

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, 1996

OR

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

For the transition period from to

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

101 ASH STREET, SAN DIEGO, CALIFORNIA 92101

(Address of principal executive offices) (Zip Code)

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

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

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

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

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

| | |
|----------------------------------|------|
| San Diego Gas & Electric Company | None |
| Enova Corporation | None |

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months and (2) has been subject to such filing requirements for the past 90 days.

Yes ☒ No ☐

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

Exhibit Index on page 68. Glossary on page 75.

Aggregate market value of the voting stock held by non-affiliates of the registrant as of February 28, 1997:

| | |
|--|---------------|
| Enova Corporation Common Stock | \$2.6 Billion |
| San Diego Gas & Electric Company Preferred Stock | \$19 Million |

Common Stock outstanding without par value as of February 28, 1997:

| | |
|--------------------|-------------|
| Enova Corporation: | 116,614,314 |
|--------------------|-------------|

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

DOCUMENTS INCORPORATED BY REFERENCE:

Portions of the 1996 Annual Report to Shareholders are incorporated by

reference into Parts I, II, and IV.

Portions of the March 1997 Proxy Statement prepared for the April 1997 annual meeting of shareholders are incorporated by reference into Part III.

TABLE OF CONTENTS

PART I

| | | |
|---------|--|----|
| Item 1. | Business | 3 |
| Item 2. | Properties | 18 |
| Item 3. | Legal Proceedings | 19 |
| Item 4. | Submission of Matters to a Vote of Security Holders. | 22 |
| | Executive Officers of the Registrant | 23 |

PART II

| | | |
|---------|--|----|
| Item 5. | Market for Registrant's Common Equity and Related Stockholder Matters | 24 |
| Item 6. | Selected Financial Data | 25 |
| Item 7. | Management's Discussion and Analysis of Financial Condition and Results of Operations | 26 |
| Item 8. | Financial Statements and Supplementary Data -- Enova Corporation. | 27 |
| | San Diego Gas & Electric Company | 52 |
| Item 9. | Changes in and Disagreements with Accountants on Accounting and Financial Disclosure | 61 |

PART III

| | | |
|----------|---|----|
| Item 10. | Directors and Executive Officers of the Registrant . | 61 |
| Item 11. | Executive Compensation | 61 |
| Item 12. | Security Ownership of Certain Beneficial Owners and Management | 61 |
| Item 13. | Certain Relationships and Related Transactions . . . | 61 |

PART IV

| | | |
|----------|---|----|
| Item 14. | Exhibits, Financial Statement Schedule and Reports on Form 8-K | 62 |
| | Independent Auditors' Consent and Report on Schedule | 64 |
| | Supplemental Schedule. | 65 |
| | Signatures | 67 |
| | Exhibit Index. | 68 |
| | Glossary | 75 |

PART I - Enova Corporation/San Diego Gas & Electric:

ITEM 1. BUSINESS

Description of Business

A description of Enova Corporation and its subsidiaries, including a discussion on the proposed business combination with Pacific Enterprises Inc., is given in "Management's Discussion and Analysis of Financial Condition and Results of Operations" beginning on page 20 of the 1996 Annual Report to Shareholders. Additional information on the business combination is described in Note 1 of the "Notes to Consolidated Financial Statements" on page 37 of this 1996 Annual Report on Form 10-K.

GOVERNMENT REGULATION

Local Regulation

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

State Regulation

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

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

Federal Regulation

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

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

Licenses and Permits

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

Other regulatory matters are described throughout this report.

SOURCES OF REVENUE

| (In Millions of Dollars) | 1996 | 1995 | 1994 |
|--------------------------------------|---------|---------|---------|
| ----- | | | |
| Utility revenue by type of customer: | | | |
| Electric- | | | |
| Residential | \$ 642 | \$ 610 | \$ 612 |
| Commercial | 621 | 589 | 600 |
| Industrial | 259 | 250 | 231 |
| Other | 69 | 55 | 67 |
| | ----- | ----- | ----- |
| Total Electric | 1,591 | 1,504 | 1,510 |
| | ----- | ----- | ----- |
| Gas- | | | |
| Residential | 210 | 189 | 204 |
| Commercial | 69 | 60 | 65 |
| Industrial | 32 | 25 | 31 |
| Other | 37 | 36 | 46 |
| | ----- | ----- | ----- |
| Total Gas | 348 | 310 | 346 |
| | ----- | ----- | ----- |
| Total Utility | 1,939 | 1,814 | 1,856 |
| | ----- | ----- | ----- |
| Other | 54 | 57 | 56 |
| | ----- | ----- | ----- |
| Total | \$1,993 | \$1,871 | \$1,912 |
| | ===== | ===== | ===== |

Industry segment information is contained in "Statements of Consolidated Financial Information by Segments of Business" on page 34 of this 1996 Annual Report on Form 10-K.

CONSTRUCTION EXPENDITURES

Construction expenditures are described in "Management's Discussion and Analysis of Financial Condition and Results of Operations" beginning on page 20 of the 1996 Annual Report to Shareholders.

ELECTRIC OPERATIONS

Introduction

In September 1996 the state of California enacted a law restructuring California's electric utility industry (AB 1890). The legislation adopts the December 1995 CPUC policy decision restructuring the industry to stimulate competition and reduce rates. This is discussed in "Management's Discussion and Analysis of Financial Condition and Results of Operations" beginning on page 20 of the 1996 Annual Report to Shareholders, and in Note 10 of the "Notes to Consolidated Financial Statements" beginning on page 37 of this 1996 Annual Report on Form 10-K.

Resource Planning

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

In 1996 SDG&E also negotiated contracts for 1,140 mw of short-term purchased power that will be available in 1997.

Additional information concerning resource planning is provided in "Management's Discussion and Analysis of Financial Condition and Results of Operations" beginning on page 20 of the 1996 Annual Report to Shareholders and in Notes 9 and 10 of the "Notes to Consolidated Financial Statements" beginning on page 37 of this 1996 Annual Report on Form 10-K.

Electric Resources

Based on generating plants in service and purchased-power contracts in place as of January 31, 1997, the net megawatts of electric power expected to be available to SDG&E during the next summer (normally the time of highest demand) are as follows:

| Source | Net Megawatts |
|---|---------------|
| ----- | ----- |
| Gas/oil generating plants | 1,641 |
| Combustion turbines | 332 |
| Nuclear generating plants | 430 |
| Long-term contracts with other utilities | 225 |
| Short-term contracts with other utilities | 140 |
| Contracts with others | 1,158 |
| | ----- |
| Total | 3,926 |
| | ===== |

SDG&E's 1996 system peak demand of 3,299 mw occurred on August 29, when

the net system capability, including power purchases, was 3,753 mw. The all-time record is 3,335 mw which was reached on August 17, 1992.

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

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

Nuclear Generating Plants: SDG&E owns 20 percent of the three nuclear units at San Onofre Nuclear Generating Station (south of San Clemente, California). 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.

SONGS 1 was removed from service in November 1992, when the CPUC issued a decision to permanently shut down the unit. At that time SDG&E began the recovery of its remaining capital investment, with full recovery completed in April 1996. SDG&E and Edison filed a decommissioning plan in November 1994, although final decommissioning will not occur until SONGS 2 and 3 are also decommissioned. The unit's spent nuclear fuel has been removed from the reactor and stored on-site. In March 1993 the NRC issued a Possession-Only License for SONGS 1, and the unit was placed in a long-term storage condition in May 1994.

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

Between 1994 and 1996, SDG&E spent \$46 million on capital modifications and additions and expects to spend \$15 million in 1997. SDG&E deposits funds in an external trust to provide for the future dismantling and decontamination of the units. The shutdown of SONGS 1 does not affect contributions to the trust.

In 1983 the CPUC adopted performance-based incentive plans for SONGS that set a Target Capacity Factor range of 55 percent to 80 percent for Units 2 and 3. Energy costs or savings outside that range were shared equally by SDG&E and its customers. Since the TCF was adopted, these units have operated above 55 percent for each of their fuel cycles and have exceeded 80 percent a total of seven times in the fourteen completed cycles. In April 1996 the CPUC discontinued the TCF when it approved the accelerated recovery of the existing capital costs of Units 2 and 3 (see below).

Additional Information: Additional information concerning SDG&E's power plants, the SONGS units, nuclear decommissioning and the CPUC's industry restructuring proposal is provided in "Environmental Matters," "Electric Properties" and "Legal Proceedings" herein, in "Management's Discussion and Analysis of Financial Condition and Results of Operations" beginning on page 20 of the 1996 Annual Report to Shareholders, and in Notes 5, 9 and 10 of the "Notes to Consolidated Financial Statements" beginning on page 37 of this 1996 Annual Report on Form 10-K.

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

| Supplier | Period | Megawatt Commitment | Source |
|---|-----------------------|------------------------|---------------|
| ----- | | | |
| Long-Term Contracts with Other Utilities: | | | |
| Portland General Electric | Through December 1998 | 50 | Hydro storage |
| | Through December 2013 | 75 | Coal |

| | | | |
|--|--|----------------|---------------|
| Public Service Company of New Mexico | Through April 2001 | 100 ----- | System supply |
| Total summer availability (see page 6) | | 225 ===== | |
| Short-Term Contracts with Other Utilities: | | | |
| Bonneville Power Administration | June through September 1997 | 140 ----- | System Supply |
| Total summer availability (see page 6) | | 140 ===== | |
| Contracts with Others: | | | |
| Coastal Electric Services | Through December 1997 | 100 | System Supply |
| Electric Clearinghouse | Through December 1997 | 200 | System Supply |
| Enron Power Marketing | Through December 1997 | 50 | System Supply |
| e prime | July through September 1997 December 1997 | 100 75* | System Supply |
| Goal Line Limited Partnership | Through December 2025 | 50 | Cogeneration |
| Illinova Power Marketing | Through December 1997 January 1998 through December 1999 | 475 200* | System Supply |
| Applied Energy | Through December 2019 | 102 | Cogeneration |
| Yuma Cogeneration | Through June 2024 | 50 | Cogeneration |
| Other | Various | 31 ----- | Cogeneration |
| Total summer availability (see page 6) | | 1,158 ===== | |

* Not included in total 1997 summer availability.

Costs under contracts with qualifying facilities (identified above as sourced from cogeneration) are based on SDG&E's avoided cost. Contracts with power marketers are at market value at the time the contracts were negotiated. Charges under contracts with other utilities are based on the selling utility's costs, including a return on and depreciation of the utility's rate base (or lease payments in cases where the utility does not own the property), fuel expenses, operating and maintenance expenses, transmission expenses, administrative and general expenses, and state and local taxes.

Long-Term Contracts with Other Utilities

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

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

Short-Term Contracts with Other Utilities

Bonneville Power Administration: In October 1996 SDG&E and BPA entered into an agreement for the purchase of 140 MW of firm energy from June through September 1997. The energy charge is based on the amount of energy received.

Contracts with Others

Coastal Electric Services: In December 1996 SDG&E and Coastal entered into an agreement for the purchase of 100 MW of firm energy through

December 1997. The energy charge is based on the amount of energy received.

Electric Clearinghouse: In December 1996 SDG&E and ECI entered into an agreement for the purchase of 200 MW of firm energy through December 1997. The energy charge is based on the amount of energy received.

Enron Power Marketing: In November 1996 SDG&E and Enron entered into an agreement for the purchase of 50 MW of firm energy through December 1997. The energy charge is based on the amount of energy received.

e prime: In November 1996 SDG&E and e prime entered into an agreement for the purchase of 100 MW of capacity from July through September 1997, and 75 MW of capacity in December 1997. SDG&E pays a capacity charge plus a charge based on the amount of energy received.

Goal Line Limited Partnership: In December 1990 SDG&E and Goal Line entered into a 30-year agreement for the purchase of 50 MW of firm capacity, beginning in February 1995. SDG&E pays a firm capacity charge plus a charge based on the amount of energy received.

Illinova Power Marketing: In October 1996 SDG&E and Illinova entered into an agreement for the purchase of 475 MW of firm energy from January 1997 through December 1997, and 200 MW of firm energy from January 1998 through December 1999. SDG&E pays a charge based on the amount of energy received.

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

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

Other: SDG&E currently purchases capacity and energy from 85 as-available Qualifying Facilities. SDG&E pays a capacity charge plus a charge based on the amount of energy received. These account for 31 MW of capacity annually.

Additional information concerning SDG&E's purchased-power contracts is described in "Legal Proceedings" herein, in "Management's Discussion and Analysis of Financial Condition and Results of Operations" beginning on page 20 of the 1996 Annual Report to Shareholders, and in Notes 9 and 10 of the "Notes to Consolidated Financial Statements" beginning on page 40 of the 1996 Annual Report to Shareholders.

Power Pools

In 1964 SDG&E, PG&E, and Edison entered into the California Power Pool Agreement. It provides for the transfer of electrical capacity and energy by purchase, sale or exchange during emergencies and at other mutually determined times. On December 20, 1996 the three utilities filed a request with the FERC to terminate the California Power Pool, effective December 31, 1996. The FERC's decision is still pending. In its place, SDG&E, PG&E and Edison have made an arrangement with the CPUC that will provide for the transfer of capacity and energy in the event of an emergency.

SDG&E is a participant in the Western Systems Power Pool, which includes an electric power and transmission rate agreement with utilities and power agencies located throughout the United States and Canada. More than 150 investor-owned and municipal utilities, state and federal power agencies, energy brokers, and power marketers share power and information in order to increase efficiency and competition in the bulk power market. Participants are able to target and coordinate delivery of cost-effective sources of power from outside their service territories through a centralized exchange of information. Although the extent has not yet been determined, the status of the WSPP is likely to change due to industry restructuring, and the creation of a regional power exchange and an independent system operator (discussed below).

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. It is expected that these arrangements will either change or be eliminated with the creation of the ISO (discussed below).

Pacific Intertie: The Pacific Intertie, consisting of AC and DC transmission lines, enables SDG&E to purchase and receive surplus coal and hydroelectric power from the Northwest. SDG&E, PG&E, Edison and others share transmission capacity on the Pacific Intertie under an agreement that expires in July 2007. SDG&E's share of the intertie is 266 MW.

Southwest Powerlink: SDG&E's 500-kilovolt Southwest Powerlink transmission line, which it shares with Arizona Public Service Company and Imperial Irrigation District, extends from Palo Verde, Arizona to San Diego and enables SDG&E to import power from the Southwest. SDG&E's share of the line is 931 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 Comision Federal de Electricidad.

Additional Transmission Capabilities: Various studies have been undertaken or are ongoing to determine the extent to which various path ratings may be increased. SDG&E expects to receive an additional allocation of approximately 39 MW East-of-the-Colorado-River and 94 MW West-of-the-Colorado-River as a result of these various studies.

Transmission Access

As a result of the enactment of the National Energy Policy Act of 1992, the FERC has established rules to implement the Act's transmission-access provisions. These rules specify FERC-required procedures for others' requests for transmission service. Beginning in January 1998 the ISO will be responsible for the operation and control of the transmission lines. Additional information regarding the ISO and transmission access is discussed below and in "Management's Discussion and Analysis of Financial Condition and Results of Operations" beginning on page 20 of the 1996 Annual Report to Shareholders.

Power Exchange and Independent System Operator

The CPUC's electric restructuring decision provides that, beginning in January 1998, customers will have the option to buy their electricity through a power exchange that will obtain power from the lowest-bidding suppliers. The power exchange will serve as a wholesale power pool allowing all energy producers to competitively participate. The ISO will schedule power transactions and access to the transmission system. Additional information regarding the power exchange and ISO is discussed in "Management's Discussion and Analysis of Financial Condition and Results of Operations" beginning on page 20 of the 1996 Annual Report to Shareholders.

Fuel and Purchased-Power Costs

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

| | Percent of Kwhr | | | Cents per Kwhr | | |
|---------------------|-----------------|--------|--------|----------------|------|------|
| | 1996 | 1995 | 1994 | 1996 | 1995 | 1994 |
| Natural gas | 22.8% | 21.7% | 22.4% | 2.8 | 2.3 | 3.1 |
| Nuclear fuel | 19.6 | 16.5 | 21.8 | 0.5 | 0.5 | 0.5 |
| Fuel oil | 1.1 | 0.1 | 1.4 | 2.2 | 2.1 | 2.6 |
| Total generation | 43.5 | 38.3 | 45.6 | | | |
| Purchased power-net | 56.5 | 61.7 | 54.4 | 3.1 | 3.3 | 3.7 |
| Total | 100.0% | 100.0% | 100.0% | | | |

The cost of purchased power includes capacity costs as well as the costs of fuel. The cost of natural gas includes transportation costs. The costs of natural gas, nuclear fuel and fuel oil do not include SDG&E's

capacity costs. While fuel costs are significantly less for nuclear units than for other units, capacity costs are higher.

Electric Fuel Supply

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

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

| | |
|---|------|
| Mining and milling of uranium concentrate | 2003 |
| Conversion of uranium concentrate to uranium hexafluoride | 2003 |
| Enrichment of uranium hexafluoride(1) | 2003 |
| Fabrication of fuel assemblies | 2003 |
| Storage and disposal of spent fuel(2) | -- |

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

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

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

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

Additional information concerning nuclear-fuel costs is discussed in Note 9 of the "Notes to Consolidated Financial Statements" beginning on page 37 of this 1996 Annual Report on Form 10-K.

Fuel Oil: SDG&E has no long-term commitments to purchase fuel oil. The use of fuel oil is dependent upon price differences between it and natural gas, and air-emission limitations associated with the San Diego Air Pollution Control District's Rule 69. Additional information concerning air-emission restrictions, including Rule 69, is provided in "Management's Discussion and Analysis of Financial Condition and Results of Operations" beginning on page 20 of the 1996 Annual Report to Shareholders. During 1996 SDG&E burned 356,000 barrels of fuel oil.

NATURAL-GAS OPERATIONS

SDG&E purchases natural gas for resale to its customers and for fuel in its generating plants. All natural gas is delivered to SDG&E under a transportation and storage agreement with Southern California Gas Company through two transmission pipelines with a combined capacity of 449 million cubic feet per day.

During 1996 SDG&E purchased approximately 94 billion cubic feet of natural gas. The majority of SDG&E's natural-gas requirements are met through contracts of less than one year. SDG&E purchases natural gas primarily from various spot-market suppliers and from suppliers under short-term contracts. These supplies originate in New Mexico, Oklahoma and Texas, and are transported to the SoCal Gas Company pipeline at the California border by El Paso Natural Gas Company and by Transwestern Pipeline Company. SDG&E also has long-term contracts for natural gas with four Canadian suppliers. Three of these suppliers have ceased deliveries due to legal disputes. Natural gas from Canada is transported to SDG&E's system over Alberta Natural Gas, Pacific Gas Transmission, and PG&E pipelines. The natural-gas transportation contracts have varying terms through 2023.

Additional information concerning SDG&E's gas operations is provided under "Legal Proceedings" herein, in "Management's Discussion and

Analysis of Financial Condition and Results of Operations" beginning on page 20 of the 1996 Annual Report to Shareholders, and in Note 9 of the "Notes to Consolidated Financial Statements" beginning on page 37 of this 1996 Annual Report on Form 10-K.

RATE REGULATION

Industry Restructuring

A description of electric industry restructuring occurring in the State of California is given in "Management's Discussion and Analysis of Financial Condition and Results of Operations" beginning on page 20 of the 1996 Annual Report to Shareholders, and in Note 10 of the "Notes to Consolidated Financial Statements" beginning on page 37 of this 1996 Annual Report on Form 10-K.

Cost of Capital

A description of SDG&E's new cost of capital mechanism, the Market-Indexed Capital Adjustment Mechanism (MICAM), is provided in "Management's Discussion and Analysis of Financial Condition and Results of Operations" beginning on page 20 of the 1996 Annual Report to Shareholders. MICAM eliminates the annual cost of capital application. SDG&E is required to file a report on MICAM's progress in March 2000 with recommendations for modifications, if any.

Electric Fuel Costs and Sales Volumes

Until the present time, rates to recover electric-fuel and purchased-power costs were determined in the Energy Cost Adjustment Clause proceeding. The Electric Revenue Adjustment Mechanism compensated for variations in sales volume compared to the estimates used for setting the non-fuel component of rates. However, both ECAC and ERAM may potentially be eliminated as part of electric industry restructuring. The elimination of ECAC and ERAM would cause the revenues associated with electric fuel costs and sales volumes to be market driven. Although no significant effect is expected for any full year, quarterly earnings would significantly fluctuate beginning with the first quarter of 1997. Additional information on balancing accounts is discussed below in "Balancing Accounts" and in "Management's Discussion and Analysis of Financial Condition and Results of Operations" beginning on page 20 of the 1996 Annual Report to Shareholders.

Natural-Gas Costs and Sales Volumes

Natural-gas commodity rates are currently set monthly based on market prices, subject to a cap for core customers. If the rates exceed the cap, the difference is applied to natural-gas balancing accounts. In February 1997 SDG&E filed a request with the CPUC to remove the cap to reflect the significant increase in natural-gas prices during the past year. Under traditional ratemaking, natural-gas rates were adjusted annually based on a forecast of natural-gas prices. This resulted in rate stability, but also contributed to significant accumulations in the Purchased Gas Account (PGA). Rates to recover the cost of transporting natural gas to SDG&E are determined in the Biennial Cost Allocation Proceeding. The BCAP proceeding normally occurs every two years and is updated in the interim year for purposes of amortizing any accumulation in the balancing accounts. The natural-gas balancing accounts include the PGA for natural-gas costs and the Gas Fixed Cost Account for sales volumes. Balancing account coverage includes both core customers (primarily residential and commercial customers) and noncore customers (primarily large industrial customers). However, SDG&E does not receive balancing account treatment on 25 percent of noncore GFCA overcollections and undercollections.

Balancing Accounts

Until the present time, the CPUC required balancing accounts for fuel and purchased energy costs and for sales volumes, setting balancing account rates based on estimated costs and sales volumes. Revenues were adjusted upward or downward to reflect the differences between authorized and actual volumes and costs. These differences were accumulated in the balancing accounts and represented amounts to be either recovered from customers or returned to them. After the application of \$98 million of ECAC and ERAM overcollections to stranded

investments in December 1996, these balancing accounts were overcollected by \$35 million at December 31, 1996 and by \$171 million at December 31, 1995.

During late 1996 the CPUC ordered the three California investor-owned utilities to continue to make refunds to customers for fuel overcharges, disallowances by the CPUC and gas refunds from suppliers, stressing that utility disallowances should not be applied to transition costs. The disallowances are intended to benefit ratepayers by reducing rates and to discourage utilities from making imprudent expenditures. The utilities will establish an Electric Deferred Refund Account to be used if the CPUC rules that certain revenues collected in rates should be disallowed and refunded to customers. SDG&E does not currently have any refunds or disallowances that would be entered into this account.

Performance-Based Ratemaking

CPUC policies continue to move away from traditional cost-of-service regulation and toward incentive mechanisms. SDG&E implemented performance-based ratemaking in 1993 for natural-gas procurement and transportation, and for electric generation and purchased energy; and in 1994 for base rates. These mechanisms measure SDG&E's ability to purchase and transport natural gas, and to generate or purchase energy at the lowest possible cost, by comparing SDG&E's performance against various market benchmarks. SDG&E's shareholders and customers share in any savings or excess costs within predetermined ranges. A discussion of the current status of these PBR programs is contained in "Management's Discussion and Analysis of Financial Condition and Results of Operations" beginning on page 20 of the 1996 Annual Report to Shareholders.

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 reduce the need to build additional power plants. The costs of these programs are recovered from customers. The programs contain an incentive mechanism that could increase or decrease SDG&E's earnings, depending upon the performance of the programs in meeting specified efficiency and expenditure targets. The CPUC has encouraged expansion of these programs, authorizing annual expenditures ranging from \$54 million in 1993 to \$60 million in 1996. However, consistent with the industry trend toward increased competition, in February 1997 the CPUC issued a decision removing the energy-efficiency programs from utility control and moving the programs into the competitive market. The decision directs the creation of an oversight board that will develop program policies and procedures and select program administrators. The utilities will no longer be involved with program delivery to customers, but will be allowed to bid to become administrators. The CPUC's goal is to have the transition complete by January 1, 1998. In the interim, the current programs and earnings mechanism will remain in effect.

Low-Emission Vehicle Programs

SDG&E has conducted a CPUC-approved natural-gas-vehicle program since 1991. The program includes building refueling stations, demonstrating new technology, providing incentives and converting portions of SDG&E's vehicle fleet to natural gas. The cost of this program is being recovered in natural-gas rates. In November 1995 the CPUC issued its decision authorizing funding for limited electric-vehicle and natural-gas-vehicle programs through the year 2000 to allow recovery of costs for operation and maintenance of SDG&E's EV and NGV fleets and NGV fueling stations, and to allow recovery of transition costs to meet existing commitments to customers. The decision requires the sale of SDG&E's NGV fueling stations located on customer property within six years. The CPUC approved a six-year program that provides a total of \$5.3 million for SDG&E's electric-vehicle program and \$6.7 million for its natural-gas-vehicle program over the six-year period.

Electric Rates

The average price per kilowatt-hour charged to electric customers was 9.6 cents in 1996, 9.8 cents in 1995 and 9.7 cents in 1994.

Natural-Gas Rates

The average price per therm of natural gas charged to customers was 58.4 cents in 1996, 55.7 cents in 1995 and 59.9 cents in 1994.

ENVIRONMENTAL MATTERS

Discussions about environmental issues affecting SDG&E, including electric and magnetic fields, hazardous substances, air quality, water quality and wood pole preservatives, are included in "Management's Discussion and Analysis of Financial Condition and Results of Operations" beginning on page 20 of the 1996 Annual Report to Shareholders. The following should be read in conjunction with those discussions.

Hazardous Substances

The Hazardous Waste Collaborative approved by the CPUC in 1994 allows utilities to recover 90 percent of certain costs to clean up hazardous waste contamination and 70 percent of their costs related to obtaining recovery of such cleanup costs from insurance carriers providing coverage for such costs. Due to the fact that SDG&E disposes of its hazardous wastes at facilities owned and operated by other entities, applicable environmental laws may impose an obligation on SDG&E and others to undertake corrective actions if the owner or operator of such a facility fails to complete any required corrective actions.

This type of obligation has been imposed upon SDG&E with respect to a site in Pico Rivera, California. SDG&E and 10 other entities have been named potential responsible parties by the California Department of Toxic Substances Control (DTSC) and are liable for any required corrective action regarding contamination at the site. DTSC has taken this action because SDG&E and others sold used electrical transformers to the site's owner. The DTSC considers SDG&E to be responsible for 7.4 percent of the transformer-related contamination at the site. The estimate for the development of the cleanup plan is \$850,000. SDG&E has contributed \$43,000 to the effort. The estimate for the actual cleanup, which will commence in 1997, is in the \$2 million to \$8 million range.

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

In May 1987 the San Diego Regional Water Quality Control Board issued SDG&E a cleanup and abatement order for gasoline contamination originating from an underground storage tank located at SDG&E's Mountain Empire Operation and Maintenance facility. SDG&E assessed the extent of the contamination, removed all contaminated soil and completed remediation of the site. Monitoring of the site confirms its remediation. SDG&E has applied for and is awaiting a site-closure letter from the Regional Water Quality Control Board.

In January 1993 SDG&E was issued a Notice of Unauthorized Release by the San Diego County Division of Environmental Health Services relative to soil contamination from used motor oil associated with an underground tank located at SDG&E's South Bay Operation and Maintenance facility. SDG&E removed the tank and the associated contaminated soil. No actionable levels of contamination remain on the site. SDG&E received a site-closure letter in April 1996 from the San Diego County Division of Environmental Health Services.

Station B: Station B is located in downtown San Diego and was operated as a steam and generating facility between 1911 and June 1993. Pursuant to a cleanup and abatement order, SDG&E remediated the hydrocarbon contamination discovered as a result of the removal of three 100,000-gallon underground diesel-fuel storage tanks from an adjacent substation.

Encina Power Plant: During 1993 SDG&E discovered the presence of hydrocarbon contamination in subsurface soil at its Encina power plant. The contamination was located near fuel-storage facilities and believed

to be fuel oil originating from a 1950s refueling spill. SDG&E has remediated the contamination to the extent required by the San Diego County Division of Environmental Health Services and received a site-closure letter in October 1996.

OTHER

Research, Development and Demonstration

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

Wages

SDG&E and Local 465, International Brotherhood of Electrical Workers have two labor agreements, a generation contract that runs through February 28, 1998 and a utility contract (transmission and distribution) that runs through August 31, 1998.

