otherwise disposed of without court approval.

Section 4: SUCCESSFUL DEFENSE. Notwithstanding any other provision of this Article, to the extent that an agent of the Corporation has been successful on the merits or otherwise (including the dismissal of an action without prejudice or the settlement of a proceeding or action without admission of liability) in defense of any proceeding referred to in Sections 2 or 3 of this Article, or in defense of any claim, issue or matter therein, he or she shall be indemnified against expenses (including attorneys' fees) actually and reasonably incurred in connection therewith.

Section 5: DISCRETIONARY INDEMNIFICATION. Except as provided in Section 4 of this Article Seven, any indemnification under Section 3 thereof shall be made by the Corporation only if authorized in the specific case, upon a determination that indemnification of the agent is proper in the circumstances because the agent has met the applicable standard of conduct set forth in Section 3, by:

- (a) A majority vote of a quorum consisting of directors who are not parties to such proceeding;
- (b) If such a quorum of directors is not obtainable, by independent legal counsel in a written opinion;
- (c) Approval by the affirmative vote of a majority of the shares of this Corporation represented and voting at a duly held meeting at which a quorum is present (which shares voting affirmatively also constitute at least a majority of the required quorum) or by the written consent of holders of a majority of the outstanding shares which would be entitled to vote at such meeting and, for such purpose, the shares owned by the person to be indemnified shall not be considered outstanding or entitled to vote; or
- (d) The court in which such proceeding is or was pending, upon

application made by the Corporation, the agent or the attorney or other person rendering services in connection with the defense, whether or not such application by said agent, attorney or other person is opposed by the Corporation.

Section 6: ADVANCEMENT OF EXPENSES. Expenses incurred in defending any proceeding may be advanced by the Corporation prior to the final disposition of such proceeding upon receipt of an undertaking by or on behalf of the agent to repay such amount if it shall be determined ultimately that the agent is not entitled to be indemnified as authorized in this Article Seven.

Section 7: RESTRICTION ON INDEMNIFICATION. No indemnification or advance shall be made under this Article Seven, except as provided in Sections 4 and 6 thereof, in any circumstance where it appears:

- (a) That it would be inconsistent with a provision of the Restated Articles of Incorporation of the Corporation, its bylaws, a resolution of the shareholders or an agreement in effect at the time of the accrual of the alleged cause of action asserted in the proceeding in which the expenses were incurred or other amounts were paid which prohibits or otherwise limits indemnification; or
- (b) That it would be inconsistent with any condition expressly imposed by a court in approving a settlement.

Section 8: NON-EXCLUSIVE. In the absence of any other basis for indemnification of an agent, the Corporation can indemnify such agent pursuant to this Article Seven. The indemnification provided by this Article Seven shall not be deemed exclusive of any other rights to which those seeking indemnification may be entitled under any statute, bylaw, agreement, vote of shareholders or disinterested directors or otherwise, both as to action in an official capacity and as to action in another capacity while holding such office. The rights to indemnification under this Article Seven shall continue as to a person who has ceased to be a director, officer, employee, or agent and shall inure to the benefit of the heirs, executors, and administrators of the person. Nothing contained in this Section 8 shall affect any right to indemnification to which persons other than such directors and officers may be entitled by contract or otherwise.

Section 9: EXPENSES AS A WITNESS. To the extent that any agent of the Corporation is by reason of such position, or a position with another entity at the request of the Corporation, a witness in any action, suit or proceeding, he or she shall be indemnified against all costs and expenses actually and reasonably incurred by him or her or on his or her behalf in connection therewith.

Section 10: INSURANCE. The Board may purchase and maintain directors and officers liability insurance, at its expense, to protect itself and any director, officer or other named or specified agent of the Corporation or another Corporation, partnership, joint venture, trust or other enterprise against any expense, liability or loss asserted against or incurred by the agent in such capacity or arising out of the agent's status as such, whether or not the Corporation would have the power to indemnify the agent against such expense, liability or loss under the provisions of this Article Seven or under California Law.

Section 11: SEPARABILITY. Each and every paragraph, sentence, term and provision of this Article Seven is separate and distinct so that if any paragraph, sentence, term or provision hereof shall be held to be invalid or unenforceable for any reason, such invalidity or unenforceability shall not affect the validity or unenforceability of any other paragraph, sentence, term or provision hereof. To the extent required, any paragraph, sentence, term or provision of this Article may be modified by a court of competent jurisdiction to preserve its validity and to provide the claimant with, subject to the limitations set forth in this Article and any agreement between the Corporation and claimant, the broadest possible indemnification permitted under applicable law. If this Article Seven or any portion thereof shall be invalidated on any ground by any court of competent jurisdiction, then the Corporation shall nevertheless have the power to indemnify each director, officer, employee, or other agent against expenses (including attorney's fees), judgments, fines and amounts paid in settlement with respect to any action, suit, proceeding or investigation, whether civil, criminal or administrative, and whether internal or external, including a grand jury proceeding and including an action or suit brought by or in the right of the Corporation, to the full extent permitted by any applicable

portion of this Article Seven that shall not have been invalidated or by any other applicable law.

Section 12: AGREEMENTS. Upon, and in the event of, a determination of the Board to do so, the Corporation is authorized to enter into indemnification agreements with some or all of its directors, officers, employees and other agents providing for indemnification to the fullest extent permissible under California law and the Corporation's Restated Articles of Incorporation.

Section 13: RETROACTIVE APPEAL. In the event this Article Seven is repealed or modified so as to reduce the protection afforded herein, the indemnification provided by this Article shall remain in full force and effect with respect to any act or omission occurring prior to such repeal or modification.

ARTICLE EIGHT

Obligations

All obligations of the corporation, including promissory notes, checks, drafts, bills of exchange, and contracts of every kind, and evidences of indebtedness issued in the name of, or payable to, or executed on behalf of the corporation, shall be signed or endorsed by such officer or officers, or agent or agents, of the corporation and in such manner as, from time to time, shall be determined by the Board.

ARTICLE NINE

Corporate Seal

The corporate seal shall set forth the name of the corporation, state, and date of incorporation.

ARTICLE TEN

Amendments

These bylaws may be adopted, amended, or repealed by the vote of Shareholders entitled to exercise a majority of the voting power of the corporation or by the written assent of such Shareholders. Subject to such right of Shareholders, these bylaws, other than a bylaw or amendment thereof changing the authorized number of Directors, may be adopted, amended or repealed by the Board.

ARTICLE ELEVEN

Availability of Bylaws

A current copy of these bylaws shall be mailed or otherwise furnished to any Shareholder of record within five days after receipt of a request therefor.

EXHIBIT 3.3

CERTIFICATE OF DETERMINATION OF PREFERENCES
OF PREFERENCE STOCK (CUMULATIVE), \$1.82 SERIES,
WITHOUT PAR VALUE, OF
SAN DIEGO GAS & ELECTRIC COMPANY

MALYN K. MALQUIST and CONSTANCE K. GOATES certify that:

1. They are the Vice President of Finance and Treasurer, and the Assistant Secretary, respectively, of San Diego Gas & Electric Company, a California corporation.

2. The Executive Committee of the Board of Directors duly adopted the following resolutions:

NOW, THEREFORE, BE IT RESOLVED, that Six Hundred Forty Thousand (640,000) shares of this Corporation's unissued Preference Stock (Cumulative), without par value, shall constitute a series designated "Preference Stock (Cumulative), \$1.82 Series, Without Par Value" (referred to hereinafter as the "\$1.82 Series Preference Stock"), and having the rights, preferences, privileges and restrictions as follows:

SECTION I.

DIVIDEND RATE, LIQUIDATION PREFERENCES

1.1 DIVIDEND RATE. The holders of the \$1.82 Series Preference Stock shall be entitled to receive cumulative dividends at the rate of \$.455 per share per quarterly period from the date on which each respective share of the \$1.82 Series Preference Stock is originally issued. The first such dividends shall be payable on January 15, 1994 for the period commencing on the date of original issuance of the \$1.82 Series Preference Stock and ending on said January 15, and thereafter quarterly on the fifteenth day of January, April, July and October in each year.

1.2 PRO-RATA DIVIDENDS. The Corporation shall not declare or pay any dividend on any shares of the \$1.82 Series Preference Stock or on any shares of any other series of Preference Stock (Cumulative) or Cumulative Preferred Stock of the Corporation (together, the "Preferred Stock") which ranks on a parity with the \$1.82 Series Preference Stock for any quarterly dividend period unless the Corporation shall declare and pay or set apart for payment a ratable dividend on the \$1.82 Series Preference Stock and such parity Preferred Stock in proportion to the full preferential amounts to which each such series is entitled.

1.3 LIQUIDATION PREFERENCES. In the event of any liquidation, dissolution or winding-up of the Corporation, the holders of the \$1.82 Series Preference Stock shall be entitled to receive out of the assets of the Corporation available for distribution to shareholders, before any distribution of the assets shall be made to the holders of the Common Stock or any other class or series of stock ranking as to dividends or assets junior to the \$1.82 Series Preference Stock, \$25.00 per share, plus an amount equal to the dividends accrued and unpaid thereon, whether or not declared, to the date fixed for payment.

1.4 PRO-RATA DISTRIBUTION. If upon any liquidation, dissolution or winding-up of the Corporation, the amounts payable with respect to the \$1.82 Series Preference Stock and any other series of Preferred Stock of the Corporation which ranks on a parity with the \$1.82 Series Preference Stock are not paid in full, the holders of the \$1.82 Series Preference Stock and such parity Preferred Stock shall share ratably in any distribution of assets in proportion to the full preferential amounts to which they are entitled.

SECTION 2

REDEMPTION

2.1 OPTIONAL REDEMPTION. The \$1.82 Series Preference stock shall not be redeemable prior to November 15, 1998. Thereafter, the \$1.82 Series Preference Stock shall be redeemable, at the option of the Corporation, at any time as a whole, or from time to time in part, at \$26.00 per share, plus in each case an amount equal to dividends accrued and unpaid thereon to the redemption date.

2.2 GENERAL. At least 30 (but not more than 60) days' previous notice of every redemption of the \$1.82 Series Preference Stock pursuant to section 2.1 shall be mailed, addressed to the holders of record of the shares to be redeemed at their respective addresses, as the same shall appear on the books of the Corporation, or in any case where no such address shall appear, then addressed to such shareholder at the principal office of the Corporation, but the failure to mail such notice as aforesaid shall not invalidate the redemption of the shares so redeemed. The particular shares of \$1.82 Series Preference Stock to be redeemed by reason of section 2.1 shall be selected pro-rata in proportion to the number of shares of \$1.82 Series Preference Stock held by such holder; provided that any fractional share that would otherwise be redeemed by virtue of any pro-rata redemption shall be rounded to the nearest whole share.

SECTION 3.
MISCELLANEOUS PROVISIONS

3.1 RANKING. The \$1.82 Series Preference Stock shall rank equally with all series of the Cumulative Preferred Stock (\$20 par value) and all series of Preference Stock (Cumulative) of the Corporation with respect to priority in the payment of dividends, mandatory redemptions, and in the distribution of assets upon any liquidation, whether voluntary or involuntary.

3.2 RESTRICTIONS ON DIVIDEND RIGHTS AND ACQUISITIONS OF OTHER STOCK. So long as any of the \$1.82 Series Preference Stock is outstanding, the Corporation shall not declare or pay any dividend on or make any distribution of property with respect to any of the Common Stock or on any other stock of the Corporation having rights or preferences as to dividends or assets junior to the rights and preferences of the \$1.82 Series Preference Stock, or redeem, purchase or otherwise acquire any such stock or any stock on a parity with the \$1.82 Series Preference Stock for value unless in each case full cumulative dividends on the \$1.82 Series Preference Stock then due and payable shall have been declared and paid or a sum in cash sufficient for the payment thereof set apart for payment.

3.3 STATUS OF REDEEMED OR REACQUIRED SHARES. All shares of \$1.82 Series Preference Stock redeemed or otherwise reacquired by the Corporation shall not be reissued or otherwise disposed of as part of the series created hereby but shall be retired and restored to the status of authorized but unissued shares of Preference Stock (Cumulative).

3.4 NO CONVERSION RIGHTS. No \$1.82 Series Preference Stock shall be convertible into or exchangeable for other securities of the Corporation.

3.5 VOTING RIGHTS. The holders of the \$1.82 Series Preference Stock shall have the voting rights set forth with respect to the Corporation's Preference Stock (Cumulative) in the Restated Articles of Incorporation of the Corporation.

3.6 INCORPORATION BY REFERENCE. The rights, preferences, privileges and restrictions expressly set forth in the Corporation's Restated Articles of Incorporation, as amended, with respect to Preference Stock (Cumulative) are hereby incorporated by this reference.

3. The total number of shares of Preference Stock (Cumulative) which this corporation is authorized to issue is 10,000,000 and the total number of shares constituting the series designated "Preference Stock (Cumulative), \$1.82 Series, Without Par Value" is 640,000, and none of the shares of said series have been issued.

We further declare under penalty of perjury under the laws of the State of California that we have read the foregoing Certificate and know the contents thereof and that the same is true and correct of our own knowledge.

Date: November 15, 1993

Malyn K. Malquist, Vice President of Finance and

Treasurer of San Diego Gas & Electric Company

Date: November 15, 1993

Constance K. Goates, Assistant Secretary of San
Diego Gas & Electric Company

CERTIFICATE OF DETERMINATION OF PREFERENCES
OF PREFERENCE STOCK (CUMULATIVE), \$1.70 SERIES,
WITHOUT PAR VALUE, OF
SAN DIEGO GAS AND ELECTRIC COMPANY

THOMAS A. PAGE and D. M. RICHARDSON certify that:

1. They are the Chairman of the Board and Chief Executive Officer, and the Corporate Secretary, respectively, of San Diego Gas and Electric Company, a California corporation.

2. The total number of shares of Preference Stock (Cumulative) which this corporation is authorized to issue is 10,000,000 and the total number of shares constituting the series designated "Preference Stock (Cumulative), \$1.70 Series, Without Par Value" is 1,400,000 and none of the shares of said series have been issued.

3. The Executive Committee of the Board of Directors duly adopted the following resolutions:

NOW, THEREFORE, BE IT RESOLVED, that One Million Four Hundred Thousand (1,400,000) shares of this Corporation's unissued Preference Stock (Cumulative), without par value, shall constitute a series designated "Preference Stock (Cumulative), \$1.70 Series, Without Par Value" (referred to hereinafter as the "\$1.70 Series Preference Stock"), and having the rights, preferences, privileges and restrictions as follows:

SECTION
DIVIDEND RATE, LIQUIDATION PREFERENCES

1.1 DIVIDEND RATE. The holders of the \$1.70 Series Preference Stock shall be entitled to receive cumulative dividends at the rate of \$.425 per share per quarterly period from the date on which each respective share of the \$1.70 Series Preference Stock is originally issued. The first such dividends shall be payable on October 15, 1993 for the period commencing on the date of original issuance of the \$1.70 Series Preference Stock and ending on said October 15, and thereafter quarterly on the fifteenth day of January, April, July and October in each year. Dividends payable on the \$1.70 Series Preference Stock for any period less than a full quarterly dividend period, including the initial dividend period, shall be computed on the basis of a 360-day year consisting of 12 30-day months.

1.2 PRO-RATA DIVIDENDS. The Corporation shall not declare or pay any dividend on any shares of the \$1.70 Series Preference Stock or on any shares of any other series of Preference Stock (Cumulative) or Cumulative Preferred Stock of the Corporation (together, the "Preferred Stock") which ranks on a parity with the \$1.70 Series Preference Stock for any quarterly dividend period unless the Corporation shall declare and pay or set apart for payment a ratable dividend on the \$1.70 Series Preference Stock and such parity Preferred Stock in proportion to the full preferential amounts to which each such series is entitled.

1.3 LIQUIDATION PREFERENCES. In the event of any liquidation, dissolution or winding-up of the Corporation, the holders of the \$1.70 Series Preference Stock shall be entitled to receive out of the assets of the Corporation available for distribution to shareholders, before any distribution of the assets shall be made to the holders of the Common Stock or any other class or series of stock ranking as to dividends or assets junior to the \$1.70 Series Preference Stock, an amount, in the case of voluntary liquidation, dissolution or winding-up, equal to \$25.850 per share prior to October 15, 2003 and, thereafter, to the redemption price specified in section 2.1 below applicable on the date of such voluntary liquidation, dissolution or winding-up, and, in the case of involuntary liquidation, dissolution or winding-up, \$25 per share, plus, in the case of each share (whether on voluntary or involuntary liquidation, dissolution or winding-up), an amount equal to the dividends accrued and unpaid thereon, whether or not declared, to the date fixed for payment.

1.4 PRO-RATA DISTRIBUTION. If upon any liquidation, dissolution or winding-up of the Corporation, the amounts payable with respect to the \$1.70 Series Preference Stock and any other series of Preferred Stock of the

Corporation which ranks on a parity with the \$1.70 Series Preference Stock are not paid in full, the holders of the \$1.70 Series Preference Stock and such parity Preferred Stock shall share ratably in any distribution of assets in proportion to the full preferential amounts to which they are entitled.

SECTION
REDEMPTION

2.1 OPTIONAL REDEMPTION. The \$1.70 Series Preference Stock shall not be redeemable prior to October 15, 2003. Thereafter, the \$1.70 Series Preference Stock shall be redeemable at the option of the Corporation, at any time as a whole, or from time to time in part, at the following redemption prices per share if redeemed during the 12-month period beginning October 15 in each of the following years: 2003 at \$25.850; 2004 at \$25.765; 2005 at \$25.680; 2006 at \$25.595; 2007 at \$25.510; 2008 at \$25.425; 2009 at \$25.340; 2010 at \$25.255; 2011 at \$25.170; 2012 at \$25.085; 2013 and thereafter at \$25.000 per share, plus in each case an amount equal to dividends accrued and unpaid thereon to the redemption date.

2.2 GENERAL. At least 30 (but not more than 60) days' previous notice of every redemption of the \$1.70 Series Preference Stock pursuant to section 2.1 shall be mailed, addressed to the holders of record of the shares to be redeemed at their respective addresses, as the same shall appear on the books of the Corporation, or in any case where no such address shall appear, then addressed to such shareholder at the principal office of the Corporation, but the failure to mail such notice as aforesaid shall not invalidate the redemption of the shares so redeemed. The particular shares of \$1.70 Series Preference Stock to be redeemed by reason of section 2.1 shall be selected pro rata in proportion to the number of shares of \$1.70 Series Preference Stock held by such holder; provided that any fractional share that would otherwise be redeemed by virtue of any pro-rata redemption shall be rounded to the nearest whole share.

SECTION I.
MISCELLANEOUS PROVISIONS

3.1 RANKING. The \$1.70 Series Preference Stock shall rank equally with the Cumulative Preferred Stock (\$20 par value) and all other series of Preference Stock (Cumulative) of the Corporation with respect to priority in the payment of dividends, mandatory redemptions, and in the distribution of assets upon any liquidation, whether voluntary or involuntary.

3.2 RESTRICTIONS ON DIVIDEND RIGHTS AND ACQUISITIONS OF OTHER STOCK. So long as any of the \$1.70 Series Preference Stock is outstanding, the Corporation shall not declare or pay any dividend on or make any distribution of property with respect to any of the Common Stock or on any other stock of the Corporation having rights or preferences as to dividends or assets junior to the rights and preferences of the \$1.70 Series Preference Stock, or redeem, purchase or otherwise acquire any such stock or any stock on a parity with the \$1.70 Series Preference Stock for value unless in each case full cumulative dividends on the \$1.70 Series Preference Stock then due and payable shall have been declared and paid or a sum in cash sufficient for the payment thereof set apart for payment.

3.3 STATUS OF REDEEMED OR REACQUIRED SHARES. All shares of \$1.70 Series Preference Stock redeemed or otherwise reacquired by the Corporation shall not be reissued or otherwise disposed of as part of the series created hereby but shall be retired and restored to the status of authorized but unissued shares of Preference Stock (Cumulative).

3.4 NO CONVERSION RIGHTS. No \$1.70 Series Preference Stock shall be convertible into or exchangeable for other securities of the Corporation.

3.5 VOTING RIGHTS. The holders of the \$1.70 Series Preference Stock shall have the voting rights set forth with respect to the Corporation's Preference Stock (Cumulative) in the Restated Articles of Incorporation of the Corporation.

3.6 INCORPORATION BY REFERENCE. The rights, preferences, privileges and restrictions expressly set forth in the Corporation's Restated Articles of Incorporation, as amended, with respect to Preference Stock (Cumulative) are hereby incorporated by this reference.

We further declare under penalty of perjury under the laws of the State of California that we have read the foregoing Certificate and know the contents thereof and that the same is true and correct of our own knowledge.

Date: August __, 1993

Thomas A. Page, Chairman of the Board and
Chief Executive Officer of San Diego Gas
and Electric Company

Date: August __, 1993

D. M. Richardson, Secretary of San Diego
Gas and Electric Company

SAN DIEGO GAS & ELECTRIC COMPANY
1994 DEFERRED COMPENSATION AGREEMENT
FOR OFFICERS #3

THIS AGREEMENT is made and entered into this 31st day of December, 1993, 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 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 deferred pursuant to this Agreement; and

WHEREAS, Officer and SDG&E desire that the payment of a portion of Officer's base compensation 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 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 base compensation (in equal biweekly installments of whole dollar amounts) 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 base compensation 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" 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 percent (7%) per annum of 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, 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 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

By: _____

SAN DIEGO GAS & ELECTRIC COMPANY
1994 DEFERRED COMPENSATION AGREEMENT
FOR OFFICERS #1
(1994 BASE COMPENSATION)
(1995 BONUS)

THIS AGREEMENT, made and entered into this 31st day of December, 1993, by and between San Diego Gas & Electric Company, (hereinafter "Company") and _____ (hereinafter "Officer"), an elected Officer of Company.

WITNESSETH:

WHEREAS, in addition to 1994 base compensation, incentive compensation payable in the form of a single sum cash bonus may be paid to Officer in 1995 for outstanding performance in 1994 ("1995 Bonus"); and

WHEREAS, Officer and Company desire that the payment of said 1994 base compensation and/or 1995 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 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 percent (7%) 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 compensation 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 3 of this Agreement.

9. 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

_____ By _____

SAN DIEGO GAS & ELECTRIC COMPANY
1994 DEFERRED COMPENSATION AGREEMENT
FOR NONEMPLOYEE DIRECTORS

THIS AGREEMENT, made and entered into this 31st day of December, 1993, 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 percent (7%) 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 Director for any period of time.

8. This Agreement may be terminated by SDG&E upon 30 days written notice to the Director. Such termination shall be applicable only with respect to fees payable to Director 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 director election form and Section 3 of this Agreement.

9. Director acknowledges that Director has been advised that Director may confer with and seek advice from a tax or financial advisor of Director's choice concerning this deferral. Director further acknowledges that Director has not received tax advice from SDG&E nor has Director 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.

DIRECTOR

SAN DIEGO GAS & ELECTRIC COMPANY

By: _____

EXHIBIT 10.4

SAN DIEGO GAS & ELECTRIC COMPANY
1986 LONG-TERM INCENTIVE PLAN
1993 RESTRICTED STOCK AWARD AGREEMENT

THIS RESTRICTED STOCK AWARD AGREEMENT (the "Agreement") is entered into this _____ day of _____, 1993, 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 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 1992. 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

(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 one quarter of the restricted shares after the end of each of the years 1994, 1995, 1996 and 1997 if:

- (1) At the end of each of such years SDG&E's earnings per share meets or exceeds the target earnings per share as set by the Committee.
- (2) Beginning in 1995, at the end of any quarter, the published quarterly earnings meets or exceeds the previous year's target earnings plus 25% of the annual target per quarter.
- (3) At the end of 1997, the restrictions on any remaining Shares not released previously will expire and the Shares will be released to the Participant if a total return to shareholders goal, as determined by the Committee or the Board, is met.