Employees of Registrant

As of December 31, 1996 SDG&E had 3,688 employees, compared to 3,880 at December 31, 1995. Enova's other subsidiaries had 49 employees at December 31, 1996 compared to 13 at December 31, 1995.

Foreign Operations

SDG&E foreign operations in 1996 included power purchases and sales with CFE in Mexico; purchases of natural gas from suppliers in Canada; and purchases of uranium from suppliers in Canada and Russia. Enova International is part of a consortium that is developing a natural-gas distribution system in Mexico.

Additional information concerning foreign operations is provided under "Electric Operations" and "Natural Gas Operations" herein, in "Management's Discussion and Analysis of Financial Condition and Results of Operations" beginning on page 20 of the 1996 Annual Report to Shareholders, and in Note 9 of the "Notes to Consolidated Financial Statements" beginning on page 37 of this 1996 Annual Report on Form 10-K.

ITEM 2. PROPERTIES

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

Information concerning SDG&E's properties is provided below. Additional information is provided under "Electric Operations" and "Gas Operations" herein, in "Management's Discussion and Analysis of Financial Condition and Results of Operations" beginning on page 20 of the 1996 Annual Report to Shareholders, and in Notes 2, 5, 9 and 10 of the "Notes to Consolidated Financial Statements" beginning on page 37 of this 1996 Annual Report on Form 10-K.

Electric Properties

SDG&E's generating capacity is described in "Electric Resources", herein.

The 1996 system load factor was 59 percent and ranged from 56 percent to 64 percent for the past five years.

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

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

Natural-Gas Properties

SDG&E's natural-gas facilities are located in San Diego and Riverside counties and consist of the Moreno and Rainbow compressor stations,

various high-pressure transmission pipelines, high-pressure 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.

Other SDG&E Properties

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

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

Non-utility Property

Phase One Development, a subsidiary of Pacific Diversified Capital, holds one property in San Diego County, which will be sold for residential use.

ITEM 3. LEGAL PROCEEDINGS

The Covalt proceeding, described in SDG&E's 1995 Annual Report on Form 10-K, was concluded during the year ended December 31, 1996. Information concerning the conclusion of this proceeding is contained in SDG&E's Quarterly Report on Form 10-Q for the three-month period ended September 30, 1996. Other legal proceedings are discussed below. Management believes that these matters will not have a material adverse effect on Enova's results of operations, financial condition or liquidity.

Public Service Company of New Mexico

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

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

On March 18, 1996 SDG&E filed a second complaint with FERC against PNM, alleging in part that applying the same methodology as SDG&E had used in the 1993 complaint, but based on more recent cost information, results in charges under the 1985 power purchase agreement that are unjust, unreasonable and discriminatory. SDG&E requested that the FERC investigate the rates charged under the 1985 agreement and establish May 17, 1996 as the effective refund date. The relief, if granted, would reduce annual demand charges paid by SDG&E to PNM, in addition to the amount from the first complaint, by up to \$12 million per year. On April 26, 1996 PNM answered the second complaint and moved that it be dismissed for the same reasons stated in its answer to the 1993 complaint.

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.

On March 14, 1994 SDG&E voluntarily dismissed its complaint against Bow Valley without prejudice. On April 24, 1994 the court denied the other defendants' motions to dismiss SDG&E's complaints. These motions were based on jurisdictional grounds. Two of the defendants, Bow Valley and Husky Oil, filed claims on June 12, 1994 and June 29, 1994, respectively, against SDG&E with the Queens Bench in Alberta, Canada, seeking a declaration that they are entitled to damages or, in the alternative, that they may terminate their respective contracts with SDG&E. SDG&E has answered these claims. On March 1, 1995 SDG&E and Husky Oil reached an agreement dismissing all of their respective claims with prejudice.

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

In May 1996 the U.S. District Court granted Canadian Hunter's and Summit's motion to dismiss the case, finding that the Alberta Sales of Goods Act rendered the gas-purchase agreements between SDG&E and the defendants voidable by either party. On June 1, 1996 Canadian Hunter ceased deliveries of gas to SDG&E. On September 11, 1996 SDG&E filed in the Ninth Circuit Federal Court of Appeals an appeal of the U.S. District Court's judgment granting Summit's motion to dismiss the case. A hearing date has not yet been established.

North City West

On June 14, 1993 the Peninsula at Del Mar Highlands Homeowners Association filed a complaint with the Superior Court of San Diego County against the City of San Diego and SDG&E to prevent SDG&E from constructing and operating an electric substation in an area which is known as North City West. In the complaint, the plaintiffs sought to have the city either revoke previously issued permits or reopen the hearing process to address alleged electric and magnetic field 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 California Public Utilities Commission requesting that the CPUC conduct an environmental assessment. This complaint still is pending at the CPUC.

SONGS Personal Injury Litigation

SDG&E holds a 20-percent ownership interest in the San Onofre Nuclear Generation Station. There have been six radiation personal injury cases filed against various parties including Southern California Edison, SDG&E, Combustion Engineering, and the Institute of Nuclear Power Operations in Federal District Court, Southern District of California: James (filed July 12, 1994), McLandrich (February 6, 1995), Metler (July 5, 1995), Knapp (August 31, 1995), Kennedy (November 17, 1995), and Rock (November 28, 1995). The plaintiffs allege their various types of leukemia or other forms of cancers were caused by radiation exposure from "fuel fleas" (radioactive fuel particles).

On October 12, 1995 the jury in the James case determined that there was no scientific link between the plaintiff's leukemia and the amount of radiation he was exposed to while employed at SONGS as an employee of a SONGS contractor. On August 15, 1996 the Ninth Circuit Court of Appeal upheld the decision.

McLandrich, Metler and Knapp are wrongful death cases filed by the heirs of former SONGS employees seeking unspecified amounts in compensatory and punitive damages. Edison has been dismissed from McLandrich and Metler based upon the District Court's ruling that Edison is an employer and workers' compensation is the exclusive remedy for the plaintiffs. McLandrich is on appeal, with SDG&E challenging the Court's

determination that SDG&E is not an employer and thus may not avail itself of the workers' compensation exclusivity rule. Mettler and Knapp are stayed pending the outcome of the McLandrich appeal.

The Kennedy and Rock cases involve family members of current or former SONGS employees who allege that the employees carried home fuel fleas which caused the family members' illnesses. The plaintiffs are alleging unspecified amounts of compensatory and punitive damages. SDG&E has not been named in these actions.

Environmental and Regulatory Issues

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

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

The shareholders of Enova Corporation approved the principal terms of a business combination of Enova Corporation and Pacific Enterprises, Inc. at a Special Meeting of Shareholders of Enova Corporation on March 11, 1997. The number of shares voted or withheld were as follows:

| | |
|-----------|------------|
| In Favor | 88,409,548 |
| Opposed | 1,895,808 |
| Abstained | 1,746,091 |

ITEM 4. EXECUTIVE OFFICERS OF THE REGISTRANT

| Name | Age | Positions* (1992 - Current) |
|---------------------|-----|---|
| Thomas A. Page | 63 | Chairman (Enova) since December 1994. Chairman since January 1983. President and Chief Executive Officer (Enova) from December 1994 through December 1995. Chief Executive Officer from January 1983 through December 1995. President from 1983 through 1991 and from January 1994 through December 1995. |
| Stephen L. Baum | 56 | Vice Chairman since April 1996. President and Chief Executive Officer (Enova) since January 1996. Executive Vice President (Enova) from December 1994 through December 1995. Executive Vice President from January 1993 through December 1995. Senior Vice President - Law and Corporate Affairs and General Counsel from January 1992 through December 1992. |
| Donald E. Felsinger | 49 | President and Chief Executive Officer since January 1996. Executive Vice President (Enova) from December 1994 through December 1995 and since April 1996. Executive Vice President from January 1993 through December 1995. Senior Vice President - Marketing and Resource Development from January 1992 through December 1992. |
| Gary D. Cotton | 56 | Senior Vice President - Customer Operations since January 1993. Senior Vice President - Customer Services from January 1992 through December 1992. |
| Edwin A. Guiles | 47 | Senior Vice President (Enova) from January 1997. Senior Vice President - Energy Supply from January 1993 through January 1997. Vice President - Engineering and Operations from January 1992 through December 1992. |
| David R. Kuzma | 51 | Senior Vice President, Chief Financial Officer and Treasurer (Enova) since November 1995. Senior Vice President, Chief Financial Officer and Treasurer since June 1995. Chief Financial Officer, Senior Vice President and Treasurer of Florida Progress Corporation from 1991 to 1995. |

| | | |
|----------------------|----|--|
| Frank H. Ault | 52 | Vice President and Controller (Enova) since December 1994. Vice President and Controller since January 1993. Controller from May 1986 through December 1992. |
| Kathleen A. Flanagan | 46 | Vice President - Corporate Communications since July 1994. Manager - Corporate Communications at Southern California Edison from 1991 to 1994. |
| Margot A. Kyd | 43 | Acting Vice President - Marketing and Customer Services since January 1996. Vice President - Human Resources (Enova) since January 1996. Vice President - Human Resources since January 1993. Vice President - Administrative Services from 1988 through 1992. |
| William L. Reed | 45 | Vice President - Regulatory Affairs since January 1996. Vice President - Strategic Planning from August 1995 through December 1995. Division Manager - Strategic Plans & Projects from August 1994 through July 1995. Director - Energy Management from April 1993 through July 1994. Director - Regulatory Affairs from 1990 through March 1993. |

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

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Enova Corporation

Common stock of Enova Corporation is traded on the New York and Pacific stock exchanges. At December 31, 1996 there were 79,146 holders of common stock. The quarterly common stock information required by Item 5 is incorporated by reference from page 51 of the 1996 Annual Report to Shareholders.

On March 11, 1997 Enova Corporation's board of directors authorized the repurchase of up to 3 million of its outstanding shares of common stock. Under the authorization, the purchases can be made periodically either in the open market or through private transactions. Enova does not anticipate that this repurchase will affect its ability to engage in future transactions that would be accounted for as poolings of interests, including the pending business combination with Pacific Enterprises.

San Diego Gas & Electric Company

All the common stock of San Diego Gas & Electric Company is owned by Enova Corporation and is not publicly traded. The following table sets forth the cash distributions on common stock paid to Enova Corporation by SDG&E:

| | 1996 |
|----------------|--------------|
| First Quarter | \$45,459,716 |
| Second Quarter | \$45,460,652 |
| Third Quarter | \$45,460,652 |
| Fourth Quarter | \$45,485,207 |

Dividend Restrictions

The CPUC regulates SDG&E's capital structure, limiting the dividends it may pay pay Enova. At December 31, 1996, \$67 million of common equity was available for for future dividends.

ITEM 6. SELECTED FINANCIAL DATA

Enova Corporation

In millions of dollars except per share amounts

| | 1996 | 1995 | 1994 | 1993 | 1992 |
|-----------------------------------|-----------|-----------|-----------|-----------|-----------|
| | ----- | ----- | ----- | ----- | ----- |
| For the years ended December 31 | | | | | |
| Operating revenues | \$1,993.5 | \$1,870.7 | \$1,912.2 | \$1,897.5 | \$1,789.0 |
| Operating income | \$335.0 | \$345.7 | \$317.2 | \$303.9 | \$308.9 |
| Income from continuing operations | \$230.9 | \$225.6 | \$199.3 | \$219.0 | \$211.5 |

| | | | | | |
|--|---------|---------|---------|---------|---------|
| Earnings applicable to common shares | \$230.9 | \$225.8 | \$135.8 | \$210.2 | \$201.1 |
| Earnings per common share from continuing operations | \$1.98 | \$1.94 | \$1.71 | \$1.89 | \$1.86 |
| Earnings per common share | \$1.98 | \$1.94 | \$1.17 | \$1.81 | \$1.77 |
| Dividends declared per common share | \$1.56 | \$1.56 | \$1.52 | \$1.48 | \$1.44 |

At December 31

| | | | | | |
|--|-----------|-----------|-----------|-----------|-----------|
| Total assets | \$4,649.2 | \$4,748.6 | \$4,662.9 | \$4,694.7 | \$4,472.8 |
| Long-term debt and preferred stock subject to mandatory redemption (excludes current portion)* | \$1,504.3 | \$1,490.1 | \$1,479.2 | \$1,523.6 | \$1,647.3 |

*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 beginning on page 27 of this 1996 Annual Report on Form 10-K.

San Diego Gas & Electric Company

In millions of dollars except per share amounts

| | 1996 | 1995 | 1994 | 1993 | 1992 |
|--|-----------|-----------|-----------|-----------|-----------|
| | ----- | ----- | ----- | ----- | ----- |
| For the years ended December 31 | | | | | |
| Operating revenues | \$1,938.9 | \$1,814.1 | \$1,856.5 | \$1,861.3 | \$1,784.1 |
| Operating income | \$308.8 | \$315.0 | \$302.6 | \$288.2 | \$307.4 |
| Income from continuing operations | \$222.8 | \$219.0 | \$206.3 | \$215.9 | \$224.2 |
| Net income (before preferred dividend requirement) | \$222.8 | \$233.5 | \$143.5 | \$218.7 | \$210.7 |
| Preferred dividends | \$6.6 | \$7.7 | \$7.7 | \$8.5 | \$9.6 |
| Earnings applicable to common shares | \$216.2 | \$225.8 | \$135.8 | \$210.2 | \$201.1 |
| At December 31 | | | | | |
| Total assets | \$4,160.5 | \$4,472.6 | \$4,353.3 | \$4,370.0 | \$4,046.1 |
| Long-term debt and preferred stock subject to mandatory redemption (excludes current portion)* | \$1,309.8 | \$1,242.0 | \$1,239.1 | \$1,347.5 | \$1,509.8 |

*Includes long-term debt redeemable within one year.

This summary should be read in conjunction with the San Diego Gas & Electric Company financial statements and notes to financial statements beginning on page 52 of this 1996 Annual Report on Form 10-K.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS -- Enova Corporation/San Diego Gas & Electric Company

The information required by Item 7 is incorporated by reference from pages 20 through 30 of the 1996 Annual Report to Shareholders.

Item 8. Financial Statements and Supplementary Data - Enova Corporation

ENOVA CORPORATION STATEMENTS OF CONSOLIDATED INCOME In thousands except per share amounts

| | | | |
|---------------------------------|-------------|-------------|-------------|
| For the years ended December 31 | 1996 | 1995 | 1994 |
| | ----- | ----- | ----- |
| Operating Revenues | | | |
| Electric | \$1,590,882 | \$1,503,926 | \$1,510,320 |
| Gas | 348,035 | 310,142 | 346,183 |
| Other | 54,557 | 56,608 | 55,742 |
| | ----- | ----- | ----- |
| Total operating revenues | 1,993,474 | 1,870,676 | 1,912,245 |
| | ----- | ----- | ----- |
| Operating Expenses | | | |
| Electric fuel | 134,350 | 100,256 | 143,339 |

| | | | |
|--|------------|------------|------------|
| Purchased power | 310,731 | 341,727 | 342,612 |
| Gas purchased for resale | 152,408 | 113,355 | 146,579 |
| Maintenance | 57,652 | 91,740 | 70,776 |
| Depreciation and decommissioning | 332,490 | 278,239 | 262,238 |
| Property and other taxes | 44,764 | 45,566 | 44,746 |
| General and administrative | 262,058 | 210,207 | 207,908 |
| Other | 212,245 | 209,358 | 233,533 |
| Income taxes | 151,813 | 134,578 | 143,298 |
| Total operating expenses | 1,658,511 | 1,525,026 | 1,595,029 |
| Operating Income | 334,963 | 345,650 | 317,216 |
| Other Income and (Deductions) | | | |
| Allowance for equity funds used during construction | 5,898 | 6,435 | 6,274 |
| Taxes on nonoperating income | 3,339 | (27) | 7,299 |
| Other - net | (3,265) | (5,876) | (19,117) |
| Total other income and (deductions) | 5,972 | 532 | (5,544) |
| Income Before Interest Charges and Preferred Dividends | 340,935 | 346,182 | 311,672 |
| Interest Charges and Preferred Dividends | | | |
| Long-term debt | 89,198 | 95,523 | 92,770 |
| Short-term debt and other | 17,516 | 20,215 | 14,619 |
| Allowance for borrowed funds used during construction | (3,288) | (2,865) | (2,658) |
| Preferred dividend requirements of SDG&E | 6,582 | 7,663 | 7,663 |
| Net interest charges and preferred dividends | 110,008 | 120,536 | 112,394 |
| Income From Continuing Operations | 230,927 | 225,646 | 199,278 |
| Discontinued Operations, Net Of Income Taxes | -- | 148 | (63,464) |
| Earnings Applicable to Common Shares | \$ 230,927 | \$ 225,794 | \$ 135,814 |
| Average Common Shares Outstanding | 116,572 | 116,535 | 116,484 |
| Earnings Per Common Share from Continuing operations | \$ 1.98 | \$ 1.94 | \$ 1.71 |
| Earnings Per Common Share | \$ 1.98 | \$ 1.94 | \$ 1.17 |
| Dividends Declared Per Common Share | \$ 1.56 | \$ 1.56 | \$ 1.52 |

See notes to consolidated financial statements

ENOVA CORPORATION
CONSOLIDATED BALANCE SHEETS
In thousands of dollars

| Balance at December 31 | 1996 | 1995 |
|--|-------------|-------------|
| ASSETS | | |
| Utility plant - at original cost | \$5,704,464 | \$5,533,554 |
| Accumulated depreciation and decommissioning | (2,630,093) | (2,355,213) |
| Utility plant-net | 3,074,371 | 3,178,341 |
| Investments and other property | 650,188 | 532,289 |
| Current assets | | |
| Cash and temporary investments | 173,079 | 96,429 |
| Accounts receivable | 186,529 | 178,155 |
| Notes receivable | 33,564 | 34,498 |
| Inventories | 63,437 | 67,959 |
| Other | 47,094 | 22,946 |
| Total current assets | 503,703 | 399,987 |
| Deferred taxes recoverable in rates | 189,193 | 298,748 |
| Deferred charges and other assets | 231,782 | 339,259 |
| Total | \$4,649,237 | \$4,748,624 |
| CAPITALIZATION AND LIABILITIES | | |
| Capitalization (see Statements of Consolidated | | |

| | | |
|---|-------------|-------------|
| Capital Stock and of Long-Term Debt) | | |
| Common equity | \$1,569,670 | \$1,520,070 |
| Preferred stock not subject to mandatory redemption | 78,475 | 93,475 |
| Preferred stock subject to mandatory redemption | 25,000 | 25,000 |
| Long-term debt | 1,479,338 | 1,350,094 |
| | ----- | ----- |
| Total capitalization | 3,152,483 | 2,988,639 |
| | ----- | ----- |
| Current liabilities | | |
| Long-term debt redeemable within one year | -- | 115,000 |
| Current portion of long-term debt | 69,902 | 36,316 |
| Accounts payable | 175,815 | 145,517 |
| Dividends payable | 47,213 | 47,383 |
| Interest accrued | 21,259 | 22,537 |
| Regulatory balancing accounts overcollected-net | 35,338 | 170,761 |
| Other | 158,317 | 125,438 |
| | ----- | ----- |
| Total current liabilities | 507,844 | 662,952 |
| | ----- | ----- |
| Customer advances for construction | 34,666 | 34,698 |
| Accumulated deferred income taxes-net | 497,400 | 523,335 |
| Accumulated deferred investment tax credits | 64,410 | 104,226 |
| Deferred credits and other liabilities | 392,434 | 434,774 |
| Contingencies and commitments (Notes 9 and 10) | -- | -- |
| | ----- | ----- |
| Total | \$4,649,237 | \$4,748,624 |
| | ===== | ===== |

See notes to consolidated financial statements

ENOVA CORPORATION
STATEMENTS OF CONSOLIDATED CASH FLOWS

In thousands of dollars
For the years ended December 31

| | 1996 | 1995 | 1994 |
|---|------------|------------|------------|
| | ----- | ----- | ----- |
| Cash Flows from Operating Activities | | | |
| Income from continuing operations | \$ 230,927 | \$ 225,646 | \$ 199,278 |
| Adjustments to reconcile income from continuing operations to net cash provided by operating activities | | | |
| Depreciation and decommissioning | 332,490 | 278,239 | 262,238 |
| Amortization of deferred charges and other assets | 6,556 | 12,068 | 12,944 |
| Writedown of real property and other assets | -- | -- | 37,000 |
| Amortization of deferred credits and other liabilities | (38,399) | (32,975) | (30,370) |
| Allowance for equity funds used during construction | (5,898) | (6,435) | (6,274) |
| Deferred income taxes and investment tax credits | (6,875) | (42,237) | (54,650) |
| Other-net | 73,850 | 57,475 | 57,734 |
| Changes in working capital components | | | |
| Accounts and notes receivable | (7,440) | 7,141 | (9,110) |
| Regulatory balancing accounts | (37,313) | 59,030 | 78,552 |
| Inventories | 4,522 | 7,648 | 506 |
| Other current assets | (14,242) | (5,609) | (1,518) |
| Interest and taxes accrued | (28,199) | 23,131 | 17,865 |
| Accounts payable and other current liabilities | 49,427 | 26,983 | (9,271) |
| Cash flows provided by discontinued operations | -- | 6,148 | 3,790 |
| | ----- | ----- | ----- |
| Net cash provided by operating activities | 559,406 | 616,253 | 558,714 |
| | ----- | ----- | ----- |
| Cash Flows from Financing Activities | | | |
| Dividends paid | (181,849) | (180,625) | (175,829) |
| Issuance of long-term debt | 228,946 | 124,641 | -- |
| Repayment of long-term debt | (286,668) | (165,871) | (90,255) |
| Short-term borrowings-net | -- | (89,325) | (27,872) |
| Redemption of preferred stock | (15,155) | (18) | -- |
| Redemption of common stock | (480) | (241) | (558) |
| | ----- | ----- | ----- |
| Net cash used by financing activities | (255,206) | (311,439) | (294,514) |
| | ----- | ----- | ----- |
| Cash Flows from Investing Activities | | | |
| Utility construction expenditures | (208,850) | (220,748) | (263,709) |
| Withdrawals from construction trust funds - net | -- | -- | 58,042 |

| | | | |
|--|------------|-----------|-----------|
| Contributions to decommissioning funds | (22,038) | (22,038) | (22,038) |
| Other-net | 3,338 | 3,874 | (6,463) |
| Discontinued operations | -- | 5,122 | (17,338) |
| | ----- | ----- | ----- |
| Net cash used by investing activities | (227,550) | (233,790) | (251,506) |
| | ----- | ----- | ----- |
| Net increase | 76,650 | 71,024 | 12,694 |
| Cash and temporary investments, beginning of year | 96,429 | 25,405 | 12,711 |
| | ----- | ----- | ----- |
| Cash and temporary investments, end of year | \$ 173,079 | \$ 96,429 | \$ 25,405 |
| | ===== | ===== | ===== |
| Supplemental Schedule of Noncash Investing and Financing Activities | | | |
| Real estate investments | \$ 96,832 | \$ 50,496 | \$ 28,311 |
| Cash paid | -- | (2,550) | (452) |
| | ----- | ----- | ----- |
| Liabilities assumed | \$ 96,832 | \$ 47,946 | \$ 27,859 |
| | ===== | ===== | ===== |

See notes to consolidated financial statements

ENOVA CORPORATION
STATEMENTS OF CONSOLIDATED CHANGES IN
CAPITAL STOCK AND RETAINED EARNINGS

In thousands of dollars
For the years ended December 31, 1994, 1995, 1996

| | Preferred Stock | | | | |
|--|---|---------------------------------------|-----------------|--------------------------------|----------------------|
| | Not Subject to Mandatory Redemption | Subject to Mandatory Redemption | Common Stock | Premium on Capital Stock | Retained Earnings |
| | ----- | ----- | ----- | ----- | ----- |
| Balance, January 1, 1994 | \$ 93,493 | \$ 25,000 | \$ 291,288 | \$ 565,119 | \$ 659,833 |
| Earnings applicable to common shares | | | | | 135,814 |
| Long-term incentive plan activity-net | | | 53 | (611) | |
| Common stock dividends declared | | | | | (177,066) |
| - - - - - | ----- | ----- | ----- | ----- | ----- |
| Balance, December 31, 1994 | 93,493 | 25,000 | 291,341 | 564,508 | 618,581 |
| Earnings applicable to common shares | | | | | 225,794 |
| Long-term incentive plan activity-net | | | 117 | 1,530 | |
| Preferred stock retired (880 shares) | (18) | | | 8 | |
| Common stock dividends declared | | | | | (181,809) |
| - - - - - | ----- | ----- | ----- | ----- | ----- |
| Balance, December 31, 1995 | 93,475 | 25,000 | 291,458 | 566,046 | 662,566 |
| Earnings applicable to common shares | | | | | 230,927 |
| Long-term incentive plan activity-net | | | 113 | 582 | |
| Preferred stock retired (150,000 shares) | (15,000) | | | (155) | |
| Common stock dividends declared | | | | | (181,867) |
| - - - - - | ----- | ----- | ----- | ----- | ----- |
| Balance, December 31, 1996 | \$ 78,475 | \$ 25,000 | \$ 291,571 | \$ 566,473 | \$ 711,626 |
| ===== | ===== | ===== | ===== | ===== | ===== |

See notes to consolidated financial statements.

ENOVA CORPORATION
STATEMENTS OF CONSOLIDATED CAPITAL STOCK
In thousands of dollars except call price

| | | |
|------------------------|-------|-------|
| Balance at December 31 | 1996 | 1995 |
| | ----- | ----- |

COMMON EQUITY

Common stock, without par value, authorized

255,000,000 shares, outstanding: 1996,

116,628,735 shares; 1995, 116,583,358 shares

Premium on capital stock

Retained earnings

\$ 291,571 \$ 291,458

566,473 566,046

711,626 662,566

Total common equity

\$1,569,670 \$1,520,070

PREFERRED STOCK (A)

Not subject to mandatory redemption

Trading Call
Symbol (B) Price

\$20 par value, authorized 1,375,000 shares

5% Series, 375,000 shares outstanding

SDOPrA \$24.00

\$ 7,500 \$ 7,500

4.50% Series, 300,000 shares outstanding

SDOPrB \$21.20

6,000 6,000

4.40% Series, 325,000 shares outstanding

SDOPrC \$21.00

6,500 6,500

4.60% Series, 373,770 shares outstanding

-- \$20.25

7,475 7,475

Without par value (C)

\$7.20 Series, outstanding: 1995, 150,000 shares

SDOPrG --

-- 15,000

\$1.70 Series, 1,400,000 shares outstanding

-- \$25.85 (D)

35,000 35,000

\$1.82 Series, 640,000 shares outstanding

SDOPrH \$26.00 (D)

16,000 16,000

Total not subject to mandatory redemption

\$ 78,475 \$ 93,475

Subject to mandatory redemption

Without par value (C)

\$1.7625 Series, 1,000,000 shares outstanding(E)

-- \$25.00 (D)

\$ 25,000 \$ 25,000

(A) All series of preferred stock have cumulative preferences as to dividends. The \$20 par value preferred stock has two votes per share, whereas the no par value preferred stock is nonvoting. The \$20 par value preferred stock has a liquidation value at par. The no par value preferred stock has a liquidation value of \$25 per share.

(B) All listed shares are traded on the American Stock Exchange.

(C) Authorized 10,000,000 shares total (both subject to and not subject to mandatory redemption).

(D) The \$1.70 and \$1.7625 series are not callable until 2003; the \$1.82 series is not callable until 1998. All other series are currently callable.

(E) The \$1.7625 series has a sinking fund requirement to redeem 50,000 shares per year from 2003 to 2007. The remaining 750,000 shares must be redeemed in 2008.

See notes to consolidated financial statements.

ENOVA CORPORATION

STATEMENTS OF CONSOLIDATED LONG-TERM DEBT

In thousands of dollars

| Balance at December 31 | First Call Date | 1996 | 1995 |
|--|--------------------|-----------|-----------|
| ----- | ----- | ----- | ----- |
| SDG&E | | | |
| First mortgage bonds | | | |
| 5.5% Series I, due March 1, 1997 | 4/15/67 | \$ 25,000 | \$ 25,000 |
| 4.00% Series CC, due May 1, 2008 (A) | 9/1/96 | -- | 53,000 |
| 4.00% Series DD, due December 1, 2008 (A) | 9/1/96 | -- | 27,000 |
| 3.95% Series FF, due December 1, 2007 (A) | 8/1/96 | -- | 35,000 |
| 7.625% Series GG, due July 1, 2021 (B) | 7/1/96 | -- | 44,250 |
| 7.375% Series HH, due December 1, 2021 (B) | 12/1/96 | -- | 81,350 |
| 8.75% Series II, due March 1, 2023 (B) | 9/1/97 | 25,000 | 25,000 |
| 9.625% Series JJ, due April 15, 2020 | 4/15/00 | 100,000 | 100,000 |
| 6.8% Series KK, due June 1, 2015 (A) | Non-callable | 14,400 | 14,400 |
| 8.5% Series LL, due April 1, 2022 | 4/1/02 | 60,000 | 60,000 |
| 7.625% Series MM, due June 15, 2002 | Non-callable | 80,000 | 80,000 |

| | | | |
|---|--------|-------------|-------------|
| 6.1% and 6.4% Series NN, due September 1, 2018 and 2019(B) | 9/1/02 | 118,615 | 118,615 |
| Various % Series OO, due December 1, 2027(C) | (D) | 250,000 | 250,000 |
| 5.9% Series PP, due June 1, 2018(B) | 6/1/03 | 70,795 | 70,795 |
| Variable % Series QQ, due June 1, 2018(B) | (E) | 14,915 | 14,915 |
| 5.85% Series RR, due June 1, 2021(A) | 6/1/03 | 60,000 | 60,000 |
| 5.9% Series SS, due September 1, 2018(B) | 9/1/03 | 92,945 | 92,945 |
| Variable % Series TT, due September 1, 2020(B) | (E) | 57,650 | 57,650 |
| Variable % Series UU, due September 1, 2020(B) | (E) | 16,700 | 16,700 |
| Total | | 986,020 | 1,226,620 |
| Unsecured bonds | | | |
| 5.90% Series CPCFA96A, due June 1, 2014(A) Non-callable | | 129,820 | -- |
| Variable % Series CV96A, due July 1, 2021(C) | (E) | 38,900 | -- |
| Variable % Series CV96B, due December 1, 2022(C) | (E) | 60,000 | -- |
| Total | | 228,720 | -- |
| Capitalized leases | | 105,315 | 105,365 |
| Other long-term debt | | 528 | 15,207 |
| Unamortized discount on long-term debt | | (2,128) | (6,331) |
| Long-term debt redeemable within one year | | -- | (115,000) |
| Current portion of long-term debt | | (33,639) | (8,835) |
| Total SDG&E | | 1,284,816 | 1,217,026 |
| Other Subsidiaries | | | |
| Debt incurred to acquire limited partnerships, various rates, payable annually through 2007 | | 219,051 | 142,198 |
| Other long-term debt | | 11,734 | 18,351 |
| Current portion of long-term debt | | (36,263) | (27,481) |
| Total Other Subsidiaries | | 194,522 | 133,068 |
| Total Enova | | \$1,479,338 | \$1,350,094 |

- (A) Issued to secure SDG&E's obligation under a series of loan agreements with the California Pollution Control Financing Authority under which the Authority loaned proceeds from the sale of \$115 million of variable-rate/demand (series CC, DD and FF) and \$204 million in fixed-rate (series KK, RR and CPCFA96A) tax-exempt pollution control revenue bonds to the company to finance certain qualified facilities.
- (B) Issued to secure SDG&E's obligation under a series of loan agreements with the City of San Diego under which the city loaned the proceeds from the sale of industrial development revenue bonds to the company to finance certain qualified facilities. All series are tax-exempt except QQ and UU.
- (C) Issued to secure SDG&E's obligation under a series of loan agreements with the City of Chula Vista under which the city loaned the proceeds from the sale of \$349 million in tax-exempt industrial development revenue bonds to the company to finance certain qualified facilities.
- (D) The first call date for \$75 million is December 1, 2002. The remaining \$175 million of the bonds is currently variable rate and is callable at various dates within one year. Of this, \$45 million is subject to a floating-to-fixed rate swap, which expires December 15, 2002 (See Note 8).
- (E) Callable at various dates within one year.

See notes to consolidated financial statements.

ENOVA CORPORATION
STATEMENTS OF CONSOLIDATED FINANCIAL
INFORMATION BY SEGMENTS OF BUSINESS

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

----- 1996 ----- 1995 ----- 1994 -----

| | | | |
|----------------------------------|--------------|--------------|--------------|
| Operating Revenues (A) | \$ 1,993,474 | \$ 1,870,676 | \$ 1,912,245 |
| | ===== | ===== | ===== |
| Operating Income | | | |
| Electric operations | \$ 269,038 | \$ 263,346 | \$ 252,268 |
| Gas operations | 39,724 | 51,654 | 50,375 |
| Other | 26,201 | 30,650 | 14,573 |
| | ----- | ----- | ----- |
| Total | \$ 334,963 | \$ 345,650 | \$ 317,216 |
| | ===== | ===== | ===== |
| Depreciation and Decommissioning | | | |
| Electric operations | \$ 279,251 | \$ 227,616 | \$ 220,811 |
| Gas operations | 35,027 | 33,225 | 31,009 |
| Other | 18,212 | 17,398 | 10,418 |
| | ----- | ----- | ----- |
| Total | \$ 332,490 | \$ 278,239 | \$ 262,238 |
| | ===== | ===== | ===== |
| Utility Plant Additions (B) | | | |
| Electric operations | \$ 167,166 | \$ 171,151 | \$ 203,887 |
| Gas operations | 41,684 | 49,597 | 59,822 |
| | ----- | ----- | ----- |
| Total | \$ 208,850 | \$ 220,748 | \$ 263,709 |
| | ===== | ===== | ===== |
| Identifiable Assets | | | |
| Utility plant-net | | | |
| Electric operations | \$ 2,625,620 | \$ 2,737,201 | \$ 2,790,167 |
| Gas operations | 448,751 | 441,140 | 423,468 |
| | ----- | ----- | ----- |
| Total | 3,074,371 | 3,178,341 | 3,213,635 |
| | ----- | ----- | ----- |
| Inventories | | | |
| Electric operations | 47,445 | 53,828 | 56,209 |
| Gas operations | 15,633 | 14,131 | 19,398 |
| Other | 359 | -- | -- |
| | ----- | ----- | ----- |
| Total | 63,437 | 67,959 | 75,607 |
| | ----- | ----- | ----- |
| Other identifiable assets | | | |
| Electric operations | 697,145 | 802,172 | 732,941 |
| Gas operations | 161,252 | 148,714 | 149,199 |
| Other | 488,102 | 434,940 | 373,076 |
| | ----- | ----- | ----- |
| Total | 1,346,499 | 1,385,826 | 1,255,216 |
| | ----- | ----- | ----- |
| Other Utility Assets | 164,930 | 116,498 | 118,521 |
| | ----- | ----- | ----- |
| Total Assets | \$ 4,649,237 | \$ 4,748,624 | \$ 4,662,979 |
| | ===== | ===== | ===== |

(A) The detail to operating revenues is provided in the Statements of Consolidated Income. The gas operating revenues shown therein include \$9 million in 1996, \$9 million in 1995 and \$18 million in 1994, representing the gross margin on sales to the electric segment. These margins arose from interdepartmental transfers of \$111 million in 1996, \$85 million in 1995, and \$119 million in 1994, based on transfer pricing approved by the California Public Utilities Commission in tariff rates.

(B) 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.

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

Quarter ended March 31 June 30 September 30 December 31

| | | | | |
|--------------------------------------|------------|------------|------------|------------|
| 1996 | | | | |
| Operating revenues | \$ 465,897 | \$ 470,967 | \$ 507,593 | \$ 549,017 |
| Operating expenses | 372,905 | 396,442 | 420,307 | 468,857 |
| | ----- | ----- | ----- | ----- |
| Operating income | 92,992 | 74,525 | 87,286 | 80,160 |
| Other income | 1,168 | 11 | 4,373 | 420 |
| Net interest charges | 28,108 | 27,186 | 28,914 | 25,800 |
| | ----- | ----- | ----- | ----- |
| Earnings applicable to common shares | \$ 66,052 | \$ 47,350 | \$ 62,745 | \$ 54,780 |
| Average common shares outstanding | 116,570 | 116,565 | 116,566 | 116,587 |
| Earnings per common share | \$ 0.57 | \$ 0.41 | \$ 0.54 | \$ 0.47 |

| | | | | |
|---|------------|------------|------------|------------|
| 1995 | | | | |
| Operating revenues | \$ 477,955 | \$ 445,239 | \$ 478,689 | \$ 468,793 |
| Operating expenses | 384,300 | 365,751 | 388,387 | 386,588 |
| | ----- | ----- | ----- | ----- |
| Operating income | 93,655 | 79,488 | 90,302 | 82,205 |
| Other income and (deductions) | 1,744 | (499) | (1,102) | 389 |
| Net interest charges | 29,975 | 31,010 | 29,296 | 30,255 |
| | ----- | ----- | ----- | ----- |
| Income from continuing operations | 65,424 | 47,979 | 59,904 | 52,339 |
| Discontinued operations, net of income taxes | (5,490) | (678) | -- | 6,316 |
| | ----- | ----- | ----- | ----- |
| Earnings applicable to common shares | \$ 59,934 | \$ 47,301 | \$ 59,904 | \$ 58,655 |
| Average common shares outstanding | 116,533 | 116,534 | 116,538 | 116,545 |
| Earnings per common share from continuing operations | \$ 0.56 | \$ 0.41 | \$ 0.51 | \$ 0.45 |
| Earnings per common share | \$ 0.51 | \$ 0.41 | \$ 0.51 | \$ 0.50 |

These amounts are unaudited, but in the opinion of Enova reflect all adjustments necessary for a fair presentation.

ENOVA CORPORATION
Quarterly Common Stock Data (Unaudited)

| | 1996 | | | | 1995 | | | |
|--------------------|------------------|-------------------|------------------|-------------------|------------------|-------------------|------------------|-------------------|
| | First Quarter | Second Quarter | Third Quarter | Fourth Quarter | First Quarter | Second Quarter | Third Quarter | Fourth Quarter |
| Market price | | | | | | | | |
| High | 24 3/4 | 23 1/8 | 23 | 23 | 21 5/8 | 22 7/8 | 23 1/4 | 23 7/8 |
| Low | 21 5/8 | 20 3/8 | 20 1/2 | 21 5/8 | 19 1/8 | 20 1/8 | 20 3/4 | 21 7/8 |
| Dividends declared | \$0.39 | \$0.39 | \$0.39 | \$0.39 | \$0.39 | \$0.39 | \$0.39 | \$0.39 |

INDEPENDENT AUDITORS' REPORT

To the Shareholders and Board of Directors of Enova Corporation:

We have audited the accompanying consolidated balance sheets and the statements of consolidated capital stock and of consolidated long-term debt of Enova Corporation and subsidiaries as of December 31, 1996 and 1995, and the related statements of consolidated income, consolidated changes in capital stock and retained earnings, consolidated cash flows, and consolidated financial information by segments of business for each of the three years in the period ended December 31, 1996. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements.

An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Enova Corporation and subsidiaries as of December 31, 1996 and 1995, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1996, in conformity with generally accepted accounting principles.

/s/ Deloitte & Touche LLP

DELOITTE & TOUCHE LLP
San Diego, California
March 11, 1997

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

ENOVA CORPORATION

NOTE 1: BUSINESS COMBINATION

On October 14, 1996, Enova Corporation and Pacific Enterprises, Inc., parent company of Southern California Gas Company, announced an agreement to combine the two companies. As a result of the combination, which was unanimously approved by the boards of directors of both companies, (i) each outstanding share of common stock of Enova will be converted into one share of common stock of the new company, (ii) each outstanding share of common stock of Pacific Enterprises will be converted into 1.5038 shares of common stock of the new company and (iii) the preferred stock and preference stock of SDG&E, Pacific Enterprises and Southern California Gas will remain outstanding. On March 11, 1997, the combination was approved by the shareholders of both companies.

Consummation of the combination is conditional upon the approvals of the California Public Utilities Commission and various other regulatory bodies, with completion expected by the end of 1997. The combination will be a tax-free transaction and is expected to be accounted for as a pooling of interests.

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations On January 1, 1996, Enova Corporation (referred to herein as Enova, which includes the parent and its wholly owned subsidiaries) became the parent of SDG&E and its unregulated subsidiaries (referred to herein as non-utility subsidiaries). SDG&E's outstanding common stock was converted on a share-for-share basis into Enova common stock. SDG&E's debt securities, preferred and preference stock were unaffected and remain with SDG&E.

The consolidated financial statements include Enova and its wholly owned subsidiaries. The subsidiaries include SDG&E, Califia, Enova Financial, Enova Energy, Enova Technologies, Enova International and Pacific Diversified Capital. In 1996, non-utility subsidiaries contributed 8 percent to operating income (9 percent in 1995 and 8 percent in 1994). In June 1995, SDG&E sold its interest in Wahlco Environmental Systems. Prior periods have been restated to account for the net results of Wahlco as discontinued operations in accordance with Accounting Principles Board Opinion No. 30 "Reporting the Effects of a Disposal of a Segment of Business." Additional information concerning Wahlco is described in Note 3.

Utility Plant and Depreciation Utility plant represents the buildings, equipment and other facilities used by SDG&E to provide electric and gas service. The cost of utility plant includes labor, material, contract services and related items, and an allowance for funds used during construction. The cost cost of retired depreciable utility plant, plus removal costs minus salvage value is charged to accumulated depreciation. Information regarding industry restructuring and its effect on utility plant is included in Note 10. Utility plant in service by major functional categories at December 31, 1996, are: electric generation \$1.8 billion, electric distribution

\$2.2 billion, electric transmission \$0.7 billion, other electric \$0.2 billion and gas operations \$0.8 billion. The corresponding amounts at December 31, 1995, were essentially the same as 1996. Accumulated depreciation and decommissioning of electric and gas utility plant in service at December 31, 1996, are \$2.2 billion and \$0.4 billion, respectively and at December 31, 1995, were \$2.1 billion and \$0.3 billion, respectively.

Depreciation expense is based on the straight-line method, over the useful lives of the assets or a shorter period prescribed by the CPUC (for SONGS, see below). The provisions for depreciation as a percentage of average depreciable utility plant (by major functional categories) in 1996 and (in 1995, 1994, respectively) are: electric generation 7.57 (4.04, 4.04), electric distribution 4.38 (4.36, 4.35), electric transmission 3.25 (3.21, 3.24), other electric 5.95 (5.89, 5.88) and gas operations 4.07 (4.06, 4.11). The increase for electric generation in 1996 reflects the accelerated recovery of San Onofre Nuclear Generating Station Units 2 and 3 approved by the California Public Utilities Commission in April 1996.

Inventories Included in inventories at December 31, 1996, are SDG&E's \$40 million of materials and supplies (\$42 million in 1995), and \$23 million of fuel oil and natural gas (\$26 million in 1995). Materials and supplies are valued at average cost; fuel oil and natural gas are valued by the last-in first-out (LIFO) method.

Other Current Assets Included in other current assets at December 31, 1996, is \$33 million for SDG&E's deferred income taxes.

Short-term Borrowings There were no short-term borrowings at December 31, 1996 and 1995. At December 31, 1996, SDG&E had \$50 million of bank lines available to support commercial paper. Commitment fees are paid on the unused portion of the lines and there are no requirements for compensating balances.

Other Current Liabilities Included in other current liabilities at December 31, 1996, is Califia's \$33 million current portion of deferred lease revenue (\$34 million in 1995) and \$33 million for SDG&E's accrued vacation and sick leave (\$26 million in 1995). The \$21 million noncurrent portion (\$54 million in 1995) of Califia's deferred lease revenue is included in "Deferred Credits and Other Charges." These deferred revenues are amortized over the lease terms.

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. AFUDC also increases income, as an offset to interest charges shown in the Statements of Consolidated Income, although it is not a current source of cash. The average rate used to compute AFUDC was 9.36 percent in 1996, 9.74 percent in 1995 and 8.80 percent in 1994.

Effects of Regulation SDG&E's accounting policies conform with generally accepted accounting principles for regulated enterprises and reflect the policies of the California Public Utilities Commission and the Federal Energy Regulatory Commission. SDG&E prepares its financial statements in accordance with the provisions of Statement of Financial Accounting Standards No. 71, "Accounting For the Effects of Certain Types of Regulation," under which a regulated utility may record a regulatory asset if it is probable that, through the rate-making process, the utility will recover that asset from customers. Regulatory liabilities represent future reductions in revenues for amounts due to customers. To the extent that a portion of SDG&E's operations is no longer subject to SFAS No. 71, or recovery is no longer probable as a result of changes in regulation and/or SDG&E's competitive position, the related regulatory assets and liabilities would be written off. In addition, a new accounting standard, effective for 1996 financial statements, SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," affects utility plant and regulatory assets such that a loss must be recognized whenever a regulator excludes all or part of an asset's cost from rate base. As discussed in Note 10, California recently enacted a law restructuring the electric-utility industry. The law adopts the December 1995 CPUC policy decision, and allows California utilities to recover existing utility plant and regulatory assets over a transition period that ends in 2001. SDG&E continues to evaluate the applicability of SFAS No. 71 and SFAS No. 121 as industry restructuring progresses, taking into consideration concerns from the Securities and Exchange Commission that California's investor-owned utilities may not meet the criteria of SFAS No. 71 with respect to their generation operations. Discussions with the SEC are ongoing. However, if SDG&E discontinues the application of SFAS No. 71 to its generation operations, the write-off of its generation-related

regulatory assets and liabilities would not have a material impact on its financial condition or results of operations. Additional information concerning regulatory assets and liabilities is described below in "Revenues and Regulatory Balancing Accounts" and in Note 10.

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 previously were eliminated by balancing accounts authorized by the California Public Utilities Commission. This is still the case for natural gas. However, as a result of California's electric restructuring law, the \$98 million of overcollections recorded in the Energy Cost Adjustment Clause and Electric Revenue Adjustment Mechanism balancing accounts as of December 31, 1996 were credited to deferred charges and other assets; and the elimination of ECAC and ERAM will result in quarter-to-quarter earnings volatility in 1997 and future years. Additional information on industry restructuring is included in Note 10.

Deferred Charges and Other Assets Deferred charges include SDG&E's unrecovered premium on early retirement of debt and other regulatory-related expenditures that SDG&E expects to recover in future rates. These items are amortized as recovered in rates. Deferred charges at December 31, 1996, also include the net regulatory asset associated with SDG&E's generation operations, including the effect of the transfer of the balancing accounts discussed in the preceding paragraph. This classification arises from recent electric industry restructuring, which is discussed in Note 10.

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

Use of Estimates in the Preparation of Financial Statements The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Statements of Consolidated Cash Flows Temporary investments are highly liquid investments with original maturities of three months or less.

Basis of Presentation Certain prior-year amounts have been reclassified to conform to the current year's format.

NOTE 3: DISCONTINUED OPERATIONS

Enova's financial statements for periods prior to 1996 reflect the June 1995 sale of Wahlco Environmental Systems, Inc. as discontinued operations, in accordance with Accounting Principles Board Opinion No. 30, "Reporting the Effects of a Disposal of a Segment of Business." Discontinued operations are summarized in the table below:

| (Millions of dollars) | 1995 | 1994 |
|--|-------|-------|
| Revenues | \$ 24 | \$ 70 |
| Loss from operations before income taxes | - | (70) |
| Loss on disposal before income taxes | (12) | - |
| Income tax benefits | 12 | 7 |

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

NOTE 4: LONG-TERM DEBT

Amounts and due dates of long-term debt are shown on the Statements of

Consolidated Long-Term Debt. Excluding capital leases, which are described in Note 9, maturities of long-term debt for SDG&E are \$25 million due in 1997 and less than \$1 million for each of the next four years. Total maturities of long-term debt for non-utility subsidiaries are \$36 million for 1997, \$42 million for 1998, \$38 million for 1999, \$27 million for 2000 and \$23 million for 2001. SDG&E has CPUC authorization to issue an additional \$210 million in long-term debt.

First Mortgage Bonds First mortgage bonds are secured by a lien on substantially all of SDG&E's utility plant. Additional first mortgage bonds may be issued upon compliance with the provisions of the bond indenture, which provides for, among other things, the issuance of an additional \$1.2 billion of first mortgage bonds at December 31, 1996. Certain of the first mortgage bonds may be called at SDG&E's option.

First mortgage bonds totaling \$264 million have variable-interest-rate provisions. During 1996, SDG&E retired \$241 million of first mortgage bonds prior to scheduled maturity.

Unsecured Bonds Unsecured bonds totaling \$229 million were issued by SDG&E during 1996. Of these bonds, \$99 million have variable-interest-rate provisions.

Other At December 31, 1996 SDG&E had \$330 million of bank lines, providing a committed source of long-term borrowings, with no debt outstanding. Bank lines, unless renewed by SDG&E, expire in 1997 (\$50 million) and in 2000 (\$280 million). Commitment fees are paid on the unused portion of the lines and there are no requirements for compensating balances.

Non-utility loans of \$231 million and \$161 million at December 31, 1996, and 1995, respectively, are secured by equipment and real estate.

SDG&E's interest payments, including those applicable to short-term borrowings, amounted to \$93 million in 1996, \$100 million in 1995 and \$91 million in 1994. Non-utility interest payments amounted to \$12 million in 1996, \$14 million in 1995 and \$11 million in 1994.

SDG&E periodically enters into interest-rate swap-and-cap agreements to moderate its exposure to interest-rate changes and to lower its overall cost of borrowings. At December 31, 1996, SDG&E had such an agreement, maturing in 2002, with underlying debt of \$45 million. See additional information in Note 8.

Although holders of variable-rate bonds may elect to redeem them prior to scheduled maturity, for purposes of determining the maturities listed above, it is assumed the bonds will be held to maturity.

NOTE 5: FACILITIES UNDER JOINT OWNERSHIP

SONGS and the Southwest Powerlink transmission line are owned jointly with other utilities. SDG&E's interests at December 31, 1996, were:

In millions of dollars

| Project | SONGS | Southwest Powerlink |
|-------------------------------|----------|------------------------|
| Percentage ownership | 20 | 89 |
| Utility plant in service | \$ 1,137 | \$ 217 |
| Accumulated depreciation | \$ 487 | \$ 89 |
| Construction work in progress | \$ 31 | \$ - |

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

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

SONGS Decommissioning Objectives, work scope and procedures for the future dismantling and decontamination of the SONGS units must meet the requirements of the Nuclear Regulatory Commission, the Environmental Protection Agency, the California Public Utilities Code and other regulatory bodies.

SDG&E's share of decommissioning costs for the SONGS units is estimated to be \$354 million in current dollars and is based on studies performed and updated periodically by outside consultants. The most recent study was performed in

1993. Although electric industry restructuring legislation requires that stranded costs, which includes SONGS plant costs, be recovered by 2001, the recovery of decommissioning costs is allowed through 2013, the estimated last year of service.

The amount accrued each year is based on the amount allowed by regulators and is currently being collected in rates. This amount is considered sufficient to cover SDG&E's share of future decommissioning costs. The depreciation and decommissioning expense reflected on the Statements of Consolidated Income includes \$22 million of decommissioning expense for each of the years 1996, 1995 and 1994.

The amounts collected in rates are invested in externally managed trust funds. In accordance with SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities," the securities held by the trust are considered available for sale and are adjusted to market value (\$328 million at December 31, 1996, and \$270 million at December 31, 1995) and included in "Investments and Other Property" on the Consolidated Balance Sheets. The fair values reflect unrealized gains of \$50 million and \$25 million at December 31, 1996 and 1995, respectively. The corresponding accumulated accrual is included on the Consolidated Balance Sheets in "Accumulated Depreciation and Decommissioning" for SONGS Units 2 and 3 and in "Deferred Credits and Other Liabilities" for Unit 1. Accumulated depreciation and decommissioning of utility plant at December 31, 1995, has been restated to reflect the reclassification as deferred credits of the \$78 million of accumulated decommissioning costs associated with Unit 1, which was permanently shut down in 1992.

The Financial Accounting Standards Board is currently reviewing accounting for liabilities related to closure and removal of long-lived assets, such as nuclear power plants, including the recognition, measurement and classification of such costs. The Board could require, among other things, that SDG&E's future balance sheets include a liability for the estimated decommissioning costs, and a related increase in the cost of utility plant.

Additional information regarding SONGS is included in Notes 9 and 10.

NOTE 6: EMPLOYEE BENEFIT PLANS

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

| In thousands of dollars | 1996 | 1995 | 1994 |
|---|------------|-----------|----------|
| Cost related to current service | \$18,547 | \$ 14,598 | \$18,733 |
| Interest on projected benefit obligation | 37,253 | 30,760 | 33,254 |
| Return on plan assets | (72,829) | (132,674) | (1,319) |
| Net amortization and deferral | 25,315 | 93,708 | (34,253) |
| Cost pursuant to general accounting standards | 8,286 | 6,392 | 16,415 |
| Regulatory adjustment | (15,286) | 608 | (16,415) |
| Net cost (benefit) | \$ (7,000) | \$ 7,000 | \$ - |

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

| In thousands of dollars | 1996 | 1995 |
|---|-----------|-----------|
| Accumulated benefit obligation | | |
| Vested | \$435,029 | \$357,089 |
| Non-vested | 12,321 | 8,880 |
| Total | \$447,350 | \$365,969 |
| Plan assets at fair value | \$598,610 | \$542,336 |
| Projected benefit obligation | 539,391 | 481,450 |
| Plan assets less projected benefit obligation | 59,219 | 60,886 |
| Unrecognized effect of accounting change | (950) | (1,139) |

| | | |
|---------------------------------|-------------|-------------|
| Unrecognized prior service cost | 31,315 | 11,869 |
| Unrecognized actuarial gains | (157,082) | (130,828) |
| ----- | | |
| Net liability | \$ (67,498) | \$ (59,212) |
| ===== | | |

The projected benefit obligation assumes a 7.50 percent actuarial discount rate in 1996 (7.25 percent in 1995) and a 5.0 percent average annual compensation increase. The expected long-term rate of return on plan assets is 8.5 percent. The increase in the total accumulated benefit obligation and projected benefit obligation at December 31, 1996, is due primarily to a change in retirement age probabilities and a plan amendment to include incentive compensation in salary assumptions used to calculate the pension benefit. The effects of these changes were partially offset by changes in assumptions regarding employee turnover and the increase in the actuarial discount rate. SDG&E's cost for a supplemental retirement plan for a limited number of key employees was approximately \$3 million in 1996, \$3 million in 1995 and \$2 million in 1994.

Post-Retirement Health Benefits SDG&E provides certain health and life insurance benefits to retired employees. These benefits are accrued during the employee's years of service, up to the year of benefit eligibility. SDG&E is recovering the cost of these benefits based upon actuarial calculations and funding limitations. The costs for the benefits were \$5 million in 1996, \$5 million in 1995 and \$6 million in 1994. These costs include \$2 million of amortization per year for the unamortized transition obligation (arising from the initial implementation of this accounting policy) of approximately \$33 million which is being amortized through 2013.

Savings Plan Essentially all employees are eligible to participate in SDG&E's savings plan. Eligible employees may make a contribution of 1 percent to 15 percent of their base pay to the savings plan for investment in mutual funds or in Enova common stock. SDG&E contributes amounts equal to up to 3 percent of participants' compensation for investment in Enova common stock. SDG&E's annual compensation expense for this plan was \$2 million in each of the last three years.

Stock-Based Compensation Enova has a long-term incentive stock compensation plan that provides for aggregate awards of up to 2,700,000 shares of Enova common stock. The plan terminates in April 2005. In each of the last 10 years, 45,000 shares to 65,000 shares of stock were issued to officers and key employees, subject to forfeiture over four years if certain corporate goals are not met. The long-term incentive stock compensation plan also provides for the granting of stock options. In October 1996, Enova granted options for 272,540 shares of common stock. The options begin vesting one year after grant and continue to vest 25 percent each year over a four-year period, provided the participant remains an employee. The options are exercisable at \$22.375 per share. The options, which were all outstanding at December 31, 1996, expire 10 years after the grant date of October 21, 1996. As permitted by SFAS No. 123, "Accounting for Stock-Based Compensation," SDG&E has adopted the disclosure-only requirements of SFAS No. 123 and continues to account for stock-based compensation by applying the provisions of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees." The differences between compensation cost included in net income and the related cost measured by the fair-value-based method defined in SFAS No. 123 are immaterial. SDG&E's compensation expense for this plan was approximately \$1 million in 1996, \$2 million in 1995 and \$0.2 million in 1994.

NOTE 7: INCOME TAXES

Income tax payments totaled \$176 million in 1996, \$148 million in 1995 and \$167 million in 1994.