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 ____, 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 Participant's 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 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

SAN DIEGO GAS & ELECTRIC COMPANY

By: _____

Title: _____

CONFIDENTIAL

SAN DIEGO GAS & ELECTRIC COMPANY

SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN
(Restated as of November 22, 1993)

1. PURPOSE AND NATURE OF PLAN; EFFECTIVE DATE.

The purpose of the San Diego Gas and Electric Company Supplemental Executive Retirement Plan ("Plan") is to provide a retirement benefit in addition to that provided under the San Diego Gas & Electric Company Pension Plan to Officers or designated Executives of the Company.

The Plan is unfunded. Benefits are payable only from the general assets of the Company, and not from any separate fund or trust. The Plan is exempt from the requirements of the federal Employee Retirement Income Security Act of 1974 ("ERISA"), except for the reporting and disclosure requirements contained in Part 1 of Subtitle of Title I of ERISA.

The Plan was effective July 15, 1981, and amended on April 24, 1985, October 20, 1986, April 28, 1987, October 24, 1988, November 21, 1988, October 28, 1991, May 26, 1992, May 24, 1993, and November 22, 1993.

2. DEFINITIONS.

a. BOARD OF DIRECTORS means the Board of Directors of San Diego Gas & Electric Company.

b. CAUSE means the termination of employment by the Company for:

i. the willful and continued failure to substantially perform assigned duties with the Company (other than any such failure resulting from incapacity due to physical or mental illness), after a request for substantial performance is delivered by the Board which specifically identifies the manner in which the Board believes the Officer or Executive has not substantially performed assigned duties, or

ii. the willful engaging in gross misconduct materially and demonstrably injurious to the Company. No act, or failure to act, shall be considered "willful" unless done, or omitted to be done, not in good faith and without reasonable belief that the action or omission was in the best interest of the Company.

Notwithstanding the foregoing, an Officer or Executive shall not be deemed to have been terminated for Cause unless and until there shall have been delivered to the Officer or Executive a copy of a resolution duly adopted by the affirmative vote of not less than three-quarters of the entire membership of the Board, excluding the Officer or Executive if a Board member, at a meeting of the Board called and held for the purpose (after reasonable notice and an opportunity, together with counsel, to be heard before the Board), finding that in the good faith opinion of the Board the Officer or Executive was guilty of conduct set forth above and specifying the particulars thereof in detail.

c. CHANGE-IN-CONTROL means (1) the dissolution or liquidation of the Company, (2) a reorganization, merger, or consolidation of the Company with one or more corporations as a result of which the Company is not the surviving corporation, (3) the acquisition of beneficial ownership, directly or indirectly, of more than 25% of the voting power of the outstanding stock of the Company by one person, group, association, corporation, or other entity, (the group) coupled with the election to the Board of Directors of new members who were not originally nominated by the Board at the last annual meeting and who constitute a new majority of the Board or (4) upon the sale of all or substantially all the property of the Company. The term Change-in-Control shall not apply to any reorganization or merger initiated voluntarily by the Company in which the Company is the surviving entity. At such time, or within three years thereafter, regardless of whether provisions are made in connection with such transaction for the continuance of the Plan, if the Company or surviving corporation shall terminate the Officer's or Executive's employment for other than Cause, Retirement, Death, or Disability, or if the Officer or Executive shall terminate employment for Good Reason, then the Officer or Executive shall become eligible for and entitled to benefits calculated under the provisions in Section 4.a.i. with survivor benefits calculated under the provisions of Section

4.e.i., both based upon ten years of service and calculated without reference to the service ratio noted in Section 4.a.ii. Such benefit shall be paid by the Company to the Officer or Executive in a lump sum, in cash, on the fifth day following the date of termination. Except for any limitations of Section 280G of the Internal Revenue Code described below, such amount will equal the Actuarial Present Value of the benefit so determined. However, if the Officer or Executive is otherwise eligible for Early Retirement pursuant to Section 2.f.i., he or she may, at his or her sole discretion, elect to receive the benefit determined above as an early retirement benefit, reduced for early commencement by the appropriate early retirement reduction factor as determined in accordance with the Pension Plan, but without adjustment by the service ratio noted in Section 4.a.ii. Actuarial Present Value shall be determined on the basis of 7.75% interest and using the UP-1984 Unisex Pension Mortality Table for post-retirement ages only. The Actuarial Present Value of the benefit calculated pursuant to Section 4.a.i. shall be determined as the present value of an annuity deferred to age 62 (or an immediate annuity, if the Officer or Executive has attained a greater age on the date of determination) assuming an eligible spouse at annuity commencement as described in the following two sentences. If the Officer or Executive is married at the time of lump sum payment, the Actuarial Present Value shall be calculated assuming the marriage continues to retirement. If the Officer or Executive is unmarried, the Actuarial Present Value shall be calculated assuming the presence of a spouse, three years younger than the Officer or Executive, at retirement. The Actuarial Present Value of the Offset to Retirement Benefits, pursuant to Section 4.b. shall be determined as the present value of an annuity deferred to Normal Retirement Age under the Pension Plan (or an immediate annuity, if the Officer or Executive has attained a greater age on the date of determination) and without reference to potential increases in such benefits pursuant to cost of living adjustments. However, such amount shall not exceed 2.99 times the Officer's or Executive's "annualized includable compensation for the base period" (as defined in Section 280G(d) of the Internal Revenue Code of 1986, as amended (the "Code")) applicable to the Change-in-Control of the Company prior to such Date of Termination; PROVIDED, HOWEVER, that if the lump sum severance payment under this Section, calculated as set forth above, either alone or together with other payments which the Officer or Executive has the right to receive from the Company, would constitute a "parachute payment" (as defined in Section 280G of the Code), such lump sum severance payment shall be reduced to the largest amount as will result in no portion of the lump sum severance payment under this Section being subject to the excise tax imposed by Section 4999 of the Code. The determination of any reduction in the lump sum severance payment under this Section pursuant to the foregoing proviso shall be made by the Company in good faith, and such determination shall be conclusive and binding on the Officer or Executive.

d. COMPANY means San Diego Gas & Electric Company.

e. EXECUTIVE means a management or highly compensated employee of the Company (within the meaning of Section 201(2) of ERISA) who is designated by the Board of Directors, in its discretion, to be eligible to participate in the Plan.

f. FINAL PAY means the monthly base pay rate in effect during the month immediately preceding Retirement, plus 1/12 of the average of the highest three years' gross bonus awards, not necessarily consecutive, of the person concerned.

g. GOOD REASON means termination of employment by the Officer or Executive when one or more of the following occurs without the Officer's or Executive's express written consent within three years after a Change-in-Control:

i. an adverse and significant change in the Officer's or Executive's position, duties, responsibilities or status with the Company, or a change in business location to a point outside the Company's service territory, except in connection with the termination of employment by the Company for Cause or Disability, or as a result of voluntary Retirement at or after either the Officer's or Executive's Early (i.i) or Normal Retirement Date (i.ii.), or death, or for other than for Good Reason;

ii. a reduction by the Company in base salary or incentive compensation opportunity;

iii. the taking of any action by the Company to eliminate benefit plans without providing substitutes therefore, to reduce benefits thereunder or to substantially diminish the aggregate value of incentive awards or other fringe benefits including insurance and an automobile provided in accordance with the Company's standard policy; or

iv. a failure by the Company to obtain from any successor, before the succession takes place, an agreement to assume and perform this Plan.

h. OFFICER means an officer of the Company, but not including assistant officers or assistants to officers. For example, an Assistant Secretary would not be considered as an Officer for the purposes of the Plan.

i. PENSION PLAN means the San Diego Gas & Electric Company Pension Plan.

j. RETIREMENT.

i. EARLY RETIREMENT means retirement from service with the Company anytime after attaining age 55 and completing 5 Years of Service, but before age

65. Provided there shall be no reduction in the Normal Retirement Benefit computed under Section 4.a.ii. in the case of an Officer or Executive who has attained age 62.

ii. NORMAL RETIREMENT means retirement from service with the Company at age 65 or, if later, upon the fifth anniversary of the date on which the Officer or Executive became eligible to participate in the Plan.

iii. LATE RETIREMENT means retirement from service with the Company after Normal Retirement.

k. YEARS OF SERVICE means Years of Service as defined in the Pension Plan, but including for purposes of this Plan only Years of Service from date of hire to the earlier of date of death, date of Early Retirement, or attainment of age 65.

l. SURVIVING SPOUSE means the person legally married to an Officer or Executive for at least one year prior to the Officer's or Executive's death.

m. PARTICIPANT means the Officers and Executives who have been designated by the Company to participate in the Plan.

3. ELIGIBILITY AND PARTICIPATION.

All Officers and Executives (as defined in Section 2.e) are eligible to participate in the Plan.

4. BENEFITS.

a. RETIREMENT BENEFITS. Subject to the further provisions of this Section 4, Retirement Benefits will be computed and paid as follows:

i. NORMAL RETIREMENT BENEFIT shall be a monthly benefit equal to 6% times Years of Service (to a maximum of 10 years) times Final Pay.

ii. EARLY RETIREMENT BENEFIT shall be the Normal Retirement Benefit accrued to the date of Early Retirement, multiplied by the ratio of the lesser of his or her Years of Service to his or her date of Early Retirement or to age 62 over his or her Years of Service projected to age 62, and further multiplied by the appropriate early retirement reduction factor as determined in accordance with the Pension Plan.

iii. LATE RETIREMENT BENEFIT shall be the Normal Retirement Benefit accrued to the Normal Retirement date (age 65) but not beyond, payable at Late Retirement. However, the Board of Directors in its sole discretion, may increase the amount of the Late Retirement Benefit if the Officer or Executive concerned continues in the employment of the Company after age 65 at the request of the Board of Directors.

b. OFFSET TO RETIREMENT BENEFITS. The retirement benefit payments set forth in Section 4.a. shall be reduced by the amount of the retirement payments, without regard to cost of living adjustments occurring after retirement, made to the retired Officer or Executive under the Pension Plan.

c. NORMAL FORM OF RETIREMENT BENEFITS shall be a monthly benefit payable for the lifetime of the Officer or Executive, with benefits payable after his or her death to a Surviving Spouse in accordance with Section 4.e.

d. OPTIONAL FORMS OF RETIREMENT BENEFIT are not available.

e. DEATH BENEFIT.

i. If death occurs before or after Retirement, a monthly lifetime benefit shall be payable to the Surviving Spouse of the Officer or Executive, equal to 3.0% times the Officer's or Executive's Year of Service (to a maximum of 10 years) times Final Pay.

ii. Any payments made pursuant to this Section 4.e. shall be reduced by the amount of any benefits payable under the Pension Plan subsequent to the death of the Officer or Executive.

f. TERMINATION OF SERVICE.

No benefits will be payable under the Plan upon the termination of service of an Officer or Executive for reasons other than Death, Disability or Retirement, Change-in-Control or Good Reason under the Plan.

g. DISABILITY BENEFIT.

i. If an Officer or Executive becomes disabled, as determined by the Board of Directors, a monthly benefit shall be payable to such Officer or Executive until the earlier of recovery, death or the later of age 65 or the fifth anniversary of the commencement of the disability, equal to 60% of Final Pay.

ii. Any payments made pursuant to this Section 4.g. shall be reduced by the amount of any disability benefits payable to the Officer or Executive and his or her family under any Company-sponsored disability program or governmental disability program.

iii. Upon the cessation of Disability Benefits, subsequent Retirement or Surviving Spouses' benefits shall be calculated in accordance with other Sections of this Plan.

h. ADJUSTMENT OF BENEFITS.

Once determined, the benefits payable under the Plan may not be adjusted upward or downward (other than in accordance with the offset provisions contained in the Plan) except by action of the Board of Directors. Any such adjustments shall be based upon, but need not be equivalent to, changes in the Consumer Price Index, All Items, U.S. City Average, of the Bureau of Labor Statistics of the U.S. Department of Labor. The Board of Directors reserves the right to so adjust benefits payable under the Plan at any time, whether such change occurs prior to the time an Officer or Executive retires or dies, or after the time payment of benefits commences.

i. FORFEITURE OF BENEFITS.

As a condition of receiving benefits under the Plan, an Officer or Executive shall not after Retirement voluntarily appear against the Company before any judicial or administrative tribunal or legislative body, on any matter about which he or she possesses any expertise or special knowledge relative to the Company's business. Any breach of this condition will result in complete forfeiture of any further benefits under the Plan.

5. ADMINISTRATION OF THE PLAN.

The Plan shall be administered by the Pension Committee of the Pension Plan, subject, however, to any action taken by the Board of Directors in respect to the Plan. The Pension Committee shall have the authority to interpret the Plan, shall file with the Department of Labor and distribute to the Officers or Executives the reports and other information required by ERISA, and shall otherwise be responsible for administration of the Plan.

The Committee (or the Board of Directors, to the extent provided in the Plan) shall have the exclusive right and full discretion to interpret the Plan and to decide any and all matters arising hereunder (including the right to remedy possible ambiguities, inconsistencies or omissions), to make, amend and rescind such rules as it deems necessary for the proper administration of the Plan and to make all other determinations necessary or advisable for the administration of the Plan, including determinations regarding eligibility for benefits under the Plan and determinations of the amount of benefits payable under the Plan. All interpretations of the Committee or the Board of Directors with respect to any matter hereunder shall be final, conclusive and binding on all persons

affected thereby.

No member of the Committee shall vote on any matter affecting such member.

6. AMENDMENT AND TERMINATION OF THE PLAN.

The Board of Directors may amend or terminate the Plan at any time except that no such amendment or termination may occur as a result of a Change-in-Control, within three years after a Change-in-Control, or as a part of any plan to effect a Change-in-Control. However, no such amendment or termination shall apply to any person who has then qualified for or is receiving benefits under the Plan.

7. CLAIMS PROCEDURE.

The committee (and the Board of Directors, on the appeal of the denial of a claim) has full discretion and the exclusive right to determine eligibility for benefits under the Plan. The Committee's decision on a claim for benefits is final and binding on all persons, except as to an appeal of the Committee's denial of a claim to the Board of Directors. The Board of Directors' decision on an appeal of the Committee's denial of a claim for benefits is final and binding on all persons.

Any person who believes that benefits have been denied under the Plan to which he or she believes he or she is entitled may file a written claim with the Committee setting forth the nature of the benefit claimed, the amount thereof, and the basis for the claim of entitlement to such benefit. The Committee shall determine the validity of such claim and notify the claimant of the Committee's determination by first class mail within 90 days of the receipt of the written claim. In the case of a denial of claim, the notice shall set forth in understandable language;

- a. The specific reason for the denial;
- b. Specific references to pertinent Plan provisions on which the denial is based;
- c. A description of any additional material or information necessary for the Claimant to perfect the claim and an explanation of why such material or information is necessary; and
- d. An explanation of the Plan's claim review procedure.

Within 60 days of the receipt of a denial of his or her claim, the claimant, or an authorized representative may file a written request for a full review by the Board of Directors of the claim for benefits. The Board of Directors shall fully review the claim for benefits and the prior denial of the claim and shall provide an opportunity for the claimant, or an authorized representative to review pertinent documents and submit issues and comments in writing. A decision upon review of the claim shall be made by the Board of Directors within 60 days of receipt of the request for review. The decision on review shall be in writing, and in understandable language, shall state the specific reasons for the decision, and shall include specific references to the pertinent Plan provisions on which the decision is based. The decision of the Board of Directors after review shall be final and conclusive on all persons.

8. MISCELLANEOUS.

a. This Plan is "unfunded" and "maintained primarily for the purpose of providing deferred compensation to a select group of management or highly compensated employees" pursuant to Section 401(a)(1) of ERISA. Nothing contained in this Plan and no action taken pursuant to the provisions of this Plan shall create or be construed to create a trust of any kind or a fiduciary relationship between the Company and an Officer, Executive, Surviving Spouse, or any other person. To the extent that any person acquires a right to receive payments from the Company under this Plan, such right shall be no greater than the right of any unsecured general creditor of the Company. Title to and beneficial ownership of any asset, whether case or investments, which the Company may earmark to pay the deferred compensation hereunder shall at all times remain assets of the Company, and neither an Executive, Officer, or Surviving Spouse nor any other person shall, under this Plan, have any property interest whatsoever in any specific assets in the Company.

b. If any provision in the Plan is held by a court of competent jurisdiction to be invalid, void, or unenforceable, the remaining provisions shall nevertheless continue in full force and effect without being impaired or invalidated in any way.

c. The Committee shall not recognize any transfer, mortgage, pledge, hypothecation, order or assignment by any Officer, Executive or Surviving Spouse of all or part of his or her interest hereunder, and such interest shall not be subject in any manner to transfer by operation of law, and shall be exempt from the claims of creditors or other claimants from all orders, decrees, levies, garnishment and/or executions and other legal or equitable process or proceedings against such Officer, Executive or Surviving Spouse to the fullest extent which may be permitted by law;

d. The Plan shall be construed in accordance with ERISA and, to the extent not preempted by ERISA, the laws of the State of California.

9. OFFSET FOR CERTAIN BENEFITS PAYABLE UNDER SPLIT-DOLLAR LIFE INSURANCE AGREEMENTS.

a. OFFSET VALUE

Some of the Participants under this Plan own life insurance policies (the "Policies") purchased on their behalf by the Company. The ownership of these Policies by each Participant is, however, subject to certain conditions (set forth in a "Split-Dollar Insurance Agreement" between the Participant and the Company) and, if the Participant fails to meet the conditions set forth in the Split-Dollar Life Insurance Agreement, the Participant may lose certain rights under the Policy. In the event that a Participant satisfies the conditions specified in Section 4 or 5 of the Split-Dollar Life Insurance Agreement, so that the Participant or his or her beneficiary becomes entitled to benefits under one of those sections, the value of those benefits shall constitute an offset to any benefits otherwise payable under this Plan. As the case may be, this offset (the "Offset Value") shall be calculated by determining the value of benefits paid or payable under the Split-Dollar Life Insurance Agreement, that is, the cash value of the Policy, or in the case of the Participant's death, the death benefits payable to the beneficiary under the Policy. At the time when the Participant terminates employment, the Actuarial Equivalent (as defined in paragraph 9.d) of the Offset Value shall be compared to the Actuarial Equivalent (as defined in paragraph 9.d) of the benefits payable under this Plan (the "Plan Value"), and the Plan Value shall be reduced by the Actuarial Equivalent of the Offset Value. The Plan Value shall be calculated by assuming that the Participant or beneficiary immediately commences the receipt of benefits upon termination of employment.

b. MANNER AND CALCULATION OF PAYMENT.

i. At the time when the Participant terminates employment, if the Plan Value exceeds the Actuarial Equivalent (as defined in paragraph 9.d) of the Offset Value, the excess of the Plan Value over the Actuarial Equivalent of the Offset Value shall be paid to the Participant or beneficiary in the manner provided under this Plan; provided that, if the excess of the Plan Value over the Actuarial Equivalent of the Offset Value is less than \$10,000, such excess shall be paid to the Participant or beneficiary at that time in a cash lump sum.

ii. Notwithstanding anything contained herein to the contrary, to avoid any loss of benefits from the use of a mortality assumption of age 80 in the definition of Actuarial Equivalent in paragraph 9.d, if the Participant or Surviving Spouse survives past his or her 80th birthday, benefits shall be payable to him or her in the manner and amount provided under this Plan as if the offset provisions of this paragraph 9 had not been included in the Plan document.

c. PAYMENT OF CERTAIN BENEFITS.

If the Policy described in paragraph 9.a insures the life of an individual other than the Participant (the "Insured Party"), and if such Insured Party dies prior to the Participant's becoming eligible for benefits under the Plan, and if the Participant or the Participant's beneficiary subsequently becomes eligible for benefits hereunder, the Plan Value (as defined in paragraph 9.a) shall be offset by the Actuarial Equivalent (as defined in paragraph 9.d) of the death benefit previously paid to the Participant or the Participant's beneficiary pursuant to the Split-Dollar Life Insurance Agreement. If the Plan Value exceeds the Actuarial Equivalent of the death benefit previously paid to the Participant or the Participant's beneficiary, such excess shall thereupon be paid in the manner provided under this Plan; provided that, if the remaining amount of the Plan Value is less than \$10,000, such amount shall be paid to the Participant or beneficiary at that time in a cash lump sum. Paragraph 9.b.ii shall also apply.

d. ACTUARIAL EQUIVALENT.

For purposes of this paragraph 9, the Actuarial Equivalent shall mean a benefit in the form of a lump sum payment which has the equivalent value computed using the interest rate as defined in paragraph 9.e., compounded annually, and assuming that the Participant and Surviving Spouse each die on his or her 80th birthday and, in the case of the Plan Value, computed without reference to any potential increases in the benefit pursuant to cost of living adjustments; provided, however, that, in the case of a benefit payable pursuant to paragraph 2.c hereof, the Actuarial Equivalent shall be the lump sum amount determined under paragraph 2.c.

e. INTEREST RATE.

For purposes of this paragraph 9, the interest rate shall be fixed by the Executive Compensation Committee effective on the date the Participant or his or her beneficiary becomes entitled to benefits under the Split-Dollar Life Insurance Agreement.

AMENDED 1986 LONG-TERM INCENTIVE PLAN
RESTATEMENT AS OF 10/25/93

1. PURPOSE OF THE PLAN.

The purpose of the 1986 Long-Term Incentive Plan is to promote the interests of San Diego Gas & Electric Company and its shareholders by encouraging officers and key employees to acquire stock or increase their proprietary interest in the Company. By thus providing the opportunity to acquire Company stock and receive incentive payments, the Company seeks to attract and retain such key employees upon whose judgment, initiative, and leadership the success of the Company largely depends.

2. DEFINITIONS.

Whenever the following terms are used in this Plan, they will have the meanings specified below unless the context clearly indicates the contrary.

(a) "Board of Directors" means the Board of Directors of San Diego Gas & Electric Company.

(b) "Change-in-Control" means (1) the dissolution or liquidation of the Company, (2) a reorganization, merger, or consolidation of the Company with one or more corporations as a result of which the Company is not the surviving corporation, (3) the acquisition of beneficial ownership, directly or indirectly, of more than 25% of the voting power of the outstanding stock of the Company by one person, group, association, corporation, or other entity, (the group) coupled with the election to the Board of Directors of new members who were not originally nominated by the Board at the last annual meeting and who constitute a new majority of the Board or (4) upon the sale of all or substantially all the property of the Company. The term change-in-control shall not apply to any reorganization or merger initiated voluntarily by the Company in which the Company is the surviving entity.

(c) "Committee" means the committee appointed to administer the Plan pursuant to Section 4.

(d) "Company" means San Diego Gas & Electric Company and its subsidiaries.

(e) "Common Stock" means the common shares of San Diego Gas & Electric Company and any class of common shares into which such common shares may hereafter be converted.

(f) "Dividend Equivalent" means the additional amount of Common Stock issued in connection with an option, as described in Section 12.

(g) "Eligible Person" means an Employee eligible to receive an Incentive Award.

(h) "Employee" means any regular full-time employee of the Company, or of any of its present or future subsidiary corporations, as defined in Section 425(f) of the Internal Revenue Code of 1954, as amended (the "Code").

(i) "Fair Market Value" means the mean of the high and low sale prices reported for the Common Stock on the New York Stock Exchange for the five (5) trading days immediately preceding the date as of which such determination is made.

(j) "Good Reason" means termination of employment by the Officer when one or more of the following occurs without the Officer's express written consent within three years after a change of control;

(i) an adverse and significant change in the Officer's position, duties, responsibilities or status with the Company, or a change in business location to a point outside the Company's service territory, except in connection with the termination of employment by the Company for Cause or Disability, or as a result of Voluntary Retirement at or after either the Officer's early (f.i.) or Normal Retirement Date (f.ii.) or death, or for other than for Good Reason;

(ii) a reduction by the Company in base salary or incentive compensation opportunity;

(iii) the taking of any action by the Company to eliminate benefit plans without providing substitutes therefore, to reduce benefits thereunder or to substantially diminish the aggregate value of incentive awards or other fringe benefits including insurance and an automobile provided in accordance with the Company's standard policy;

(iv) a failure by the Company to obtain from any successor, before the succession takes place, an agreement to assume and perform this Plan; or

(k) "Holder" means a person holding an Incentive Award.

(l) "Incentive Award" means any Nonqualified Stock Option, Incentive Stock Option, Restricted Stock, Stock Appreciation Right, Dividend Equivalent, Stock Payment or Performance Award granted under the Plan.

(m) "Incentive Stock Option" means an option as defined under Section 422 of the Code, including an Incentive Stock Option granted pursuant to Section 7 of the Plan.

(n) "Nonqualified Stock Option" means an option other than an Incentive Stock Option granted pursuant to Section 6 of the Plan.

(o) "Option" means either a Nonqualified Stock Option or Incentive Stock Option.

(p) "Plan" means the 1986 Long-Term Incentive Plan as set forth herein, which may be amended from time to time.

(q) "Restricted Stock" means Company stock sold to an eligible person at not less than Two Dollars and Fifty Cents (\$2.50) per share, which is nontransferable and subject to substantial risk of forfeiture until restrictions lapse.

(r) "Stock Appreciation Right" or "Right" means a right granted pursuant to Section 9 of the Plan to receive a number of shares of Common Stock or, in the discretion of the Committee, an amount of cash or a combination of share and cash, based on the increase in the Fair Market Value or Book Value of the shares subject to the right.

(s) "Performance Award" means an award whose value may be linked to stock value, book value, or other specific performance criteria which may be set by the Board of Directors, but which is paid in cash, stock, or a combination of both.

(t) "Stock Payment" means a payment in shares of the Common Stock to replace all or any portion of the compensation (other than base salary) that would otherwise become payable to an Employee in cash.

3. SHARES OF COMMON STOCK SUBJECT TO THE PLAN.

(a) Subject to the provisions of Section 3(c) and Section 14 of the Plan, the aggregate number of shares of Common Stock that may be issued or transferred pursuant to Incentive Awards or covered by Stock Appreciation Rights unrelated to options under the Plan will not exceed 1,350,000.

(b) The shares to be delivered under the Plan will be made available, at the discretion of the Board of Directors or the Committee, either from authorized but unissued shares of Common Stock or from previously issued shares of Common Stock reacquired by the Company, including shares purchased on the open market.

(c) If any Incentive Award expires for any reason, the Common Stock that could have been delivered will not be charged against the limitation provided for in Section 3(a) and may again be made subject to Incentive Awards. However, shares as to which an Option has been surrendered in connection with the exercise of a related Stock Appreciation Right will not be available for any future grant of Incentive Awards.

4. ADMINISTRATION OF THE PLAN.

(a) The Plan will be administered by the Committee, which will consist of two (2) or more directors (i) who are not eligible to receive

Incentive Awards under the Plan, and (ii) who have not been eligible, at any time within one (1) year before appointment to the Committee, for selection as persons to whom Incentive Awards or Common Stock may be granted pursuant to the Plan or any other plan of the Company or any of its subsidiaries entitling the participants therein to acquire stock, Stock Appreciation Rights, or Options of the Company or any of its subsidiaries. Unless and until the Board of Directors appoints other members, the members of the Committee shall be the members of the Executive Salary Review Committee of the Board of Directors, as such Executive Salary Review Committee may be constituted from time to time, excluding any members of the Executive Salary Review Committee who do not satisfy the criteria set forth in the preceding sentence.

(b) The Committee has and may exercise such powers and authority of the Board of Directors as may be necessary or appropriate for the Committee to carry out its functions as described in the Plan. The Committee has authority in its discretion to determine the Eligible Persons to whom, and the time or times at which, Incentive Awards may be granted and the number of shares or Rights subject to each award. Subject to the express provisions of the Plan, the Committee also has authority to interpret the Plan, and to determine the terms and provisions of the respective Incentive Award agreements (which need not be identical) and to make all other determinations necessary or advisable for Plan administration. The Board of Directors has authority to prescribe, amend, and rescind rules and regulations relating to the Plan. All interpretations, determinations, and actions by the Board of Directors or the Committee will be final, conclusive, and binding upon all parties.

(c) No member of the Board of Directors or the Committee will be liable for any action or determination made in good faith by the Board of Directors or the Committee with respect to the Plan or any Incentive and Performance Award under it.

5. ELIGIBILITY AND DATE OF GRANT.

(a) The Committee has authority, in its sole discretion, to determine and designate from time to time those Eligible Persons who are to be granted Incentive Awards, the type of Incentive Awards to be granted, and the number of Rights, shares of Common Stock, or the amount of cash subject to each Incentive Award. Each Incentive Award will be evidenced by a written instrument and may include any other terms and conditions consistent with the Plan, as the Committee may determine.

(b) The date of grant of an Incentive Award will be the date the Committee takes the necessary action to approve the grant; provided, however, that if the minutes or appropriate resolutions of the Committee provide that an Incentive Award is to be granted as of a date in the future, the date of grant will be such future date.

6. NONQUALIFIED STOCK OPTIONS.

The Committee may approve the grant of Nonqualified Stock Options to Eligible Persons, subject to the following terms and conditions:

(a) The purchase price of Common Stock under each Nonqualified Stock Option may not be less than one hundred (100%) percent of the Fair Market Value of the Common Stock on the date the Nonqualified Stock Option is granted.

(b) No Nonqualified Stock Option may be exercised after ten (10) years and one day from the date of grant.

(c) Upon the exercise of a Nonqualified Stock Option, the purchase price will be payable in full in cash and/or its equivalent, such as Common Stock, acceptable to the Company. Any shares so assigned and delivered to the Company in payment or partial payment of the purchase price will be valued at their Fair Market Value on the exercise date.

(d) No fractional shares will be issued pursuant to the exercise of a Nonqualified Stock Option nor will any cash payment be made in lieu of fractional shares.

7. INCENTIVE STOCK OPTIONS.

The Committee may approve the grant of Incentive Stock Options to Eligible Persons, subject to the following terms and conditions:

(a) The purchase price of each share of Common Stock under an

Incentive Stock Option will be at least equal to the Fair Market Value of a share of the Common Stock on the date of grant; provided, however, that if an Employee, at the time an Incentive Stock Option is granted, owns stock representing more than ten (10%) percent of the total combined voting power of all classes of stock of the Company (as defined in Section 425(e) or (d) of the Code), then the Exercise Price of each share of Common Stock subject to such Incentive Stock Option shall be at least one hundred and ten (110%) percent of the Fair Market Value of such share of Common Stock, as determined in the manner stated above.

(b) No Incentive Stock Option may be exercised after ten (10) years from the date of grant; provided, however, that if any Employee, at the time an Incentive Stock Option is granted to him, owns stock representing more than ten (10%) percent of the total combined voting power of all classes of stock of the Company (as defined in Section 425(e) or (d) of the Code), the Incentive Stock Option granted shall not be exercisable after the expiration of five (5) years from the date of grant. Each Incentive Stock Option granted under this Plan shall also be subject to earlier termination as provided in this Plan.

(c) Upon the exercise of an Incentive Stock Option, the purchase price will be payable in full in cash and/or its equivalent, such as Common Stock, acceptable to the Company. Any shares so assigned and delivered to the Company in payment or partial payment of the purchase price will be valued at their Fair Market Value on the exercise date.

(d) The Fair Market Value (determined at the time the Incentive Stock Option is granted) of the shares of Common Stock for which any Employee may be granted Incentive Stock Options in any calendar year (including Incentive Stock Options under all plans of the Company) will not exceed One Hundred Thousand (\$100,000) Dollars plus any unused limit carryover to such year as determined under Section 422(c)(4) of the Code.

(e) An Incentive Stock Option may not be exercised while there is "outstanding" within the meaning of Section 422(c)(7) of the Code any Incentive Stock Option granted before the granting of such Incentive Stock Option to purchase stock in the Company, or in a predecessor corporation of any such corporation. For this purpose, an Incentive Stock Option shall be treated as outstanding until (i) it is exercised in full, (ii) the Stock Appreciation Right, if any, related to such Incentive Stock Option is exercised in full, or (iii) the Incentive Stock Option expires solely by reason of the expiration of its original term.

(f) No fractional shares will be issued pursuant to the exercise of an Incentive Stock Option nor will any cash payment be made in lieu of fractional shares.

8. RESTRICTED STOCK.

The Committee may approve the grant of Restricted Stock to Eligible Persons, subject to the following terms and conditions:

(a) The Committee in its discretion will determine the purchase price which will not be less than Two Dollars and Fifty Cents (\$2.50) per share.

(b) All shares of Restricted Stock sold or granted pursuant to the Plan (including any shares of Restricted Stock received by the Holder as a result of stock dividends, stock splits, or any other forms of capitalization) will be subject to the following restrictions:

(i) The shares may not be sold, transferred, or otherwise alienated or hypothecated until the restrictions are removed or expire.

(ii) The Committee may require the Holder to enter into an escrow agreement providing that the certificates representing Restricted Stock sold or granted pursuant to the Plan will remain in the physical custody of an escrow holder until all restrictions are removed or expire.

(iii) Each certificate representing Restricted Stock sold or granted pursuant to the Plan will bear a legend making appropriate reference to the restrictions imposed on the Restricted Stock.

(iv) The Committee may impose restrictions on any shares sold pursuant to the Plan as it may deem advisable, including, without limitation, restrictions

designed to facilitate exemption from or compliance with the Securities Exchange Act of 1934, as amended, with requirements of any stock exchange upon which such shares or shares of the same class are then listed and with any blue sky or other securities laws applicable to such shares.

(c) The restrictions imposed under subparagraph (b) above upon Restricted Stock will lapse in accordance with a schedule or other conditions as determined by the Committee, subject to the provisions of Section 15, subparagraph (e).

(d) Subject to the provisions of subparagraph (b) above and Section 15, subparagraph (e), the holder will have all rights of a shareholder with respect to the Restricted Stock granted or sold, including the right to vote the shares and receive all dividends and other distributions paid or made with respect thereto.

9. STOCK APPRECIATION RIGHTS.

The Committee may approve the grant of Rights related or unrelated to Options to Eligible Persons, subject to the following terms and conditions:

(a) A Stock Appreciation Right may be granted:

(i) at any time if unrelated to an option;

(ii) Either at the time of grant, or at any time thereafter during the option term if related to a Nonqualified Stock Option;

(iii) only at the time of grant if related to an Incentive Stock Option.

(b) A Stock Appreciation Right grant in connection with an Option will entitle the Holder of the related Option, upon exercise of the Stock Appreciation Right, to surrender such Option, or any portion thereof to the extent unexercised, with respect to the number of shares as to which such Stock Appreciation Right is exercised, and to receive payment of an amount computed pursuant to Section 9(d). Such Option will, to the extent surrendered, then cease to be exercisable.

(c) Subject to Section 9(g), a Stock Appreciation Right granted in connection with an Option hereunder will be exercisable at such time or times, and only to the extent that a related Option is exercisable, and will not be transferable except to the extent that such related Option is exercisable, and will not be transferable except to the extent that such related Option may be transferable.

(d) Upon the exercise of a Stock Appreciation Right related to an Option, the Holder will be entitled to receive payment of an amount determined by multiplying:

(i) The difference obtained by subtracting the purchase price of a share of Common Stock specified in the related Option from the Fair Market Value of a share of Common Stock on the date of exercise of such Stock Appreciation Right, by

(ii) The number of shares as to which such Stock Appreciation Right has been exercised.

(e) The Committee may grant Stock Appreciation Rights unrelated to Options to Eligible Persons. Section 9(d) shall be used to determine the amount payable at exercise under such stock appreciation right if Fair Market Value is not used, except that Fair Market Value shall not be used if the Committee specified in the award that book value or other measure as deemed appropriate by the Committee was to be used, and in lieu of "price . . . specified in the related option," the initial share value specified in the award shall be used.

(f) Payment of the amount determined under Section 9(d) or (e) may be made solely in whole shares of Common Stock in a number determined at their Fair Market Value on the date of exercise of the Stock Appreciation Right or alternatively, at the sole discretion of the Committee, solely in cash or in a combination of cash and shares as the Committee deems advisable. If the Committee decides to make full payment in shares of Common Stock, and the amount payable results in a fractional share, payment for the fractional share will be made in cash.

(g) The Committee may, at the time a Stock Appreciation Right is

granted, impose such conditions on the exercise of the Stock Appreciation Right as may be required to satisfy the requirements of Rule 16b-3 under the Securities Exchange Act of 1934 (or any other comparable provisions in effect at the time or times in question). Without limiting the generality of the foregoing, the Committee may determine that a Stock Appreciation Right may be exercised only during the period beginning on the third business day and ending on the twelfth business day following the publication of the Company's quarterly and annual summarized financial data.

(h) No Stock Appreciation Right granted to an Officer of the Company subject to 16(b) of the Securities and Exchange Act of 1934, may be exercised before six (6) months after the date of grant, except in the event death or disability of the Officer occurs before the expiration of the six-month period.

10. PERFORMANCE AWARDS.

The Committee may approve Performance Awards to Eligible Persons. Such awards may be based on Common Stock performance over a period determined in advance by the Committee or any other measures as determined appropriate by the Committee. Payment will be in cash unless replaced by a Stock Payment in full or in part as determined by the Committee.

11. STOCK PAYMENT.

The Committee may approve Stock Payments of Common Stock to Eligible Persons for all or any portion of the compensation (other than base salary) that would otherwise become payable to an Employee in cash.

12. DIVIDEND EQUIVALENTS.

A Holder may also be granted at no additional cost "Dividend Equivalents" based on the dividends declared on the Common Stock on record dates during the period between the date an Option is granted and the date such Option is exercised, or such other equivalent period, as determined by the Committee. Such Dividend Equivalents shall be converted to additional shares or cash by such formula as may be determined by the Committee.

Dividend Equivalents shall be computed, as of each dividend record date, both with respect to the number of shares under the Option and with respect to the number of Dividend Equivalent shares previously earned by the Holder (or his successor in interest) and not issued during the period prior to the dividend record date.

13. ADJUSTMENT PROVISIONS.

(a) Subject to Section 13(b), if the outstanding shares of Common Stock are increased, decreased, or exchanged for a different number or kind of shares or other securities, or if additional shares or new or different shares or other securities are distributed with respect to such shares of Common Stock or other securities, through merger, consolidation, sale of all or substantially all of the property of the Company, reorganization, recapitalization, reclassification, stock dividend, stock split, reverse stock split or other distribution with respect to such shares of Common Stock, or other securities, an appropriate and proportionate adjustment may be made in (i) the maximum number and kind of shares provided in Section 3 of the Plan, (ii) the number and kind of shares or other securities subject to the then outstanding Incentive Awards, and (iii) the price for each share or other unit of any other securities subject to then outstanding Incentive Awards without change in the aggregate purchase price or value as to which Incentive Awards remain exercisable or subject to restrictions.

(b) Unless a successor corporation, or its parent or a subsidiary, agree to substitute new options, stock appreciation rights, performance awards or restricted stock covered by its stock, with appropriate adjustments as to the number and kind of shares and price, for all incentive awards then outstanding and to continue the Plan all incentive awards then outstanding under the Plan shall be fully vested and exercisable without restrictions upon a change in control. Even if the substitution of new award and the continuation of the plan are provided for upon a change in control, as described in the preceding sentence, all incentive awards then outstanding under the Plan shall immediately become fully vested in and exercisable without restrictions by any officer who within three years after a change in control occurs is terminated for reasons other than cause, retirement, death, or disability or who terminates employment due to good reason.

(c) Despite the provisions of Section 13(a), upon dissolution or

liquidation of the Company, or upon a reorganization, merger, or consolidation of the Company with one or more corporations as a result of which the Company is not the surviving corporation, or upon the sale of all or substantially all the property of the Company, all Options, Stock Appreciation Rights, and Performance Awards then outstanding under the Plan will be fully vested and exercisable and all restrictions on Restricted Stock will immediately cease, unless provisions are made in connection with such transaction for the continuance of the Plan and the assumption of the substitution for such Incentive Awards of new Options, Stock Appreciation Rights, Performance Awards, or Restricted Stock covering the stock of a successor employer corporation, or a parent or subsidiary thereof, with appropriate adjustments as to the number and kind of shares and prices.

(d) Adjustments under Section 13(a) and 13(b) will be made by the Committee, whose determination as to what adjustments will be made and the extent thereof will be final, binding, and conclusive. No fractional interest will be issued under the Plan on account of any such adjustments.

14. GENERAL PROVISIONS.

(a) With respect to any share of Common Stock issued or transferred under any provision of the Plan, such shares may be issued or transferred subject to such conditions, in addition to those specifically provided in the Plan, as the Committee may direct.

(b) Nothing in the Plan or in any instrument executed pursuant to the Plan will confer upon any Holder any right to continue in the employ of the Company or any of its subsidiaries or affect the right of the Company to terminate the employment of any Holder at any time with or without cause.

(c) No shares of Common Stock will be issued or transferred pursuant to an Incentive Award unless and until all then applicable requirements imposed by federal and state securities and other laws, rules, and regulations and by any regulatory agencies having jurisdiction, and by any stock exchanges upon which the Common Stock may be listed, have been fully met. As a condition precedent to the issue of shares pursuant to the grant or exercise of an Incentive Award, the Company may require the Holder to take any reasonable action to meet such requirements.

(d) No Holder (individually or as a member of a group) and no beneficiary or other person claiming under or through such Holder will have any right, title, or interest in or to any shares of Common Stock allocated or reserved under the Plan or subject to any Incentive Award except as to such shares of Common Stock, if any, that have been issued or transferred to such Holder.

(e) The Company may make such provisions as it deems appropriate to withhold any taxes which it determines it is required to withhold in connection with any Incentive or Performance Award.

(f) No Incentive Award and no right under the Plan, contingent or otherwise, will be assignable or subject to any encumbrance, pledge (other than a pledge to secure a loan from the Company), or charge of any nature except that, under such rules and regulations as the Company may establish pursuant to the terms of the Plan, a beneficiary may be designated with respect to an Incentive Award in the event of death of a Holder of such Incentive Award. If such beneficiary is the executor or administrator of the estate of the Holder of such Incentive Award, any rights with respect to such Incentive Award may be transferred to the person or persons or entity (including a trust) entitled thereto under the will of the Holder of such Incentive Award, or, in the case of intestacy, under the laws relating to intestacy. No Incentive Award which is comprised of a "derivative security," as that term is defined in the Rules promulgated under Section 16 of the Exchange Act, which includes Incentive Stock Options, Nonqualified Stock Options, Stock Appreciation Rights, or Performance Awards, shall be transferable by any Eligible Person other than by will or the laws of descent and distribution or pursuant to a qualified domestic relations order.

(g) Notwithstanding Section 14(f), the Committee may, to the extent permitted by applicable law, and Rule 16b-3 promulgated by the Securities and Exchange Commission under the Securities and Exchange Act of 1934, permit a Holder to assign the rights to exercise Options or Rights to a trust or to exercise options or rights in favor of a trust, provided that, in the case of Incentive Stock Options, such exercise in favor of a trust shall be permitted

only if and to the extent that such exercise is not deemed to be a transfer to or exercise by someone other than the Holder in contravention of Section 422(b)(S) of the Code.

(h) Subject to Section 14(e) hereof and the limitations set forth below, the Committee, in its sole discretion and subject to such Rules as the Committee may adopt, may permit Eligible Persons to elect (a) to apply a portion of the shares otherwise deliverable to them upon the lapse of any restrictions on Restricted Stock (as defined under the Plan) withheld, or (b) to deliver any other shares of the Common Stock, no par value, of the Company owned by such Eligible Persons other than those received upon such lapse of restrictions, to satisfy all or any portion of any taxes which the Company determines it is required to withhold in connection with any grant of Restricted Stock pursuant to Section 8 hereof or in connection with the lapse of any restrictions therein. Any such Eligible Person must apply or deliver such number of shares of Restricted Stock and/or Common Stock as the Committee, in its sole discretion, determines to be equal in fair market value to the portion of such Eligible Person's taxes required to be withheld by the Company and which the Eligible Person elected to satisfy by withholding or delivering shares.

Any such elections by Eligible Persons to have shares which were Restricted Stock, or to deliver other shares of Common Stock, under the Plan will be subject to the following restrictions and such Rules as the Committee may adopt:

(i) Such elections must be made in writing on or before the date when the amount of taxes to be withheld is required to be determined (the "Tax Date");

(ii) All such elections shall be irrevocable;

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

(iv) The fair market value of the shares of Common Stock which were Restricted Stock and are to be applied to satisfy, or any other shares of Common Stock delivered to the Company for the purposes of satisfying all or any portion of any Eligible Person's withholding tax obligations shall be deemed to be the average of the highest and lowest selling prices of such stock 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) An election made by an Eligible Person who is or becomes subject to Section 16(b) of the Securities Exchange Act of 1934, as amended, 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 the Company's quarterly or annual summary statement of earnings in accordance with Rule 16b-3(e)(3)(iii) under such Act; PROVIDED that no such election may be made within six months of the grant of such Restricted Stock awards except in the case of death or disability of the participant.

15. AMENDMENT AND TERMINATION.

(a) The Board of Directors will have the power, in its discretion, to amend, suspend, or terminate the Plan at any time. No such amendment will, without approval of the shareholders of the Company, except as provided in Section 13 of the Plan:

(i) Change the class of persons eligible to receive Incentive Awards under the Plan;

(ii) Materially increase the benefits accruing to Eligible Persons under the Plan;

(iii) Increase the number of shares of Common Stock subject to the Plan;

(iv) Transfer the administration of the Plan to any person who is not a "disinterested person" within the meaning of Rule 16b-3 under the Securities Exchange Act of 1934; or

(v) Permit the granting of Incentive Awards to members of the Committee.

(b) The Committee may, with the consent of a Holder, make such modifications in the terms and conditions of Incentive Award as it deems advisable or cancel the Incentive Award (with or without consideration) with the

consent of the holder.

(c) No amendment, suspension, or termination of the Plan will, without the consent of the Holder, alter, terminate, impair, or adversely affect any right or obligation under any Incentive Award previously granted under the Plan.

(d) A Stock Appreciation Right or an Option held by a person who was an Employee at the time such Right or Option was granted will expire immediately if and when the Holder ceases to be an Employee, except as follows:

(i) If the employment of an Employee is terminated by the Company other than for cause, then the Stock Appreciation Rights and Options will expire three (3) months thereafter unless by their terms they expire sooner. For purposes of this provision, termination "for cause" shall include, but shall not be limited to, termination because of dishonesty, criminal offense, or violation of a work rule, and shall be determined by, and in the sole discretion of, the Company. During the three (3) month period, the Stock Appreciation Rights and Options may be exercised in accordance with their terms, but only to the extent exercisable on the date of termination of employment.

(ii) If the Employee retires at normal retirement age or retires with the consent of the Company at an earlier date, the Stock Appreciation Rights and Options of the Employee will expire in accordance with their terms.