The components of accumulated deferred income taxes at December 31 are as follows:

| | | |
|---|-----------|-----------|
| In thousands of dollars | 1996 | 1995 |
| ----- | | |
| Deferred tax liabilities | | |
| Differences in financial and tax bases of utility plant | \$628,617 | \$583,664 |
| Loss on reacquired debt | 26,399 | 26,829 |
| Other | 80,033 | 69,864 |
| ----- | | |
| Total deferred tax liabilities | 735,049 | 680,357 |
| ----- | | |

| | | |
|-------------------------------------|-----------|-----------|
| Deferred tax assets | | |
| Unamortized investment tax credits | 66,729 | 71,451 |
| Equipment leasing activities | 22,333 | 36,493 |
| Regulatory balancing accounts | 37,010 | 41,368 |
| Unbilled revenue | 21,923 | 21,241 |
| Other | 123,158 | 83,399 |
| ----- | | |
| Total deferred tax assets | 271,153 | 253,952 |
| ----- | | |
| Net deferred income tax liability | 463,896 | 426,405 |
| Current portion (net asset) | 33,504 | 96,930 |
| ----- | | |
| Non-current portion (net liability) | \$497,400 | \$523,335 |
| ===== | | |

The components of income tax expense are as follows:

| | | | |
|---------------------------------------|-----------|-----------|-----------|
| In thousands of dollars | 1996 | 1995 | 1994 |
| ----- | | | |
| Current | | | |
| Federal | \$115,410 | \$134,212 | \$149,361 |
| State | 39,939 | 42,630 | 41,288 |
| ----- | | | |
| Total current taxes | 155,349 | 176,842 | 190,649 |
| ----- | | | |
| Deferred | | | |
| Federal | 434 | (23,914) | (37,605) |
| State | (1,518) | (13,464) | (12,897) |
| ----- | | | |
| Total deferred taxes | (1,084) | (37,378) | (50,502) |
| ----- | | | |
| Deferred investment tax credits - net | (5,791) | (4,859) | (4,148) |
| ----- | | | |
| Total income tax expense | \$148,474 | \$134,605 | \$135,999 |
| ===== | | | |

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

The reconciliation of the statutory federal income tax rate to the effective income tax rate is as follows:

| | | | |
|--|--------|--------|--------|
| | 1996 | 1995 | 1994 |
| ----- | | | |
| Statutory federal income tax rate | 35.0 % | 35.0 % | 35.0 % |
| Depreciation | 6.3 | 5.5 | 6.8 |
| State income taxes - net of federal income tax benefit | 6.9 | 5.5 | 5.5 |
| Tax credits | (9.5) | (7.6) | (5.5) |
| Equipment leasing activities | (2.8) | (2.8) | (3.3) |
| Repair allowance | (1.2) | (3.0) | (2.8) |
| Other - net | 4.4 | 4.8 | 4.9 |
| ----- | | | |
| Effective income tax rate | 39.1 % | 37.4 % | 40.6 % |
| ===== | | | |

NOTE 8: FINANCIAL INSTRUMENTS

Fair Value The fair values of financial instruments (cash, temporary investments, funds held in trust, notes receivable, investments in limited partnerships, dividends payable, short- and long-term debt, deposits from customers, and preferred stock subject to mandatory redemption) are not materially different from the carrying amounts.

Off-Balance-Sheet Financial Instruments Enova's policy is to use derivative financial instruments to reduce its exposure to fluctuations in interest rates, foreign-currency exchange rates and natural gas prices. Enova does not use derivatives for trading or speculative purposes. These financial instruments expose Enova to market and credit risks which may at times be concentrated with certain counterparties, although counterparty non-performance is not anticipated.

Interest-Rate-Swap Agreements SDG&E periodically enters into interest-rate-swap agreements to moderate its exposure to interest-rate changes and to lower its overall cost of borrowing. These swap agreements generally remain off the

balance sheet as they involve the exchange of fixed- and variable-rate interest payments without the exchange of the underlying principal amounts. The related gains or losses are reflected in the income statement as part of interest expense. At December 31, 1996, SDG&E had one interest-rate swap agreement: a floating-to-fixed-rate swap associated with \$45 million of variable-rate bonds maturing in 2002. SDG&E expects to hold this derivative financial instrument to its maturity. This swap agreement has effectively fixed the interest rate on the underlying variable-rate debt at 5.4 percent. SDG&E would be exposed to interest rate fluctuations on the underlying debt should the counterparty to the agreement not perform. Such non-performance is not anticipated. This agreement, if terminated, would result in an obligation of \$2 million at December 31, 1996 (\$3 million at December 31, 1995).

Foreign Currency Forward Exchange Contracts SDG&E's pension fund periodically uses foreign currency forward contracts to reduce its exposure to exchange-rate fluctuations associated with certain investments in foreign equity securities. These contracts generally have maturities ranging from three to six months. At December 31, 1996, there were no forward contracts outstanding.

Energy Derivatives On a limited basis Enova enters into forward contracts, swaps and other contracts to hedge price volatility of its natural gas requirements. Enova's accounting policy is to adjust the book value of these derivatives to market each month. No such contracts were open and outstanding at December 31, 1996.

NOTE 9: CONTINGENCIES AND COMMITMENTS

Purchased Power Contracts SDG&E buys electric power under several short-term and long-term contracts. Purchases are for 2 percent to 7 percent of plant output under contracts with other utilities and up to 100 percent of plant output under contracts with non-utility suppliers. No one supplier provides more than 3 percent of SDG&E's total system requirements. The contracts expire on various dates between 1997 and 2025.

At December 31, 1996, the estimated future minimum payments under the contracts were:

In millions of dollars

| | |
|------------------------|---------|
| 1997 | \$ 260 |
| 1998 | 193 |
| 1999 | 190 |
| 2000 | 157 |
| 2001 | 138 |
| Thereafter | 2,403 |
| Total minimum payments | \$3,341 |

These payments represent capacity charges and minimum energy purchases. SDG&E is required to pay additional amounts for actual purchases of energy under the contracts. Total payments, including energy payments, under the contracts were \$296 million in 1996, \$329 million in 1995 and \$325 million in 1994.

Natural Gas Contracts SDG&E has a contract with Southern California Gas Company that provides SDG&E with intrastate transportation capacity on SoCal's gas pipelines through December 1997. SDG&E's long-term contracts with interstate pipelines for transportation capacity expire on various dates between 2007 and 2023. SDG&E's contract with SoCal for 8 billion cubic feet of natural gas storage capacity expires in March 1998. SDG&E has long-term gas-supply contracts (included in the table below) with four Canadian suppliers that expire between 2001 and 2004. SDG&E has been involved in negotiations and litigation with the suppliers concerning the contracts' terms and prices. SDG&E has settled with one supplier, with gas being delivered under the terms of the settlement agreement. The remaining suppliers have ceased deliveries pending legal resolution.

At December 31, 1996, the future minimum payments under natural gas contracts were:

| In millions of dollars | Transportation and Storage | Natural Gas |
|------------------------|-------------------------------|----------------|
| 1997 | \$ 67 | \$ 21 |
| 1998 | 15 | 20 |

| | | |
|------------------------|-------|-------|
| 1999 | 14 | 17 |
| 2000 | 14 | 19 |
| 2001 | 14 | 21 |
| Thereafter | 247 | 48 |
| ----- | | |
| Total minimum payments | \$371 | \$146 |
| ===== | | |

Total payments under the contracts were \$100 million in 1996, \$95 million in 1995 and \$125 million in 1994.

Leases SDG&E has nuclear fuel, office buildings, a generating facility and other properties that are financed by long-term capital leases. Utility plant included \$200 million at December 31, 1996, and \$189 million at December 31, 1995, related to these leases. The associated accumulated amortization was \$95 million and \$86 million, respectively. SDG&E and non-utility subsidiaries also lease office facilities, computer equipment and vehicles under operating lease. Certain leases on office facilities contain escalation clauses requiring annual increases in rent ranging from 2 percent to 7 percent.

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

| In millions of dollars | Operating Leases | | Capitalized Leases |
|--------------------------------|---------------------|-------|-----------------------|
| | Enova | SDG&E | SDG&E |
| ----- | | | |
| 1997 | \$ 50 | \$ 13 | \$ 26 |
| 1998 | 35 | 13 | 26 |
| 1999 | 12 | 12 | 22 |
| 2000 | 8 | 8 | 12 |
| 2001 | 7 | 7 | 12 |
| Thereafter | 40 | 40 | 33 |
| ----- | | | |
| Total future rental commitment | \$152 | \$93 | 131 |
| ----- | | | |
| Imputed interest (6% to 9%) | | | (26) |
| ----- | | | |
| Net commitment | | | \$105 |
| ===== | | | |

Enova's rental payments totaled \$88 million in 1996, \$85 million in 1995 and \$91 million in 1994. Included in these amounts are SDG&E payments of \$46 million, \$44 million and \$49 million, respectively.

Environmental Issues SDG&E's operations are conducted in accordance with federal, state and local environmental laws and regulations governing hazardous wastes, air and water quality, land use, and solid waste disposal. SDG&E incurs significant costs to operate its facilities in compliance with these laws and regulations. The costs of compliance with environmental laws and regulations are normally recovered in customer rates. Capital expenditures to comply with environmental laws and regulations were \$6 million in 1996, \$4 million in 1995 and \$5 million in 1994, and are expected to be \$34 million over the next 5 years. These expenditures include the estimated cost of retrofitting SDG&E's power plants to reduce air emissions.

SDG&E has been associated with various sites which may require remediation under federal, state or local environmental laws. SDG&E is unable to determine the extent of its responsibility for remediation of these sites until assessments are completed. Furthermore, the number of others that also may be responsible and their ability to share in the cost of the cleanup, is not known. Environmental liabilities that may arise from these assessments are recorded when remedial efforts are probable, and the costs can be estimated. In 1994 the CPUC approved a mechanism allowing utilities to recover their hazardous waste costs, including those related to Superfund sites or similar sites requiring cleanup. The decision allows recovery of 90 percent of cleanup costs and related third-party litigation costs and 70 percent of the related insurance-litigation expenses. As discussed in Note 10, restructuring of the California electric utility industry will change the way utility rates are set and costs are recovered. Both the CPUC and state legislation have indicated that the California utilities will be allowed recovery of existing utility plant and regulatory assets over a transition period that ends in 2001. Depending on the final outcome of industry restructuring and the impact of competition, the costs of compliance with environmental regulations may not be fully recoverable.

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

Insurance coverage is provided for up to \$2.8 billion of property damage and decontamination liability. Coverage is also provided for the cost of replacement power, which includes indemnity payments for up to three years, after a waiting period of 21 weeks. Coverage is provided primarily through mutual insurance companies owned by utilities with nuclear facilities. If losses at any of the nuclear facilities covered by the risk-sharing arrangements were to exceed the accumulated funds available from these insurance programs, SDG&E could be assessed retrospective premium adjustments of up to \$6 million.

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

Litigation Enova and its subsidiaries, including SDG&E, are 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 Enova's results of operations, financial condition or liquidity.

Distribution System Conversion Under a CPUC-mandated program and through franchise agreements with various cities, SDG&E is committed, in varying amounts, to convert overhead distribution facilities to underground. As of December 31, 1996, the aggregate unexpended amount of this commitment was approximately \$100 million. Capital expenditures for underground conversions were \$15 million in 1996, \$12 million in 1995 and \$11 million in 1994.

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 an adjacent portion of Orange County.

NOTE 10: INDUSTRY RESTRUCTURING

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

Beginning in January 1998, customers will be able to buy their electricity through a power exchange that will obtain power from the lowest-bidding suppliers. The power exchange will serve as a wholesale power pool allowing all energy producers to participate competitively. An independent system operator will schedule power transactions and access to the transmission system. Consumers also may choose either to continue to purchase from their local utility under regulated tariffs or to enter into private contracts with generators, brokers or others. The local utility will continue to provide distribution service regardless of which source the consumer chooses.

Utilities will be allowed a reasonable opportunity to recover their stranded costs through December 31, 2001. Stranded costs such as those related to the public goods charge (funding for renewables and demand-side management programs), reasonable employee-related costs directly caused by restructuring, and purchase-power contracts (including those with qualifying facilities) may be recovered beyond December 31, 2001. Outside of those exceptions, stranded costs not recovered through 2001 will not be collected from customers. Such costs, if any, would be written off as a charge against earnings.

SDG&E's transition cost application filed in October 1996 identifies transition costs totaling \$2 billion (net present value in 1998 dollars). These identified transition costs are subject to a CPUC audit, which began in December 1996. The amount includes sunk costs, as well as on-going costs the CPUC finds reasonable and necessary to maintain generation facilities through December 31, 2001. Both the CPUC policy decision and AB 1890 provide that above-market costs for existing power-purchase and QF contracts may be recovered over the terms of the contracts or sooner. Qualifying facilities purchases include approximately 100 existing contracts, which extend as far as 2025. Other power purchases consist of two long-term contracts expiring in 2001 and 2013. The amount also includes other items SDG&E has accrued under cost-of-service regulation. Nuclear decommissioning costs are nonbypassable until fully recovered, but are not included as part of transition costs. However, recovery of these costs may be accelerated to the extent possible. This could prevent any rate reduction before 2002. The California legislation provides for a 10-percent reduction of residential and small commercial customers' rates beginning in January 1998 as a result of the utilities' receiving the proceeds of rate-reduction bonds issued by an agency of the State of California. SDG&E estimates that it will need \$500 million of bond proceeds to enable it to effect a sufficient decrease in rate base to result in the desired rate reduction. These bonds will be repaid over 10 years by SDG&E's residential and small commercial customers via a charge on their electric bills.

In addition, the California legislation includes a rate freeze for all customers. Until the earlier of March 31, 2002, or when transition cost recovery is complete, SDG&E's system average rate will be frozen at June 10, 1996 levels (9.64 cents per kwh), except for the impact of fuel cost changes and the 10-percent rate reduction described above. In any event, rates cannot be increased above 9.985 cents per kwh.

Late-1996 natural gas prices were more than double early-1996 prices due to weather-related factors, storage levels, etc., resulting in electric rate increases in January and February 1997. The rate changes have increased SDG&E's system average rate from 9.64 cents per kwh to the 9.985 cents-per-kwh rate cap.

As described in Note 2, SDG&E currently accounts for the economic effects of regulation in accordance with SFAS No. 71. The SEC has indicated a concern that the California investor-owned utilities may not meet the criteria of SFAS No. 71 with respect to their electric generation net regulatory assets. While discussions are ongoing with the SEC, if a decision is ultimately made that would result in the discontinuation of the application of SFAS No. 71 for electric-generation operations, the impact of a writeoff of these net regulatory assets would not be material to SDG&E's results of operations, financial position or liquidity.

Item 8. Financial Statements and Supplementary Data - San Diego Gas & Electric Company

SAN DIEGO GAS & ELECTRIC COMPANY STATEMENTS OF INCOME In thousands except per share amounts

| For the years ended December 31 | 1996 | 1995 | 1994 |
|----------------------------------|-------------|-------------|-------------|
| | ----- | ----- | ----- |
| Operating Revenues | | | |
| Electric | \$1,590,882 | \$1,503,926 | \$1,510,320 |
| Gas | 348,035 | 310,142 | 346,183 |
| | ----- | ----- | ----- |
| Total operating revenues | 1,938,917 | 1,814,068 | 1,856,503 |
| | ----- | ----- | ----- |
| Operating Expenses | | | |
| Electric fuel | 134,350 | 100,256 | 143,339 |
| Purchased power | 310,731 | 341,727 | 342,612 |
| Gas purchased for resale | 152,151 | 113,355 | 146,579 |
| Maintenance | 57,652 | 91,740 | 70,776 |
| Depreciation and decommissioning | 314,278 | 260,841 | 251,820 |
| Property and other taxes | 44,764 | 45,566 | 44,746 |
| General and administrative | 247,653 | 207,078 | 206,593 |
| Other | 166,391 | 166,303 | 169,037 |

| | | | |
|---|------------|------------|------------|
| Income taxes | 202,185 | 172,202 | 178,358 |
| Total operating expenses | 1,630,155 | 1,499,068 | 1,553,860 |
| Operating Income | 308,762 | 315,000 | 302,643 |
| Other Income and (Deductions) | | | |
| Allowance for equity funds used during construction | 5,898 | 6,435 | 6,274 |
| Taxes on nonoperating income | 4,227 | (827) | 6,099 |
| Other - net | (5,431) | 923 | (16,131) |
| Total other income and (deductions) | 4,694 | 6,531 | (3,758) |
| Income Before Interest Charges | 313,456 | 321,531 | 298,885 |
| Interest Charges | | | |
| Long-term debt | 76,463 | 82,591 | 81,749 |
| Short-term debt and other | 12,635 | 17,886 | 8,894 |
| Amortization of debt discount and expense, less premium | 4,881 | 4,870 | 4,604 |
| Allowance for borrowed funds used during construction | (3,288) | (2,865) | (2,658) |
| Net interest charges | 90,691 | 102,482 | 92,589 |
| Income From Continuing Operations | 222,765 | 219,049 | 206,296 |
| Discontinued Operations, Net of Income Taxes | -- | 14,408 | (62,819) |
| Net Income (before preferred dividend requirements) | 222,765 | 233,457 | 143,477 |
| Preferred Dividend Requirements | 6,582 | 7,663 | 7,663 |
| Earnings Applicable to Common Shares | \$ 216,183 | \$ 225,794 | \$ 135,814 |

See notes to financial statements.

SAN DIEGO GAS & ELECTRIC COMPANY
BALANCE SHEETS
In thousands of dollars

| | | |
|---|-------------|-------------|
| Balance at December 31 | 1996 | 1995 |
| ASSETS | | |
| Utility plant - at original cost | \$5,704,464 | \$5,533,554 |
| Accumulated depreciation and decommissioning | (2,630,093) | (2,355,213) |
| Utility plant-net | 3,074,371 | 3,178,341 |
| Investments and other property | 337,520 | 448,860 |
| Current assets | | |
| Cash and temporary investments | 81,409 | 20,755 |
| Accounts receivable | 187,986 | 178,091 |
| Inventories | 63,078 | 67,959 |
| Other | 33,227 | 11,353 |
| Total current assets | 365,700 | 278,158 |
| Deferred taxes recoverable in rates | 189,193 | 298,748 |
| Deferred charges and other assets | 193,732 | 268,506 |
| Total | \$4,160,516 | \$4,472,613 |
| CAPITALIZATION AND LIABILITIES | | |
| Capitalization | | |
| Common equity | \$1,404,136 | \$1,520,070 |
| Preferred stock not subject to mandatory redemption | 78,475 | 93,475 |
| Preferred stock subject to mandatory redemption | 25,000 | 25,000 |
| Long-term debt | 1,284,816 | 1,217,026 |

| | | |
|---|-------------|-------------|
| Total capitalization | 2,792,427 | 2,855,571 |
| Current liabilities | | |
| Long-term debt redeemable within one year | -- | 115,000 |
| Current portion of long-term debt | 33,639 | 8,835 |
| Accounts payable | 174,884 | 145,273 |
| Due to affiliates | 7,214 | -- |
| Dividends payable | 47,131 | 47,383 |
| Interest accrued | 12,824 | 23,621 |
| Regulatory balancing accounts overcollected-net | 35,338 | 170,761 |
| Other | 110,743 | 90,119 |
| Total current liabilities | 421,773 | 600,992 |
| Customer advances for construction | 34,666 | 34,698 |
| Accumulated deferred income taxes-net | 487,119 | 536,324 |
| Accumulated deferred investment tax credits | 64,410 | 104,226 |
| Deferred credits and other liabilities | 360,121 | 340,802 |
| Contingencies and commitments (notes 9 and 10) | -- | -- |
| Total | \$4,160,516 | \$4,472,613 |

See notes to financial statements.

SAN DIEGO GAS & ELECTRIC COMPANY
STATEMENTS CASH FLOWS

In thousands of dollars
For the years ended December 31

| | 1996 | 1995 | 1994 |
|---|------------|------------|------------|
| Cash Flows from Operating Activities | | | |
| Income from continuing operations | \$ 222,765 | \$ 219,049 | \$ 206,296 |
| Adjustments to reconcile income from continuing operations to net cash provided by operating activities | | | |
| Depreciation and decommissioning | 314,278 | 260,841 | 251,820 |
| Amortization of deferred charges and other assets | 5,926 | 12,068 | 12,944 |
| Writedown of real property and other assets | -- | -- | 12,000 |
| Amortization of deferred credits and other liabilities | (3,901) | (1,169) | (1,169) |
| Allowance for equity funds used during construction | (5,898) | (6,435) | (6,274) |
| Deferred income taxes and investment tax credits | (16,369) | (42,046) | (51,353) |
| Other-net | 25,570 | 21,108 | 24,554 |
| Changes in working capital components | | | |
| Accounts and notes receivable | 19,573 | 9,159 | (6,179) |
| Regulatory balancing accounts | (37,313) | 59,030 | 78,552 |
| Inventories | 4,881 | 7,648 | 506 |
| Other current assets | (14,119) | (5,550) | 523 |
| Interest and taxes accrued | (24,897) | 15,737 | 12,963 |
| Accounts payable and other current liabilities | 50,235 | 25,288 | (12,449) |
| Cash flows provided (used) by discontinued operations | (11,544) | 49,188 | 43,643 |
| Net cash provided by operating activities | 529,187 | 623,916 | 566,377 |
| Cash Flows from Financing Activities | | | |
| Dividends paid | (188,700) | (188,288) | (183,441) |
| Issuance of long-term debt | 226,646 | 123,734 | -- |
| Repayment of long-term debt | (257,772) | (126,164) | (68,697) |
| Short-term borrowings-net | -- | (58,325) | (32,875) |
| Sale (redemption) of common stock | -- | (241) | (558) |
| Redemption of preferred stock | (15,155) | (18) | -- |
| Net cash used by financing activities | (234,981) | (249,302) | (285,571) |
| Cash Flows from Investing Activities | | | |
| Construction expenditures | (208,850) | (220,748) | (263,709) |
| Withdrawals from construction trust funds - net | -- | -- | 58,042 |
| Contributions to decommissioning funds | (22,038) | (22,038) | (22,038) |
| Other-net | (2,664) | (2,456) | (3,890) |
| Discontinued operations | -- | (120,222) | (41,181) |

| | | | |
|---|------------|------------|------------|
| Net cash used by investing activities | (233,552) | (365,464) | (272,776) |
| Net increase | 60,654 | 9,150 | 8,030 |
| Cash and temporary investments, beginning of year | 20,755 | 11,605 | 3,575 |
| Cash and temporary investments, end of year | \$ 81,409 | \$ 20,755 | \$ 11,605 |
| Supplemental Disclosure of Cash Flow Information | | | |
| Income tax payments | \$ 244,810 | \$ 199,891 | \$ 210,902 |
| Interest payments, net of amounts capitalized | \$ 93,652 | \$ 104,373 | \$ 92,031 |
| Net assets of affiliates transferred to parent | \$ 150,095 | \$ -- | \$ -- |

See notes to financial statements.

SAN DIEGO GAS & ELECTRIC COMPANY
STATEMENTS OF CHANGES IN CAPITAL STOCK
AND RETAINED EARNINGS

In thousands of dollars
For the years ended December 31, 1994, 1995, 1996

| | Preferred Stock | | | | |
|--|---|---------------------------------------|-----------------|--------------------------------|----------------------|
| | Not Subject to Mandatory Redemption | Subject to Mandatory Redemption | Common Stock | Premium on Capital Stock | Retained Earnings |
| Balance, January 1, 1994 | \$ 93,493 | \$ 25,000 | \$ 291,288 | \$ 565,119 | \$ 659,833 |
| Earnings applicable to common shares | | | | | 135,814 |
| Long-term incentive plan activity-net | | | 53 | (611) | |
| Common stock dividends declared | | | | | (177,066) |
| Balance, December 31, 1994 | 93,493 | 25,000 | 291,341 | 564,508 | 618,581 |
| Earnings applicable to common shares | | | | | 225,794 |
| Long-term incentive plan activity-net | | | 117 | 1,530 | |
| Preferred stock retired (880 shares) | (18) | | | 8 | |
| Common stock dividends declared | | | | | (181,809) |
| Balance, December 31, 1995 | 93,475 | 25,000 | 291,458 | 566,046 | 662,566 |
| Earnings applicable to common shares | | | | | 216,183 |
| Transfer to Enova Corporation | | | | 342 | (150,437) |
| Long-term incentive plan activity-net | | | | | |
| Preferred stock retired (150,000 shares) | (15,000) | | | (155) | |
| Common stock dividends declared | | | | | (181,867) |
| Balance, December 31, 1996 | \$ 78,475 | \$ 25,000 | \$ 291,458 | \$ 566,233 | \$ 546,445 |

See notes to financial statements.

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying balance sheets of San Diego Gas & Electric Company as of December 31, 1996 and 1995, and the related statements of income, changes in capital stock and retained earnings, and cash flows for each of the three years in the period ended December 31, 1996. 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 financial statements present fairly, in all material respects, the financial position of San Diego Gas & Electric Company as of December 31, 1996 and 1995, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 1996, in conformity with generally accepted accounting principles.

/s/ Deloitte & Touche LLP

DELOITTE & TOUCHE LLP
San Diego, California
March 11, 1997

NOTES TO FINANCIAL STATEMENTS

SAN DIEGO GAS & ELECTRIC COMPANY

Except as modified below, the Notes to Consolidated Financial Statements of Enova Corporation beginning on page 37 on this 1996 Annual Report on Form 10-K are incorporated herein by reference insofar as they relate to San Diego Gas & Electric Company:

- Note 1 -- Business Combination
- Note 2 -- Significant Accounting Policies
- Note 4 -- Long-Term Debt
- Note 5 -- Facilities Under Joint Ownership
- Note 6 -- Employee Benefit Plans
- Note 8 -- Financial Instruments
- Note 9 -- Contingencies and Commitments
- Note 10 -- Industry Restructuring

NOTE 3: DISCONTINUED OPERATIONS

In January 1996 Enova Corporation became the parent of SDG&E and its subsidiaries. At that time SDG&E's ownership interests in its subsidiaries were transferred to Enova Corporation at book value. SDG&E's financial statements for periods prior to 1996 reflect the results of that transfer as discontinued operations in accordance with Accounting Principles Board Opinion No. 30, "Reporting the Effects of a Disposal of a Segment of Business." Discontinued operations are summarized in the table below:

| | Year Ended December 31, | |
|---|----------------------------|-------|
| | 1995 | 1994 |
| ----- | | |
| | (millions of dollars) | |
| Revenues | \$81 | \$126 |
| Loss from operations before income taxes | (24) | (105) |
| Loss on disposal before income taxes | (12) | -- |
| Income tax benefits | 32 | 43 |
| ----- | | |

The net assets of subsidiaries (included in "Investments and Other Property" on SDG&E's Balance Sheets) at December 31, 1995 are summarized as follows:

| | |
|--------------------------------------|-------|
| Current assets | \$122 |
| Non-current assets | 286 |
| Current liabilities | (62) |
| Long-term debt and other liabilities | (214) |
| | ----- |
| | \$132 |
| | ===== |

NOTE 4: LONG-TERM DEBT

The information contained in Enova Corporation's Statements of Consolidated Long-Term Debt on page 32 of this 1996 Annual Report on Form 10-K is incorporated herein by reference.

NOTE 7: INCOME TAXES

Income tax payments totaled \$245 million in 1996, \$200 million in 1995 and \$211 million in 1994.