(iii) If an Employee dies or becomes permanently and totally disabled while employed by the Company or subsidiary corporation, the Stock Appreciation Rights and Options of the Employee will expire three (3) years after the date of death or permanent and total disability unless by their terms they expire sooner. If the Employee dies or becomes permanently and totally disabled within the three (3) months referred to in subparagraph (i) above, the Stock Appreciation Rights and Options will expire three (3) months after the date of death or permanent and total disability, unless by their terms they expire sooner.

(e) In the event a Holder of Restricted Stock ceases to be an Employee, all such Holder's Restricted Stock which remains subject to substantial risk of forfeiture at the time his or her employment terminates will be repurchased by the Company at the original price at which such Restricted Stock had been purchased unless the Committee determines otherwise.

(f) In the event a Holder of a Performance Award ceases to be an Employee, all such Holder's Performance Awards will terminate except in the case of retirement, death, or permanent and total disability. The Committee, in its discretion, may authorize full or partial payment of Performance Awards in all cases involving retirement, death, or permanent and total disability.

(g) The Committee may in its sole discretion determine, with respect to an Incentive Award, that any Holder who is on unpaid leave of absence for any reason will be considered as still in the employ of the Company, provided that rights to such Incentive Award during an unpaid leave of absence will be limited to the extent to which such right was earned or vested at the commencement of such leave of absence.

16. EFFECTIVE DATE OF PLAN AND DURATION OF PLAN.

This Plan will become effective upon adoption by the Board of Directors of the Company, subject, however, to approval by the stockholders of the Company within twelve (12) months following the date of its adoption by the Board of Directors. Any Incentive Awards granted hereunder prior to approval of the Plan by the stockholders shall be granted subject to such approval and may not be exercised or Common Stock irrevocably transferred until and unless such approval has occurred. Unless previously terminated by the Board of Directors, the Plan will terminate ten (10) years after its adoption by the Board of Directors.

EXHIBIT 10.7

LOAN AGREEMENT
BETWEEN
CIBC, INC.
AND
SAN DIEGO GAS & ELECTRIC COMPANY

Dated as of December 1, 1993

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LOAN AGREEMENT

THIS LOAN AGREEMENT made and entered into as of December 1, 1993 between SAN DIEGO GAS & ELECTRIC COMPANY, a California corporation (the "Borrower"), and the bank identified in Annex 1 hereto (the "Bank"), with respect to the following:

ARTICLE I

DEFINITIONS AND FINANCIAL REQUIREMENTS

1.1 DEFINITIONS

As used in this Agreement, the following terms shall have the following meanings (such meanings to be equally applicable to both the singular and plural forms of the terms defined):

"AGREEMENT" means this Loan Agreement, as amended, modified or supplemented from time to time.

"AVAILABILITY PERIOD" means, initially, the period from the date of this Agreement through October 31, 1994; PROVIDED, HOWEVER, that the Availability Period shall be extended for successive one (1) year periods upon (a) receipt by the Bank from the Borrower of a request for such extension, which request shall be received at least sixty (60) days prior to the current expiration date of the Availability Period, and (b) written approval of such extension from the Bank to the Borrower, which approval shall be given at the sole and absolute discretion of the Bank and shall be received at least thirty (30) days prior to the current expiration date of the Availability Period. After October 31, 1994, Availability Period shall mean the period from the date of the most recent extension of the Availability Period to the date set forth in the then effective Annex 1 hereto as the expiration date of the Availability Period.

"BANKING DAY" means a day on which banks are open for business in New York, New York, Los Angeles, California, and Atlanta, Georgia, and on which dealings are carried on in Dollar deposits in offshore Dollar interbank markets.

"BOARD" means the Board of Governors of the Federal Reserve System of the United States (or any successor thereto).

"BORROWING" means a borrowing hereunder consisting of Loans made to the Borrower by the Bank.

"BUSINESS DAY" means a day on which banks are open for business in New York, New York, Los Angeles, California, and Atlanta, Georgia.

"CD LOAN" means a Loan for which interest is based on the CD Rate.

"CD RATE" means, for each CD Rate Interest Period, the rate of interest (rounded upward, if necessary, to the nearest 1/8 of one percent) determined pursuant to the following formula:

$$\text{CD Rate} = \text{CERTIFICATE OF DEPOSIT RATE} + \text{Assessment Rate} \\ 1.00 - \text{Reserve Percentage}$$

Where,

(a) "ASSESSMENT RATE" means the rate (rounded upward, if necessary, to the nearest 1/100 of one percent) determined by the Bank to be the net annual assessment rate in effect on the first day of such CD Rate Interest Period for calculating the net annual assessment payable to the Federal Deposit Insurance

Corporation (or any successor) for insuring deposits at offices of the Bank in the United States.

(b) "CERTIFICATE OF DEPOSIT RATE" means, for each such CD Rate Interest Period, the rate of interest determined by the Bank to be the arithmetic average (rounded upward, if necessary, to the nearest 1/100 of one percent) of the rates of interest bid by two or more certificate of deposit dealers of recognized standing selected by the Bank for the purchase at face value from the Bank of its Dollar certificates of deposit for such CD Rate Interest Period and in the amount of such CD Loan to be outstanding during such period at the time selected by the Bank on the first day of such CD Rate Interest Period.

(c) "RESERVE PERCENTAGE" means, for such CD Rate Interest Period, the total (expressed as a decimal) of the maximum reserve percentages (including, but not limited to, marginal, emergency, supplemental, special, and other reserve percentages), in effect on the first day of such CD Rate Interest Period, prescribed by the Board for determining the reserves to be maintained by member banks of the Federal Reserve System for non- personal time deposits with a maturity equal to such CD Rate Interest Period.

"CD RATE INTEREST PERIOD" means, for each CD Loan, the period commencing on the date the CD Loan is made and ending thirty (30), sixty (60), ninety (90), one hundred eighty (180), two hundred seventy (270), or three hundred sixty (360) days thereafter, or any other period as mutually agreed upon, but never greater than 360 days, as requested by the Borrower pursuant to a Notice of Borrowing.

"CD RATE MARGIN" means, with respect to any CD Rate Loan, the percentage figure set forth in Annex 1 hereto as the CD Rate Margin.

"CODE" means the Internal Revenue Code of 1986, as amended from time to time. Section references to the Code are to the Code, as in effect on the date of this Agreement, and to any subsequent provisions of the Code amendatory thereof, supplementary thereto or substituted therefor.

"COMMITMENT" means the amount set forth in Annex 1 hereto as the amount of the Commitment, as the same may be reduced in accordance with Section 2.1(b) hereof.

"COMMITMENT FEE" shall have the meaning given such term in Section 2.8 hereof.

"DEFAULT" means an event which, with the giving of notice, the lapse of time, or both, shall become an Event of Default.

"DOLLAR" and the sign "\$" each mean United States dollars or such coin or currency of the United States of America as at the time of payment is legal tender for the payment of public and private debts in the United States of America.

"DOMESTIC LENDING OFFICE" means the office designated by the Bank as such in Annex 1 hereto, or such other office or offices as the Bank may from time to time select and notify to the Borrower.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended from time to time. Section references to ERISA are to ERISA, as in effect at the date of this Agreement, and to any subsequent provisions of ERISA amendatory thereto, supplementary thereto or substituted therefor.

"ERISA AFFILIATE" means each person (as defined in Section 3(9) of ERISA) which together with the Borrower or any Subsidiary would be deemed to be a member of the same "controlled group" within the meaning of Sections 414(b) and (c) of the Code.

"EVENT OF DEFAULT" has the meaning set forth in Article VI hereof.

"INTEREST PERIOD" means with respect to any CD Loan, the CD Rate Interest Period for such Loan; and with respect to any Offshore Loan, the Offshore Rate Interest Period for such Loan.

"LENDING OFFICE" means, with respect to each Offshore Loan, the Offshore Lending Office, and with respect to all other Loans, the Domestic Lending Office.

"LOAN" means a CD Loan, an Offshore Loan or a Reference Rate Loan.

"NOTICE OF BORROWING" shall have the meaning given such term in Section 2.3 hereof.

"OFFSHORE LENDING OFFICE" means the office designated by the Bank as such in Annex 1 hereto, or such other office or offices as the Bank may from time to time select and notify to the Borrower.

"OFFSHORE LOAN" means a Loan for which interest is based on the Offshore Rate.

"OFFSHORE RATE" means, for each Offshore Rate Interest Period, the interest rate per annum (rounded upward, if necessary to the nearest 1/100 of one percent) determined pursuant to the following formula:

$$\text{Offshore Rate} = 1 - \frac{\text{IBOR}}{\text{Offshore Reserve Percentage}}$$

Where,

(a) "IBOR" means, for each such Offshore Rate Interest Period, the rate of interest equal to the average (rounded upwards, if necessary, to the nearest 1/16 of 1%) of the rates per annum at which Dollar deposits in immediately available funds are offered to the Bank's Offshore Lending Office in the offshore interbank market as at or about 11:00 a.m. New York City time two (2) Banking Days prior to the beginning of such Offshore Rate Interest Period for delivery on the first day of such Offshore Rate Interest Period, and in an amount approximately equal to the amount of the Bank's Offshore Loan and for a period approximately equal to such Offshore Rate Interest Period;

(b) "OFFSHORE RESERVE PERCENTAGE" means, for each such Offshore Rate Interest Period, the maximum reserve percentage (expressed as a decimal) in effect on the first day of the Offshore Rate Interest Period, prescribed by the Board for determining the reserves to be maintained by member banks of the Federal Reserve System for "Eurocurrency liabilities" or for any other category of liabilities which includes deposits by reference to which the interest rate on Offshore Loans is determined or any category of extensions of credit or other assets which includes loans by a non-United States office of the Bank to United States residents.

"OFFSHORE RATE INTEREST PERIOD" means, for each Offshore Loan, the period commencing on the date the Offshore Loan is made and ending one (1), three (3), six (6), nine (9), or twelve (12) months thereafter, or, such other period or periods as the Bank, in its sole and absolute discretion, shall agree upon with the Borrower, but in any event not later than any other period as mutually agreed upon, but never greater than 12 months, as requested by the Borrower pursuant to a Notice of Borrowing.

"OFFSHORE RATE MARGIN" means, with respect to any Offshore Loan, the percentage figure set forth in Annex 1 hereto as the Offshore Rate Margin.

"PARTICIPANT" shall have the meaning given such term in Section 7.7 hereof.

"PBGC" means the Pension Benefit Guaranty Corporation or any entity succeeding to any or all of its functions under ERISA.

"PERSON" means a corporation, an association, a partnership, an organization, a business, an individual or a government or political subdivision thereof or any governmental agency.

"PLAN" means any multi-employer or single-employer plan as defined in Section 4001 of ERISA, which is maintained or contributed to, or, at any time during the five calendar years preceding the date of this Agreement, was maintained or contributed to, for employees of the Borrower or any Subsidiary or an ERISA Affiliate.

"REFERENCE RATE" means at any time the rate per annum then equal to the greater of (x) the United States "Prime Rate" of the Bank as announced by the Bank from time to time (said rate to change on the date of each change of such "Prime Rate") and (y) the sum of one percent (1%) per annum and the Overnight Federal Funds Rate (as defined hereafter). The term "Overnight Federal Funds Rate" shall mean for any day the overnight rate per annum offered to the Bank at 10:00 a.m. (New York City time) for any day in which such a rate is

available. For purposes of this Agreement, "Prime Rate" shall not necessarily be equivalent to, or dependent upon, the lowest or best interest rate that the Bank offers. Any change in the fluctuating interest rate hereunder resulting from a change of the Reference Rate shall take effect at the opening of business on the day specified in the public announcement of a change in the Reference Rate, or if no such public announcement is made, on the date of such change.

"REFERENCE RATE LOAN" means a Loan for which interest is based on the Reference Rate.

"REPAYMENT PERIOD" means the due date for any Loan disbursed prior to the last day of the Availability Period, which due date shall be specified by the borrower, and shall be no longer than one (1) year from the date of disbursement of such Loan.

"REPORTABLE EVENT" means an event described in Section 4043(b) of ERISA with respect to a Plan as to which the thirty (30) day notice requirement has not been waived by the PBGC.

"SUBSIDIARY" means those Persons the decision-making process of which is controlled by the Borrower, its Subsidiaries or individuals who control the decision-making process of the Borrower.

"UNFUNDED CURRENT LIABILITY" of any Plan means the amount, if any, by which the present value of the accrued benefits under the Plan as of the close of its most recent Plan year exceeds the fair market value of the assets allocable thereto, determined in accordance with Section 412 of the Code.

1.2 INTERPRETATION

(a) Headings of articles and sections herein and the table of contents hereof are solely for convenience of reference, do not constitute a part hereof and shall not affect the meaning, construction or effect hereof.

(b) The words "herein," "hereof," "hereby," "hereunder" and other words of similar import refer to this Agreement as a whole and not to any particular Section or subdivision hereof.

1.3 FINANCIAL REQUIREMENTS

Unless otherwise specified in this Agreement, all accounting terms used in this Agreement shall be interpreted, all financial information required under this Agreement shall be prepared, and all financial computations required under this Agreement shall be made, in accordance with generally accepted accounting principles as in effect from time to time, applied on a basis consistent with the most recent audited consolidated financial statements of the Borrower delivered to the Bank.

ARTICLE II

AMOUNT AND TERMS OF CREDIT

2.1 COMMITMENT FOR LOANS

(a) COMMITMENT. Subject to the terms and conditions of this Agreement, the Bank agrees, from time to time during the Availability Period, to make Loans to the Borrower, which Loans shall be, at the option of the Borrower, CD Loans, Offshore Loans or Reference Rate Loans; PROVIDED, HOWEVER, that the aggregate principal amount of Loans outstanding shall not at any time exceed the amount of the Commitment.

(b) REDUCTION OF THE COMMITMENT. The Borrower may permanently reduce in whole or in part the unutilized portion of the Commitment by giving to the Bank one (1) Business Day's written notice thereof, which notice shall specify the date and the amount of such reduction; PROVIDED, THAT, the Borrower shall, on or prior to the date of reduction or termination so specified, pay to the Bank the accrued Commitment Fee for the period up to such date of reduction or termination; and PROVIDED, FURTHER, that in no event shall the Commitment be reduced below the aggregate amount of all Loans outstanding on the date of such reduction.

2.2 MINIMUM LOAN AMOUNTS

(a) Each CD Loan and each Offshore Loan hereunder shall be in the amount of One Million Dollars (\$1,000,000) or integral multiples thereof.

(b) Each Reference Rate Loan shall be in a minimum aggregate principal amount of Five Hundred Thousand Dollars (\$500,000) or integral multiples thereof.

2.3 NOTICE OF BORROWING

The disbursement of each Loan shall be made upon written or tested telex request or telephone notice ("Notice of Borrowing") promptly followed by written confirmation, which Notice of Borrowing shall be irrevocable, shall be received by the Bank not later than 10:00 a.m. (Los Angeles time) at least (a) two (2) Banking Days prior to the date of the Loan in the case of an Offshore Loan, and (b) one (1) Business Day prior to the date of the Loan in the case of a CD Loan, or Reference Rate Loan, and shall specify:

- (i) The date of such Loan, which shall be a Business Day;
- (ii) The aggregate principal amount of such Loan;
- (iii) Whether the Loan is to be a CD Loan, Offshore Loan or Reference Rate Loan; and
- (iv) If such Loan is to be a CD Loan, or Offshore Loan, the duration of the relevant Interest Period.

2.4 DISBURSEMENT OF FUNDS

Not later than 11:00 a.m. (Los Angeles time) on the date specified for each Loan, the Bank shall make available such Loan, in immediately available funds credited to the Borrower's bank account identified in Annex 1 hereto.

2.5 LOAN ACCOUNT

The Bank shall open and maintain on its books a loan account in the Borrower's name and shall: (a) enter as debits thereto (i) each CD Loan, Offshore Loan and Reference Rate Loan made to the Borrower and interest accrued thereon; and (b) enter as credits thereto all repayments of principal and payments of interest received by the Bank. The Bank shall give confirming notice to the Borrower of each Loan made to the Borrower. The Bank's records showing such entries shall be presumed correct, absent manifest error. Failure to make any such entry or notice, however, shall not affect the obligations of the Borrower in respect of each Loan.

2.6 PREPAYMENT OR CONVERSION OF LOANS

(a) The Borrower may prepay, at any time, any or all Loans, in whole or in part, PROVIDED, THAT:

(i) The Bank has received irrevocable notice of such prepayment not later than 10:00 a.m. (Los Angeles time) at least (A) one (1) Business Day prior to the date thereof in the case of a CD Loan, or a Reference Rate Loan, and (B) two (2) Banking Days prior to the date thereof in the case of an Offshore Loan;

(ii) The notice of prepayment specifies (A) the date of prepayment which shall be (x) a Business Day in the case of a CD Loan, or a Reference Rate Loan, and (y) a Banking Day in the case of an Offshore Loan, (B) the amount of the prepayment which shall be in an amount at least equal to (x) One Million Dollars (\$1,000,000) or integral multiples thereof in the case of a CD Loan, a or an Offshore Loan, or (y) Five Hundred Thousand Dollars (\$500,000) or integral multiples thereof in the case of a Reference Rate Loan; and

(iii) On the date of prepayment, the Borrower pays to the Bank the principal amount of the Loans being prepaid together with all accrued interest thereon.

In addition, the Borrower shall pay to the Bank any amounts due under Section 2.11 hereof as a result of any prepayment in accordance with the terms of such Section 2.11.

(b) The Borrower may convert any or all outstanding loans of any type into a Loan or Loans of another type provided for herein, PROVIDED, THAT:

(i) The Bank has received irrevocable notice of such conversion not later than 10:00 a.m. (Los Angeles time) at least (A) one (1) Business Day prior to the date thereof if a Loan will be converted into a CD Loan, or a Reference Rate Loan, and (B) two (2) Banking Days prior to the date thereof if a Loan will be converted into an Offshore Loan;

(ii) The notice of conversion specifies (A) the date of conversion which shall be both (x) if applicable, the last day of the Interest Period of the Loan to be converted, unless the Loan to be converted is a CD Loan, or Offshore Loan affected by the circumstances described in Section 2.12(b)(i)(A) or (B), in which case the requirements of this clause (x) shall not apply and (y) a Business Day, (B) the amount of the Loan or Loans to be converted and (C) the type of Loan into which a Loan or Loans is to be converted and the Interest Period applicable thereto; and

(iii) On the date of conversion (A) the Borrower pays to the Bank the accrued and unpaid interest due on the Loan to be converted, (B) no Default or Event of Default has occurred or is continuing, (C) the Repayment Period has not expired and (D), if the Loan to be converted is a CD Loan or Offshore Loan affected by the circumstances described in Section 2.12(b)(i)(A), the Borrower also pays to the Bank any additional amounts payable to the Bank in respect of such Loan pursuant to Sections 2.11 and 2.12(b)(i) hereof.

(c) In the event the Borrower (i) does not provide the Bank with a timely notice of conversion as required under Section 2.6(b) hereof and (ii) either (A) does not repay to the Bank the principal amount of a CD Rate Loan or an Offshore Loan at the end of the Interest Period applicable thereto, or (B), if the Loan to be converted is a CD Loan or Offshore Loan affected by the circumstances described in Section 2.12(b)(i)(A), does not pay the additional amounts required to be paid on the date of conversion, then at the option of the Bank, in its sole and absolute discretion, such Loan or Loans shall be converted into Reference Rate Loans and shall bear interest as a Reference Rate Loan until the earlier of repayment thereof or conversion thereof pursuant to Section

2.6(b) hereof; PROVIDED, THAT:

(i) No Default or Event of Default (other than the failure to repay the principal amount of a Loan at the end of an applicable Interest Period) has occurred or is continuing on the date of such conversion;

(ii) The Repayment Period has not expired.

In addition, the Borrower shall pay to the Bank accrued and unpaid interest due on any Loan converted pursuant to this Section 2.6(c) within the grace period provided in Section 6.1(b) hereof.

(d) Upon any conversion of a Loan pursuant to Sections 2.6(b) or (c) hereof, the Bank shall make such entries in the loan account established in accordance with Section 2.5 hereof to effect such conversion.

2.7 REPAYMENT OF PRINCIPAL AND PAYMENT OF INTEREST

(a) CD LOANS. The outstanding principal balance of each CD Loan shall bear interest at a rate per annum equal to the sum of the CD Rate and the CD Rate Margin (such interest being computed daily on the basis of a three hundred sixty (360) day year and actual days elapsed, which results in more interest than if a three hundred sixty-five (365) day year were used). Interest on each CD Loan shall be paid by the Borrower on the last day of the CD Rate Interest Period for such CD Loan and, in addition, (i) if such CD Rate Interest Period is one hundred eighty (180) days, on the date falling ninety (90) days after the commencement of such CD Rate Interest Period and (ii) if such CD Rate Interest Period is longer than one hundred eighty (180) days, on each date occurring at three (3) month intervals after the first day of such Interest Period. The entire outstanding principal amount of each CD Loan shall be repaid by the Borrower on the last day of the CD Rate Interest Period for such CD Loan.

(b) OFFSHORE LOANS. The outstanding principal balance of each Offshore Loan shall bear interest at a rate per annum equal to the sum of the Offshore Rate and the Offshore Rate Margin (such interest being computed daily on the basis of a three hundred sixty (360) day year and actual days elapsed, which results in more interest than if a three hundred sixty-five (365) day year were used). Interest on each Offshore Loan shall be paid, by the Borrower, on

the last day of the Offshore Rate Interest Period for such Offshore Loan and, in addition, (i) if such Offshore Rate Interest Period is six (6) months, on the date falling three (3) months after the commencement of such Offshore Rate Interest Period, and (ii) if such Offshore Rate Interest Period is longer than six (6) months, on each date occurring at three (3) month intervals after the first day of the Offshore Rate Interest Period. The entire outstanding principal amount of each Offshore Loan shall be repaid by the Borrower on the last day of the Offshore Rate Interest Period for such Offshore Loan.

(c) REFERENCE RATE LOANS. The outstanding principal balance of each Reference Rate Loan shall bear interest at a rate per annum equal to the Reference Rate, (computed daily on the basis of a three hundred sixty-five (365) or three hundred sixty-six (366) day year, as the case may be, and actual days elapsed) as such Reference Rate shall change from time to time until principal is paid in full to the Bank. Interest on each outstanding Reference Rate Loan shall be paid by the Borrower quarterly in arrears commencing on the first Business Day of the calendar quarter immediately following the quarter during which such Reference Rate Loan was made to the Borrower, and upon payment in full of the principal of the Reference Rate Loan. The entire outstanding principal amount of each Reference Rate Loan made to the Borrower shall be repaid by the Borrower on the last day of the Repayment Period.

2.8 COMMITMENT FEE

The Borrower shall pay the Bank a fee (the "Commitment Fee"), computed at the per annum rate set forth in Annex 1 hereto as the Commitment Fee rate, on the difference, if any, between the Commitment and the average daily total outstanding Loans. The Commitment Fee shall be calculated on the basis of a three hundred sixty-five (365) or three hundred sixty-six (366) day year, as the case may be, and actual days elapsed. The accrued Commitment Fee shall be payable quarterly in arrears with each respective quarter ending on January 31, April 30, July 31, and October 31. Each such payment shall be due and payable on the tenth day following receipt by the Borrower of notice from the Bank of the amount due, and, if the Commitment expires or is terminated or reduced, then on the tenth day following the date of such expiry, termination or reduction.

2.9 TYPE OF FUNDS FOR PAYMENT AND PLACE OF PAYMENT

(a) The Borrower shall make each payment to the Bank of principal of, and interest on, the Loans, of the Commitment Fee and of other commissions or fees hereunder, without setoff or counterclaim, when due, in immediately available funds, not later than 11:00 A.M. Los Angeles time on such due date and at its Domestic Lending Office (i) for the account of such office with respect to any CD Loan or Reference Rate Loan, any payment related thereto, or any payment of the Commitment Fee or other commissions or fees hereunder, and (ii) for the account of the Offshore Lending Office with respect to any Offshore Loan or payment related thereto.