The components of accumulated deferred income taxes at December 31 are as follows:

| in thousands of dollars | 1996 | 1995 |
|---|-----------|-----------|
| ----- | | |
| Deferred tax liabilities | | |
| Differences in financial and tax bases of utility plant | \$628,617 | \$583,664 |
| Loss on reacquired debt | 26,399 | 26,829 |
| Other | 63,081 | 58,219 |
| ----- | | |
| Total deferred tax liabilities | 718,097 | 668,712 |
| ----- | | |
| Deferred tax assets | | |
| Unamortized investment tax credits | 68,239 | 72,567 |
| Regulatory balancing accounts | 37,010 | 41,368 |
| Unbilled revenue | 21,923 | 21,241 |
| Other | 123,534 | 79,982 |
| ----- | | |
| Total deferred tax assets | 250,706 | 215,158 |
| ----- | | |
| Net deferred income tax liability | 467,391 | 453,554 |
| Current portion (net asset) | 19,728 | 82,770 |
| ----- | | |
| Non-current portion (net liability) | \$487,119 | \$536,324 |
| ===== | | |

The components of income tax expense are as follows:

| in thousands of dollars | 1996 | 1995 | 1994 |
|---------------------------------------|-----------|-----------|-----------|
| ----- | | | |
| Current | | | |
| Federal | \$169,309 | \$170,212 | \$179,012 |
| State | 45,018 | 44,863 | 44,600 |
| ----- | | | |
| Total current taxes | 214,327 | 215,075 | 223,612 |
| ----- | | | |
| Deferred | | | |
| Federal | (8,666) | (23,647) | (33,458) |
| State | (1,518) | (13,464) | (12,897) |
| ----- | | | |
| Total deferred taxes | (10,184) | (37,111) | (46,355) |
| ----- | | | |
| Deferred investment tax credits - net | (6,185) | (4,935) | (4,998) |
| ----- | | | |
| Total income tax expense | \$197,958 | \$173,029 | \$172,259 |
| ===== | | | |

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

The reconciliation of the statutory federal income tax rate to effective income tax rate is as follows:

| | 1996 | 1995 | 1994 |
|---|-------|-------|-------|
| ----- | ----- | ----- | ----- |
| Statutory federal income tax rate | 35.0% | 35.0% | 35.0% |
| Depreciation | 5.7 | 5.0 | 6.0 |
| State income taxes - net of federal income tax benefit | 6.1 | 4.8 | 5.0 |
| Tax credits | (2.1) | (1.8) | (1.9) |
| Repair allowance | (1.1) | (2.8) | (2.5) |
| Other - net | 3.4 | 3.9 | 3.9 |
| ----- | ----- | ----- | ----- |
| Effective income tax rate | 47.0% | 44.1% | 45.5% |
| ===== | ===== | ===== | ===== |

NOTE 11: CAPITAL STOCK

The information contained in SDG&E's Statements of Changes in Capital Stock and Retained Earnings on page 55 of this 1996 Annual Report on Form 10-K is incorporated herein by reference. The information contained in Enova Corporation's Statements of Consolidated Capital Stock on page 31 of this 1996 Annual Report on Form 10-K as it relates to preferred and preference stock is incorporated herein by reference.

NOTE 12: SEGMENTS OF BUSINESS

The information contained in Enova Corporation's Statements of Consolidated Financial Information by Segments of Business on page 34 of this 1996 Annual Report on Form 10-K is incorporated herein by reference.

Note 13: Quarterly Financial Information (unaudited)

In thousands

| Quarter ended | March 31 | June 30 | September 30 | December 31 |
|--|------------|------------|--------------|-------------|
| 1996 | | | | |
| Operating revenues | \$ 451,942 | \$ 458,221 | \$ 493,485 | \$ 535,269 |
| Operating expenses | 367,772 | 388,379 | 411,657 | 462,347 |
| | ----- | ----- | ----- | ----- |
| Operating income | 84,170 | 69,842 | 81,828 | 72,922 |
| Other income and (deductions) | 1,396 | (884) | 4,372 | (190) |
| Net interest charges | 22,994 | 22,786 | 24,073 | 20,838 |
| | ----- | ----- | ----- | ----- |
| Net income (before preferred dividend requirements) | 62,572 | 46,172 | 62,127 | 51,894 |
| Preferred dividend requirements | 1,646 | 1,645 | 1,646 | 1,645 |
| | ----- | ----- | ----- | ----- |
| Earnings applicable to common shares | \$ 60,926 | \$ 44,527 | \$ 60,481 | \$ 50,249 |
| | ===== | ===== | ===== | ===== |
| 1995 | | | | |
| Operating revenues | \$ 463,866 | \$ 431,461 | \$ 465,100 | \$ 453,641 |
| Operating expenses | 377,234 | 357,072 | 383,887 | 380,875 |
| | ----- | ----- | ----- | ----- |
| Operating income | 86,632 | 74,389 | 81,213 | 72,766 |
| Other income and (deductions) | 1,092 | 563 | 3,135 | 1,741 |
| Net interest charges | 25,179 | 25,201 | 25,982 | 26,120 |
| | ----- | ----- | ----- | ----- |
| Income from continuing operations | 62,545 | 49,751 | 58,366 | 48,387 |
| Discontinued operations (net of income taxes) | (695) | (535) | 3,454 | 12,184 |
| | ----- | ----- | ----- | ----- |
| Net income (before preferred dividend requirements) | 61,850 | 49,216 | 61,820 | 60,571 |
| Preferred dividend requirements | 1,916 | 1,915 | 1,916 | 1,916 |

| | | | | |
|--------------------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| Earnings applicable to common shares | ----- \$ 59,934 ===== | ----- \$ 47,301 ===== | ----- \$ 59,904 ===== | ----- \$ 58,655 ===== |
|--------------------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|

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

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure - Enova Corporation/San Diego Gas & Electric Company

None.

PART III

Item 10. Directors and Executive Officers of the Registrant

Enova Corporation

The information required on Identification of Directors is incorporated by reference from "Election of Directors" in the March 1997 Enova Corporation Proxy Statement. The information required on executive officers is incorporated by reference from Item 4 herein.

San Diego Gas & Electric Company

The information required on Identification of Directors is incorporated by reference from "Election of Directors" in the March 1997 SDG&E Proxy Statement. The information required on executive officers is incorporated by reference from Item 4 herein.

Item 11. Executive Compensation

Enova Corporation

The information required by Item 11 is incorporated by reference from "Executive Compensation and Transactions with Management and Others" in the March 1997 Enova Corporation Proxy Statement.

San Diego Gas & Electric Company

The information required by Item 11 is incorporated by reference from "Executive Compensation and Transactions with Management and Others" in the March 1997 SDG&E Proxy Statement.

Item 12. Security Ownership of Certain Beneficial Owners and Management

Enova Corporation

The information required by Item 12 is incorporated by reference from "Security Ownership of Management and Certain Beneficial Holders" in the March 1997 Enova Corporation Proxy Statement.

San Diego Gas & Electric Company

The information required by Item 12 is incorporated by reference from "Security Ownership of Management and Certain Beneficial Holders" in the March 1997 SDG&E Proxy Statement.

Item 13. Certain Relationships and Related Transactions

None.

PART IV - Enova Corporation/San Diego Gas & Electric Company:

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

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

1. Financial statements

Enova Corporation SDG&E

| | | |
|---|----|----|
| Independent Auditors' Report. | 36 | 56 |
| Statements of Income for the years ended December 31, 1996, 1995 and 1994 | 27 | 52 |
| Balance Sheets at December 31, 1996 and 1995. | 28 | 53 |
| Statements of Cash Flows for the years ended December 31, 1996, 1995 and 1994 | 29 | 54 |
| Statements of Changes in Capital Stock and Retained Earnings for the years ended December 31, 1996, 1995 and 1994 | 30 | 55 |
| Statements of Capital Stock at December 31, 1996 and 1995 | 31 | -- |
| Statements of Long-Term Debt at December 31, 1996 and 1995 | 32 | -- |
| Statements of Financial Information by Segments of Business for the years ended December 31, 1996, 1995 and 1994 | 34 | -- |
| Notes to Financial Statements | 37 | 57 |
| Quarterly Financial Data (Unaudited). | 35 | 60 |

2. Financial Statement Schedule

The following documents may be found in this report at the indicated page numbers.

| | |
|--|-----|
| Independent Auditors' Consent and Report on Schedule. | .64 |
| Schedule I--Condensed Financial Information of Parent | .65 |

Schedules I through V, inclusive, except those referred to above, are omitted as not required, immaterial or not applicable.

3. Exhibits

See Exhibit Index on page 68 of this report.

(b) Reports on Form 8-K

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

A Current Report on Form 8-K was filed on September 24, 1996 announcing a bill on restructuring the electric utility industry signed into law by California Governor Wilson.

A Current Report on Form 8-K was filed on October 15, 1996 announcing an agreement entered into by Enova Corporation and Pacific Enterprises to combine the two companies.

A Current Report on Form 8-K was filed on January 29, 1997 announcing Enova Corporation's consolidated net income for the year ended December 31, 1996.

INDEPENDENT AUDITORS' CONSENT AND REPORT ON SCHEDULE

To the Shareholders and Boards of Directors of Enova Corporation and San Diego

Gas & Electric Company:

We consent to the incorporation by reference in Post-Effective Amendment No. 2 to Registration Statement No. 33-59681 on Form S-3 and Post-Effective Amendment No. 1 to Registration Statement Nos. 33-59683 and 33-7108 on Form S-8 of Enova Corporation; in Registration Statement Nos. 33-45599, 33-52834 and 33-49837 on Form S-3 of San Diego Gas & Electric Company; and in Registration Statement No. 33-21229 on Form S-4 of Mineral Energy Company of our reports dated March 11, 1997 on Enova Corporation and San Diego Gas & Electric Company, appearing in this Annual Report on Form 10-K of Enova Corporation and San Diego Gas & Electric Company for the year ended December 31, 1996.

Our audits of the financial statements referred to in our aforementioned reports also included the financial statement schedule of Enova Corporation, listed in Item 14. This financial statement schedule is the responsibility of the management of Enova Corporation. Our responsibility is to express an opinion based on our audits. In our opinion, such financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

/s/ Deloitte & Touche LLP

DELOITTE & TOUCHE LLP

San Diego, California
March 11, 1997

Schedule I -- CONDENSED FINANCIAL INFORMATION OF PARENT

Condensed Statement of Income
For the Year Ended December 31, 1996
(In thousands, except per-share amount)

| | |
|---|------------|
| Operating revenues and other income | \$ 2,528 |
| Operating expenses, interest and income taxes | 2,594 |
| | ----- |
| Loss before subsidiary earnings | 66 |
| Subsidiary earnings | 230,993 |
| | ----- |
| Earnings applicable to common shares | \$ 230,927 |
| | ===== |
| Average common shares outstanding | 116,572 |
| | ----- |
| Earnings per common share | \$ 1.98 |
| | ===== |

Condensed Balance Sheet
At December 31, 1996
(In thousands, except per-share amount)

| | |
|---------------------------------------|--------------|
| Assets: | |
| Cash and temporary investments | \$ 11,927 |
| Other current assets | 16,612 |
| | ----- |
| Total current assets | 28,539 |
| Investments in subsidiaries | 1,609,741 |
| Deferred charges and other assets | 2,695 |
| | ----- |
| Total Assets | \$ 1,640,975 |
| | ===== |
| Liabilities and Shareholders' Equity: | |
| Dividends payable | \$ 45,485 |
| Other current liabilities | 25,006 |
| | ----- |
| Total current liabilities | 70,491 |
| Common equity | 1,570,484 |
| | ----- |

Total Liabilities and Shareholders' Equity

\$ 1,640,975

=====

Schedule I (continued)

CONDENSED FINANCIAL INFORMATION OF PARENT

Condensed Statement of Cash Flows
For the Year Ended December 31, 1996
(In thousands, except per-share amount)

| | |
|---|----------------|
| Cash flows from operating activities | \$ 1,536 |
| Cash flows from financing activities | (163,389) |
| Cash flows from investing activities | 173,780 |
| | ----- |
| Net cash flow | 11,927 |
| Cash and temporary investments, beginning of year | -- |
| | ----- |
| Cash and temporary investments, end of year | \$ 11,927 |
| | ===== |
| Dividends received from San Diego Gas & Electric | \$ 181,849 |
| | ===== |
| Net assets of affiliates transferred from SDG&E to Enova Corp | \$ 150,095 |
| | ===== |

SIGNATURES

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

ENOVA CORPORATION

SAN DIEGO GAS & ELECTRIC COMPANY

By: /s/ Stephen L. Baum

By: /s/ Donald E. Felsinger

Stephen L. Baum
President and Chief
Executive Officer

Donald E. Felsinger
President and Chief
Executive Officer

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

| Signature | Title | Date |
|-----------|-------|------|
|-----------|-------|------|

Principal Executive Officers:

/s/ Stephen L. Baum

| | | |
|-----------------|---|----------------|
| Stephen L. Baum | President and Chief Executive Officer (Enova), Vice Chairman (SDG&E) and a Director (Enova and SDG&E) | March 11, 1997 |
|-----------------|---|----------------|

/s/ Donald E. Felsinger

| | | |
|---------------------|---|----------------|
| Donald E. Felsinger | President and Chief Executive Officer and a Director (SDG&E) and Executive Vice President (Enova) | March 11, 1997 |
|---------------------|---|----------------|

Principal Financial Officer:

/s/ David R. Kuzma

| | | |
|----------------|--|----------------|
| David R. Kuzma | Senior Vice President, Chief Financial Officer and Treasurer (Enova and SDG&E) | March 11, 1997 |
|----------------|--|----------------|

Principal Accounting Officer:

/s/ Frank H. Ault

| | | |
|---------------|---|----------------|
| Frank H. Ault | Vice President and Controller (Enova and SDG&E) | March 11, 1997 |
|---------------|---|----------------|

Directors (Enova and SDG&E):

/s/ Thomas A. Page

| | | |
|----------------|----------|----------------|
| Thomas A. Page | Chairman | March 11, 1997 |
|----------------|----------|----------------|

/s/ Ann L. Burr

| | | |
|-------------|----------|----------------|
| Ann L. Burr | Director | March 11, 1997 |
|-------------|----------|----------------|

/s/ Richard A. Collato

| | | |
|--------------------|----------|----------------|
| Richard A. Collato | Director | March 11, 1997 |
|--------------------|----------|----------------|

/s/ Daniel W. Derbes

| | | |
|------------------|----------|----------------|
| Daniel W. Derbes | Director | March 11, 1997 |
|------------------|----------|----------------|

/s/ Robert H. Goldsmith

| | | |
|---------------------|----------|----------------|
| Robert H. Goldsmith | Director | March 11, 1997 |
|---------------------|----------|----------------|

/s/ William D. Jones

| | | |
|------------------|----------|----------------|
| William D. Jones | Director | March 11, 1997 |
|------------------|----------|----------------|

/s/ Ralph R. Ocampo

| | | |
|-----------------|----------|----------------|
| Ralph R. Ocampo | Director | March 11, 1997 |
|-----------------|----------|----------------|

/s/ Thomas C. Stickel

| | | |
|-------------------|----------|----------------|
| Thomas C. Stickel | Director | March 11, 1997 |
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EXHIBIT INDEX

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

Exhibit 3 -- Bylaws and Articles of Incorporation

Bylaws

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

Articles of Incorporation

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

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

4.1 Mortgage and Deed of Trust dated July 1, 1940. (Incorporated by reference from SDG&E Registration No. 2-49810, Exhibit 2A.)

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

- 4.3 Ninth Supplemental Indenture dated as of August 1, 1968.
(Incorporated by reference from SDG&E Registration No. 2-68420, Exhibit 2D.)
- 4.4 Tenth Supplemental Indenture dated as of December 1, 1968.
(Incorporated by reference from SDG&E Registration No. 2-36042, Exhibit 2K.)
- 4.5 Sixteenth Supplemental Indenture dated August 28, 1975.
(Incorporated by reference from SDG&E Registration No. 2-68420, Exhibit 2E.)
- 4.6 Thirtieth Supplemental Indenture dated September 28, 1983.
(Incorporated by reference from SDG&E Registration No. 33-34017, Exhibit 4.3.)

Exhibit 10 -- Material Contracts (Previously filed exhibits are incorporated by reference from Forms 8-K, S-4, 10-K or 10-Q as referenced below).

- 10.1 Agreement and Plan of Merger and Reorganization, dated as of October 12, 1996, among Enova Corporation, Pacific Enterprises, Mineral Energy Company, G Mineral Energy Sub and B Mineral Energy Sub (8-K filed October 15, 1996, Exhibit 10.1).
- 10.2 Employment contract, dated as of October 12, 1996 between Mineral Energy Company and Stephen L. Baum (8-K filed October 15, 1996, Exhibit 10.2).
- 10.3 Employment contract, dated as of October 12, 1996 between Mineral Energy Company and Richard D. Farman (8-K filed October 15, 1996, Exhibit 10.3).
- 10.4 Employment contract, dated as of October 12, 1996 between Mineral Energy Company and Donald E. Felsing (8-K filed October 15, 1996, Exhibit 10.4).
- 10.5 Employment contract, dated as of October 12, 1996 between Mineral Energy Company and Warren I. Mitchell (8-K filed October 15, 1996, Exhibit 10.5).

Compensation

- 10.6 Form of Amendment to San Diego Gas & Electric Company Deferred Compensation Agreements for Officers #1 and #3.
- 10.7 Form of Enova Corporation 1997 Deferred Compensation Agreement for Officers #1 (1997 compensation, 1998 bonus).
- 10.8 Form of San Diego Gas & Electric Company Deferred Compensation Agreement for Officers #1 (1996 compensation, 1997 bonus) (1995 SDG&E Form 10-K Exhibit 10.1).
- 10.9 Form of San Diego Gas & Electric Company Deferred Compensation Agreement for Officers #1 (1995 compensation, 1996 bonus) (1994 SDG&E Form 10-K Exhibit 10.2).
- 10.10 Form of Enova Corporation 1997 Deferred Compensation Agreement for Officers #3 (1997 compensation, 1998 bonus).
- 10.11 Form of San Diego Gas & Electric Company Deferred Compensation Agreement for Officers #3 (1996 compensation, 1997 bonus) (1995 SDG&E Form 10-K Exhibit 10.3).
- 10.12 Form of San Diego Gas & Electric Company Deferred Compensation Agreement for Officers #3 (1995 compensation, 1996 bonus) (1994 SDG&E Form 10-K Exhibit 10.1).
- 10.13 Form of Enova Corporation 1997 Deferred Compensation Agreement for Nonemployee Directors.
- 10.14 Form of San Diego Gas & Electric Company Deferred Compensation Agreement for Nonemployee Directors (1996

compensation) (1995 SDG&E Form 10-K Exhibit 10.5).

- 10.15 Form of San Diego Gas & Electric Company Deferred Compensation Agreement for Nonemployee Directors (1995 compensation) (1994 SDG&E Form 10-K Exhibit 10.3).
- 10.16 Form of Enova Corporation 1986 Long-Term Incentive Plan 1996 restricted stock award agreement.
- 10.17 Form of San Diego Gas & Electric Company 1986 Long-Term Incentive Plan 1995 restricted stock award agreement (1995 SDG&E Form 10-K Exhibit 10.7).
- 10.18 Form of San Diego Gas & Electric Company 1986 Long-Term Incentive Plan Special 1995 restricted stock award agreement (1995 SDG&E Form 10-K Exhibit 10.8).
- 10.19 Form of San Diego Gas & Electric Company 1986 Long-Term Incentive Plan 1994 restricted stock award agreement two-year vesting (1995 SDG&E Form 10-K Exhibit 10.9).
- 10.20 Form of San Diego Gas & Electric Company 1986 Long-Term Incentive Plan 1994 restricted stock award agreement (1994 SDG&E Form 10-K Exhibit 10.4).
- 10.21 Form of San Diego Gas & Electric Company 1986 Long-Term Incentive Plan 1993 restricted stock award agreement (1993 SDG&E Form 10-K Exhibit 10.4).
- 10.22 Amended 1986 Long-Term Incentive Plan, amended and restated effective April 25, 1995 (SDG&E's Amendment No. 2 to Form S-4 filed February 28, 1995).
- 10.23 Amended 1986 Long-Term Incentive Plan, Restatement as of October 25, 1993 (1993 SDG&E Form 10-K Exhibit 10.6).
- 10.24 San Diego Gas & Electric Company Severance Plan effective October 22, 1996.
- 10.25 San Diego Gas & Electric Company Severance Plan effective on the date of the Enova Corporation -- Pacific Enterprises business combination.
- 10.26 San Diego Gas & Electric Company Retirement Plan for Directors, restated as of October 24, 1994 (1994 SDG&E Form 10-K Exhibit 10.5).
- 10.27 Executive Incentive Plan dated April 23, 1985 (1991 SDG&E Form 10-K Exhibit 10.39).
- 10.28 Employment agreement between San Diego Gas & Electric Company and Thomas A. Page, dated June 15, 1988 (1988 SDG&E Form 10-K Exhibit 10E).
- 10.29 Supplemental Pension Agreement with Thomas A. Page, dated as of April 3, 1978 (1988 SDG&E Form 10-K Exhibit 10V).
- 10.30 Supplemental Executive Retirement Plan restated as of July 1, 1994 (1994 SDG&E Form 10-K Exhibit 10.14).

Financing

- 10.31 Loan agreement with the City of Chula Vista in connection with the issuance of \$38.9 million of Industrial Development Bonds, dated as of August 1, 1996.
- 10.32 Loan agreement with the City of Chula Vista in connection with the issuance of \$60 million of Industrial Development Bonds, dated as of November 1, 1996.
- 10.33 Loan agreement with the City of San Diego in connection with the issuance of \$16.7 million of Industrial Development Bonds, dated as of June 1, 1995 (June 30, 1995 SDG&E Form 10-Q Exhibit 10.2).

- 10.34 Loan agreement with the City of San Diego in connection with the issuance of \$57.7 million of Industrial Development Bonds, dated as of June 1, 1995 (June 30, 1995 SDG&E Form 10-Q Exhibit 10.3).
- 10.35 Loan agreement with the City of San Diego in connection with the issuance of \$92.9 million of Industrial Development Bonds 1993 Series C dated as of July 1, 1993 (June 30, 1993 SDG&E Form 10-Q Exhibit 10.2).
- 10.36 Loan agreement with the City of San Diego in connection with the issuance of \$70.8 million of Industrial Development Bonds 1993 Series A dated as of April 1, 1993 (March 31, 1993 SDG&E Form 10-Q Exhibit 10.3).
- 10.37 Loan agreement with the City of San Diego in connection with the issuance of \$14.9 million of Industrial Development Bonds 1993 Series B dated as of April 1, 1993 (March 31, 1993 SDG&E Form 10-Q Exhibit 10.4).
- 10.38 Loan agreement with the City of San Diego in connection with the issuance of \$118.6 million of Industrial Development Bonds dated as of September 1, 1992 (Sept. 30, 1992 SDG&E Form 10-Q Exhibit 10.1).
- 10.39 Loan agreement with the City of Chula Vista in connection with the issuance of \$250 million of Industrial Development Bonds, dated as of December 1, 1992 (1992 SDG&E Form 10-K Exhibit 10.5).
- 10.40 Loan agreement with the City of San Diego in connection with the issuance of \$25 million of Industrial Development Bonds, dated as of September 1, 1987 (1992 SDG&E Form 10-K Exhibit 10.6).
- 10.41 Loan agreement with the California Pollution Control Financing Authority in connection with the issuance of \$129.82 million of Pollution Control Bonds, dated as of June 1, 1996.
- 10.42 Loan agreement with the California Pollution Control Financing Authority in connection with the issuance of \$60 million of Pollution Control Bonds dated as of June 1, 1993 (June 30, 1993 SDG&E Form 10-Q Exhibit 10.1).
- 10.43 Loan agreement with the California Pollution Control Financing Authority, dated as of December 1, 1991, in connection with the issuance of \$14.4 million of Pollution Control Bonds (1991 SDG&E Form 10-K Exhibit 10.11).

Natural Gas Commodity, Transportation and Storage

- 10.44 Long-Term Natural Gas Storage Service Agreement dated January 12, 1994 between Southern California Gas Company and SDG&E (1994 SDG&E Form 10-K Exhibit 10.42).
- 10.45 Amendment to San Diego Gas & Electric Company and Southern California Gas Company Restated Long-Term Wholesale Natural Gas Service Contract dated March 26, 1993 (1993 SDG&E Form 10-K Exhibit 10.53).
- 10.46 San Diego Gas & Electric Company and Southern California Gas Company Restated Long-Term Wholesale Natural Gas Service Contract, dated September 1, 1990 (1990 SDG&E Form 10-K Exhibit 10.9).
- 10.47 Gas Purchase Agreement, dated March 12, 1991 between Husky Oil Operations Limited and San Diego Gas & Electric Company (1991 SDG&E Form 10-K Exhibit 10.1).
- 10.48 Gas Purchase Agreement, dated March 12, 1991 between Canadian Hunter Marketing Limited and San Diego Gas & Electric Company (1991 SDG&E Form 10-K Exhibit 10.2).
- 10.49 Gas Purchase Agreement, dated March 12, 1991 between Bow Valley Industries Limited and San Diego Gas & Electric

Company (1991 SDG&E Form 10-K Exhibit 10.3).

- 10.50 Gas Purchase Agreement, dated March 12, 1991 between Summit Resources Limited and San Diego Gas & Electric Company (1991 SDG&E Form 10-K Exhibit 10.4).
- 10.51 Service Agreement Applicable to Firm Transportation Service under Rate Schedule FS-1, dated May 31, 1991 between Alberta Natural Gas Company Ltd. and San Diego Gas & Electric Company (1991 SDG&E Form 10-K Exhibit 10.5).
- 10.52 Firm Transportation Service Agreement, dated December 31, 1991 between Pacific Gas and Electric Company and San Diego Gas & Electric Company (1991 SDG&E Form 10-K Exhibit 10.7).
- 10.53 Firm Transportation Service Agreement, dated April 25, 1991 between Pacific Gas Transmission Company and San Diego Gas & Electric Company (March 31, 1991 SDG&E Form 10-Q Exhibit 28.2).

Nuclear

- 10.54 Uranium enrichment services contract between the U.S. Department of Energy (DOE assigned its rights to the U.S. Enrichment Corporation, a U.S. government-owned corporation, on July 1, 1993) and Southern California Edison Company, as agent for SDG&E and others; Contract DE-SC05-84UEO7541, dated November 5, 1984, effective June 1, 1984, as amended (1991 SDG&E Form 10-K Exhibit 10.9).
- 10.55 Fuel Lease dated as of September 8, 1983 between SONGS Fuel Company, as Lessor and San Diego Gas & Electric Company, as Lessee, and Amendment No. 1 to Fuel Lease, dated September 14, 1984 and Amendment No. 2 to Fuel Lease, dated March 2, 1987 (1992 SDG&E Form 10-K Exhibit 10.11).
- 10.56 Nuclear Facilities Qualified CPUC Decommissioning Master Trust Agreement for San Onofre Nuclear Generating Station, approved November 25, 1987 (1992 SDG&E Form 10-K Exhibit 10.7).
- 10.57 Amendment No. 1 to the Qualified CPUC Decommissioning Master Trust Agreement dated September 22, 1994 (see Exhibit 10.56 herein) (1994 SDG&E Form 10-K Exhibit 10.56).
- 10.58 Second Amendment to the San Diego Gas & Electric Company Nuclear Facilities Qualified CPUC Decommissioning Master Trust Agreement for San Onofre Nuclear Generating Station (see Exhibit 10.56 herein) (1994 SDG&E Form 10-K Exhibit 10.57).
- 10.59 Third Amendment to the San Diego Gas & Electric Company Nuclear Facilities Qualified CPUC Decommissioning Master Trust Agreement for San Onofre Nuclear Generating Station (see Exhibit 10.56 herein).
- 10.60 Fourth Amendment to the San Diego Gas & Electric Company Nuclear Facilities Qualified CPUC Decommissioning Master Trust Agreement for San Onofre Nuclear Generating Station (see Exhibit 10.56 herein).
- 10.61 Nuclear Facilities Non-Qualified CPUC Decommissioning Master Trust Agreement for San Onofre Nuclear Generating Station, approved November 25, 1987 (1992 SDG&E Form 10-K Exhibit 10.8).
- 10.62 First Amendment to the San Diego Gas & Electric Company Nuclear Facilities Non-Qualified CPUC Decommissioning Master Trust Agreement for San Onofre Nuclear Generating Station (see Exhibit 10.61 herein).
- 10.63 Second Amendment to the San Diego Gas & Electric Company Nuclear Facilities Non-Qualified CPUC Decommissioning Master Trust Agreement for San Onofre Nuclear Generating Station (see Exhibit 10.61 herein).
- 10.64 Second Amended San Onofre Agreement among Southern California Edison Company, SDG&E, the City of Anaheim and

the City of Riverside, dated February 26, 1987 (1990 SDG&E Form 10-K Exhibit 10.6).

- 10.65 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 (1988 SDG&E Form 10-K Exhibit 10N).

Purchased Power

- 10.66 Public Service Company of New Mexico and San Diego Gas & Electric Company 1988-2001 100 mw System Power Agreement dated November 4, 1985 and Letter of Agreement dated April 28, 1986, June 4, 1986 and June 18, 1986 (1988 SDG&E Form 10-K Exhibit 10H).
- 10.67 San Diego Gas & Electric Company and Portland General Electric Company Long-Term Power Sale and Transmission Service agreements dated November 5, 1985 (1988 SDG&E Form 10-K Exhibit 10I).