(b) All sums received after such time shall be deemed received on the next Banking Day in the case of a payment respecting an Offshore Loan, and the next Business Day in all other cases. Except in the case of Offshore Loans, whenever any payment to be made hereunder shall be due on a day which is not a Business Day, the payment shall be made on the next succeeding Business Day. In the case of Offshore Loans, the last day of the Offshore Rate Interest Period (and therefore the due date for repayment of principal and interest on Offshore Loans) shall be determined in accordance with the practices of the offshore Dollar interbank markets as from time to time in effect. If the date for any payment of principal is extended by operation of law or otherwise, interest thereon and fees shall accrue and be payable for such extended time.

2.10 PAST DUE PAYMENTS

If any sum of principal, interest or other sum due hereunder in connection with a CD Loan or Offshore Loan is not paid when due, the Borrower shall, on demand, indemnify the bank against any loss, cost or expense including any loss of profit and any loss, cost or expense in liquidating or employing deposits acquired from third parties in connection with such Loan, incurred by the Bank as a consequence of any such failure to pay any sum of principal, interest, or other sum when due hereunder. In addition, loans which are not paid or converted, when due, shall bear interest until paid in full at the Reference Rate.

2.11 INDEMNIFICATION FOR BREAKING DEPOSITS

If for any reason (including prepayment, conversion and acceleration) the Bank receives any payment of principal of any CD Loan or Offshore Loan on a day other than the last day of the Interest Period applicable to such Loan, then the Borrower shall reimburse the Bank on demand for any loss incurred by it as a result of the timing of such payment, including without limitation any loss incurred in liquidating or employing deposits from third parties and including loss of profit for the period after such payment. The Bank will provide the Borrower with a written statement of said costs, losses, or payments which certificate shall be presumed correct absent manifest error. If as a result of prepayment, the Bank immediately reemploys the funds at a rate equal to or greater than the rate on the Loan prepaid, then the Borrower will not be obligated to reimburse the Bank for any cost.

2.12 CHANGES IN FUNDING CIRCUMSTANCES

(a) AVAILABILITY. In the event that the Bank shall determine, which determination shall, absent manifest error, be final and conclusive and binding upon all parties hereto, on the date any Notice of Borrowing is made that, by reason of any changes arising after the date of this Agreement affecting the offshore Dollar interbank markets or the secondary certificate of deposit market, as the case may be, adequate and fair means do not exist for ascertaining the applicable interest rate, then the Bank shall promptly give notice (by telephone confirmed in writing) to the Borrower of such determination. Thereafter, CD Loans and Offshore Loans, as the case may be, shall no longer be available until such time as the Bank notifies the Borrower that the circumstances giving rise to such notice by the Bank no longer exist, and, at such time, the Bank's obligation to make CD Loans or Offshore Loans shall be automatically reinstated.

(b) INCREASED COSTS AND ILLEGALITY OF LOANS

(i) In the event that the Bank shall have determined (which determination shall, absent manifest error, be final and conclusive and binding upon the Borrower):

(A) At any time, that the Bank shall incur increased costs or reductions in the amounts received or receivable hereunder with respect to any CD Loan or Offshore Loan, other than any such increased costs or reductions in the amounts received or receivable hereunder due to increased capital requirements as set forth in Section 2.12(c) below, because of (x) any change after the date of this Agreement in any applicable law or governmental rule, regulation, order or request (whether or not having the force of law) (or in the interpretation or administration thereof and including the introduction of any new law or governmental rule, regulation, order or request), including, without limitation, (1) a change in the basis of taxation of payments to the Bank or its applicable Lending Office of the principal of or interest on the Loans or any other amounts payable hereunder (except for changes in the rate of tax on, or determined by reference to, the net income or profits of the Bank or its applicable Lending Office imposed by the jurisdiction in which its principal office or applicable Lending Office is located) or (2) a change in official reserve requirements, but, in all events, excluding reserves required under Regulation D of the Board to the extent included in the computation of the CD Rate or Offshore Rate, as the case may be, or (y) other circumstances affecting the Bank or the offshore Dollar interbank markets, the secondary certificate of deposit market, or the United States domestic money market generally, as the case may be, or the position of the Bank in such market; or

(B) At any time, that the making or continuance of any CD Loan or Offshore Loan has been made (x) unlawful by any law or governmental rule, regulation or order, (y) impossible by compliance by the Bank with any governmental request (whether or not having force of law) or (z) impracticable as a result of a contingency occurring after the date of this Agreement which materially and adversely affects the offshore Dollar interbank markets or the secondary certificate of deposit market, as the case may be;

then, and in any such event, the Bank shall promptly give notice (by telephone confirmed in writing) to the Borrower. Thereafter (x) in the case of clause (A) above, the Borrower shall pay to the Bank, upon written demand therefor, such additional amounts (in the form of an increased rate of, or a different method of calculating, interest or otherwise as the Bank in its sole discretion shall determine) as shall be required to compensate the Bank for such increased costs or reductions in amounts received or receivable hereunder (a written notice as

to the additional amounts owed to the Bank, showing the basis for the calculation thereof, submitted to the Borrower by the Bank shall, absent manifest error, be final and conclusive and binding on the Borrower) and (y) in the case of clause (B) above, the Borrower shall take one of the actions specified in Section 2.12(b)(ii) hereof as promptly as possible and, in any event, within the time period required by law.

(ii) At any time that any CD Loan or Offshore Loan is affected by the circumstances described in Section 2.12(b)(i)(A) or (B) above, the Borrower may (and in the case of a CD Loan or Offshore Loan affected by the circumstances described in Section 2.12(b)(i)(B) hereof shall) either (x) if the affected CD Loan or Offshore Loan is then being made, cancel its Notice of Borrowing by giving the Bank telephonic notice (confirmed in writing) of the cancellation on the same date that the Borrower was notified by the Bank pursuant to Section 2.12(b)(i)(A) or (B) hereof or (y) if the affected CD Loan or Offshore Loan is then outstanding, request the Bank to convert such CD Loan or Offshore Loan under Section 2.6(b) hereof; PROVIDED, HOWEVER, that if the Borrower fails to request conversion under such Section 2.6(b), then the Bank may convert the Loans under Section 2.6(c) hereof in accordance with the terms thereof.

(c) CAPITAL ADEQUACY. If the Bank determines (which determination shall, absent manifest error, be final, conclusive and binding upon the Borrower) at any time that any applicable law or governmental rule, regulation, order or request (whether or not having the force of law) concerning capital adequacy, or any change in interpretation or administration thereof by any governmental authority, central bank or comparable agency, will have the effect of increasing the amount of capital required or expected to be maintained by the Bank or any corporation controlling the Bank based on the existence of the Commitment hereunder or its obligations hereunder to make Loans, the Borrower shall pay to the Bank, upon its written demand therefor sent to the Borrower, such additional amounts as shall be required to compensate the Bank for the increased cost to the Bank as a result of such increase of capital. In determining such additional amounts (in the form of an increased Commitment Fee or such other form of compensation as the Bank shall in its sole discretion determine), the Bank will act reasonably and in good faith and will use averaging and attribution methods which are reasonable, provided that the Bank's determination of compensation owing under this Section 2.12(c) shall, absent manifest error, be final and conclusive and binding on the Borrower. The Bank, upon determining that any additional amounts will be payable pursuant to the Section 2.12(c), will send prompt written notice thereof to the Borrower, which notice shall show the basis for calculation of such additional amounts.

ARTICLE III

CONDITIONS PRECEDENT

3.1 CONDITIONS PRECEDENT TO THE LOANS

The obligation of the Bank to make any Loans hereunder is subject to the condition precedent that the Bank shall have received from the Borrower, on or prior to the date of this Agreement, all of the following in form and substance satisfactory to the Bank:

(a) A certified copy of the resolution of the Board of Directors of the Borrower or the Executive Committee thereof (if such action by the Executive Committee is authorized by the By-laws of the Borrower) evidencing the authorization for the Borrowings herein provided and other matters contemplated hereby and a certified copy of all documents evidencing necessary corporate action and any governmental approval, including but not limited to those of the California Public Utilities Commission, with respect to Borrowings under this Loan Agreement;

(b) A favorable written opinion, in form and substance satisfactory to the Bank, of the Vice President and General Counsel or Assistant General Counsel of the Borrower as to the matters referred to in Sections 4.1(b) through 4.1(d) hereof;

(c) A signed copy of a Certificate of the Secretary or an Assistant Secretary of the Borrower which shall certify the names of the officers of the Borrower authorized to sign this Agreement and the other documents or certificates to be delivered pursuant hereto by the Borrower or any of its officers, together with the true signatures of each such officer. The Bank may conclusively rely on such certificate until it shall receive a further

certificate of the Secretary or an Assistant Secretary of the Borrower cancelling or amending the prior certificate and submitting the true signatures of the officers named in such further certificate; and

(d) Such additional information, document or instruments as may be reasonably requested by the Bank.

3.2 CONDITIONS PRECEDENT TO EACH LOAN

The obligation to disburse any Loan at any time (including any Loan made on the date of this Agreement) is subject to the performance by the Borrower of all its obligations under this Agreement and to the satisfaction of the following further conditions:

(a) Timely receipt by the Bank of the appropriate Notice of Borrowing from the Borrower;

(b) The representations and warranties contained in Sections 4.1(a) through 4.1(g) hereof are true and accurate in all material respects as though made on and as of the date of the Notice of Borrowing and the date of the Loan requested therein;

(c) No Default or Event of Default has occurred and is continuing on the date of the Notice of Borrowing and the date of the Loan and no Default or Event of Default shall occur as a result of the making of the Loan; and

(d) Receipt by the Bank of such additional information concerning any of the matters set forth in Article IV hereof as may be reasonably requested by the Bank.

ARTICLE IV

REPRESENTATIONS AND WARRANTIES

4.1 REPRESENTATIONS AND WARRANTIES OF THE BORROWER

The Borrower represents and warrants for the benefit of the Bank as follows:

(a) All financial statements, information and other data furnished by the Borrower to the Bank in connection with the Borrower's application for credit hereunder are, in all material respects, accurate and correct as of the date thereof and such financial statements have been prepared in accordance with generally accepted accounting principles and practices consistently applied and accurately represent the financial condition of the Borrower;

(b) The Borrower is a corporation duly incorporated, validly existing and in good standing under the laws of the State of California and has all requisite power and authority, corporate or otherwise, to conduct its business, to own its properties and to execute, deliver and to perform all of its obligations under this Agreement;

(c) The making and the performance by the Borrower of this Agreement have been duly authorized by all necessary corporate action and do not contravene any provision of law or of the Borrower's amended Articles of Incorporation or By-Laws or of any indenture or agreement or instrument to which the Borrower is a party or by which the Borrower or its properties may be bound or affected, and this Agreement is binding on the Borrower;

(d) The Loans have been duly authorized by an order of the Public Utilities Commission of the State of California, and any governmental authority, commission or entity whose authorization is required, or, if such authorization has not been obtained, such authorization is not required;

(e) No Default or Event of Default has occurred and is continuing or would result from the incurring of obligations by the Borrower under this Agreement;

(f) None of the proceeds of any Loan hereunder will be used directly or indirectly for the purpose, whether immediate, incidental or ultimate, of purchasing or carrying any "margin stock" (as defined in Regulation U, as amended from time to time, of the Board). The Borrower is not engaged

principally, as one of its important activities, in the business of extending credit for the purpose of purchasing or carrying margin stocks within the meaning of said Regulation U; and

(g) Each Plan is in substantial compliance with ERISA; no Plan is insolvent or in reorganization; no Plan has any material Unfunded Current Liability; no Plan has an accumulated or waived funding deficiency or permitted decreases in its funding standard account within the meaning of Section 412 of the Code; neither the Borrower, any Subsidiary nor any ERISA Affiliate has incurred any material liability to or on account of a Plan pursuant to Sections 515, 4062, 4063, 4064, 4201 or 4204 of ERISA or expects to incur any liability under any of the foregoing Sections on account of the termination of participation in or contributions to any such Plan; no proceedings have been instituted to terminate any Plan in a distressed termination; no condition exists which presents a material risk to the Borrower or any Subsidiary of incurring a liability to or on account of a Plan pursuant to the foregoing provisions of ERISA and the Code; no lien imposed under the Code or ERISA on the assets of the Borrower or any Subsidiary exists or is likely to arise on account of any Plan; and the Borrower and each Subsidiary may terminate contributions to any other employee benefit plans maintained by them without incurring any material liability to any person interested therein.

ARTICLE V

COVENANTS OF THE BORROWER

5.1 COVENANTS OF THE BORROWER

So long as this Agreement shall be in effect and the Commitment has not been terminated, and until the full and final payment of all principal of, and interest on, all Loans and all other obligations hereunder, the Borrower shall, unless the Bank shall otherwise consent in writing:

(a) Furnish the Bank with copies of the Borrower's 10-K statements, 10-Q statements, and other periodic statements, Registration Statements, 8-K reports and any and all other reports, statements, or documents filed with the Securities and Exchange Commission, promptly after such filings are made, and (i) with respect to the Borrower's 10-K statements, in no event later than one hundred twenty (120) days after the end of each year, and (ii) with respect to the Borrower's 10-Q statements, in no event later than ninety (90) days after the end of each quarter; and promptly after any request by the Bank such other information regarding the Borrower's activities as the Bank may reasonably request;

(b) Promptly upon demand by the Bank, pay to and reimburse the Bank for all costs and expenses incurred by the Bank, by reason of payment by the Bank of any governmental charges, taxes (other than taxes levied on earned income) and penalties imposed on this Agreement or any other instrument issued hereunder; and

(c) As soon as possible and, in any event, within ten (10) days after the Borrower or any Subsidiary knows or has reason to know of the occurrence of any of the following events, the Borrower or such Subsidiary, as the case may be, will deliver to the Bank a certificate of the chief financial officer or vice president of finance of the Borrower or such Subsidiary, as the case may be, setting forth details as to such occurrence and such action, if any, which the Borrower or such Subsidiary is required or proposes to take, together with any notices required or proposed to be given to or filed with or by the Borrower or such Subsidiary, the PBGC, a Plan participant or the Plan administrator with respect thereto: that a Reportable Event has occurred; that an accumulated funding deficiency has been incurred or an application may be or has been made to the Secretary of Labor for a waiver or modification of the minimum funding standard (including any required installment payments) or an extension of any amortization period under Section 412 of the Code with respect to a Plan; that a Plan has been or may be terminated, reorganized, partitioned or declared insolvent under Title IV of ERISA; that a Plan has an Unfunded Current Liability giving rise to a lien under ERISA, that proceedings may be or have been instituted to terminate a Plan; that a proceeding has been instituted pursuant to Section 515 of ERISA to collect a delinquent contribution to a Plan; or that the Borrower or a Subsidiary or any ERISA Affiliate will or may incur any liability (including any contingent or secondary liability) to or on account of the termination of or withdrawal from a Plan under Sections 4062, 4063, 4064, 4201 or 4204 of ERISA. The Borrower will deliver to the Bank a complete copy

of the annual report (Form 5500) of each Plan required to be filed with the Internal Revenue Service. In addition to any certificates or notices delivered to the Bank pursuant to the first sentence hereof, copies of annual reports and any other notices received by the Borrower or Subsidiary required to be delivered to the Bank shall be delivered to the Bank no later than ten (10) days after the later of the date such report or notice has been filed with the Internal Revenue Service or the PBGC, given to Plan participants, or received by the Borrower or any Subsidiary.

ARTICLE VI

EVENTS OF DEFAULT

6.1 DEFAULT

Upon the occurrence of any of the following events (each an "Event of Default"):

(a) The Borrower shall fail to pay when due the principal amount of any Loans; PROVIDED, HOWEVER, that if a Loan is converted pursuant to Section 2.6(b) or 2.6(c) hereof, then the failure to pay the principal amount of such Loan, when due, shall not be deemed an Event of Default under this Section 6.1(a);

(b) The Borrower shall fail to pay, when due, any installment of interest or any Commitment Fee due under this Agreement and such failure continues for seven (7) days after written notice of such non-payment from the Bank to the Borrower or, if the giving of such notice is not permitted or is otherwise restricted by law, then such failure continues for seven (7) days;

(c) Any representation or warranty herein or in any agreement, instrument or certificate executed pursuant hereto or in connection with any transactions contemplated hereby shall prove to have been false or misleading in any material respect when made or when deemed to have been made;

(d) The Borrower shall breach or default under any term or provision of this Agreement not otherwise provided for in this Article VI within thirty (30) days after written notice of breach or default from the Bank to the Borrower;

(e) Any default shall occur under any other agreement involving the borrowing of money or any extension of credit to which the Borrower may be a party as obligor, if such default gives, or with the giving of notice or the lapse of time or both would give, to the holder of the obligation the right to accelerate the obligation or if the Borrower fails to pay any such obligation when due (including any applicable cure periods) within seven (7) days after written notice from the Bank to the Borrower;

(f) The Borrower shall fail to pay, when due, debts in excess of Ten Million Dollars (\$10,000,000);

(g) The Borrower shall fail to pay debts generally as they come due, or admits in writing its inability to pay its debts as such debts become due, files any petition or action for relief under any bankruptcy, reorganization, insolvency, or moratorium law or any other law for the relief of, or relating to, debtors, now or hereafter in effect, makes any assignment for the benefit of creditors, or takes any corporate action in furtherance of any of the foregoing;

(h) An involuntary petition shall be filed under any bankruptcy statute against the Borrower, or a custodian, receiver, trustee, assignee for the benefit of creditors (or other similar official) shall be appointed to take possession, custody or control of the properties of the Borrower, unless such petition or appointment is set aside or withdrawn or ceases to be in effect within sixty (60) days from the date of said filing or appointment;

(i) Any financial statements, profit and loss statements or other statements furnished by the Borrower to the Bank prove to be false or incorrect in any material respect;

(j) There is any material change in the financial condition of the Borrower which the Bank, in good faith, believes will impair the prospect of payment or performance by the Borrower hereunder and which is not remedied within seven (7) days following notice thereof from the Bank; or

(k) Any Plan shall fail to maintain the minimum funding standard required for any Plan year or part thereof or a waiver of such standard or extension of any amortization period is sought or granted under Section 412 of the Code; any Plan is, shall have been or is likely to be terminated or the subject of termination proceedings under ERISA; any Plan shall have an Unfunded Current Liability; or the Borrower or any Subsidiary or any ERISA Affiliate has incurred or is likely to incur a liability to or on account of a Plan under Sections 515, 4062, 4063, 4064, 4201 or 4204 of ERISA; and there shall result from any such event or events the imposition of a lien upon the assets of the Borrower or any Subsidiary, the granting of a security interest, or a liability or a material risk of incurring a liability to the PBGC or a Plan or a trustee appointed under ERISA or a penalty under Section 4971 of the Code, which, in the opinion of the Bank, will have a material adverse effect upon the business, operations, condition (financial or otherwise) or prospects of the Borrower; then, and in any such event, and at any time thereafter if an Event of Default shall then be continuing, the Bank may take any or all of the following actions (PROVIDED, THAT, if an Event of Default specified in Sections 6.1(g) or 6.1(h) shall occur, the result which would occur upon the giving of written notice by the Bank to the Borrower as specified in clauses (i) and (ii) below shall occur without the giving of any such notice):

(i) Declare the Commitment terminated, whereupon any Commitment Fee shall forthwith become due and payable without any other notice of any kind;

(ii) Declare the principal of and any accrued interest in respect of all Loans and all other obligations owing hereunder to be, whereupon the same shall become, forthwith due and payable without presentment, demand, protest or other notice of any kind, all of which are hereby waived by the Borrower; and

(iii) Pursue any other remedies available to the Bank under this Agreement or at law or equity.

ARTICLE VII

MISCELLANEOUS

7.1 NOTICE

All notices, requests or demands to or upon the Borrower shall be given or made at the address set forth below:

BORROWER

NAME ADDRESS

San Diego Gas & Electric Company P.O. Box 1831
San Diego, California 92112
Attn: Cash Management
Supervisor

All notices, requests or demands to or upon the Bank shall be given or made at the address set forth in Annex 1 hereto.

Except as otherwise provided herein, all such notices, requests and demands given or made in connection with the terms and provisions of this Agreement shall be deemed to have been given or made when sent by registered mail, postage prepaid or, in case of telegraphic notice, when delivered to the telegraphic company, addressed as specified in this Section 7.1 or by telephonic contact followed by immediate written confirmation.

7.2 PAYMENT OF EXPENSES

The Borrower hereby agrees to pay all reasonable costs and expenses (including, without limitation, the fees and disbursements of outside counsel and the allocated costs, fees and disbursements for in-house legal services) of the Bank in connection with: (a) the preparation, execution, delivery and administration of this Agreement and the documents and instruments referred to herein and any amendment, waiver, amendment or consent relating hereto or thereto, (b) the enforcement of this Agreement and the documents and instruments referred to herein, and (c) any refinancing or restructuring of the Commitment in the nature of a "work-out".

7.3 DELAY

No failure to exercise, and no delay in exercising, on the part of the Bank, of any right, power or privilege hereunder shall operate as a waiver thereof; nor shall any single or partial exercise of any right, power or privilege hereunder preclude any other or further exercise thereof or the exercise of any other right, power or privilege. The rights and remedies herein provided are cumulative and not exclusive of any rights or remedies otherwise provided by law.

7.4 SURVIVAL OF REPRESENTATIONS AND WARRANTIES

All representations, warranties, covenants and agreements of the Borrower contained herein shall survive the making of Loans hereunder and shall continue in full force and effect so long as any amount is outstanding hereunder.

7.5 WAIVER

This Agreement and any term or provision hereof may be changed, waived, discharged or terminated by an instrument in writing executed by the Borrower and the Bank. Any such change, waiver, discharge or termination effected as above provided in this Section 7.5 shall be effective for all purposes even as against the Bank and its successors or assigns who have not joined therein.

7.6 DELIVERY OF DOCUMENTS

The Borrower agrees that any time or from time to time, upon the written request of the Bank, the Borrower will execute and deliver such further documents and do such further acts and things as the Bank may reasonably request in order to fully effect the purposes of this Agreement and to provide for the payment of the principal and the interest of any Loan made hereunder in accordance with the terms and provisions hereof.

7.7 BINDING EFFECT

This Agreement shall be binding upon and inure to the benefit of the Bank, the Borrower, and their respective successors and assigns. The Bank may at any time sell, assign, grant participations in, or otherwise transfer to any other person, firm, or corporation (a "Participant") all or part of the obligations of the Borrower under this Agreement. The Borrower agrees that each such disposition will give rise to a direct obligation of the Borrower to the Participant. The Borrower authorizes the Bank and each Participant, upon the occurrence of an Event of Default, to proceed directly by right of setoff or banker's lien against any property of the Borrower in the possession of or under the control of the Bank or such Participant, respectively. The Borrower authorizes the Bank to disclose to any prospective Participant and any Participant any and all information in Bank's possession concerning the Borrower and this Agreement. The Participant shall, for the purposes of Section 2.12 of this Agreement, be considered to be the "Bank, "; PROVIDED THAT, the Borrower shall not have to pay any additional amounts under Section 2.12 of this Agreement to such Participant unless such amount would have been payable to the Bank.

7.8 GOVERNING LAW

This Agreement and all other agreements and instruments executed hereunder, and the rights and obligations of the parties hereunder, shall be governed by and construed and interpreted in accordance with the laws of the State of California.