Other

- 10.68 U. S. Navy contract for electric service, Contract N62474-70-C-1200-P00414, dated September 29, 1988 (1988 SDG&E Form 10-K Exhibit 10C).
- 10.69 City of San Diego Electric Franchise (Ordinance No. 10466) (1988 SDG&E Form 10-K Exhibit 10Q).
- 10.70 City of San Diego Gas Franchise (Ordinance No. 10465) (1988 SDG&E Form 10-K Exhibit 10R).
- 10.71 County of San Diego Electric Franchise (Ordinance No. 3207) (1988 SDG&E Form 10-K Exhibit 10S).
- 10.72 County of San Diego Gas Franchise (Ordinance No. 5669) (1988 SDG&E Form 10-K Exhibit 10T).
- 10.73 Lease agreement dated as of March 25, 1992 with American National Insurance Company as lessor of an office complex at Century Park (1994 SDG&E Form 10-K Exhibit 10.70).
- 10.74 Lease agreement dated as of June 15, 1978 with Lloyds Bank California, as owner-trustee and lessor - Exhibit B to financing agreement of SDG&E's Encina Unit 5 equipment trust (1988 SDG&E Form 10-K Exhibit 10W).
- 10.75 Amendment to Lease agreement dated as of July 1, 1993 with Sanwa Bank California, as owner-trustee and lessor - Exhibit B to secured loan agreement of SDG&E's Encina Unit 5 equipment trust (See Exhibit 10.74 herein) (1994 SDG&E Form 10-K Exhibit 10.72).
- 10.76 Lease agreement dated as of July 14, 1975 with New England Mutual Life Insurance Company, as lessor (1991 SDG&E Form 10-K Exhibit 10.42).
- 10.77 Assignment of Lease agreement dated as of November 19, 1993 to Shapery Developers as lessor by New England Mutual Life Insurance Company (See Exhibit 10.76 herein) (1994 SDG&E Form 10-K Exhibit 10.74).

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, 1996, 1995, 1994, 1993 and 1992.

Exhibit 13 -- Management's Discussion and Analysis of Financial Condition and Results of Operations listed under Part II Item 7 of this Form 10-K is incorporated by reference from the 1996 Annual Report to Shareholders.

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

Exhibit 23 - Independent Auditors' Consent and Report on Schedule, page 64.

Exhibit 27 - Financial Data Schedules

27.1 Financial Data Schedule for the year ended December 31, 1996.

GLOSSARY

| | |
|-----------|--|
| AB 1890 | Assembly Bill 1890 - California's electric restructuring law |
| AFUDC | Allowance for Funds Used During Construction |
| APCD | Air Pollution Control District |
| BCAP | Biennial Cost Allocation Proceeding |
| BPA | Bonneville Power Administration |
| BRPU | Biennial Resource Plan Update |
| CEC | California Energy Commission |
| CFE | Comision Federal de Electricidad |
| Coastal | Coastal Electric Services |
| CPUC | California Public Utilities Commission |
| CTC | Competition transition charge |
| DOE | Department of Energy |
| DTSC | Department of Toxic Substances Control |
| ECI | Electric Clearinghouse |
| ECAC | Energy Cost Adjustment Clause |
| Edison | Southern California Edison Company and/or its parent, Edison International |
| EMF | Electric and magnetic fields |
| Enova | Enova Corporation and its wholly owned subsidiaries |
| Enron | Enron Power Marketing |
| ERAM | Electric Revenue Adjustment Mechanism |
| EV | Electric vehicle |
| FERC | Federal Energy Regulatory Commission |
| GFCA | Gas Fixed Cost Account |
| Goal Line | Goal Line Limited Partnership |
| Illinova | Illinova Power Marketing |
| ISO | Independent System Operator |
| kv | Kilovolt |
| kwhr | Kilowatt hour |
| MICAM | Market Indexed Capital Adjustment Mechanism |

| | |
|---------------------|---|
| mw | Megawatt |
| NGV | Natural-Gas Vehicle |
| NRC | Nuclear Regulatory Commission |
| PBR | Performance-Based Ratemaking |
| PCB | Polychlorinated Biphenyl |
| PGA | Purchased Gas Account |
| PG&E | Pacific Gas and Electric Company |
| PGE | Portland General Electric Company |
| PNM | Public Service Company of New Mexico |
| QF | Qualifying Facility |
| RECLAIM | Regional Clean Air Incentive Market |
| RWQCB | Regional Water Quality Control Board |
| SDG&E | San Diego Gas & Electric Company |
| SEC | Securities and Exchange Commission |
| SFAS | Statement of Financial Accounting Standard |
| SoCal Gas | Southern California Gas Company |
| SONGS/San Onofre | San Onofre Nuclear Generating Station |
| Southwest Powerlink | A transmission line connecting San Diego to Phoenix and intermediate points |
| TCF | Target Capacity Factor |
| WSPP | Western Systems Power Pool |

AMENDMENT TO
SAN DIEGO GAS & ELECTRIC COMPANY
DEFERRED COMPENSATION AGREEMENTS
FOR OFFICERS #1 AND #3

THIS AMENDMENT is made and entered into this _____ day of December, 1996, by and between San Diego Gas & Electric Company, (hereinafter "Company") and _____ (hereinafter "Officer"), an elected Officer of Company.

.....All outstanding SAN DIEGO GAS & ELECTRIC COMPANY DEFERRED COMPENSATION AGREEMENTS FOR OFFICERS #1 and SAN DIEGO GAS & ELECTRIC COMPANY DEFERRED COMPENSATION AGREEMENTS FOR OFFICERS #3 entered into between Company and Officer ("Deferred Compensation Agreements") are hereby amended as follows:

1. A new paragraph is added at the end of each Deferred Compensation Agreement as follows:

All amounts credited to Officer's account pursuant to this Agreement may be used to purchase common stock of Enova Corporation or other equity securities, subject to the following conditions:

....a....All such purchases must be made through a stock equivalent tracking device, a "rabbi trust" or other similar instrument that causes the deferred amount not to become taxable;

.....b.. Equity securities of other entities may be purchased only if the Officer has met or is expected to meet, under the normal course of events, the Company's Enova Corporation stock ownership requirement;

.....c....If the Officer becomes subject to a higher Enova Corporation stock ownership requirement, the Officer may retain any then current investment in equity securities of other entities, but shall not make additional purchases of other equity securities until the higher Enova Corporation stock ownership requirement has been met or is expected to be met under the normal course of events; and

.....d....All such purchases must be made in accordance with applicable Company procedures, as they may be amended from time to time.

2....All other provisions of the Deferred Compensation Agreements shall remain in full force and effect.

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

OFFICER

COMPANY

Signature of Officer

By _____
Company _____
Title _____

ENOVA CORPORATION
1997 DEFERRED COMPENSATION AGREEMENT
FOR OFFICERS #1

(1997 BASE COMPENSATION)
(1998 BONUS)

.....THIS AGREEMENT is made and entered into this _____ day of December, 1996, by and between Enova Corporation or any of its subsidiaries, (hereinafter "Company") and _____ (hereinafter "Officer"), an elected Officer of Company.

WITNESSETH:

.....WHEREAS, in addition to 1997 base compensation, incentive compensation payable in the form of a single sum cash bonus may be paid to Officer in 1998 for outstanding performance in 1997 ("1998 Bonus");

.....WHEREAS, Officer and Company desire that the payment of said 1997 base compensation and/or 1998 bonus to Officer be deferred, pursuant to the terms and provisions of this Agreement; and

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

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

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

.....3....There shall be credited to Officer's account an additional amount equal to seven and eighty-five one-hundredths percent (7.85%) 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 Enova Corporation 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 Board of Directors or 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 Board or Committee except that the Board or 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.....All amounts credited to Officer's account pursuant to paragraphs 2 and 3 hereof may be used to purchase common stock of Enova Corporation or other equity securities, subject to the following conditions:

.....a.....All such purchases must be made through a stock equivalent tracking device, a "rabbi trust" or other similar instrument that causes the deferred amount not to become taxable;

.....b.....Equity securities of other entities may be purchased only if the Officer has met or is expected to meet, under the normal course of events, the Company's Enova Corporation stock ownership requirement;

.....c.....If the Officer becomes subject to a higher Enova Corporation stock ownership requirement, the Officer may retain any then current investment in equity securities of other entities, but shall not make additional purchases of other equity securities until the higher Enova Corporation stock ownership requirement has been met or is expected to be met under the normal course of events; and

.....d.....All such purchases must be made in accordance with applicable Company procedures, as they may be amended from time to time.

.....6.....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.

.....7.....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. Except as provided in paragraph 5 of this Agreement, 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.

.....8.....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.

.....9.....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 paragraph 3 of this Agreement.

.....10.....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 Company nor has Officer relied upon information provided by Company in electing to make this deferral.

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

OFFICER.....COMPANY

.....By _____
Signature of Officer..... Company _____
.....Title _____

ENOVA CORPORATION
1997 DEFERRED COMPENSATION AGREEMENT
FOR OFFICERS #3

THIS AGREEMENT is made and entered into this ____ day of December, 1996, by and between Enova Corporation or any of its subsidiaries (hereinafter "Company") and _____ (hereinafter "Officer"), an elected Officer of Company.

WITNESSETH:

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

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

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

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

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

2. Company shall credit to an account on Company's books, in Officer's name, that percentage of Officer's 1997 base compensation (in equal biweekly installments of whole dollar amounts) and 1998 bonus otherwise payable to Officer as may be specified by Officer in this Agreement's Election Form. The amount credited under this paragraph 2 may not exceed the percentage of Officer's 1997 base compensation and 1998 bonus that may be contributed as Pretax Contributions or After-tax Contributions under the terms of the Savings Plan (determined prior to any reduction of such percentage required under applicable law), reduced by any amount contributed by Officer as After-tax Contributions or on Officer's behalf as Pretax Contributions to the Savings Plan. Further, the amount credited under this paragraph 2 shall be limited to an amount which, when added to Company's matching contribution under paragraph 3 of this Agreement and all allocations to his or her accounts under the Savings Plan, does not exceed the maximum amount that could have been allocated to Officer's Savings Plan accounts pursuant to Section 415 of the Code, as in effect prior to the enactment of the 1986 Tax Act. For purposes of this paragraph 2, "base compensation and bonus" shall include Officer's Pretax Contributions to the Savings Plan. Company 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, Company shall also credit to Officer's account, as a matching contribution, an amount equal to the Company Matching Contributions that would have been contributed on Officer's behalf to the Savings Plan, if any, (reduced by Matching Contributions actually made to the Savings Plan for Officer) under the provisions of the Code prior to enactment of the 1986 Tax Act, if the amount deferred under paragraph 2 had been contributed to the Savings Plan as Pretax Contributions or After-tax Contributions.

4. There shall be credited to Officer's account an additional amount equal to seven and eighty-five one-hundredths percent (7.85%) per annum computed on the balance in Officer's account as of the end of each

month. Company 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 Enova Corporation 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 Company.

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 Company's Board of Directors or Executive Compensation 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 Board or Committee except that the Board or 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 Board or 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 Board or Committee except that the Board or 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 Company or, if no designation is made, to the beneficiary's estate.

7. All amounts credited to Officer's account pursuant to paragraphs 2, 3 and 4 hereof may be used to purchase common stock of Enova Corporation or other equity securities, subject to the following conditions:

a. All such purchases must be made through a stock equivalent tracking device, a "rabbi trust" or other similar instrument that causes the deferred amount not to become taxable;

b. Equity securities of other entities may be purchased only if the Officer has met or is expected to meet, under the normal course of events, the Company's Enova Corporation stock ownership requirement;

c. If the Officer becomes subject to a higher Enova Corporation stock ownership requirement, the Officer may retain any then current investment in equity securities of other entities, but shall not make additional purchases of other equity securities until the higher Enova Corporation stock ownership requirement has been met or is expected to be met under the normal course of events; and

d. All such purchases must be made in accordance with applicable Company procedures, as they may be amended from time to time.

8. 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.

9. 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 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. Except as provided in paragraph 7 of this Agreement, 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 Officer nor any other person shall, under this Agreement, have any property interest whatsoever in any specific assets of Company.

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

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

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

13. 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 Company nor has Officer relied upon information provided by Company in electing to make this deferral.

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

OFFICER

COMPANY

Signature of Officer

By _____
Company _____
Title _____

ENOVA CORPORATION
.....1997 DEFERRED COMPENSATION AGREEMENT
.....FOR NONEMPLOYEE DIRECTORS

.....THIS AGREEMENT, made and entered into this _____ day of December, 1996, by and between Enova Corporation or any of its subsidiaries, (hereinafter "Company") and _____ (hereinafter "Director"), a member of the Board of Directors of Company (hereinafter the "Board"),

.....WITNESSETH:

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

.....WHEREAS, Director and Company 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....Company shall credit to an account on Company'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 Company simultaneously with the execution of this Agreement.

.....3....There shall be credited to Director's account an additional amount equal to seven and eighty-five one-hundredths percent (7.85%) per annum computed on the balance in Director'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 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 Enova Corporation 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 Company.

.....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 Company and the Director 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 Director 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 Director any right to continue to serve as a Director for any period of time.

.....8....This Agreement may be terminated by Company 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 Company nor has Director relied upon information provided by Company in electing to make this deferral.

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

NONEMPLOYEE DIRECTOR.....COMPANY

..... By _____
Signature of Nonemployee Director. Company _____
.....Title _____

ENOVA CORPORATION
1986 LONG-TERM INCENTIVE PLAN
1996 RESTRICTED STOCK AWARD AGREEMENT

THIS RESTRICTED STOCK AWARD AGREEMENT (the "Agreement") is entered into this _____ day of _____, 1996, by and between ENOVA CORPORATION, a California corporation ("Enova") and _____ ("Participant").

.....WHEREAS, the Boards of Directors of Enova and San Diego Gas & Electric Company ("SDG&E") ("the Boards") have adopted the Enova Corporation 1986 Long-Term Incentive Plan (the "Plan"), which provides for the granting to selected employees of Enova and its subsidiaries of awards of Common Stock of Enova Corporation ("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 Enova and its subsidiaries;

.....WHEREAS, Participant is a selected employee of Enova and/or one of its subsidiaries; and

.....WHEREAS, the Executive Compensation Committees of the Boards of Enova and SDG&E (the "Committees") have authorized, and the Boards have 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 agree as follows:

1.....Grant of Restricted Stock Award

.....Enova 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 Boards 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 Enova Corporation Common Stock, (the "Shares").

2.....Receipt and Transfer of Shares

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

3.....Shareholder of Record

.....Enova agrees that Participant shall be deemed a shareholder of record with respect to the Shares on the date first written above.

4.....Restricted Term

.....The Restricted Term with respect to the Shares shall commence on the date first above written. The restrictions will be removed from and the restricted term will expire on one quarter of the restricted shares after the end of each of the years 1997, 1998, 1999 and 2000:

.....a.....If, at the end of each of such year the Corporation's earnings per share meet or exceed the target earnings per share as set

by the Executive Compensation Committee.

.....b.....If, beginning in 1998, at the end of any quarter, the published quarterly earnings meet or exceed the previous year's target earnings plus 25% of the annual target increase per quarter.

.....c.....At the end of 2000, the remaining restricted shares not released previously may be released in the discretion of the Board dependent upon the impact on 1997 through 2000 earnings of industry and corporate restructuring during such period.

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

5....Voting and Other Rights

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

6.....Restrictions On Inter Vivos Transfer

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

....."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 ENOVA CORPORATION'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 Enova and/or one of its subsidiaries at any time before the end of the Restricted Term for any reason, Participant shall deliver to Enova all certificates evidencing the Shares subject to the Restricted Term, accompanied by stock powers and other instruments of transfer duly executed by Participant to transfer such shares to Enova.

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 Enova in an amount sufficient to satisfy any taxes or other amounts Enova determines is required by any governmental authority to be withheld and paid over by Enova or any of its subsidiaries to such authority for the account of Participant (collectively, "Withholding Taxes"), or shall otherwise make arrangements satisfactory to Enova 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 6, 1996. For purposes of paragraph 8(b), the date shall be 30 days after the restrictions are removed. Participant shall, if requested by Enova, make appropriate representations in a form satisfactory to Enova 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 Enova 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 Enova shares of Common Stock, no par value, of Enova, 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 Enova 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 Enova 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 in compliance with Rule 16b-3(e) promulgated under said Section 16(b) or any successor regulation promulgated thereunder.

10....Delivery of Shares

.....Upon expiration of the Restricted Term applicable to any shares as provided in the manner stated in paragraph 4 above and payment by the Participant as required in paragraph 9 above, the Secretary or Assistant Secretary of Enova 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 2000 the restrictions have not been removed from and the Restricted Term has not expired on any of the shares received by Participant under this Agreement, Participant shall deliver to Enova all certificates evidencing such shares accompanied by stock powers and other instruments of transfer duly executed by Participant to transfer such shares to Enova.

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

.....Participant's right, if any, to continue to serve Enova and/or 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 Enova and/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 Enova:.....Enova Corporation
.....P. O. Box 129400
.....San Diego, CA 92112-9400

.....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.....ENOVA CORPORATION

By:_____

Signature of Participant
.....Title:_____

(Effective Until Closing of
Transaction with Pacific Enterprises, Inc.)

SAN DIEGO GAS & ELECTRIC COMPANY
SEVERANCE PLAN

I. PURPOSE AND OBJECTIVE

To provide a separation pay allowance to help meet Eligible Employees' immediate financial burden associated with being involuntarily and permanently terminated under conditions described in the Plan. This Plan supersedes the previous Severance Plan dated August 22, 1994, as of the Effective Date.

II. RESPONSIBILITY

The Company, through its Division and Department heads, is responsible for administering the Plan.

The Company, through its Human Resources Division, is responsible for providing further interpretation and guidance.

The business decisions, the manner in which they are carried out that may result in the termination of an employee, and the reason for termination (including resignation in lieu of discharge) are decisions to be made by the Company in its sole discretion. In making these decisions, the Company is not required to treat similarly situated employees in the same manner.

III. ELIGIBILITY

A. "Eligible Employee" includes an employee whose job is terminated by the Company, who is not covered by any other severance plan adopted by the Company, and who:

1. is a regular non-bargaining unit employee working as a full-time, part-time, or call-in employee of the Company, or a regular non-bargaining unit full-time, part-time or call-in employee on medical leave, military leave or long-term disability;
2. has received written notice that employment will be terminated;
3. continues as a satisfactory employee until released by the Company in accordance with its business needs;
4. abides by such other written terms and conditions as the Company has established as a condition for participation in, or payment of, benefits from the Plan; and
5. is not excluded as provided below.

B. Eligible Employees exclude employees:

1. whose employment terminates due to death;
2. whose employment terminates because of unsatisfactory performance, the employee is discharged for cause, and/or resigns in lieu of discharge for cause, all as determined by the Company;
3. who accept employment with an organization that is affiliated (directly or indirectly) with the

Company;

4. who voluntarily terminate employment with the Company for any reason except as provided in IV.C below; or
 5. who are temporary workers (agency or independent), interns, independent contractors, employment contract employees, student employees, or employees covered by a collective bargaining agreement that does not provide for Plan participation.
- C. Participation in the Plan commences when an EligibleEmployee receives the notice of employment termination referred to above. An Eligible Employee who commences participation in the Plan is called a "Participant" in the Plan.

IV. BENEFITS

- A. Introduction. For purposes of determining Plan Benefits, the following shall apply:
1. "Annual Pay" means Base Salary multiplied by 52.
 2. "Base Salary" means average regular straight time weekly base pay in effect during the month preceding termination of employment with the Company, excluding overtime, shift differentials, Bonus Awards and other special payments determined by the Company in its sole discretion.
 3. "Years of Continuous Service" means the number of years since Hire Date a person has been continuously employed as an active regular full-time, part-time or call-in employee of the Company or its predecessors, as determined by the Company.

An Eligible Employee who is a call-in or regular part-time employee entitled to these benefits will receive pro-rated severance benefits as follows:
 - a. Add the total number of hours worked during the preceding ten (10) years.
 - b. Divide by 2,087 hours for non-exempt employees and 2,080 hours for exempt employees.
 - c. The resulting number, excluding fraction, will constitute Years of Continuous Service completed under the Plan.
 4. "Hire Date" shall be, except as provided in a collective bargaining agreement, the date a person was hired by SDG&E as a non-bargaining unit regular full-time employee, a non-bargaining unit regular part-time employee, or a non-bargaining unit call-in Employee, whichever occurred first.
 5. "Final Salary" means the Participant's Base Salary plus his or her Bonus Awards.
 6. "Bonus Awards" means the gross cash amounts awarded under the San Diego Gas & Electric Company Senior Management Incentive Compensation Plan or Compensation Incentive Plan during the 12-month period ending on the date of the Participant's termination of employment divided by 52.
 7. If, in the sole judgment of the Company, an Eligible Employee is terminated, and the Eligible Employee's services can be used for a period equal to the weeks of Plan Benefits or if there is a

reasonable possibility that a job for which the Eligible Employee is qualified may become open within such period, the Company may, in its sole discretion, permit an Eligible Employee to elect between remaining on the payroll for the period of time equal to the Plan Benefits or receiving the actual Plan Benefits.

B. Benefits Without Change in Control or Other Corporate Events.

1. Basic Benefit. In the absence of termination in connection with certain corporate events described in Section IV.C., Plan Benefits will be paid in one lump sum at termination accordance with one of the following schedules, as determined in Paragraph 2.

| Years of Continuous Service Completed | Schedule A Without Release Weeks of Base Salary Paid | Schedule B With Release Weeks of Final Salary Paid |
|--|---|---|
| Less than 2 | 1 | 2 |
| At least 2, but less than 4 | 1 | 3 |
| At least 4, but less than 6 | 2 | 4 |
| At least 6, but less than 8 | 2 | 5 |
| At least 8, but less than 10 | 2 | 6 |
| At least 10, but less than 12 | 3 | 7 |
| At least 12, but less than 14 | 4 | 8 |
| At least 14, but less than 15 | 5 | 9 |
| At least 15, but less than 16 | 5 | 10 |
| At least 16, but less than 17 | 5 | 11 |
| At least 17, but less than 18 | 6 | 12 |
| At least 18, but less than 19 | 6 | 13 |
| At least 19, but less than 20 | 6 | 14 |
| At least 20, but less than 21 | 7 | 15 |
| At least 21, but less than 22 | 7 | 16 |
| At least 22, but less than 23 | 7 | 17 |
| At least 23, but less than 24 | 8 | 18 |
| At least 24, but less than 25 | 8 | 19 |
| At least 25, but less than 26 | 8 | 20 |
| At least 26, but less than 27 | 9 | 21 |
| At least 27, but less than 28 | 9 | 22 |
| At least 28, but less than 29 | 10 | 23 |
| At least 29, but less than 30 | 10 | 24 |

2. Release from Claims. Participants who sign a release of all known and unknown claims in such form as the Company determines shall receive Plan Benefits under Schedule B of Paragraph 1. Other Participants shall receive Plan Benefits under Schedule A of Paragraph 1.
 - a. As an additional benefit, Participants under age 40 who sign such a release will receive continuation of all group medical insurance, and 50% of the AD&D and 50% of the life insurance in force as of the of termination for the Participant and existing covered dependents for the number of weeks of Final Salary (minimum of four) represented by Schedule B of Paragraph 1. The Company will continue to pay its share of the premiums, and the Company will deduct the Participant's share of such premiums from the Participant's lump sum check.
 - b. As an additional benefit, Participants over age 40 who sign such a release which waives claims under the Age Discrimination in Employment Act will receive continuation of all group medical insurance, and 50% of the AD&D and 50% of the life insurance in force as of the date of termination for the employee and existing covered dependents for the number of weeks of Final Salary (minimum of four) represented by Schedule B of Paragraph 1. The Company will continue to pay its share of the premiums, and the Company will also pay the Participant's share of such premiums. Company will not pay for dependent coverage for life and AD&D.
 - c. For purposes of computing Plan Benefits under this Section IV.B., Participants who are participants in the Senior Management Incentive Plan and who sign such release shall receive, at a minimum, the same Plan Benefits as Participants who have completed exactly 18 Years of Continuous Service.

C. Benefits Upon Change in Control and Other Corporate Events.

1. In General.

- a. Involuntary Termination upon Change in Control. An otherwise Eligible Employee who is involuntarily terminated for other than cause, death, or disability within two years after a Change in Control will receive a Plan Benefit based upon Final Salary, pursuant to Paragraph 2 below. A Change in Control shall mean:
 - i. a reorganization, merger or consolidation of the Company with one or more corporations;
 - ii. the acquisition of beneficial ownership, directly or indirectly, of more than 30 percent of the voting power of the outstanding stock of the Company by one person, group, association, corporation or

entity 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

iii. the sale of all or substantially all the property of the Company.

iv. Notwithstanding i., ii., or iii. above, no Change in Control shall be deemed to occur with respect to any reorganization, merger, consolidation or sale entered into voluntarily by the Company:

(a) in which the Company survives a direct or indirect subsidiary of a public company, or

(b) in which members of the company's Board of Directors constitute a majority of the members of Board of Directors of the surviving company, and the shareholders of the Company constitute a majority of the shareholders of the surviving company.

b. Voluntary Termination for Good Reason. An otherwise Eligible Employee who voluntarily terminates employment for Good Reason within two years following a Change in Control (as defined in Paragraph 2 above), will receive a Plan Benefit based upon Final Salary, pursuant to Paragraph 2 below. Good Reason shall mean:

i. a significant reduction in Base Salary for reasons not related to performance,

ii. elimination or significant reduction of the aggregate value of health, dental, disability and life coverage, or

iii. involuntary transfer to a new business location outside the San Diego Gas & Electric Company service territory.

c. Sale of Work Unit. A Participant will receive a Plan Benefit based upon Final Salary, pursuant to Paragraph 2, below, if he or she is terminated under the following circumstances: unless the purchaser of a work unit assumes the obligations of this Plan, such benefits will be paid to a Participant employed by such work unit who is either: (i) terminated following the sale of the work unit and not rehired by the purchaser within two months from the date of the sale and retained for a period of at least unacceptable performance is not an issue.

2. Corporate Event Benefit.

In the event of termination in connection with certain corporate events described in this Section IV.C., Plan Benefits shall be paid in one lump sum at termination in an amount equal to Final Salary multiplied by the number of

credits determined below and under Paragraph 3:

| Years of Continuous Service Completed | Weeks of Final Salary | |
|--|-------------------------------|----------------------------|
| | Schedule A Without Release | Schedule B With Release |
| Less than 2 | 2 | 4 |
| At least 2, but less than 4 | 2 | 6 |
| At least 4, but less than 6 | 3 | 8 |
| At least 6, but less than 8 | 3 | 10 |
| At least 8, but less than 10 | 3 | 12 |
| At least 10, but less than 12 | 4 | 17 |
| At least 12, but less than 14 | 5 | 21 |
| At least 14, but less than 15 | 6 | 24 |
| At least 15, but less than 16 | 7 | 27 |
| At least 16, but less than 17 | 8 | 30 |
| At least 17, but less than 18 | 9 | 33 |
| At least 18, but less than 19 | 10 | 36 |
| At least 19, but less than 20 | 11 | 39 |
| At least 20, but less than 21 | 12 | 44 |
| At least 21, but less than 22 | 13 | 47 |
| At least 22, but less than 23 | 14 | 50 |
| At least 23, but less than 24 | 15 | 53 |
| At least 24, but less than 25 | 16 | 56 |
| At least 25, but less than 26 | 17 | 61 |
| At least 26, but less than 27 | 18 | 64 |
| At least 27, but less than 28 | 19 | 67 |
| At least 28, but less than 29 | 20 | 70 |
| At least 29, but less than 30 | 21 | 73 |
| 30 or more | 22 | 78 |

3. Release from Claims. If Participant voluntarily signs a release of all known and unknown claims in such form as the Company prepares, then the Participant shall be entitled to the severance payment under Schedule B of Paragraph 2, or, if greater, the amount in Schedule B of IV.B.1. Other Participants will receive benefits under Schedule A of Paragraph 2.

a. As an additional benefit, a Participant under age 40 who signs such a release will receive continuation of all group medical insurance, and 50% of the AD&D and 50% of the life insurance in force as of the date of termination for the Participant and existing covered dependents for the number of weeks of Final Salary (minimum of four)

represented in Schedule B of Paragraph 2. The Company will continue to pay its share of the premiums, and the Company will deduct the employee's share of such premiums from the Participant's lump check.

- b. As an additional benefit, a Participant over age 40 who signs such a release which waives claims under the Age Discrimination in Employment Act will receive continuation of all group medical insurance, and 50% of the AD&D and 50% of the life insurance in force as of the date of termination for the Participant and existing covered dependents for the number of weeks of Final Salary (minimum of four) represented in Schedule B of Paragraph 2. The Company will continue to pay its share of the premiums, and the Company will also pay the Participant's share of such premiums. The Company will not pay for dependent coverage for life and AD&D.
- c. For purposes of computing severance allowances pursuant to this IV.C., Participants who are participants in the Senior Management Incentive Plan and who sign such release will receive, at a minimum, the same Plan Benefits Paragraph 2 as Participants who have completed exactly 19 years of Continuous Service.