7.9 EXECUTION IN COUNTERPARTS

This Agreement may be executed in any number of counterparts and all of such counterparts taken together shall be deemed to constitute one and the same instrument.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed and delivered by their duly authorized officers as of the date first hereinabove written.

SAN DIEGO GAS & ELECTRIC COMPANY

By _____

Title: _____

CIBC, INC.

By _____

Title: _____

ANNEX 1
(Effective December 1, 1993 to October 31, 1994)

This Annex 1 is attached to and forms a part of the Loan Agreement, dated as of December 1, 1993, between CIBC, Inc. and San Diego Gas and Electric Company (the "Borrower").

NAME OF BANK	CIBC, Inc.
Amount of Bank Commitment	\$10,000,000 (ten million dollars)
Commitment Fee Rate	One-tenth of one percent (.1%) on unused portion payable quarterly in arrears.
Expiration Date of Availability Period	October 31, 1994
CD Rate Margin	One-quarter of one percent (1/4%)
Offshore Rate Margin	One-quarter of one percent (1/4%)
Bank Account of the Borrower	Bank of America 1850 Gateway Blvd., Concord, CA ABA #121000358 San Diego Gas & Electric Company Account #00506-00076
Domestic Lending Office	Maryann Stathis, Senior Associate Treasury Services, CIBC - Atlanta Two Paces West 2727 Paces Ferry Road, Suite 1200 Atlanta, GA 30339 Telephone: (404) 319-4831 Telecopier: (404) 319-4950 Telex: 54-5413 Wire Instructions: Morgan Guaranty Bank New York, New York ABA #021-000-238 f/a CIBC - New York # 630-00-480

Attn: Credit Operations, Atlanta
Ref: San Diego Gas & Electric Co.

Offshore Lending Office Same as "Domestic Lending Office"

Bank Contact for Loan Advances, Repayments, Repricing and Rollovers
Maryann Stathis, Senior Associate
Ref: "Domestic Lending Office"

Address for Notices to Bank for Administrative Matters
Clare C. Coyne, Senior Associate
Credit Operations, CIBC - Atlanta
Two Paces West
2727 Paces Ferry Road, Suite 1200
Atlanta, GA 30339
Telephone: (404) 319-4836
Telecopier: (404) 319-4950
Telex: 54-2413

EXHIBIT 10.8
Amendment to Restated Contract.

This Amendment is entered into as of the 26th day of March, 1993, by and between San Diego Gas & Electric Company (SDG&E) and Southern California Gas Company (SoCalGas), to amend the Restated Long-Term Natural Gas Service Contract between the parties dated September 1, 1990 ("Restated Contract"). All definitions set forth in the Restated Contract are incorporated by reference herein as if set forth in full.

NOW THEREFORE, in consideration of the promises and mutual understandings set forth below, the parties agree as follows:

1. Firm Interstate Pipeline Capacity

(a) Notwithstanding any provision in the Restated Contract, SDG&E's reservation of interstate pipeline capacity from SoCalGas under the Restated Contract shall be reduced from 300 MMcf/d (310,500 Dth/d) to 90 MMcf/d (93,150 Dth/d), which is consistent with California Public Utilities Commission (CPUC) Decision No. D.91 025, as supplemented by D.92-07-025 and Resolution No. G-3023. The 93,150 Dth/d shall consist of 67,275 Dth/d on the El Paso interstate pipeline system, and 25,875 Dth/d on the Transwestern pipeline system. This reservation of interstate capacity is for SDG&E's core load usage. The interstate capacity for both interstate gas pipelines will be assigned to SDG&E via Pre-Arranged Deal, and, subject to acceptance by such interstate pipelines, the assignments shall be made effective upon the date of full implementation of the CPUC's capacity brokering rules in accordance with Resolution No. G-3023. In the event of partial implementation of capacity brokering, the 25,875 Dth/d of interstate capacity on the Transwestern pipeline will be assigned to SDG&E upon the implementation date of such partial implementation in accordance with D.92-07-025 and Resolution No. G-3045.

(b) Notwithstanding any provision in the Restated Contract, as of the implementation date of the CPUC's Capacity Brokering rules (currently contemplated to occur on August 1, 1993), Transwestern and El Paso interstate demand charges shall, consistent with D.9111-025 and D.92-07-025, be removed from the rates charged to SDG&E under the Restated Contract. In the event of a partial implementation of Capacity Brokering, only the Transwestern pipeline demand charges shall be removed from SDG&E's rates on the date of such partial implementation. Upon such partial implementation, the El Paso demand charges shall be removed thereafter from the rates charged to SDG&E immediately upon full implementation of Capacity Brokering.

2. Rate Changes

To accommodate changes to rates in the future resulting from CPUC actions, Section 3.1.6 of the Restated Contract is amended as follows:

(a) Demand Charge and Volumetric charges in Sections 3.1.1 and 3.1.2 shall be adjusted one (1) time during each Contract Year starting from the base established by CPUC Decision D.90-01-015, consistent with any subsequent CPUC Cost Allocation Proceeding or other CPUC decisions. SoCalGas shall be entitled to select the date of adjustment for any Contract Year, which date shall in no event be prior to effective date(s) of the Cost Allocation Proceeding or other CPUC decision(s) on which it is based. Subsequent Cost Allocation Proceedings or other CPUC decision(s) during such Contract Year, issued after the date selected by SoCalGas for the next Contract Year, shall become effective as of the date selected by SoCalGas for the next Contract Year immediately following. Adjustments or refunds deferred from a contract year to the next immediately following Contract Year shall be subject to interest from the effective date of the CPUC Decision applicable thereto. Such interest, whether payable by SDG&E (for any increase) or SoCalGas (for any decrease), shall be calculated at the interest rate applicable to SoCalGas' balancing accounts under section F of the SoCalGas Tariff Preliminary Statement, or its successor. Thus, for example, the difference in authorized rates computed from a CPUC CAP (Cost Allocation Proceeding) decision which is effective on October 1 of a Contract Year, but not translated to a rate change under this Contract until the following January 1, shall also reflect three (3) months interest thereon.

(b) Amended Appendix B is attached hereto and incorporated herein to demonstrate how such adjustments to the rates will be made. As of March 16, 1990, the Amended Appendix B supersedes and replaces the previous Appendix B. A new Appendix B shall be agreed upon and automatically incorporated by

reference herein as of the effective date therefor established under Section 3.1.6(a).

(c) Demand Charge and Volumetric charges in Sections 3.1.1 and 3.1.2 may also be adjusted, as mutually agreed between SoCalGas and SDG&E more than once each year to coincide with the timing of implementation of the CPUC CAP or other CPUC decisions.

3. Continuation of Restated Contract

Except as set forth in this Amendment, the Restated Contract shall continue in full force and effect.

NOW THEREFORE, the authorized representatives of the parties have executed two (2) duplicate copies of this Amendment as of the date first set forth above.

SAN DIEGO GAS & ELECTRIC COMPANY

SOUTHERN CALIFORNIA GAS COMPANY

By _____
Edwin A. Guile
Title Senior VP, Energy Supply

By _____
Eric . Nelson
Title: Manager of Major Markets

EXHIBIT 12.1

SAN DIEGO GAS & ELECTRIC COMPANY

COMPUTATION OF RATIO OF EARNINGS TO COMBINED FIXED CHARGES
AND PREFERRED STOCK DIVIDENDS

	1989	1990	1991	1992	1993
	-----	-----	-----	-----	-----
					(Unaudited)
Fixed Charges:					
Interest:					
Long-Term Debt	\$ 87,962	\$ 97,894	\$ 98,802	\$100,776	\$ 93,402
Short-Term Debt	13,984	12,301	8,234	6,242	7,980
Amortization of Debt Discount and Expense, Less Premium	2,420	2,465	2,471	2,881	4,162
Interest Portion of Annual Rentals	23,664	20,898	18,067	14,677	19,206
	-----	-----	-----	-----	-----
Total Fixed Charges	128,030	133,558	127,574	124,576	124,750
	-----	-----	-----	-----	-----
Preferred Dividends Requirements	11,202	10,863	10,535	9,600	8,565
Ratio of Income Before Tax to Net Income	1.79480	1.75499	1.63017	1.72369	1.67794
	-----	-----	-----	-----	-----
Preferred Dividends for Purpose of Ratio	20,105	19,064	17,174	16,547	14,372
	-----	-----	-----	-----	-----
Total Fixed Charges and Preferred Dividends for Purpose of Ratio	\$148,135	\$152,622	\$144,748	\$141,123	\$139,122
	=====	=====	=====	=====	=====
Earnings:					
Net Income (before preferred dividend requirements)	\$179,434	\$207,841	\$208,060	\$210,657	\$218,715
Add:					
Fixed Charges (from above)	128,030	133,558	127,574	124,576	124,750
Less: Fixed Charges Capitalized	3,481	3,306	2,907	2,242	5,789
Taxes on Income	142,614	156,917	131,114	152,451	148,275
	-----	-----	-----	-----	-----
Total Earnings for Purpose of Ratio	\$446,597	\$495,010	\$463,841	\$485,442	\$485,951
	=====	=====	=====	=====	=====
Ratio of Earnings to Combined Fixed Charges					
and Preferred Dividends	3.01	3.24	3.20	3.44	3.49
	=====	=====	=====	=====	=====

EXCERPT FROM TEN-YEAR SUMMARY PAGES 16-17

In millions of dollars except per share amounts

	1993	1992	1991	1990	1989
	-----	-----	-----	-----	-----
For the years ended December 31					
Operating revenues	\$1,980.1	\$1,870.9	\$1,789.0	\$1,771.9	\$1,669.5
Operating income	293.7	296.3	315.5	314.0	284.8
Net income (before preferred dividend requirements)	218.7	210.7	208.1	207.8	187.1
Earnings per common share	1.81	1.77	1.76	1.76	1.57
Dividends declared per common share	1.48	1.44	1.3875	1.35	1.35
At December 31					
Total assets	4,702.2	4,199.8	3,747.6	3,656.6	3,546.5
Long-term debt and preferred stock subject to mandatory redemption (excludes current portion)***	1,525.0	1,651.9	1,331.2	1,337.1	1,287.2

*Includes (\$7.7) million from the cumulative effect of change in accounting principle.

**Includes (\$0.07) for cumulative effect of change in accounting principle.

***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 elsewhere in this report.

MANAGEMENT'S DISCUSSION & ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

RESULTS OF OPERATIONS

San Diego Gas & Electric Company is an operating public utility engaged in the electric and gas businesses. SDG&E generates and purchases electric energy and distributes it to 1.1 million customers in San Diego County and an adjacent portion of Orange County, California. It also purchases natural gas and distributes it to 690,000 customers in San Diego County. SDG&E also transports electricity and gas for others.

SDG&E has diversified into other businesses. SDG&E owns an 80-percent share of Wahloco Environmental Systems, which designs and manufactures air-pollution control and power-efficiency equipment for electric utilities and other power producers, refineries, and other manufacturers. Wholly owned Enova Corporation invests in limited partnerships representing about 300 affordable-housing projects located throughout the United States. Wholly owned Califia Company leases computer equipment. The investments in Enova and Califia are expected to provide income tax benefits over the next several years. Additional information regarding SDG&E's subsidiaries is described in Note 2 of the notes to consolidated financial statements.

REVENUES

Electric revenues increased 5 percent in 1993 and 7 percent in 1992. The 1993 increase reflects higher authorized costs and increased sales to other utilities. The 1992 increase reflects higher authorized costs and higher volumes as a result of warmer weather.

Gas revenues increased 3 percent in 1993 and decreased 1 percent in 1992. The 1993 increase reflects higher authorized costs, partially offset by lower sales volume as a result of customers' purchases of gas directly from other suppliers. The 1992 decrease reflects lower sales volume due to warmer weather and customers' purchases of gas directly from other suppliers, partially offset by higher authorized costs.

Revenues from diversified operations contributed 6 percent of SDG&E's consolidated revenues in 1993, 5 percent in 1992 and 5 percent in 1991. The 1993 increase in revenues from diversified operations primarily resulted from

Califia's leasing activities. Wahlco's revenues remained the same in 1993 after decreasing in 1992 due to lower sales of flue gas conditioning systems. The market for flue gas conditioning systems has not developed in the United States as a result of many companies' delaying decisions on how to comply with the Clean Air Act. Wahlco also faces increasing competition from the availability of federal pollution credits, suppliers of lower-cost alternative systems and other options. In late 1993 Wahlco recorded a restructuring charge to reflect the planned relocation of Wahlco's manufacturing operations in Canada and West Virginia to its other U.S. facilities.

OPERATING EXPENSES

Purchased-power expense increased in 1993 due to purchases of short-term energy to replace lower-cost nuclear generation resulting from the refueling of the San Onofre Nuclear Generating Station Units 2 and 3 during 1993 and the permanent shutdown of Unit 1 in late 1992. Electric fuel expense remained the same in 1993, reflecting lower generation offset by higher prices for natural gas. Electric fuel and purchased-power expense increased in 1992 primarily due to higher volumes.

The decrease in gas purchased for resale in 1993 reflects the lower sales volumes resulting from customers' purchases of gas directly from other suppliers, partially offset by higher prices for natural gas. Gas purchased for resale decreased in 1992 due to lower volumes and customers' purchases of gas directly from other suppliers.

Other operating expenses increased in 1993 primarily due to higher utility operating and maintenance expenses, higher subsidiary operating expenses arising from Califia's increased leasing activities and higher depreciation as a result of the accelerated recovery of SDG&E's remaining investment in SONGS Unit 1. Other operating expenses increased in 1992 primarily due to new energy conservation programs.

OTHER INCOME AND DEDUCTIONS

The only significant change in other income and deductions was the 1992 increase due to the shutdown of SONGS Unit 1 and the related rate recovery of Unit 1 costs.

EARNINGS

In 1993 earnings per common share were \$1.81, compared to earnings of \$1.77 in 1992 and \$1.76 in 1991. The increase in earnings in 1993 is due primarily to improved subsidiary results. The increase in earnings in 1992 is due primarily to the rate recovery of SONGS Unit 1 costs and to the partial restoration of the California Public Utilities Commission's 1989 Southwest Powerlink disallowance, partially offset by subsidiary losses and the \$15 million merger termination fee paid by Southern California Edison in 1991 and the related income tax benefit from the merger expenses that SDG&E incurred in prior years.

SDG&E's nonutility subsidiaries contributed 2 cents to earnings per common share in 1993, reduced earnings by 12 cents per common share in 1992 and contributed 5 cents per common share to earnings in 1991.

LIQUIDITY AND CAPITAL RESOURCES

Utility operations continue to be a major source of liquidity for SDG&E. In addition, SDG&E's financing needs are met primarily through issuances of short- 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 and leasing investments, and retirements of long-term debt.

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 change in cash flows related to regulatory balancing accounts in 1993 compared to 1992 was due primarily to higher prices for natural gas and the replacement of lower-cost nuclear generation with purchased power and gas-fired generation due to the refueling of SONGS Units 2 and 3 during 1993 and the shutdown of SONGS Unit 1 in late 1992. The change in cash flows related to regulatory balancing accounts in 1992 compared to 1991 was due primarily to the higher cost of fuel and purchased power, partially offset by higher sales volume in 1992. The changes in cash flows related to income taxes were due primarily to higher income

tax payments in 1992 in connection with a preliminary settlement with the Internal Revenue Service on the timing of certain deductions in prior years. The changes in cash flows related to accounts payable and other liabilities were due primarily to 1991 gas-supplier refunds that were applied to customers' bills in 1992.

CASH FLOWS FROM FINANCING ACTIVITIES

During 1993 SDG&E issued \$370 million of first mortgage bonds and other long-term debt, including \$179 million of tax-exempt Industrial Development Bonds issued through the City of San Diego and \$60 million of tax-exempt Pollution Control Bonds issued through the California Pollution Financing Authority. The cash flows from these issuances and from operations were used to refinance higher-cost IDBs, other first mortgage bonds and other long-term debt. In addition, SDG&E reacquired preferred stock at a cost of \$65 million and issued \$51 million of preferred stock at a lower dividend rate. SDG&E plans to issue \$55 million of preferred stock in 1994. Through its employee savings and common stock investment plans, SDG&E issued \$39 million of common stock in 1993 and plans no such issues in 1994.

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.

	1989	1990	1991	1992	1993	Goal
Common equity	45%	45%	47%	47%	47%	45-48%
Preferred stock	6	6	5	5	4	5-7
Debt and leases	49	49	48	48	49	46-49
Total	100%	100%	100%	100%	100%	100%

During 1993 the major credit-rating agencies issued statements indicating that competition and changes in regulation are subjecting utilities to greater risks. In October 1993 Standard & Poor's Corporation, after completing a review of the industry, concluded that more stringent risk-assessment standards were appropriate and revised ratings outlooks for about one-third of the utilities from "stable" to "negative." SDG&E's outlook is rated "negative." However, SDG&E's long-term debt ratings have not changed since 1985. Moody's Investors Service and Standard & Poor's recently reaffirmed their ratings of Aa3 and A+, respectively, for SDG&E's long-term debt.

CASH FLOWS FROM INVESTING ACTIVITIES

Sources of cash for investing activities in 1993 included \$190 million withdrawn from the construction trust fund, into which \$248 million of proceeds from issuances of IDBs was deposited in 1992. Cash used in investing activities in 1993 included utility construction expenditures, payments to the nuclear decommissioning trust, and subsidiaries' leasing activities and investments in affordable-housing projects. Construction expenditures, excluding nuclear fuel and the allowance for equity funds used during construction, were \$354 million in 1993 and are estimated to be about \$260 million in 1994. SDG&E 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 after 1994 will depend heavily on the timing of expenditures to comply with air emission reduction and other environmental requirements, and on whether SDG&E proceeds with its proposed South Bay Repower project and its plan to transport natural gas to Mexico. These matters are discussed below.

Payments to the nuclear decommissioning trust are expected to continue until the units are decommissioned, which is not expected to occur before 2014. 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 December 1993 the CPUC issued decisions on the 1994 Cost of Capital and Operational Attrition proceedings, authorizing returns on equity from 10.85 percent to 11.1 percent for the six energy utilities under the CPUC's jurisdiction. This is a decrease from 1993 authorized returns which ranged from 11.8 percent to 11.95 percent. The CPUC lowered the rates of return

of California utilities due to its concern for California's poor economy. The CPUC authorized a 10.85 percent return on equity for SDG&E (compared to 11.85 percent for 1993), for an overall rate of return of 9.03 percent (compared to 9.94 percent for 1993). The CPUC also authorized an attrition increase which

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results in a \$1 million increase in electric and gas rates when combined with the effects of the Cost of Capital decision. The attrition increase reflects expected higher operating and maintenance expenses, capital expenditures and other non-fuel costs associated with SDG&E's 1994 operations. The CPUC's decision was effective January 1, 1994.

On July 21, 1993 the CPUC issued its decision on the forecast phase of SDG&E's 1993 Energy Cost Adjustment Clause proceeding, approving a \$53 million increase in electric rates effective August 1, 1993. The increase reflects higher fuel and purchased-power expenses and the recovery of SDG&E's remaining investment in SONGS Unit 1.

On September 29, 1993 SDG&E filed its 1994 ECAC application and has requested an increase of \$56 million in electric rates to cover expected higher fuel and purchased-power expenses, and recovery of prior undercollections from customers. A CPUC decision is expected in May 1994 with rates effective June 1, 1994. The CPUC is reviewing the reasonableness of SDG&E's fuel and purchased-power expenses and operations for the ECAC periods from August 1, 1991 to July 31, 1993. CPUC decisions are expected in 1994. Included will be the CPUC's assessment of SDG&E's administration of its 75-megawatt purchased-power contract with Portland General Electric for the three years ended July 31, 1992.

GAS RATES

During 1992 the CPUC initiated its Gas Bypass Rulemaking proceeding to consider rules allowing utilities to discount prices to avoid losing customers who would otherwise have their gas transported by others. The CPUC may also eliminate balancing account coverage for transportation costs associated with noncore customers, which would increase utilities' risk of recovering certain costs. A CPUC decision is expected in 1994.

On May 19, 1993 the CPUC issued its Long-Run Marginal Cost decision, requiring a larger portion of gas transportation costs to be allocated to residential customers, thereby lowering rates for large industrial customers. The decision is intended to help California industries become more competitive, and will reduce the large industrial customers' incentives to leave utilities' systems. The decision reduced SDG&E's annual payments to Southern California Gas Company by \$5 million, effective June 1, 1993, and results in significantly lowered rates for SDG&E's large industrial customers, with only slightly increased rates for SDG&E's residential customers.

The Federal Energy Regulatory Commission's Order 636 required interstate pipeline companies to make pipeline capacity directly available to retail and wholesale customers by November 1, 1993. In addition, the CPUC's Gas Capacity Brokering decision required SoCal Gas to make its long-term rights to interstate capacity available to its retail and wholesale customers beginning in August 1993. As a result SDG&E reduced its commitment to SoCal Gas for firm interstate pipeline capacity to reflect its core customer demand, allowing SDG&E to bid for capacity to meet its noncore customer demand as needed on a short-term basis (core customers are primarily residential and commercial customers).

In September 1993 SDG&E filed its Biennial Cost Allocation Proceeding application to recover higher expected natural gas prices and to recover prior undercollections of gas costs. On January 1, 1994 the CPUC approved a portion of SDG&E's application, authorizing a \$10 million increase in SDG&E's gas rates to reflect SoCal Gas's request for interim rate relief to recover stranded costs associated with SoCal Gas's long-term interstate transportation contracts. A decision on the remainder of the BCAP application is expected in late 1994.

SAN ONOFRE NUCLEAR GENERATING STATION UNIT 1

In November 1992 the CPUC issued a decision to permanently shut down SONGS Unit 1. The decision authorized Edison and SDG&E to recover their investments in Unit 1, of which SDG&E's share was \$111 million, over a four-year period. SDG&E is authorized to recover its investment earning a return of 9.1 percent.

PERFORMANCE-BASED RATEMAKING

In October 1992 SDG&E applied to the CPUC to implement performance-based ratemaking, requesting incentive regulation for: 1) gas procurement and transportation; 2) electric generation and purchased power; 3) base rates and 4) long-term electric-resource procurement.

On June 23, 1993 the CPUC approved the first two mechanisms on a two-year experimental basis beginning August 1, 1993. These mechanisms will measure SDG&E's ability to purchase and transport natural gas and to generate energy or purchase short-term energy at the lowest possible cost, by comparing SDG&E's performance against various market benchmarks. SDG&E's shareholders and customers will share in any savings or excess costs within predetermined ranges.

Under the proposed base-rate mechanism, SDG&E would forego its 1996 General Rate Case (although SDG&E's annual cost of capital proceeding would be continued) and utilize the proposed base-rate mechanism for a five-year period beginning in May 1994. The mechanism has three components, which incorporate a range of possible shareholder benefits and risks. The first is a formula similar to the current attrition mechanism used to determine SDG&E's annual revenue requirement for operating, maintenance and capital expenditures. The second consists of a set of indicators which determine performance standards for customer rates, employee safety, electric system reliability and customer satisfaction. The third component establishes a revenue-sharing mechanism based on SDG&E's rate of return.

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On December 7, 1993 SDG&E; the CPUC's Division of Ratepayer Advocates; and the U.S. Navy, SDG&E's largest customer, filed testimony agreeing on the base-rate mechanism. However, the Utility Consumers' Action Network, a utility-customer advocate group, filed with the CPUC a request for modification of SDG&E's proposal. The City of San Diego has filed a request to participate in the proceeding. On January 14, 1994 SDG&E filed rebuttal testimony to UCAN's petition. Hearings were concluded on January 28, 1994. A CPUC decision is expected in the second quarter of 1994.