V. GENERAL

- A. The Board of Directors reserves the right to change, amend or terminate the Plan at any time for any reason, however no such amendment or termination shall affect the right to any unpaid Plan Benefit of any Participant whose employment was terminated prior to the adoption of the amendment or resolution to terminate the Plan.
- B. The Company is the Plan Administrator and the Plan Sponsor for purposes of the Employee Retirement Income Security Act of 1974 ("ERISA"). The Company has the complete discretion and responsibility to interpret the Plan. All actions by the Company are final, binding, and conclusive.
- C. As to participants in the Savings Plan and/or the Pension Plan, participation will stop on the termination date. The employee will receive information about rights under those plans.
- D. If an employee who is eligible for a Plan Benefit dies after termination and prior to the payment of the Plan Benefit, the Plan Benefit will be paid in a single lump sum to the spouse, if any. If no spouse survives, the payment will be made to the employee's estate.
- E. To the full extent permitted by law, except as provided in the Plan, no Plan Benefit hereunder shall be subject to anticipation, alienation, sale, transfer, assignment, pledge, encumbrance or change, and any attempt to do so shall be void.
- F. The Effective Date of this Plan is October 12, 1996. This Plan is drawn under and shall be construed in accordance with ERISA and, to the extent not preempted by ERISA, with the laws of the State of California.
- G. The Company shall be responsible for paying all benefits

under the Plan. The Plan shall be unfunded and benefits hereunder shall be paid only from the general assets of the Company. All or part of any benefits paid under the Plan may be credited to any statutory amounts to which employees are entitled upon termination to the extent allowed by applicable law.

- H. Claims for benefits should be made in writing to the Company Attention: Human Resources Department, pursuant to the claims procedure set forth in the Employee Handbook. For a discussion of other plan information and your ERISA rights, please see the Employee Handbook.

Adopted the _____ of October, 1996

Margot Kyd, Vice President
Human Resources

(Effective as of Closing of
Transaction with Pacific Enterprises, Inc.)

SAN DIEGO GAS & ELECTRIC COMPANY
SEVERANCE PLAN

I. PURPOSE AND OBJECTIVE

To provide a separation pay allowance to help meet Eligible Employees' immediate financial burden associated with being involuntarily and permanently terminated under conditions described in the Plan. This Plan supersedes the previous Severance Plan dated October 12, 1996, as of the Effective Date.

II. RESPONSIBILITY

The Company, through its Division and Department heads, is responsible for administering the Plan.

The Company, through its Human Resources Division, is responsible for providing further interpretation and guidance.

The business decisions, the manner in which they are carried out that may result in the termination of an employee, and the reason for termination (including resignation in lieu of discharge) are decisions to be made by the Company in its sole discretion. In making these decisions, the Company is not required to treat similarly situated employees in the same manner.

III. ELIGIBILITY

A. "Eligible Employee" includes an employee whose job is terminated by the Company, who is not covered by any other severance plan adopted by the Company, and who:

1. is a regular non-bargaining unit employee working as a full-time, part-time, or call-in employee of the Company, or a regular non-bargaining unit full-time, part-time or call-in employee on medical leave, military leave or long-term disability;
2. has received written notice that employment will be terminated;
3. continues as a satisfactory employee until released by the Company in accordance with its business needs;
4. abides by such other written terms and conditions as the Company has established as a condition for participation in, or payment of, benefits from the Plan; and
5. is not excluded as provided below.

B. Eligible Employees exclude employees:

1. whose employment terminates due to death;
2. whose employment terminates because of unsatisfactory performance, the employee is discharged for cause, and/or resigns in lieu of discharge for cause, all as determined by the Company;
3. who accept employment with an organization that is affiliated (directly or indirectly) with the Company;

4. who voluntarily terminate employment with the Company for any reason except as provided in IV.C below; or
 5. who are temporary workers (agency or independent), interns, independent contractors, employment contract employees, student employees, or employees covered by a collective bargaining agreement that does not provide for Plan participation.
- C. Participation in the Plan commences when an Eligible Employee receives the notice of employment termination referred to above. An Eligible Employee who commences participation in the Plan is called a "Participant" in the Plan.

IV. BENEFITS

- A. Introduction. For purposes of determining Plan Benefits, the following shall apply:
1. "Annual Pay" means Base Salary multiplied by 52.
 2. "Base Salary" means average regular straight time weekly base pay in effect during the month preceding termination of employment with the Company, excluding overtime, shift differentials, Bonus Awards and other special payments determined by the Company in its sole discretion.
 3. "Years of Continuous Service" means the number of years since Hire Date a person has been continuously employed as an active regular full-time, part-time or call-in employee of the Company or its predecessors, as determined by the Company.

An Eligible Employee who is a call-in or regular part-time employee entitled to these benefits receive pro-rated severance benefits as follows:
 - a. Add the total number of hours worked during preceding ten (10) years.
 - b. Divide by 2,087 hours for non-exempt employees and 2,080 hours for exempt employees.
 - c. The resulting number, excluding fraction, will constitute Years of Continuous Service completed under the Plan.
 4. "Hire Date" shall be, except as provided in a collective bargaining agreement, the date a person was hired by SDG&E as a non-bargaining unit regular full-time employee, a non-bargaining unit regular part-time employee, or a non-bargaining unit call-in Employee, whichever occurred first.
 5. "Final Salary" means the Participant's Base Salary plus his or her Bonus Awards.
 6. "Bonus Awards" means the gross cash amounts awarded under the San Diego Gas & Electric Company Senior Management Incentive Compensation Plan or Compensation Incentive Plan during the 12-month period ending on the date of the Participant's termination of employment divided by 52.
 7. If, in the sole judgment of the Company, an Eligible Employee is terminated, and the Eligible Employee's services can be used for a period equal to the weeks of Plan Benefits or if there is a reasonable possibility that a job for which the Eligible Employee is qualified may become open within such

period, the Company may, in its sole discretion, permit an Eligible Employee to elect between remaining on the payroll for the period of time equal to the Plan Benefits or receiving the actual Plan Benefits.

B. Benefits Without Change in Control or Other Corporate Events.

1. Basic Benefits. In the absence of termination in connection with certain corporate events described in Section IV.C., Plan Benefits will be paid in one lump sum at termination in accordance with one of the following schedules, as determined in Paragraph 2.

Schedule A, Without Signed Release. Plan Benefits are determined by multiplying Base Salary by the number of credits determined as follows.

| Years of Continuous Service Completed | Credits |
|---------------------------------------|---------|
| Less than 4 | 1 |
| At least 4, but less than 10 | 2 |
| At least 10, but less than 12 | 3 |
| At least 12, but less than 14 | 4 |
| At least 14, but less than 17 | 5 |
| At least 17, but less than 20 | 6 |
| At least 20, but less than 23 | 7 |
| At least 23, but less than 26 | 8 |
| At least 26, but less than 28 | 9 |
| At least 28 | 10 |

Schedule B, with Signed Release. Plan Benefits are determined by multiplying Final Salary by the number of credits determined as the sum of the following: (1) one credit for each Year of Continuous Service; (2) one credit for each full \$10,000 of Annual Pay; and (3) one credit for each full \$10,000 of Annual Pay in excess of \$40,000. Notwithstanding the above, the minimum number of total credits shall be six and the maximum number of total credits shall be 52.

2. Participants who sign a release of all known and unknown claims in such form as the Company determines shall receive Plan Benefits under Schedule B of Paragraph 1. Other Participants shall receive Plan Benefits under Schedule A of Paragraph 1.
 - a. As an additional benefit, Participants under age 40 who sign such a release will receive continuation of all group medical insurance, and 50% of the AD&D and 50% of the life insurance in four) represented by item 1, Schedule B of Paragraph 1. The Company will continue to pay its share of the premiums, and the Company will deduct the Participant's share of such premiums from the Participant's lump sum check.
 - b. As an additional benefit, Participants over age 40 who sign such a release which waives claim under the Age Discrimination in Employment Act

will receive continuation of all group medical insurance, and 50% of the AD&D and 50% of the life insurance in force as of the date of termination for the employee and existing covered dependents for the number of weeks of Base Salary (minimum of four) represented by item 1, Schedule B of Paragraph 1. The Company will continue to pay its share of the premiums, and the Company will also pay the Participant's share of such premiums. Company will not pay for dependent coverage for life and AD&D.

- c. For purposes of computing Plan Benefits under this Section IV.B., Participants who are participants in the Senior Management Incentive Plan and who sign such release shall receive, at a minimum, 13 credits under Schedule B of Paragraph 1.

C. Benefits Upon Change in Control and Other Corporate Events.

1. In General.

- a. Involuntary Termination Upon Change in Control. An otherwise Eligible Employee who is involuntarily terminated for other than cause, death, or disability within two years after a Change in Control will receive a Plan Benefit based upon Final Salary, pursuant to Paragraph 2 below. A Change in Control shall mean:

- i. a reorganization, merger or consolidation of the Company with one or more corporations;
- ii. the acquisition of beneficial ownership, directly or indirectly, of more than 30 percent of the voting power of the outstanding stock of the Company by one person, group, association, corporation or other entity 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
- iii. the sale of all or substantially all the property of the Company.
- iv. Notwithstanding i., ii., or iii. above, no Change in Control shall be deemed to occur with respect to any reorganization, merger, consolidation or sale entered into voluntarily by the Company:

- (a) in which the Company survives as a direct or indirect subsidiary of a public company, or
- (b) in which members of the company's Board of Directors constitute a majority of the members of the Board of Directors of the surviving company, and the shareholders of the Company constitute a majority of the shareholders of the surviving company.

- b. Voluntary Termination for Good Reason. An otherwise Eligible Employee who voluntarily terminates employment for Good Reason within two years following a Change in Control (as defined above), will receive a Plan Benefit based upon Final Salary, pursuant to Paragraph 2 below. Good Reason shall mean:

- i. a significant reduction in Base Salary for reasons not related to performance,
 - ii. elimination or significant reduction of the aggregate value of health, dental, disability and life coverage, or
 - iii. involuntary transfer to a new business location outside the San Diego Gas & Electric Company's service territory.
 - c. Sale of Work Unit. A Participant will receive a Plan Benefit based upon Final Salary, pursuant to Paragraph 2 below, if he or she is terminated under the following circumstances: unless the purchaser of a work unit assumes the obligations of this Plan, such benefits will be paid to a Participant employed by such work unit who is either: (i) terminated following the sale of the work unit and not rehired by purchaser within two months from the date of the sale and retained for a period of at least six months, or (ii) not retained by the purchaser for a period of at least six months beyond the date of sale, in either case where unacceptable performance is not an issue.
2. Corporate Event Benefit. In the event of termination in connection with certain corporate events described in this Section IV.C., Plan Benefits shall be paid in one lump sum at termination in an amount equal to Final multiplied by the number of credits determined below and under Paragraph 3:

| Years of Continuous Service Completed | Schedule A, Credits Without Release | Schedule B, Credits With Release |
|---------------------------------------|-------------------------------------|----------------------------------|
| Less than 2 Yrs. | 2 | 4 |
| 2 Yrs. but less than 4 | 2 | 6 |
| 4 Yrs. but less than 6 | 3 | 8 |
| 6 Yrs. but less than 8 | 3 | 10 |
| 8 Yrs. but less than 10 | 3 | 12 |
| 10 Yrs. but less than 15 | 4 | 17 |
| 12 Yrs. but less than 14 | 5 | 21 |
| 14 Yrs. but less than 15 | 6 | 24 |
| 15 Yrs. but less than 16 | 7 | 27 |
| 16 Yrs. but less than 17 | 8 | 30 |
| 17 Yrs. but less than 18 | 9 | 33 |
| 18 Yrs. but less than 19 | 10 | 36 |
| 19 Yrs. but less than 20 | 11 | 39 |
| 20 Yrs. but less than 21 | 12 | 44 |
| 21 Yrs. but less than 22 | 13 | 47 |
| 22 Yrs. but less than 23 | 14 | 50 |

| | | |
|--------------------------|----|----|
| 23 Yrs. but less than 24 | 15 | 53 |
| 24 Yrs. but less than 25 | 16 | 56 |
| 25 Yrs. but less than 26 | 17 | 61 |
| 26 Yrs. but less than 27 | 18 | 64 |
| 27 Yrs. but less than 28 | 19 | 67 |
| 28 Yrs. but less than 29 | 20 | 70 |
| 29 Yrs. but less than 30 | 21 | 73 |
| 30 Yrs. or more | 22 | 78 |

3. Release from Claims. If Participant voluntarily signs a release of all known and unknown claims in such form as the Company prepares, then the Participant shall be entitled to the severance payment under Schedule B of Paragraph 2, or, if greater, the amount in Schedule B of IV.B.1. Other Participants will receive benefits under Schedule A of Paragraph 2.

- a. As an additional benefit, a Participant under age 40 who signs such a release will receive continuation of all group medical insurance, and 50% of the AD&D and 50% of the life insurance in force as of the date of termination for the Participant and existing covered dependents for the number of weeks of Final Salary (minimum of four) represented in Schedule B of Paragraph 2. The Company will continue to pay its share of the premiums, and the Company will deduct the employee's share of such premiums from the Participant's lump sum check.
- b. As an additional benefit, a Participant over age 40 who signs such a release which waives claims under the Age Discrimination in Employment Act will receive continuation of all group medical insurance, and 50% of the AD&D and 50% of the life insurance in force as of the date of termination for the Participant and existing covered dependents for the number of weeks of Final Salary (minimum of four) represented in Schedule B of Paragraph 2. The Company will continue to pay its share of the premiums, and the Company will also pay the Participant's share of such premiums. The Company will not pay for dependent coverage for life and AD&D.
- c. For purposes of computing severance allowances pursuant to this IV.C., Participants who are participants in the Senior Management Incentive Plan and who sign such release will receive, at a minimum, the same Plan Benefits under Paragraph 2 as Participants who have completed exactly 19 years of Continuous Service.

V. GENERAL

- A. The Board of Directors reserves the right to change, amend or terminate the Plan at any time for any reason, however no such amendment or termination shall affect the right to any unpaid Plan Benefit of any Participant whose employment was terminated prior to the adoption of the amendment or resolution to terminate the Plan.
- B. The Company is the Plan Administrator and the Plan Sponsor for purposes of the Employee Retirement Income Security Act of 1974 ("ERISA"). The Company has the

complete discretion and responsibility to interpret the Plan. All actions by the Company are final, binding, conclusive.

- C. As to participants in the Savings Plan and/or the Pension Plan, participation will stop on the termination date. The employee will receive information about rights under those plans.
- D. If an employee who is eligible for a Plan Benefit dies after termination and prior to the payment of the Plan Benefit, the Plan Benefit will be paid in a single lump sum to the spouse, if any. If no spouse survives, payment will be made to the employee's estate.
- E. To the full extent permitted by law, except as provided in the Plan, no Plan Benefit hereunder shall be subject to anticipation, alienation, sale, transfer, assignment, pledge, encumbrance or change, and any attempt to do so shall be void.
- F. The Effective Date of this Plan is as of the closing of a transaction whereunder Enova Corporation becomes a wholly owned subsidiary of a public company which also owns all shares of Pacific Enterprises, Inc. In the event such transaction does not occur by January 1, 1999, the terms of this amended and restated Plan shall not apply. This Plan is drawn under and shall be construed in accordance with ERISA and, to the extent not preempted by ERISA, with the laws of the State of California.
- G. The Company shall be responsible for paying all benefits under the Plan. The Plan shall be unfunded and benefits hereunder shall be paid only from the general assets of the Company. All or part of any benefits paid under the Plan may be credited to any statutory amounts to which employees are entitled upon termination to the extent allowed by applicable law.
- H. Claims for benefits should be made in writing to the Company, Attention: Human Resources Department, pursuant to the claims procedure set forth in the Employee Handbook. For a discussion of other plan information and your ERISA rights, please see the Employee Handbook.

Adopted the _____ of October, 1996

Margot Kyd, Vice President
Human Resources

LOAN AGREEMENT

Between

CITY OF CHULA VISTA

And

SAN DIEGO GAS & ELECTRIC COMPANY

Dated as of August 1, 1996

Relating to

\$38,900,000
City of Chula Vista
Industrial Development Revenue Bonds
(San Diego Gas & Electric Company)
1996 Series A

LOAN AGREEMENT

TABLE OF CONTENTS

| | Page |
|--|------|
| PARTIES | 1 |
| PREAMBLES | |
| 1 | |
| ARTICLE I | |
| DEFINITIONS | |
| SECTION 1.1. | 2 |
| SECTION 1.2. | 2 |
| SECTION 1.3. | 2 |
| ARTICLE II | |
| REPRESENTATIONS | |
| SECTION 2.1. | 2 |
| SECTION 2.2. | 3 |
| ARTICLE III | |
| ISSUANCE OF THE BONDS; APPLICATION OF PROCEEDS | |
| SECTION 3.1. | 4 |
| SECTION 3.2. | 4 |
| SECTION 3.3. | 4 |
| ARTICLE IV | |
| LOAN TO BORROWER; REPAYMENT PROVISIONS | |
| SECTION 4.1. | 5 |

| | | |
|--------------|--|---|
| SECTION 4.2. | REPAYMENT AND PAYMENT OF OTHER AMOUNTS PAYABLE | 5 |
| SECTION 4.3. | UNCONDITIONAL OBLIGATION | 7 |
| SECTION 4.4. | ASSIGNMENT OF CITY'S RIGHTS | 7 |
| SECTION 4.5. | AMOUNTS REMAINING IN FUNDS | 7 |
| SECTION 4.6. | CREDIT FACILITY | 8 |

ARTICLE V

SPECIAL COVENANTS AND AGREEMENTS

| | | |
|--------------|--|----|
| SECTION 5.1. | RIGHT OF ACCESS TO THE PROJECT | 8 |
| SECTION 5.2. | THE BORROWER'S MAINTENANCE OF ITS EXISTENCE; ASSIGNMENTS | 8 |
| SECTION 5.3. | RECORDS AND FINANCIAL STATEMENTS OF BORROWER | 9 |
| SECTION 5.4. | MAINTENANCE AND REPAIR | 9 |
| SECTION 5.5. | QUALIFICATION IN CALIFORNIA | 10 |
| SECTION 5.6. | TAX EXEMPT STATUS OF BONDS | 10 |
| SECTION 5.7 | NOTICE OF RATE PERIODS | 11 |
| SECTION 5.8 | REMARKETING OF THE BONDS | 11 |
| SECTION 5.9 | NOTICES TO TRUSTEE AND CITY | 12 |
| SECTION 5.10 | CONTINUING DISCLOSURE | 12 |

ARTICLE VI

EVENTS OF DEFAULT AND REMEDIES

| | | |
|--------------|---|----|
| SECTION 6.1. | EVENTS OF DEFAULT | 13 |
| SECTION 6.2. | REMEDIES ON DEFAULT | 14 |
| SECTION 6.3. | AGREEMENT TO PAY ATTORNEYS' FEES AND EXPENSES | 15 |
| SECTION 6.4. | NO REMEDY EXCLUSIVE | 15 |
| SECTION 6.5. | NO ADDITIONAL WAIVER IMPLIED BY ONE WAIVER | 16 |

ARTICLE VII

PREPAYMENT

| | | |
|--------------|--|----|
| SECTION 7.1. | REDEMPTION OF BONDS WITH PREPAYMENT MONEYS | 16 |
| SECTION 7.2. | OPTIONS TO PREPAY INSTALLMENTS | 16 |
| SECTION 7.3. | MANDATORY PREPAYMENT | 16 |
| SECTION 7.4. | AMOUNT OF PREPAYMENT | 17 |
| SECTION 7.5. | NOTICE OF PREPAYMENT | 17 |

ARTICLE VIII

NON-LIABILITY OF CITY; EXPENSES; INDEMNIFICATION

| | | |
|--------------|-----------------------|----|
| SECTION 8.1. | NON-LIABILITY OF CITY | 18 |
| SECTION 8.2. | EXPENSES | 18 |
| SECTION 8.3. | INDEMNIFICATION | 18 |

ARTICLE IX

MISCELLANEOUS

| | | |
|--------------|---------------------------------------|----|
| SECTION 9.1. | NOTICES | 19 |
| SECTION 9.2. | SEVERABILITY | 19 |
| SECTION 9.3. | EXECUTION OF COUNTERPARTS | 19 |
| SECTION 9.4. | AMENDMENTS, CHANGES AND MODIFICATIONS | 19 |
| SECTION 9.5. | GOVERNING LAW | 19 |
| SECTION 9.6. | AUTHORIZED BORROWER REPRESENTATIVE | 20 |
| SECTION 9.7. | TERM OF THE AGREEMENT | 20 |
| SECTION 9.8. | BINDING EFFECT | 20 |

| | |
|-------------|----|
| TESTIMONIUM | 21 |
|-------------|----|

| | |
|----------------------|----|
| SIGNATURES AND SEALS | 21 |
|----------------------|----|

| | |
|--------------------------------------|-----|
| EXHIBIT A Description of the Project | A-1 |
|--------------------------------------|-----|

LOAN AGREEMENT

THIS LOAN AGREEMENT, dated as of August 1, 1996, by and between the CITY OF CHULA VISTA, a municipal corporation and charter city duly organized and existing under the laws and Constitution of the State of California (the "City"), and SAN DIEGO GAS & ELECTRIC COMPANY, a corporation organized and existing under the laws of the State of California (the "Borrower"),

W I T N E S S E T H :

WHEREAS, the City is a municipal corporation and charter city, duly organized and existing under a freeholders' charter pursuant to which the City has the right and power to make and enforce all laws and regulations in accordance with and as more particularly provided in Sections 3, 5 and 7 of Article XI of the Constitution of the State of California and Section 200 of the Charter of the City (the "Charter"); and

WHEREAS, the City Council of the City, acting under and pursuant to the powers reserved to the City under Sections 3, 5 and 7 of Article XI of the Constitution and Section 200 of the Charter, has enacted Chapter 3.48 of the Chula Vista Municipal Code, pursuant to Ordinance No. 1970 adopted on February 9, 1982, as amended from time to time (the "Law"), establishing a program to provide financial assistance for the acquisition, construction and installation of facilities for industrial, commercial or public utility purposes; and

WHEREAS, the Borrower has duly applied to the City for financial assistance to refinance the costs of acquisition, construction and installation of certain facilities for the distribution of electric energy as more fully described in Exhibit A hereto (the "Project") by prepaying a loan (the "Prior Loan") made to the Borrower with the proceeds of The City of San Diego Industrial Development Revenue Bonds (San Diego Gas & Electric Company) 1986 Series A (the "Prior Bonds"), resulting in the refunding of the Prior Bonds; and

WHEREAS, the City after due investigation and deliberation has determined that the Project and the refinancing thereof, and the resulting refunding of the Prior Bonds, will directly benefit the citizens of the City by substantially promoting the public interests recited in the Law and has adopted its resolutions authorizing the provision or lending of financial assistance to the Borrower to refinance the costs of acquisition, construction and installation of the Project and to prepay the Prior Loan, and the issuance and sale of its bonds, including its Industrial Development Revenue Bonds (San Diego Gas & Electric Company) 1996 Series A (the "Bonds"), for such purposes; and

WHEREAS, the City proposes to assist in such refinancing upon the terms and conditions set forth herein;

NOW, THEREFORE, in consideration of the premises and the respective representations and covenants herein contained, the parties hereto agree as follows:

ARTICLE I

DEFINITIONS

SECTION 1.1. DEFINITION OF TERMS. Unless the context otherwise requires, the terms used in this Agreement shall have the meanings specified in Section 1.01 of the Indenture of Trust, of even date herewith relating to the Bonds (the "Indenture"), by and between the City and First Trust of California, National Association, as trustee (the "Trustee"), as originally executed or as it may from time to time be supplemented or amended as provided therein.

SECTION 1.2. NUMBER AND GENDER. The singular form of any word used herein, including the terms defined in Section 1.01 of the Indenture, shall include the plural, and vice versa. The use herein of a word of any gender shall include all genders.

SECTION 1.3. ARTICLES, SECTIONS, ETC. Unless

otherwise specified, references to Articles, Sections and other subdivisions of this Agreement are to the designated Articles, Sections and other subdivisions of this Agreement as originally executed. The words "hereof," "herein," "hereunder" and words of similar import refer to this Agreement as a whole. The headings or titles of the several articles and sections, and the table of contents appended to copies hereof, shall be solely for convenience of reference and shall not affect the meaning, construction or effect of the provisions hereof.

ARTICLE II

REPRESENTATIONS

SECTION 2.1. REPRESENTATIONS OF THE CITY. The City makes the following representations as the basis for its undertakings herein contained:

(a) The City is a municipal corporation and charter city in the State of California. Under the provisions of the Law, the City has the power to enter into the transactions contemplated by this Agreement and to carry out its obligations hereunder. The Project constitutes a "project" as that term is defined in the Law. By proper action, the City has been duly authorized to execute, deliver and duly perform this Agreement and the Indenture.

(b) To refinance the cost of the Project, the City will issue the Bonds which will mature, bear interest and be subject to redemption as set forth in the Indenture.

(c) The Bonds will be issued under and secured by the Indenture, pursuant to which the City's interest in this Agreement (except certain rights of the City to give approvals and consents and to receive payment for expenses and indemnification and certain other payments) will be pledged to the Trustee as security for payment of the principal of, premium, if any, and interest on the Bonds.

(d) The City has not pledged and will not pledge its interest in this Agreement for any purpose other than to secure the Bonds under the Indenture.

(e) The City is not in default under any of the provisions of the laws of the State of California or the City's Charter which default would affect its existence or its powers referred to in subsection (a) of this Section 2.1.

(f) The City has found and determined and hereby finds and determines that all requirements of the Law with respect to the issuance of the Bonds and the execution of this Agreement and the Indenture have been complied with and that refinancing the Project by issuing the Bonds, refunding or replacing the Prior Bonds and entering into this Agreement and the Indenture will be in furtherance of the purposes of the Law.

(g) On May 21, 1996, the City Council of the City adopted Resolution No. 18302 authorizing the issuance and sale of the Bonds.

(h) On July 23, 1996, the City Council adopted Resolution No. 18384 authorizing the execution and delivery of a bond purchase agreement and official statement in connection with the sale of the Bonds.

SECTION 2.2. REPRESENTATIONS OF THE BORROWER. The Borrower makes the following representations as the basis for its undertakings herein contained:

(a) The Borrower is a corporation duly formed under the laws of the State of California, is in good standing in the State of California and has the power to enter into and has duly authorized, by proper corporate action, the execution and delivery of this Agreement and all other documents contemplated hereby to be executed by the Borrower.

(b) Neither the execution and delivery of this

Agreement, the consummation of the transactions contemplated hereby, nor the fulfillment of or compliance with the terms and conditions hereof and thereof, conflicts with or results in a breach of any of the terms, conditions or provisions of the Borrower's Articles of Incorporation or By-laws or of any corporate actions or of any agreement or instrument to which the Borrower is now a party or by which it is bound, or constitutes a default (with due notice or the passage of time or both) under any of the foregoing, or results in the creation or imposition of any prohibited lien, charge or encumbrance whatsoever upon any of the property or assets of the Borrower under the terms of any instrument or agreement to which the Borrower is now a party or by which it is bound.

(c) The Project consists and will consist of those facilities described in Exhibit A hereto, and the Borrower shall make no changes to such portion of the Project or to the operation thereof which would affect the qualification of the Project as a "project" under the Law or impair the exemption from gross income of the interest on the Bonds for federal income tax purposes. In particular, the Borrower shall comply with all requirements of the San Diego Gas & Electric Company Engineering Certificate, dated the Issue Date (the "Engineering Certificate"), which is hereby incorporated by reference herein. The Project consists of facilities for the local furnishing of electric energy as described in the Engineering Certificate. The Borrower intends to utilize such portion of the Project as facilities for the local furnishing of electric energy throughout the foreseeable future.

(d) The Borrower has and will have title to the Project sufficient to carry out the purposes of this Agreement.

(e) The economic useful life of the Project is as set forth in the Engineering Certificate.

(f) All certificates, approvals, permits and authorizations with respect to the construction of the Project of agencies of applicable local governmental agencies, the State of California and the federal government have been obtained; and pursuant to such certificates, approvals, permits and authorizations the Project has been constructed and is in operation.

ARTICLE III

ISSUANCE OF THE BONDS; APPLICATION OF PROCEEDS

SECTION 3.1. AGREEMENT TO ISSUE BONDS; APPLICATION OF BOND PROCEEDS. To provide funds to enable the Borrower to refinance a portion of the cost of the Project by prepaying the Prior Loan, the City agrees that it will issue under the Indenture, sell and cause to be delivered to the purchasers thereof, the Bonds, bearing interest as provided and maturing on the date set forth in the Indenture. The City will thereupon apply the proceeds received from the sale of the Bonds as provided in Section 3.02 of the Indenture.