SDG&E expects the long-term electric-resource procurement mechanism to be addressed after proceedings on the base-rate mechanism. This proposal, which does not have a risk-sharing mechanism, calls for a bidding system, under which SDG&E would compete with other utilities and nonutility producers to provide long-term generating resources, including long-term purchased capacity, to SDG&E customers. This mechanism would replace the Biennial Resource Plan Update proceeding with a market-based approach to long-term electric-resource procurement. The CPUC would have final approval of the resources selected by SDG&E.

RESOURCE PLANNING

During the period 1994 through 1997, SDG&E is projecting an electric load growth of 1 percent to 1.5 percent per year for both sales and peak demand. The combination of load growth and terminating purchased-power contracts results in a need for additional capacity.

In June 1993 the CPUC issued its final decision on the BRPU proceeding, requiring SDG&E to competitively bid for 491 mw of capacity beginning in 1997, including alternatives to SDG&E's proposed 291-mw Encina Repower project. The decision also required a minimum of 100 mw to be supplied from renewable resources such as geothermal, solar- and wind-generated power. On December 9, 1993 SDG&E announced the preliminary list of successful bids, of which the majority were cogeneration projects and the remainder were wind, geothermal, solar and biomass projects. Based on preliminary assessments, several of the bids that represented alternatives to the Encina Repower project were priced lower than SDG&E's proposal. The winning bids were scheduled to be announced in May 1994. However, on December 21, 1993 SDG&E filed a Petition for Modification of the BRPU decision, indicating that SDG&E's customers would be required to pay up to \$800 million in excess energy costs over a 30-year period under the CPUC's bidding rules. These include the "second-price auction" rule, which requires SDG&E to reject the lowest bid prices and use the next higher range of bid prices as the basis for paying for BRPU energy. SDG&E's petition requests that it pay for the 491 mw of capacity at the lowest bid prices. The petition also requests that SDG&E be allowed to procure replacement capacity if a selected bidder is unable to perform under the bid terms.

SDG&E is considering the addition of 500 mw of capacity to its system by either

repowering its South Bay power plant or by purchasing capacity from others. SDG&E has filed an application with the CPUC for a Certificate of Public Convenience and Necessity, requesting approval of the South Bay Repower project and recovery of the project's capital costs and operating and maintenance expenses in the same manner as a typical qualifying nonutility producer selling power to SDG&E under a purchased-power contract. SDG&E would be at risk if it exceeds the proposed cost of construction, financing and operation of the plant. SDG&E would also be at risk to meet certain performance standards measuring the plant's efficiency and output.

SDG&E also initiated a competitive bidding process to assess alternatives to the South Bay Repower project. Bids were submitted by independent power producers, cogenerators and others. In November 1993 SDG&E announced the preliminary results of the competitive bidding process. The South Bay Repower project was found to be competitive based on standardized guidelines established for all bidders. However, the CPUC is evaluating SDG&E's application to determine whether the South Bay Repower project would be the most cost-effective means of supplying additional capacity to SDG&E in 1997. The project also requires approval by the California Energy Commission. SDG&E is reconsidering its application and is curtailing preliminary expenditures on the project pending CPUC resolution of issues arising from the BRPU auction and clearer direction on how utilities should plan to meet their needs for additional generating capacity.

COMPETITION

SDG&E faces significant challenges as competition emerges in the electric and gas industries as a result of ongoing restructuring by federal and state regulatory authorities. These challenges include price competition, customers' bypass of SDG&E's electric and gas systems, nonutility generation, transmission access, retail wheeling, unfavorable economic conditions in California, and reduced customer growth within SDG&E's service territory.

The CPUC is considering reforming the electric utility industry in California and has identified several alternatives. One alternative would be to adopt limited reform by establishing a performance-based ratemaking mechanism, but no longer assuring utilities' recovery of fuel and other costs. This would be accomplished through the elimination of balancing accounts and rate adjustment mechanisms, which stabilize utilities' revenues for fluctuations in sales volumes and adjust future rates for variance from forecasted costs for fuel and purchased power. A second alternative would be to adopt retail wheeling in

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California, allowing commercial and industrial customers to procure energy from producers other than their local utility. A third alternative would involve a complete restructuring of the electric industry, which would require utilities to divest of their power plants and become "common carrier" transmission and distribution facilities and which would require customers to procure their energy from others, using the utilities only for transmission.

The CPUC is also considering other means of enhancing competition, by allowing others to offer services typically performed by utilities. For example, the CPUC has ordered a test program to see if others could effectively provide lower-cost energy conservation services to utilities' customers.

The National Energy Policy Act was passed in 1992 to increase competition in the wholesale electric-generation market and to lower energy prices by easing restrictions on independent power production and by establishing a new class of electricity providers called "exempt wholesale generators." This allows both utilities and nonutility producers to operate generating facilities in more than one state with fewer restrictions imposed by the federal government. In certain circumstances the act also authorizes the FERC to require a utility to provide transmission service for others over its existing facilities or to build new facilities, if necessary. Recent CPUC decisions also will affect SDG&E's use of its transmission system. As a result of the CPUC's BRPU decision, SDG&E will be responsible for upgrading its transmission system and arranging for the transmission of power to its system from other producers.

Several states are considering adopting retail wheeling, which will allow other producers to sell energy to a utility's retail customers. However, many issues and complications still need to be resolved.

As the restructuring of the electric industry evolves, SDG&E will become more vulnerable to competition. California utilities' rates are significantly higher

than the national average. SDG&E's industrial customers pay electricity prices that are among the highest in the Southwest. However, since 1989 SDG&E has been the lowest-cost provider of electricity among the major, investor-owned California utilities. In addition, SDG&E has a lower concentration of industrial customers, making its customers a less likely target for outside competitors. Furthermore, about 50 percent of SDG&E's capacity needs are met through purchased power, which limits SDG&E's risk of recovering its power plant investment.

Restructuring of the gas utility industry at the federal and state levels has allowed customers to bypass utilities as suppliers of natural gas. Nonutility electric producers may now use a utility's facilities to transport gas purchased from nonutility suppliers. Also, smaller customers may form groups to buy gas from another supplier.

SOURCES OF FUEL AND ENERGY

SDG&E's primary sources of fuel and energy include surplus energy from other utilities in the Southwest and the Northwest, natural gas from Canada and the Southwest, and uranium from Canada and Germany. SDG&E expects its purchased fuel and energy costs to remain relatively low in the next few years due to the continued availability of surplus energy in the Southwest and the availability of natural gas. During 1993 SDG&E began receiving low-cost gas from Canada. SDG&E is currently involved in litigation concerning the contracts for this gas. SDG&E cannot predict the outcome of the litigation but does not expect that even an unfavorable outcome would have a material effect on its financial condition or results of operations. SDG&E also purchases a significant portion of its gas supplies from short-term sources in the Southwest. Although short-term natural gas supplies and prices remain volatile due to weather and other conditions, these sources should provide SDG&E with an adequate supply of low-cost natural gas.

PROPOSED TRANSPORTATION OF GAS TO MEXICO

In 1993 SDG&E and SoCal Gas submitted a joint proposal to transport natural gas to Mexico. The project is subject to approval by Mexico and various federal, state and local agencies, and involves the construction of an 80-mile pipeline from SoCal Gas's service territory to the Mexican border. In August 1993 the FERC issued a permit to SDG&E and SoCal Gas, allowing them to make natural gas available to Mexico at the Tijuana border. The project's plans include providing gas to the nearby Rosarito power

plant, which would be expanded and converted from oil-fired to gas-fired, thereby reducing air pollution in Mexico and California. Mexico has also expressed interest in obtaining gas at another border crossing to serve the area's industrial customers. As a result, a related application was filed with the FERC for permission to transport gas to Mexicali through SoCal Gas's existing systems in the Imperial Valley. Competing proposals have been submitted by others. SDG&E would face significant competition if one of the other proposals is selected and a major pipeline begins operating near SDG&E's service territory.

CUSTOMER GROWTH

Due to the continuing recession in California, customer growth has remained low, increasing about 1 percent annually in 1993 and 1992. The cutbacks in defense spending and construction have contributed to the loss of jobs in San Diego County. Fewer commercial businesses are being established in California due to the high cost of taxes and regulations.

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. The CPUC is expected to continue allowing the recovery of such costs, subject to reasonableness reviews.

Capital expenditures to comply with environmental laws and regulations were \$8 million for 1993 and \$4 million for 1992. The estimated capital expenditures for the next 5 years are \$31 million in 1994, \$35 million in 1995, \$32 million in 1996, \$24 million in 1997 and \$13 million in 1998. These expenditures

primarily include the estimated cost of retrofitting SDG&E's power plants to reduce air emissions and exclude potential expenditures to comply with water-discharge requirements for the Encina, South Bay and SONGS power plants.

HAZARDOUS WASTES

In 1993 the CPUC, the U.S. Environmental Protection Agency and the California Environmental Protection Agency prepared the Hazardous Substance Cleanup Cost Recovery Collaborative Report. Its proposed procedure would allow utilities to recover 90 percent of hazardous-waste cleanup costs from customers. Until such a procedure is adopted, SDG&E will continue to seek recovery of these costs pursuant to a reasonableness review process by the CPUC.

In 1992 the U.S. Environmental Protection Agency named SDG&E as a potentially responsible party, for the North American Environmental, Inc. site in Clearfield, Utah. The EPA is evaluating the extent of the site's contamination and potential cleanup costs. The individual liability among the PRPs has not been determined. As a result, SDG&E's ultimate liability, if any, cannot be determined. The contractor who had disposed of SDG&E's hazardous wastes at the site has agreed to indemnify SDG&E against liability for cleanup costs, if any, associated with the site.

On December 6, 1993 SDG&E received notification that the California Department of Toxic Substances Control had assumed responsibility for remediation activities at the Rosen's Electrical Equipment Supply Company site in Pico Rivera, California. PCB contamination was previously found on and near the site. SDG&E sold transformers to Rosen's in the early 1980s and has been identified as a PRP for the site under California law. SDG&E, seven other named PRPs and others may be held liable for the cost of assessment and cleanup of the site. The state has indicated that SDG&E may be held responsible for about 7 percent of the hazardous waste at the site. SDG&E is investigating this matter. Based on available information, SDG&E is unable to estimate the range of liability, if any, it may have for remediating this site.

SDG&E has identified or has been associated with various other sites which require remediation under federal, state or local environmental laws. SDG&E will be held partially or indirectly responsible for cleaning up some of these sites. SDG&E cannot determine the extent of its responsibility for remediation of these sites. Furthermore, the timing for assessing the costs of cleanup at these sites and the number of others that may also be responsible and their ability to share in the cost of the cleanup is unknown.

ELECTRIC AND MAGNETIC FIELDS

SDG&E and other utilities are involved in litigation concerning electric and magnetic fields. An unfavorable outcome of EMF 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 electric and magnetic fields emitted by utilities' transmission lines and generating facilities.

In November 1993 the CPUC adopted an interim policy regarding EMFs. Consistent with the major scientific reviews of available research literature, the CPUC concluded that no health risk has been identified with exposure to EMFs. However, to respond to public concern and scientific uncertainty, the CPUC created a public education program and a research program and directed utilities to adopt a low-cost EMF-reduction policy for new projects. The latter program, which will be implemented until science provides more direction, entails reasonable design changes to achieve noticeable reduction of EMF levels anticipated from new projects.

EMISSION ALLOWANCES

In 1996 SDG&E must begin to comply with nitrogen oxide emission limits imposed by the San Diego Air Pollution Control District. Full compliance is required by 2001. The cost of compliance includes retrofitting SDG&E's power plants and is estimated to be \$130 million in capital costs and increased operating costs.

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 renewal applications were submitted in 1993. SDG&E anticipates that the Water Quality Board and the U.S. Environmental Protection Agency will make their determinations in 1994 regarding SDG&E's applications. The permits are required to enable SDG&E to discharge its cooling

water and its treated in-plant waste water and are, therefore, prerequisites to the continued operation of its power plants.

In addition, increasingly stringent cooling water and treated waste water discharge limitations may be imposed, and SDG&E may be required to build additional facilities to comply with these requirements. Such facilities could include waste water treatment facilities, cooling towers or offshore discharge pipelines.

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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 Marine Review Committee, acting on behalf of the Coastal Commission, concluded there is some environmental damage 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.

Responsibility Report for the Consolidated Financial Statements

SDG&E is 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, transactions are executed in accordance with its objectives, and 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, 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 and the independent auditors without management present, 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.

Frank H. Ault

STATEMENTS OF CONSOLIDATED INCOME

In thousands except per share amounts

For the years ended December 31

	1993	1992	1991
Operating Revenues			
Electric	\$1,514,608	\$1,447,118	\$1,357,554
Gas	346,658	336,992	338,161
Diversified operations	118,849	86,790	93,297
Total operating revenues	1,980,115	1,870,900	1,789,012
Operating Expenses			
Electric fuel	174,444	174,849	151,012
Purchased power	325,966	311,046	304,833
Gas purchased for resale	165,876	167,385	183,274
Maintenance	81,788	73,040	68,134
Depreciation and decommissioning	250,619	213,661	195,360
Property and other taxes	44,902	45,769	44,795
Other	494,369	439,569	395,449
Income taxes	148,477	149,274	130,641
Total operating expenses	1,686,441	1,574,593	1,473,498
Operating Income	293,674	296,307	315,514
Other Income and (Deductions)			
Allowance for equity funds used during construction	17,909	7,547	6,083
Taxes on nonoperating income	202	(3,177)	(473)
Other - net	8,229	16,294	(6,751)
Total other income and (deductions)	26,340	20,664	(1,141)
Income Before Interest Charges	320,014	316,971	314,373
Interest Charges			
Long-term debt	93,402	100,776	98,802
Short-term debt and other	12,142	9,123	10,705
Allowance for borrowed funds used during construction	(4,245)	(3,585)	(3,194)
Net interest charges	101,299	106,314	106,313
Net Income (before preferred dividend requirements)	218,715	210,657	208,060
Preferred Dividend Requirements	8,565	9,600	10,535
Earnings Applicable to Common Shares	\$ 210,150	\$ 201,057	\$ 197,525
Average Common Shares Outstanding	116,049	113,806	111,988
Earnings Per Common Share	\$ 1.81	\$ 1.77	\$ 1.76
Dividends Declared Per Common Share	\$ 1.48	\$ 1.44	\$ 1.3875

See notes to consolidated financial statements.

CONSOLIDATED BALANCE SHEETS

In thousands of dollars

Balance at December 31

	1993	1992
ASSETS		
Utility plant - at original cost	\$5,134,251	\$4,818,867
Accumulated depreciation and decommissioning	(2,016,618)	(1,840,175)
Utility plant-net	3,117,633	2,978,692
Investments and other property	464,101	299,010
Current assets		
Cash and temporary investments	17,450	11,079
Accounts receivable	205,712	198,743

Notes receivable	29,201	11,291
Inventories	84,922	87,065
Other	40,810	45,849
	-----	-----
Total current assets	378,095	354,027
	-----	-----
Construction funds held by trustee	58,042	248,267
Goodwill	53,921	56,013
Deferred taxes recoverable in rates	311,564	294,818
Deferred charges and other assets	318,880	263,745
	-----	-----
Total	\$4,702,236	\$4,494,572
	=====	=====
CAPITALIZATION AND LIABILITIES		
Capitalization (see Statements of Consolidated Capital Stock and of Long-Term Debt)		
Common equity	\$1,516,240	\$1,441,439
Preferred stock		
Not subject to mandatory redemption	93,493	62,493
Subject to mandatory redemption	25,000	68,200
Long-term debt	1,411,948	1,495,734
	-----	-----
Total capitalization	3,046,681	3,067,866
	-----	-----
Current liabilities		
Short-term borrowings	131,197	82,749
Long-term debt redeemable within one year	88,000	88,000
Current portion of long-term debt	76,161	24,152
Accounts payable	166,622	156,155
Dividends payable	44,962	43,298
Taxes accrued	36,830	43,656
Interest accrued	20,396	24,778
Regulatory balancing accounts overcollected-net	33,179	46,424
Other	104,353	80,729
	-----	-----
Total current liabilities	701,700	589,941
	-----	-----
Customer advances for construction	41,729	49,698
Accumulated deferred income taxes-net	520,076	495,844
Accumulated deferred investment tax credits	114,159	119,258
Deferred credits and other liabilities	277,891	171,965
Contingencies and commitments (Notes 2 and 9)	—	—
	-----	-----
Total	\$4,702,236	\$4,494,572
	=====	=====

See notes to consolidated financial statements.

STATEMENTS OF CONSOLIDATED CASH FLOWS

In thousands of dollars

For the years ended December 31	1993	1992	1991
	-----	-----	-----
Cash Flows from Operating Activities			
Net Income	\$218,715	\$210,657	\$208,060
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation and decommissioning	250,619	213,661	195,360
Amortization of deferred charges and other assets	11,141	1,923	1,402
Allowance for equity funds used during construction	(17,909)	(7,547)	(6,083)
Deferred income taxes and investment tax credits	45,606	(11,031)	(11,377)
Other-net	3,564	(2,752)	764
Changes in working capital components net of effects from purchases of subsidiaries			
Accounts and notes receivable	(10,479)	(1,326)	(25,340)
Regulatory balancing accounts	(13,245)	24,647	35,786
Inventories	4,616	7,401	9,857
Other current assets	5,039	(2,360)	681
Accrued interest and taxes	(19,141)	(30,682)	26,959
Accounts payable and other current liabilities	19,691	(16,952)	40,984
	-----	-----	-----
Net cash provided by operating activities	498,217	385,639	477,053
	-----	-----	-----

Cash Flows from Financing Activities			
Dividends paid	(178,708)	(172,211)	(164,436)
Short-term borrowings-net	48,448	38,781	(22,138)
Issuance of long-term debt	369,893	509,200	38,792
Repayment of long-term debt	(531,526)	(236,994)	(20,595)
Sale of common stock	38,850	58,176	11,712
Issuance of preferred stock	50,636	24,733	-
Redemption of preferred stock	(65,228)	(40,195)	(3,000)
	-----	-----	-----
Net cash provided (used) by financing activities	(267,635)	181,490	(159,665)
	-----	-----	-----
Cash Flows from Investing Activities			
Utility construction expenditures	(354,391)	(280,281)	(254,953)
Withdrawals from (contributions to) construction trust funds-net	190,225	(248,267)	-
Contributions to decommissioning funds	(22,038)	(22,038)	(22,038)
Purchase of assets and subsidiaries	(3,887)	(7,833)	(16,115)
Sale of assets	2,709	3,952	-
Other-net	(36,829)	(18,499)	(18,895)
	-----	-----	-----
Net cash used by investing activities	(224,211)	(572,966)	(312,001)
	-----	-----	-----
Net increase (decrease)	6,371	(5,837)	5,387
Cash and temporary investments beginning of period	11,079	16,916	11,529
	-----	-----	-----
Cash and temporary investments end of period	\$ 17,450	\$ 11,079	\$ 16,916
	=====	=====	=====
Supplemental Schedule of Noncash Investing and Financing Activities			
Subsidiaries' acquisitions			
Assets acquired	\$235,158	\$115,054	\$ 23,747
Cash paid	(28,209)	(14,368)	(6,917)
	-----	-----	-----
Liabilities assumed	\$206,949	\$100,686	\$ 16,830
	=====	=====	=====

See notes to consolidated financial statements.

STATEMENTS OF CONSOLIDATED CHANGES IN CAPITAL STOCK AND RETAINED EARNINGS

	Preferred Stock				
	Not Subject to Mandatory Redemption	Subject to Mandatory Redemption	Common Stock	Premium on Capital Stock	Retained Earnings

In thousands of dollars					
For the years ended December 31, 1991, 1992, 1993					

Balance, December 31, 1990	\$87,493	\$55,000	\$279,745	\$469,743	\$546,127
Net income					208,060
Common stock sold (598,232 shares)			1,495	10,217	
Vesting of previously restricted shares				559	
Sinking fund requirement		(3,000)			
Dividends declared					
Preferred stock					(10,524)
Common stock					(155,436)

Balance, December 31, 1991	87,493	52,000	281,240	480,519	588,227
Net income					210,657
Common stock sold (2,537,756 shares)			6,345	50,625	
Vesting of previously restricted shares				1,206	
Preferred stock sold (1,000,000 shares) 25,000				(267)	
Preferred stock retired (1,070,000 shares) (25,000)		(7,000)	(7,000)	(2,597)	(940)
Sinking fund requirement			(1,800)		
Dividends declared					
Preferred stock					(9,533)
Common stock					(164,043)

Balance, December 31, 1992	62,493	68,200	287,585	529,486	624,368
Net income					218,715
Common stock sold (1,481,241 shares)			3,703	33,209	
Vesting of previously restricted shares				1,938	
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	\$659,833
	=====	

See notes to consolidated financial statements.

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STATEMENTS OF CONSOLIDATED CAPITAL STOCK

In thousands of dollars except call price

Balance at December 31	1993	1992
	-----	-----
COMMON EQUITY		
Common stock, without par value, authorized		
255,000,000 shares, outstanding: 1993,		
116,515,073 shares; 1992, 115,033,832 shares	\$ 291,288	\$ 287,585
Premium on capital stock	565,119	529,486
Retained earnings	659,833	624,368
	-----	-----
Total common equity	\$1,516,240	\$1,441,439
PREFERRED STOCK (A)		
Not subject to mandatory redemption	Call Price	
\$20 par value, authorized 1,375,000 shares	-----	
5% Series, 375,000 shares outstanding	\$ 24.00	\$ 7,500
4 1/2% Series, 300,000 shares outstanding	21.20	6,000
4.40% Series, 325,000 shares outstanding	21.00	6,500
4.60% Series, 374,650 shares outstanding	20.25	7,493
Without par value (B)		
\$7.20 Series, 150,000 shares outstanding	101.00	15,000
\$1.70 Series, 1,400,000 shares outstanding	25.85 (D)	35,000
\$1.82 Series, 640,000 shares outstanding	26.00 (D)	16,000
\$7.80 Series, outstanding: 1992,		
200,000 shares	-	-
	-----	-----
Total not subject to mandatory redemption	\$93,493	\$62,493
Subject to mandatory redemption		
Without par value (B)		
\$1.7625 Series, 1,000,000 shares outstanding (C)	\$ 25.00 (D)	\$25,000
\$7.05 Series, outstanding: 1992, 433,700 shares	-	-
Current sinking fund requirement		(170)
	-----	-----
Total subject to mandatory redemption	\$25,000	\$68,200
	=====	=====

(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 has a liquidation value of \$100 per share.

(B) Authorized 10,000,000 shares total (both subject to and not subject to mandatory redemption).

(C) The \$1.7625 series has a sinking fund requirement to redeem 50,000 shares per year from 2003 to 2007. The remaining shares must be redeemed in 2008.

(D) The \$1.70 and \$1.7625 series are not callable until 2003; the \$1.82 series is not callable until 1998.

See notes to consolidated financial statements.

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STATEMENTS OF CONSOLIDATED LONG-TERM DEBT

In thousands of dollars

Balance at December 31	1993	1992
First mortgage bonds		
5 1/2%, due 1994 - 1997	\$ 33,468	\$ 33,868
7 5/8%, due 2002	80,000	80,000
2.9% - 4.25%, due 2007 - 2008*	115,000	115,000
5.85% - 6.8%, due 2015 - 2021	356,755	133,015
3.3%, due 2018*	14,915	-
7 3/8% - 9 5/8%, due 2020 - 2023	384,950	384,950
1.3% - 3.9%, due 2027*	250,000	250,000
Series retired in 1993	-	412,035
Total	1,235,088	1,408,868
Capitalized leases	124,782	124,875
Other long-term debt, 3.0%-9.67%, due 1994-2001*	224,559	88,305
Unamortized discount on long-term debt	(8,320)	(14,162)
Long-term debt redeemable within one year	(88,000)	(88,000)
Current portion of long-term debt	(76,161)	(24,152)
Total	\$1,411,948	\$1,495,734

*Interest rates on \$453 million of these notes are variable and tied to various financial indices.

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	1993	1992	1991
Operating Revenues*	\$1,980,115	\$1,870,900	\$1,789,012
Operating Income			
Electric operations	\$ 263,643	\$ 270,172	\$ 266,402
Gas operations	24,571	37,234	37,405
Diversified operations	5,460	(11,099)	11,707
Total	\$ 293,674	\$ 296,307	\$ 315,514
Depreciation and Decommissioning			
Electric operations	\$ 210,890	\$ 178,513	\$ 164,194
Gas operations	28,215	27,667	25,536
Diversified operations	11,514	7,481	5,630
Total	\$ 250,619	\$ 213,661	\$ 195,360
Utility Plant Additions**			
Electric operations	\$ 291,456	\$ 236,918	\$ 210,958
Gas operations	62,935	43,363	43,995
Total	\$ 354,391	\$ 280,281	\$ 254,953
Identifiable Assets			
Utility plant-net			
Electric operations	\$2,724,139	\$2,623,058	\$2,692,492
Gas operations	393,494	355,634	339,307
Total	3,117,633	2,978,692	3,031,799
Inventories			
Electric operations	57,410	62,170	65,358
Gas operations	18,703	14,056	19,508
Diversified operations	8,809	10,839	9,349
Total	84,922	87,065	94,215
Other identifiable assets			

Electric operations	744,335	861,236	533,833
Gas operations	139,631	175,156	109,829
Diversified operations	504,359	288,914	188,712
	-----	-----	-----
Total	1,388,325	1,325,306	832,374
	-----	-----	-----
Other Assets	111,356	103,509	88,286
	-----	-----	-----
Total Assets	\$4,702,236	\$4,494,572	\$4,046,674
	=====	=====	=====

*The detail to operating revenues is provided in the Statements of Consolidated Income. The gas operating revenues shown therein include \$16 million in 1993, \$17 million in 1992 and \$10 million in 1991, representing the gross margin on sales to the electric segment. These margins arose from interdepartmental transfers of \$141 million in 1993, \$142 million in 1992 and \$116 million in 1991, based on transfer pricing approved by the California Public Utilities Commission in tariff rates.

**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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 Summary of Accounting Policies

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 expenses minus salvage value is charged to accumulated depreciation.

Depreciation expense reflects the straight-line remaining useful life method. The provisions for depreciation approximated 4.13 percent of average depreciable utility plant in 1993, 3.99 percent in 1992 and 3.98 percent in 1991.

INVENTORIES

At December 31, 1993 inventories include \$55 million of materials and supplies (\$57 million in 1992), and \$30 million of fuel oil and natural gas (\$30 million in 1992). Materials and supplies are valued at average cost, and fuel oil and natural gas are valued by the last-in first-out, or LIFO, method.

OTHER CURRENT ASSETS

Included in other current assets at December 31, 1993 is \$26 million of investment in SONGS 1 which will be recovered in 1994. The noncurrent portion of the \$88 million investment is included in "Deferred Charges and Other Assets" on the Consolidated Balance Sheets.

ALLOWANCE FOR FUNDS USED DURING CONSTRUCTION

The allowance represents the cost of funds used to finance the construction of utility plant and is added to the cost of utility plant. AFDC 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.

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 California Public Utilities Commission. The balances of these accounts represent amounts that will be recovered from, or repaid to, customers by adjustments to future prices.

GOODWILL

Goodwill arose from the acquisition of certain businesses by Pacific Diversified Capital (see Note 2). It is being amortized on a straight-line basis over 40 years. The accumulated amortization at December 31, 1993 was \$7.7 million (\$6.1 million in 1992).

DEFERRED CHARGES AND OTHER ASSETS

Deferred charges include unrecovered premium on early retirement of debt and other regulatory-related expenditures that SDG&E will recover in future rates. These items are amortized as recovered in rates.

STATEMENTS OF CONSOLIDATED CASH FLOWS

Temporary investments are highly liquid investments with original maturities of three months or less.

OTHER

Certain prior year amounts have been reclassified for comparability. In addition, certain prior year amounts have been restated to give retroactive effect to the adoption of Statement of Financial Accounting Standard (SFAS) No. 109, Accounting for Income Taxes.

2 INVESTMENT IN NON-REGULATED SUBSIDIARIES

The consolidated financial statements include the accounts of San Diego Gas & Electric and its wholly owned subsidiaries: Califia Company, Enova Corporation and Pacific Diversified Capital Company. Califia and Enova are engaged in non-utility investment activities. Pacific Diversified Capital is a holding company owning Phase One Development, Inc. and 80 percent of Wahlco Environmental Systems, Inc.

INVESTMENT IN WAHLCO ENVIRONMENTAL SYSTEMS, INC.

SDG&E's investment in and advances to Wahlco aggregate \$72 million at December 31, 1993. At December 31, 1993 Wahlco had consolidated net assets of \$73 million (including \$54 million of goodwill). During the years ended December 31, 1991, 1992 and 1993, Wahlco's net income (loss) was \$12 million, (\$13 million) and (\$11 million). During those years Wahlco's cash flow provided by (used in) operations was \$7 million, (\$7 million) and (\$12 million). Historically, Wahlco's primary and most profitable product line has been flue gas conditioning equipment, which is sold to utilities with coal-fired generating plants. Since the passage of the 1990 Clean Air Act Amendments, Wahlco's prospects for future profitability have been significantly associated with the size and timing of flue gas conditioning equipment orders from utilities responding to that legislation.

Phase I of that legislation requires certain utilities to submit compliance plans to the Environmental Protection Agency by February 28, 1993 and to be in compliance by January 1, 1995. Phase II requires the remaining utilities with coal-fired generation to be in compliance by January 1, 2000.

Thus far, sales of and orders for flue gas conditioning equipment have not reached anticipated levels. Therefore, SDG&E is considering alternative strategies relative to Wahlco, which may result in a charge to SDG&E's future earnings.

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3 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 9, combined aggregate maturities and sinking fund requirements of long-term debt are \$68 million for 1994, \$45 million for 1995, \$34 million for 1996, \$49 million for 1997 and \$21 million for 1998. SDG&E has CPUC authorization to issue an additional \$263 million in debt.

FIRST MORTGAGE BONDS

First mortgage bonds are secured by a lien on substantially all utility plant. Additional first mortgage bonds may be issued upon compliance with the provisions of the bond indenture. Certain of the first mortgage bonds may be called at SDG&E's option.

First mortgage bonds totaling \$380 million have variable interest rate provisions. On \$115 million, bondholders may elect to redeem their bonds at the annual interest adjustment dates. Redemption of \$27 million of these cannot occur before 1995. For purposes of determining the aggregate maturities listed above, it is assumed that these issues will not be redeemed before scheduled maturity.

During 1993 SDG&E issued \$239 million of first mortgage bonds and retired \$412 million of first mortgage bonds prior to scheduled maturities.

OTHER DEBT

At December 31, 1993 SDG&E had two \$50 million bank lines providing a committed source of long-term borrowings, of which \$60 million was outstanding. Bank lines, unless renewed by SDG&E, expire in 1994 and 1995. A commitment fee is paid on the unused portion of the lines and there are no requirements for compensating balances.

Loans of \$149 million and \$69 million at December 31, 1993 and 1992, respectively, are secured by subsidiary equipment, real estate and other investments.

INTEREST

Interest payments, including those applicable to short-term borrowings, amounted to \$106 million in 1993, \$108 million in 1992 and \$107 million in 1991. Interest payments of \$34 million in 1992 on income taxes in connection with a preliminary settlement with the Internal Revenue Service are included with income taxes in Note 7.

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 (see Note 8). At December 31, 1993 SDG&E had such agreements, maturing in 1996 and 2002, with underlying debt aggregating \$120 million. These agreements have effectively fixed interest rates on the underlying variable rate debt at 5.4% to 6.3%. SDG&E is exposed to potential losses should other parties to the agreement not perform. Such nonperformance is not anticipated.

4 SHORT-TERM BORROWINGS

At December 31, 1993 and 1992 short-term borrowings and weighted average interest rates for the outstanding balances were:

In millions of dollars	1993		1992	
	Balance	Interest Rate	Balance	Interest Rate
Bank loans	\$ 91	3.4%	\$ -	-
Subsidiaries' bank credit line	40	5.2%	14	6.0%
Commercial paper	-	-	69	3.7%
Total	\$131		\$83	

At December 31, 1993 SDG&E had various bank lines, aggregating \$150 million, available to support commercial paper and bank loans. SDG&E's subsidiaries had a bank credit line that provided for borrowings up to \$40 million at the prime rate. A commitment fee is paid on the unused portion of the lines. There were no requirements for compensating balances.

5 FACILITIES UNDER JOINT OWNERSHIP

The San Onofre nuclear power plant and the Southwest Powerlink transmission line are jointly owned with other utilities. SDG&E's interests at December 31, 1993 were:

In millions of dollars	San Onofre		Southwest Powerlink
Ownership interest (%)	20		89
Utility plant in service	\$1,083		\$210
Accumulated depreciation	\$ 335		\$ 67
Construction work in progress	\$ 21		\$ -

Each participant in the projects must provide its own financing.

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 \$322 million. These costs are included in

setting rates and are expected to be fully recovered by 2014, the estimated last year of service. SDG&E invests in externally managed trust funds the amounts collected in rates. At December 31, 1993 the trust funds had a market value of \$191 million, which includes \$10.7 million in unrealized gains and which is included in "Investments and Other Property" on the Consolidated Balance Sheets. The securities held by the trust are adjusted to market value in accordance with SFAS 115, Accounting for Certain Investments in Debt and Equity Securities, issued in May 1993 and implemented by SDG&E as of December 31, 1993. Additional information regarding San Onofre is included in Note 9.

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6 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 aggregate cost actuarial method. Net pension cost consisted of the following for the year ended December 31:

In thousands of dollars	1993	1992	1991
Cost related to current service	\$18,233	\$17,838	\$17,054
Interest on projected benefit obligation	29,745	27,933	24,725
Return on plan assets	(39,351)	(23,267)	(71,388)
Other	(8,627)	(25,325)	35,199
Net cost (benefit)	\$ -	\$ (2,821)	\$ 5,590

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

In thousands of dollars	1993	1992
Accumulated benefit obligation		
Vested	\$304,053	\$259,292
Nonvested	10,616	9,380
Total	\$314,669	\$268,672
Plan assets at fair value	\$435,371	\$404,894
Projected benefit obligation	457,710	393,906
Plan assets less projected benefit obligation	(22,339)	10,988
Unrecognized effect of accounting change	(1,835)	(2,064)
Unrecognized prior service cost	14,043	15,130
Unrecognized actuarial losses (gains)	10,131	(24,054)
Amount recognized as an asset	\$ -	\$ -

The projected benefit obligation assumes a 7.5 percent actuarial discount rate in 1993 (8.0 percent in 1992) and a 6.0 percent average annual salary increase. The expected long-term rate of return on plan assets is 8.5 percent. The impact of decreasing the actuarial discount rate was to increase the accumulated benefit obligation and projected benefit obligation by approximately \$22 million and \$38 million, respectively.

Eligible employees may make a contribution of 1 percent to 15 percent of their base pay 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' base 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 \$4 million in 1993, \$1 million in 1992 and \$9 million in 1991.

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 over a 10-year period ending in 1996. In each of the last eight years SDG&E issued approximately 40,000 shares to 60,000 shares of stock to officers and key employees for \$2.50 per share, subject to buy-back 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 transition obligation of approximately \$47 million is being amortized over 20 years. SDG&E will recover the cost of these benefits based upon actuarial calculations and funding limitations. The amounts expensed for these benefits were \$5 million in 1993, \$4 million in 1992 and \$3 million in 1991.

7 INCOME TAXES

SDG&E has adopted SFAS 109, Accounting for Income Taxes, retroactive to January 1, 1989.

SFAS 109 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 \$312 million at December 31, 1993 (\$295 million at December 31, 1992). This regulatory asset is expected to be recovered in future rates and will be adjusted as it is recovered through the ratemaking process as tax rates and laws change.

Also as a result of adopting SFAS 109, 1989 net income was decreased by \$8 million, or \$0.07 per share. This decrease results from the write-down of deferred tax assets initially recorded at prior tax rates in excess of current tax rates. These excess deferred taxes will not be recovered in future rates.

Effective January 1, 1993, the federal statutory tax rate increased to 35 percent from 34 percent. This change increased SDG&E's net deferred tax liability by approximately \$14 million. The impact on income tax expense was not significant.

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Income tax payments totaled \$116 million in 1993, \$192 million in 1992 and \$115 million in 1991.

COMPONENTS OF ACCUMULATED DEFERRED INCOME TAXES

In thousands of dollars	1993	1992

Deferred tax liabilities		
Differences in book and tax bases		
of utility plant	\$650,429	\$611,408
Loss on reacquired debt	28,572	13,761
Other	86,126	70,598
Total deferred tax liabilities	765,127	695,767
Deferred tax assets		
Unamortized investment tax credits	79,479	80,102
Equipment leasing activities	61,533	26,247
Other	118,673	114,470
Total deferred tax assets	259,685	220,819
Net deferred income tax liability	505,442	474,948
Current portion of deferred income taxes	14,634	20,896
Accumulated deferred income taxes-net	\$520,076	\$495,844

COMPONENTS OF INCOME TAX EXPENSE

In thousands of dollars	1993	1992	1991

Current			
Federal	\$ 79,848	\$134,635	\$107,959
State	22,821	28,847	34,532
Total current taxes	102,669	163,482	142,491
Deferred			
Federal	43,365	(2,248)	1,106
State	7,001	(3,638)	(7,519)

Total deferred taxes	50,366	(5,886)	(6,413)
Deferred investment tax credits-net	(4,760)	(5,145)	(4,964)
Total income tax expense	\$148,275	\$152,451	\$131,114

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

RECONCILIATION OF STATUTORY FEDERAL INCOME TAX RATE TO EFFECTIVE RATE

In thousands of dollars	1993	1992	1991
Income before federal income taxes	\$337,168	\$337,899	\$312,161
Statutory federal income tax rate	35.0%	34.0%	34.0%
Depreciation	5.0	3.7	4.2
Tax credits	(3.9)	(2.8)	(2.1)
Allowance for funds used during construction	(1.9)	(0.7)	(0.6)
Equipment leasing activities	(1.8)	-	-
Other-net	2.7	3.5	(2.2)
Effective federal income tax rate	35.1%	37.7%	33.3%

8 FAIR VALUE OF FINANCIAL INSTRUMENTS

SFAS 107, Disclosures About Fair Market Value of Financial Instruments, requires disclosure of the fair value of financial instruments, whether recognized in the statement of financial position, for which it is practicable to estimate fair value. The following methods and assumptions were used to estimate the fair value of each class of financial instruments.

CASH AND TEMPORARY INVESTMENTS, NOTES RECEIVABLE, AND DIVIDENDS PAYABLE
The carrying amount approximates fair value due to the short maturity of those instruments.

FUNDS HELD IN TRUST

Funds held in trust include construction trust funds and the SONGS decommissioning trust (included in "Construction Funds held by Trustee" and "Investments and Other Property," respectively, on the Consolidated Balance Sheets). The fair value of the funds held in trust was based on quoted market values.

INVESTMENTS IN LIMITED PARTNERSHIPS AND NONCURRENT NOTES RECEIVABLE

The fair value of investments in limited partnerships and noncurrent notes receivable (included in "Investments and Other Property" and "Deferred Charges and Other Assets," respectively, on the Consolidated Balance Sheets) was 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.

OTHER ASSETS

Included in other assets are GNMA and FNMA marketable securities whose fair values are based upon market quotes for the same or similar financial instruments.

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 amount of deposits from residential and commercial customers approximates fair value due to the short maturity period. The fair value of customer advances for construction was estimated by discounting future cash flows.

DEBT AND PREFERRED STOCK SUBJECT TO MANDATORY REDEMPTION

The fair value of SDG&E's debt and preferred stock issues was 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.

INTEREST RATE CAP AND SWAP AGREEMENTS

The fair value of the agreements at December 31, 1993 is the amount required to terminate them, which was estimated at \$4 million. There were no estimated termination costs at December 31, 1992.

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

In millions of dollars	1993		1992	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets				
Cash and temporary investments	\$ 17.5	\$ 17.5	\$ 11.1	\$ 11.1
Funds held in trust	249.4	251.2	396.1	401.4
Notes receivable	149.9	149.9	65.6	65.6
Investments in limited partnerships	113.8	113.8	42.0	42.0
Other	36.3	36.8	27.1	27.3
Liabilities				
Dividends payable	45.0	45.0	43.3	43.3
Short-term and current portion of long-term debt	247.2	247.2	185.9	186.0
Deposits from customers	60.4	55.0	65.9	58.1
Long-term debt	1,295.3	1,380.5	1,337.6	1,439.7
Preferred stock subject to mandatory redemption	25.0	27.3	68.4	69.1

9 CONTINGENCIES AND COMMITMENTS

PURCHASED POWER CONTRACTS

SDG&E buys electric power under several long-term contracts. Purchases may be made of 2 percent to 10 percent of plant output under these contracts, except for one contract under which SDG&E may purchase 74 percent of plant output, providing approximately 2 percent of SDG&E's total system requirements. The contracts expire on various dates between 1995 and 2019.

At December 31, 1993 the future minimum payments under the contracts were:

In millions of dollars	
1994	\$ 196
1995	194
1996	178
1997	144
1998	149
Thereafter	752
Total minimum payments	\$1,613

These payments represent capacity charges and minimum energy purchases. If SDG&E exercises its option to extend the applicable contract, total minimum payments would increase by approximately \$51 million. SDG&E is required to pay additional amounts for actual deliveries of energy under the contracts.

Total payments, including energy payments, under the contracts were \$258 million in 1993, \$253 million in 1992 and \$245 million in 1991.

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 and with capacity in its storage facilities through August 1995. Implementation of FERC Order 636 (Capacity Reallocation) in 1993 made it possible for SDG&E to obtain directly interstate pipeline capacity, which had been provided by SoCal under the contract.

SDG&E's long-term contracts with interstate pipelines for transportation capacity became effective in 1993 and expire on various dates between 1995 and 2023. SDG&E also has four long-term gas supply contracts, which became effective in 1993. The contracts expire between 2001 and 2004. These gas supply contracts are intended to supply 16 percent of SDG&E's natural gas requirements.

At December 31, 1993 the future minimum payments under natural gas contracts were:

In millions of dollars

	Transportation and Storage	Natural Gas
1994	\$ 84	\$ 42
1995	65	45
1996	20	48
1997	19	51
1998	18	54
Thereafter	271	294
Total minimum payments	\$477	\$534

Total payments under the contracts were \$86 million in 1993, \$80 million in 1992 and \$83 million in 1991.

LEASES

Nuclear fuel, office buildings, a generating facility and other properties are financed by long-term capital leases. Utility plant included \$193 million at December 31, 1993 and \$209 million at December 31, 1992 related to these leases. The associated accumulated amortization was \$74 million and \$91 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 2 1/2 percent.

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

In millions of dollars

	Operating Leases	Capitalized Leases
1994	\$ 61	\$ 26
1995	56	28
1996	56	12
1997	49	12
1998	33	12
Thereafter	36	68
Total future rental commitments	\$291	158
Imputed interest (6% to 9%)		(33)
Net commitment		\$125

Rental payments totaled \$91 million in 1993, \$57 million in 1992 and \$58 million in 1991. The increase from 1992 to 1993 was due to Califia's leasing activities.

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. The CPUC is expected to continue allowing the recovery of such costs, subject to reasonableness reviews.

SDG&E has identified, or has been associated with, various sites which require remediation under federal, state or local environmental laws. SDG&E may be partially or indirectly responsible for cleaning up these sites. SDG&E cannot determine the extent of its responsibility for remediation for these sites. Furthermore, the timing for assessing the costs of cleanup at these sites, and the number of others who may be also responsible and their ability to share in the cost of the cleanup, is not known.

Environmental liabilities are recorded when environmental assessments and/or remedial efforts are probable, and at least the minimum costs can be reasonably estimated. Generally, the timing of these accruals coincides with the earlier of completion of a feasibility study or SDG&E's commitment to a formal plan of action.

NUCLEAR INSURANCE

Public liability claims that could arise from a nuclear incident are limited by law to \$9.4 billion for each licensed nuclear facility. For this exposure, SDG&E and the co-owners of the San Onofre units have purchased primary insurance of \$200 million, the maximum amount available. The remaining 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 \$50 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.

Insurance coverage is provided for up to \$2.8 billion of property damage and decontamination liability. Coverage also is provided for the cost of replacement power, which includes indemnity payments for up to two 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 for these insurance programs, SDG&E could be assessed retrospective premium adjustments of up to \$8 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 beginning in 1993. Each utility's share is based on its share of enrichment services purchased from the DOE. SDG&E's share of the contribution is estimated to be \$1 million per year.

LITIGATION

SDG&E is involved in various legal matters, including those 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 cash flows.

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, 1993 the aggregate unexpended amount of this commitment was approximately \$85 million. SDG&E expended approximately \$22 million in 1993, \$18 million in 1992 and \$15 million in 1991 under this program.

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.

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INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS AND BOARD OF DIRECTORS OF SAN DIEGO GAS & ELECTRIC COMPANY:

We have audited the accompanying consolidated balance sheets and the consolidated statements of capital stock and long-term debt of San Diego Gas & Electric Company and subsidiaries as of December 31, 1993 and 1992, and the related consolidated statements of 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, 1993. These 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, 1993 and 1992, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1993 in conformity with generally accepted accounting principles.

As discussed in Note 2 to the consolidated financial statements, the Company is considering alternative strategies related to its 80 percent-owned subsidiary, Wahlco Environmental Systems, Inc., which may result in a charge to the Company's future earnings.

Deloitte & Touche
San Diego, California
February 25, 1994

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QUARTERLY FINANCIAL DATA (UNAUDITED)

In thousands except per share amounts

Quarter ended	March 31	June 30	September 30	December 31
1992				
Operating revenues	\$471,333	\$436,556	\$487,802	\$475,209
Operating expenses	392,921	367,713	411,740	402,219
Operating income	78,412	68,843	76,062	72,990
Other income (expense)	2,379	(234)	5,162	13,357
Net interest charges	26,447	27,074	26,532	26,261
Net income (before preferred dividend requirements)	54,344	41,535	54,692	60,086
Preferred dividend requirements	2,607	2,582	2,541	1,870
Earnings applicable to common shares	\$ 51,737	\$ 38,953	\$ 52,151	\$ 58,216
Average common shares outstanding	112,800	113,476	114,134	114,800
Earnings per common share	\$ 0.46	\$ 0.34	\$ 0.46	\$ 0.51
1993				
Operating revenues	\$492,343	\$467,260	\$495,035	\$525,477
Operating expenses	414,557	398,881	418,178	454,825
Operating income	77,786	68,379	76,857	70,652
Other income	7,122	1,249	7,464	10,505
Net interest charges	26,331	25,399	25,223	24,346
Net income (before preferred dividend requirements)	58,577	44,229	59,098	56,811
Preferred dividend requirements	2,182	2,181	2,282	1,920
Earnings applicable to common shares	\$ 56,395	\$ 42,048	\$ 56,816	\$ 54,891
Average common shares outstanding	115,450	115,908	116,335	116,489
Earnings per common share	\$ 0.49	\$ 0.36	\$ 0.49	\$ 0.47

These amounts are unaudited, but in the opinion of SDG&E reflect all adjustments necessary for a fair presentation.

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