SECTION 3.2. INVESTMENT OF MONEYS IN FUNDS. Any moneys in any fund held by the Trustee shall, at the written request of an Authorized Borrower Representative, be invested or reinvested by the Trustee as provided in the Indenture. Such investments shall be held by the Trustee and shall be deemed at all times a part of the fund from which such investments were made, and the interest accruing thereon and any profit or loss realized therefrom shall, except as otherwise provided in the Indenture, be credited or charged to such fund.

SECTION 3.3. AMENDMENT OF DESCRIPTION OF THE PROJECT. In the event that the Borrower desires to amend or supplement the Project, as described in Exhibit A hereto, and the City approves of such amendment or supplement, the City will enter into, and will instruct the Trustee to consent to, such amendment or supplement upon receipt of:

(i) a certificate of an Authorized Borrower Representative describing in detail the proposed changes and stating that they will not have the effect of disqualifying any component of the Project as a facility that may be financed pursuant to the Law;

(ii) a copy of the proposed form of amended or supplemented Exhibit A hereto; and

(iii) an Opinion of Bond Counsel that such proposed changes will not affect the exclusion from gross income of interest on the Bonds for federal income tax purposes.

ARTICLE IV

LOAN TO BORROWER; REPAYMENT PROVISIONS

SECTION 4.1. LOAN TO BORROWER. The City and the Borrower agree that the application of the proceeds of sale of the Bonds to refund and retire a portion of the Prior Bonds and the first mortgage bonds of the Borrower relating thereto will be deemed to be and treated for all purposes as a loan to the Borrower of an amount equal to the principal amount of the Bonds.

SECTION 4.2. REPAYMENT AND PAYMENT OF OTHER AMOUNTS PAYABLE.

(a) The Borrower covenants and agrees to pay to the Trustee as a Repayment Installment on the loan to the Borrower pursuant to Section 4.1 hereof, on each date provided in or pursuant to the Indenture for the payment of principal (whether at maturity or upon redemption or acceleration) of, premium, if any, and/or interest on the Bonds, until the principal of, premium, if any, and interest on the Bonds shall have been fully paid or provision for the payment thereof shall have been made in accordance with the Indenture, in immediately available funds, for deposit in the Bond Fund, a sum equal to the amount then payable as principal (whether at maturity or upon redemption or acceleration), premium, if any, and interest upon the Bonds as provided in the Indenture.

Each payment required to be made pursuant to this Section 4.2(a) shall at all times be sufficient to pay the total amount of interest and principal (whether at maturity or upon redemption or acceleration) and premium, if any, then payable on the Bonds; provided that any amount held by the Trustee in the Bond Fund on any due date for a Repayment Installment hereunder shall be credited against the installment due on such date to the extent available for such purpose; and provided further that, subject to the provisions of this paragraph, if at any time the amounts held by the Trustee in the Bond Fund are sufficient to pay all of the principal of and interest and premium, if any, on the Bonds as such payments become due, the Borrower shall be relieved of any obligation to make any further payments under the provisions of this Section. Notwithstanding the foregoing, if on any date the amount held by the Trustee in the Bond Fund is insufficient to make any required payments of principal of (whether at maturity or upon redemption or acceleration) and interest and premium, if any, on the Bonds as such payments become due, the Borrower shall forthwith pay such deficiency as a Repayment Installment hereunder.

The obligation of the Borrower to make any payment under this Section 4.2(a) with respect to the Bonds shall be deemed to have been satisfied to the extent of any corresponding payment by the Credit Provider under the Credit Facility, if any, for such Bonds.

(b) The Borrower also agrees to pay to the Trustee until the principal of, premium, if any, and interest on the Bonds shall have been fully paid or provision for the payment thereof shall have been made as required by the Indenture, (i) the annual fee of the Trustee for its ordinary services rendered as trustee, and its ordinary expenses incurred under the Indenture, as and when the same become due, (ii) the reasonable fees, charges and expenses of the Trustee, the Registrar and the reasonable fees of any paying agent on the Bonds as provided in the Indenture, as and when the same become due, (iii) the reasonable fees, charges and expenses of the Trustee for the necessary extraordinary services rendered by it and extraordinary expenses incurred by it under the Indenture, as and when the same become due. The Borrower shall also pay the cost of printing any Bonds required to be furnished by the City.

(c) The Borrower also agrees to pay, within 60 days after receipt of request for payment thereof, all expenses required to be paid by the Borrower under the terms of the bond purchase agreement executed by it in connection with the sale of the Bonds, and all reasonable expenses of the City related to the financing of the Project which are not otherwise required to be paid by the Borrower under the terms of this Agreement; provided that the City shall have obtained the prior written approval of the Authorized Borrower Representative for any expenditures other than those provided for herein or in said bond purchase agreement.

The Borrower also agrees to pay to the City within five days following the Issue Date an issuance fee in the amount of \$97,250.00.

(d) The Borrower hereby agrees to provide or cause to be provided in immediately available funds, for deposit into the Bond Purchase Fund maintained by the Tender Agent, all amounts necessary to purchase Bonds tendered for purchase in accordance with Sections 2.01(d) and 2.01(e) of the Indenture.

(e) In the event the Borrower should fail to make any of the payments required by subsections (a) through (d) of this Section, such payments shall continue as obligations of the Borrower until such amounts shall have been fully paid. The Borrower agrees to pay such amounts, together with interest thereon until paid, to the extent permitted by law, at the rate of one percent (1%) per annum over the rate borne by any Bonds in respect of which such payments are required to be made pursuant to said subsection (a), and one percent (1%) per annum over the average rate then borne by the Bonds as to all other payments. Interest on overdue payments required under subsection (a) or (d) above shall be paid to Bondholders as provided in the Indenture.

(f) Upon written request of the Trustee, the Borrower shall pay any Repayment Installment directly to the Paying Agent.

(g) Any unpaid obligation of the Borrower under subsections (b) through (e) of this Section 4.2 shall survive the payment and discharge of the Bonds and the termination of this Agreement.

SECTION 4.3. UNCONDITIONAL OBLIGATION. The obligations of the Borrower to make the payments required by Section 4.2 hereof and to perform and observe the other agreements on its part contained herein shall be absolute and unconditional, irrespective of any defense or any rights of set-off, recoupment or counterclaim it might otherwise have against the City, and during the term of this Agreement, the Borrower shall pay absolutely net the payments to be made on account of the loan as prescribed in Section 4.2 and all other payments required hereunder, free of any deductions and without abatement, diminution or set-off. Until such time as the principal of, premium, if any, and interest on the Bonds shall have been fully paid, or provision for the payment thereof shall have been made as required by the Indenture, the Borrower (i) will not suspend or discontinue any payments provided for in Section 4.2 hereof; (ii) will perform and observe all of its other covenants contained in this Agreement; and (iii) will not terminate this Agreement for any cause, including, without limitation, the occurrence of any act or circumstances that may constitute failure of consideration, destruction of or damage to the Project, commercial frustration of purpose, any change in the tax or other laws of the United States of America or of the State of California or any political subdivision of either of these, or any failure of the City or the Trustee to perform and observe any covenant, whether express or implied, or any duty, liability or obligation arising out of or connected with this Agreement or the Indenture, except to the extent permitted by this Agreement.

SECTION 4.4. ASSIGNMENT OF CITY'S RIGHTS. As security for the payment of the Bonds, the City will assign to the Trustee the City's rights, but not its obligations, under this Agreement, including the right to receive payments hereunder (except (i) the rights of the City to receive notices under this Agreement, (ii) the right of the City to receive certain payments, if any, with respect to

fees, expenses and indemnification and certain other purposes under Sections 4.2(c), 4.2(e), 6.3, 8.2 and 8.3 hereof, and (iii) the right of the City to give approvals or consents pursuant to this Agreement) and the City hereby directs the Borrower to make the payments required hereunder (except such payments for fees, expenses and indemnification) directly to the Trustee. The Borrower hereby assents to such assignment and agrees to pay the Repayment Installments directly to the Trustee (subject to the provisions of Section 4.2(f)) without defense or set-off by reason of any dispute between the Borrower and the City or the Trustee.

SECTION 4.5. AMOUNTS REMAINING IN FUNDS. It is agreed by the parties hereto that after payment in full of (i) the Bonds, or after provision for such payment shall have been made as provided in the Indenture, (ii) the fees and expenses of the City in accordance with this Agreement, (iii) the fees, charges and expenses of the Trustee, the Registrar and Paying Agents in accordance with the Indenture and this Agreement and (iv) all other amounts required to be paid under this Agreement and the Indenture, any amounts remaining in any fund held by the Trustee under the Indenture shall belong, subject to the requirements of Section 6.06 of the Indenture, to the Borrower and be paid to the Borrower by the Trustee.

SECTION 4.6. CREDIT FACILITY. No initial Credit Facility shall be provided with respect to the Bonds. The Borrower may provide and subsequently terminate or remove a Credit Facility with respect to the Bonds pursuant to the provisions of Section 5.07 of the Indenture; provided, however, that, except in connection with the redemption of Bonds, the Borrower shall not intentionally cause the termination or substitution of any Credit Facility with respect to Bonds during a Term Rate Period or a Variable Term Segment with respect to such Bonds. Not less than twenty-five days prior to the termination, removal, substitution or delivery of any Credit Facility with respect to the Bonds, the Borrower shall mail written notice of such termination, removal, substitution or delivery to the Trustee. Not less than fifteen days prior to the delivery of any substitute or new Credit Facility for the Bonds, the Borrower shall mail written notice of such substitution or delivery to each Rating Agency.

ARTICLE V

SPECIAL COVENANTS AND AGREEMENTS

SECTION 5.1. RIGHT OF ACCESS TO THE PROJECT. The Borrower agrees that during the term of this Agreement the City, the Trustee and the duly authorized agents of either of them shall have the right at all reasonable times during normal business hours to enter upon the site of the Project described in Exhibit A hereto to examine and inspect such Project; provided, however, that this right is subject to federal and State of California laws and regulations applicable to such site. The rights of access hereby reserved to the City and the Trustee may be exercised only after such agent shall have executed release of liability (which release shall not limit any of the Borrower's obligations hereunder) and secrecy agreements if requested by the Borrower in the form then currently used by the Borrower, and nothing contained in this Section or in any other provision of this Agreement shall be construed to entitle the City or the Trustee to any information or inspection involving the confidential know-how of the Borrower.

SECTION 5.2. THE BORROWER'S MAINTENANCE OF ITS EXISTENCE; ASSIGNMENTS. (a) The Borrower agrees that during the term of this Agreement it will maintain its corporate existence in good standing and will not dissolve or otherwise dispose of all or substantially all of its assets and will not consolidate with or merge into another corporation or permit one or more other corporations to consolidate or merge into it; provided, that the Borrower may, without violating the covenants contained in this Section, consolidate with or merge into another corporation, or permit one or more other corporations to consolidate with or merge into it, or sell or otherwise transfer to another corporation all or substantially all of its assets and thereafter dissolve, provided that (1) either (A) the Borrower is the surviving corporation or (B) the surviving, resulting or transferee corporation, as the case may be, (i) assumes and agrees in writing to pay and perform all of the obligations of the Borrower hereunder and

(ii) qualifies to do business in the State of California; and (2) the Borrower shall deliver to the Trustee an Opinion of Bond Counsel to the effect that such consolidation, merger or transfer and dissolution does not in and of itself adversely affect the exclusion from gross income for federal income tax purposes of interest on the Bonds.

(b) With the prior written consent of the City (which consent shall not be unreasonably withheld), the rights and obligations of the Borrower under this Agreement may be assigned by the Borrower, in whole or in part, subject, however, to each of the following conditions:

(i) No assignment (other than pursuant to a merger, consolidation or combination described in Section 5.2(a)) shall relieve the Borrower from primary liability for any of its obligations hereunder, and in the event of any assignment not pursuant to Section 5.2(a), the Borrower shall continue to remain primarily liable for the payments specified in Section 4.2 hereof and for performance and observance of the other agreements on its part herein provided to be performed and observed by it.

(ii) Any assignment from the Borrower shall retain for the Borrower such rights and interests as will permit it to perform its obligations under this Agreement, and any assignee from the Borrower shall assume the obligations of the Borrower hereunder to the extent of the interest assigned.

(iii) The Borrower shall, within thirty days after delivery of such assignment, furnish or cause to be furnished to the City and the Trustee a true and complete copy of each such assignment together with an instrument of assumption.

(iv) The Borrower shall cause to be delivered to the City and the Trustee an Opinion of Bond Counsel that such assignment will not, in and of itself, result in the interest on the Bonds being determined to be includable in the gross income for federal income tax purposes of the owners thereof (other than a "substantial user" of the Project or a "related person" within the meaning of Section 103(b)(13) of the 1954 Code).

SECTION 5.3. RECORDS AND FINANCIAL STATEMENTS OF BORROWER. The Borrower agrees (a) to keep and maintain full and accurate accounts and records of its operations in accordance with generally accepted accounting principles, (b) to permit the Trustee for itself or on behalf of the holders of the Bonds and its designated officers, employees, agents and representatives to have access to such accounts and records and to make examinations thereof at all reasonable times and (c) upon request of the Trustee, to provide the Trustee with the Borrower's most recent audited financial statements.

SECTION 5.4. MAINTENANCE AND REPAIR. The Borrower agrees that as long as it owns the Project it will (i) maintain, or cause to be maintained, the Project in as reasonably safe condition as its operations shall permit and (ii) maintain, or cause to be maintained, the Project in good repair and in good operating condition, ordinary wear and tear excepted, making from time to time all necessary repairs thereto and renewals and replacements thereof.

SECTION 5.5. QUALIFICATION IN CALIFORNIA. The Borrower agrees that throughout the term of this Agreement it, or any successor or assignee as permitted by Section 5.2, will be qualified to do business in the State of California.

SECTION 5.6. TAX EXEMPT STATUS OF BONDS. (a) It is the intention of the parties hereto that interest on the Bonds shall be and remain excluded from gross income for federal income tax purposes. To that end, the covenants and agreements of the City and the Borrower in this Section and in the Tax Certificate are for the benefit of the Trustee and each and every person who at any time will be a holder of the Bonds. Without limiting the generality of the foregoing, the Borrower and the City agree that there shall be paid from time to time all amounts required to be rebated to the United States pursuant to Section 148(f) of the Code and any temporary, proposed or final Treasury Regulations as may be applicable to the Bonds from time to time. This covenant shall survive payment in full or defeasance of the Bonds. The Borrower specifically covenants to pay or cause to be paid for and on

behalf of the City to the United States at the times and in the amounts determined under Section 6.06 of the Indenture the Rebate Requirement as described in the Tax Certificate. The City shall not be liable to make any such payment except from funds provided by the Borrower for such purpose.

(b) The City covenants and agrees that it has not taken and will not take any action which results in interest to be paid on the Bonds being included in gross income of the holders of the Bonds for federal income tax purposes, and the Borrower covenants and agrees that it has not taken or permitted to be taken and will not take or permit to be taken any action which will cause the interest on the Bonds to become includable in gross income for federal income tax purposes; provided that neither the Borrower nor the City shall have violated these covenants if interest on any of the Bonds becomes taxable to a person solely because such person is a "substantial user" of the Project or a "related person" within the meaning of Section 103(b)(13) of the 1954 Code; and provided further that none of the covenants and agreements herein contained shall require either the Borrower or the City to enter an appearance or intervene in any administrative, legislative or judicial proceeding in connection with any changes in applicable laws, rules or regulations or in connection with any decisions of any court or administrative agency or other governmental body affecting the taxation of interest on the Bonds. The Borrower acknowledges having read Section 6.06 of the Indenture and agrees to perform all duties imposed on it by such Section, by this Section and by the Tax Certificate. Insofar as Section 6.06 of the Indenture and the Tax Certificate impose duties and responsibilities on the City or the Borrower, they are specifically incorporated herein by reference.

(c) Notwithstanding any provision of this Section 5.6 or Section 6.06 of the Indenture, if the Borrower shall provide to the City and the Trustee an Opinion of Bond Counsel to the effect that any specified action required under this Section 5.6 and Section 6.06 of the Indenture is no longer required or that some further or different action is required to maintain the exclusion from federal income tax of interest on the Bonds, the Borrower, the Trustee and the City may conclusively rely on such opinion in complying with the requirements of this Section, and the covenants set forth in this Section 5.6 shall be deemed to be modified to that extent.

SECTION 5.7. NOTICE OF RATE PERIODS. The Borrower shall designate and give timely written notice to the Trustee as required by the Indenture prior to any change in Rate Periods for the Bonds. In addition, if the Borrower shall elect to change Rate Periods in accordance with the Indenture and the Bonds under circumstances requiring the delivery of an Opinion of Bond Counsel, the Borrower shall deliver such opinion to the Trustee concurrently with the giving of notice with respect thereto, and no such change shall be effective without an Opinion of Bond Counsel to the effect that such change is authorized or permitted by the Indenture and the Law and will not adversely affect the Tax-Exempt status of the interest on the Bonds.

SECTION 5.8. REMARKETING OF THE BONDS.

(a) The Borrower agrees to perform all obligations and duties required of it by the Indenture with respect to the remarketing of the Bonds, and, to appoint as set forth below a Remarketing Agent and a Tender Agent meeting the qualifications and otherwise meeting the requirements set forth in this Section 5.8.

(b) Tender Agent.

(i) Appointment and Duties: In order to carry out the duties and obligations of the Tender Agent contained in the Indenture, the Borrower shall appoint a Tender Agent or Tender Agents in order to carry out such duties and obligations, subject to the conditions set forth below. Each Tender Agent shall designate to the Trustee its principal office and signify its acceptance of the duties and obligations imposed upon it under the Indenture by entering into a Tender Agreement with the Borrower and such other parties as shall be appropriate, which may be combined with a Remarketing Agreement into a single document, delivered to the City, the Trustee, the Borrower and the Remarketing Agent, under which the Tender Agent shall agree, particularly (but without limitation): (A) to perform the duties and

comply with the requirements imposed upon it by the Tender Agreement, the Indenture and this Agreement; and (B) to keep such books and records with respect to its activities as Tender Agent as shall be consistent with prudent industry practice and to make such books and records available for inspection by the City, the Trustee and the Borrower at all reasonable times.

(ii) Qualifications: The Tender Agent shall be a financial institution organized and doing business under the laws of the United States or of a state thereof, authorized under such laws to exercise corporate trust powers, having a combined capital and surplus of at least Fifty Million Dollars (\$50,000,000), and subject to supervision or examination by federal or state authority. If such financial institution publishes a report of condition at least annually, pursuant to law or to the requirements of any supervising or examining authority above referred to, then for the purposes of this Section the combined capital and surplus of such financial institution shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published.

(c) Remarketing Agent. In order to carry out the duties and obligations contained in the Indenture, the Borrower, by an instrument in writing (which may be the Remarketing Agreement) signed by an Authorized Borrower Representative, shall select the Remarketing Agent for the Bonds subject to the conditions set forth below. The Remarketing Agent shall designate to the Trustee its principal office and signify its acceptance of the duties and obligations imposed upon it under the Indenture by a written instrument of acceptance (which may be the execution of a Remarketing Agreement) delivered to the City, the Trustee and the Borrower under which the Remarketing Agent shall agree, particularly (but without limitation): (i) to perform the duties and comply with the requirements imposed upon it by the Remarketing Agreement, the Indenture and this Agreement; and (ii) to keep such books and records with respect to its activities as Remarketing Agent as shall be consistent with prudent industry practice and to make such books and records available for inspection by the City, the Trustee and the Borrower at all reasonable times.

(d) Remarketing Agreement. In order to provide for the remarketing of the Bonds, the Borrower shall enter into a Remarketing Agreement with the Remarketing Agent and such other parties as shall be appropriate, which may be combined with a Tender Agreement into a single document. The Remarketing Agreement shall include the following: (i) a requirement that the Remarketing Agreement shall not be terminated by the Borrower without cause for a period of at least six months after the effective date thereof; and (ii) a statement to the effect that the Remarketing Agent is not acting in an agency capacity with respect to the Borrower in establishing interest rates and Rate Periods as described in Section 2.01 of the Indenture, but is acting as agent of the City pursuant to the Law with respect to such functions.

SECTION 5.9. NOTICES TO TRUSTEE AND CITY. The Borrower hereby agrees to provide the Trustee and the City with notice of any event of which it has knowledge which, with the passage of time or the giving of notice, would be an Event of Default, such notice to include a description of the nature of such event and what steps are being taken to remedy such Event of Default.

SECTION 5.10. CONTINUING DISCLOSURE. The Borrower hereby covenants and agrees, upon the adjustment of the Rate Period for the Bonds to a Term Rate Period pursuant to Section 2.01(c)(iv) of the Indenture and the remarketing of such Bonds in accordance with the Indenture, to comply with the continuing disclosure requirements for the Bonds as promulgated under Rule 15c2-12, as it may from time to time hereafter be amended or supplemented. Notwithstanding any other provision of this Agreement, failure of the Borrower to comply with the requirements of Rule 15c2-12 applicable to the Bonds, as it may from time to time hereafter be amended or supplemented, shall not be considered an Event of Default hereunder or under the Indenture; however, the Trustee may (and, at the request of the Remarketing Agent or the holders of at least 25% aggregate principal amount of Outstanding Bonds, shall) or any Bondholder or beneficial owner of any Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Borrower to comply with its obligations pursuant to this Section 5.10.

ARTICLE VI

EVENTS OF DEFAULT AND REMEDIES

SECTION 6.1. EVENTS OF DEFAULT. Any one of the following which occurs and continues shall constitute an Event of Default pursuant to this Agreement:

(a) failure by the Borrower to pay any amounts required to be paid under Section 4.2(a) or 4.2(d) hereof at the times required to avoid causing an Event of Default pursuant to the Indenture; or

(b) failure of the Borrower to observe and perform any covenant, condition or agreement on its part required to be observed or performed by this Agreement, other than making the payments referred to in (a) above, which continues for a period of 60 days after written notice, which notice shall specify such failure and request that it be remedied, given to the Borrower by the City or the Trustee, unless the City and the Trustee shall agree in writing to an extension of such time; provided, however, that if the failure stated in the notice cannot be corrected within such period, the City and the Trustee will not unreasonably withhold their consent to an extension of such time if corrective action is instituted within such period and diligently pursued until the default is corrected; or

(c) an Act of Bankruptcy of the Borrower; or

(d) a default under any Credit Facility if the Credit Provider notifies the Trustee in writing that such default shall be treated as an Event of Default hereunder.

The provisions of subsection (b) of this Section are subject to the limitation that the Borrower shall not be deemed in default if and so long as the Borrower is unable to carry out its agreements hereunder by reason of strikes, lockouts or other industrial disturbances; acts of public enemies; orders of any kind of the government of the United States or of the State of California or any of their departments, agencies, or officials, or any civil or military authority; insurrections, riots, epidemics, landslides; lightning; earthquake; fire; hurricanes; storms; floods; washouts; droughts; arrests; restraint of government and people; civil disturbances; explosions; breakage or accident to machinery, transmission pipes or canals; partial or entire failure of utilities; or any other cause or event not reasonably within the control of the Borrower; it being agreed that the settlement of strikes, lockouts and other industrial disturbances shall be entirely within the discretion of the Borrower, and the Borrower shall not be required to make settlement of strikes, lockouts and other industrial disturbances by acceding to the demands of the opposing party or parties when such course is, in the judgment of the Borrower, unfavorable to the Borrower. This limitation shall not apply to any default under subsections (a), (c) or (d) of this Section.

SECTION 6.2. REMEDIES ON DEFAULT. Whenever any Event of Default shall have occurred and shall continue, the following remedies may be pursued:

(a) The Trustee may, and upon the written request of any Credit Provider or the holders of not less than 25% in aggregate principal amount of Bonds then outstanding, shall, by notice in writing delivered to the Borrower with copies of such notice being sent to the City and each Credit Provider, declare the unpaid balance of the loan payable under Section 4.2(a) of this Agreement and the interest accrued thereon to be immediately due and payable and such principal and interest shall thereupon become and be immediately due and payable. Upon any such acceleration, the Bonds shall be subject to mandatory redemption as provided in Section 4.01(b)(3) of the Indenture. After any such declaration of acceleration, the Trustee shall immediately take such actions as necessary to realize moneys under any Credit Facility.

(b) The Trustee shall have access to and the right to inspect, examine and make copies of the books and records and any and all accounts, data and federal income tax and other tax returns of the Borrower.

(c) The City or the Trustee may take whatever action at law or in equity as may be necessary or desirable to collect the payments and other amounts then due and thereafter to become due or to enforce performance and observance of any obligation, agreement or covenant of the Borrower under this Agreement.

The provisions of clause (a) of the preceding paragraph, however, are subject to the condition that if, at any time after the loan shall have been so declared due and payable, and before any judgment or decree for the payment of the moneys due shall have been obtained or entered as hereinafter provided, there shall have been deposited with the Trustee a sum sufficient (together with any amounts held in the Bond Fund) to pay all the principal of the Bonds matured prior to such declaration and all matured installments of interest (if any) upon all the Bonds, with interest on such overdue installments of principal as provided herein, and the reasonable expenses of the Trustee, and any and all other defaults known to the Trustee (other than in the payment of principal of and interest on the Bonds due and payable solely by reason of such declaration) shall have been made good or cured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate shall have been made therefor, then, and in every such case, the holders of at least a majority in aggregate principal amount of the Bonds then outstanding, by written notice to the City and to the Trustee, may, on behalf of the holders of all the Bonds, rescind and annul such declaration and its consequences and waive such default; provided that no such rescission and annulment shall extend to or shall affect any subsequent default, or shall impair or exhaust any right or power consequent thereon; and provided further that there shall not be rescinded or annulled any such declaration which follows an event described in Section 6.1(d) without the written consent of the Credit Provider.

In case the Trustee or the City shall have proceeded to enforce its rights under this Agreement and such proceedings shall have been discontinued or abandoned for any reason or shall have been determined adversely to the Trustee or the City, then, and in every such case, the Borrower, the Trustee and the City shall be restored respectively to their several positions and rights hereunder, and all rights, remedies and powers of the Borrower, the Trustee and the City shall continue as though no such action had been taken (provided, however, that any settlement of such proceedings duly entered into by the City, the Trustee or the Borrower shall not be disturbed by reason of this provision).

In case the Borrower shall fail forthwith to pay amounts due by reason of this Section 6.2 upon demand of the Trustee, the Trustee shall be entitled and empowered to institute any action or proceeding at law or in equity for the collection of the sums so due and unpaid, and may prosecute any such action or proceeding to judgment or final decree, and may enforce any such judgment or final decree against the Borrower and collect in the manner provided by law the moneys adjudged or decreed to be payable.

In case proceedings shall be pending for the bankruptcy or for the reorganization of the Borrower under the federal bankruptcy laws or any other applicable law, or in case a receiver or trustee shall have been appointed for the property of the Borrower or in the case of any other similar judicial proceedings relative to the Borrower, or the creditors or property of the Borrower, then the Trustee shall be entitled and empowered, by intervention in such proceedings or otherwise, to file and prove a claim or claims for the whole amount owing and unpaid pursuant to this Agreement and, in case of any judicial proceedings, to file such proofs of claim and other papers or documents as may be necessary or advisable in order to have the claims of the Trustee allowed in such judicial proceedings relative to the Borrower, its creditors or its property, and to collect and receive any moneys or other property payable or deliverable on any such claims, and to distribute such amounts as provided in the Indenture after the deduction of its charges and expenses. Any receiver, assignee or trustee in bankruptcy or reorganization is hereby authorized to make such payments

to the Trustee, and to pay to the Trustee any amount due it for compensation and expenses, including expenses and fees of counsel incurred by it up to the date of such distribution.

SECTION 6.3. AGREEMENT TO PAY ATTORNEYS' FEES AND EXPENSES. In the event the Borrower should default under any of the provisions of this Agreement and the City or the Trustee should employ attorneys or incur other expenses for the collection of the payments due under this Agreement or the enforcement of performance or observance of any obligation or agreement on the part of the Borrower herein contained, the Borrower agrees to pay to the City or the Trustee the reasonable fees of such attorneys and such other expenses so incurred by the City or the Trustee.

SECTION 6.4. NO REMEDY EXCLUSIVE. No remedy herein conferred upon or reserved to the City or the Trustee is intended to be exclusive of any other available remedy or remedies, but each and every such remedy shall be cumulative and shall be in addition to every other remedy given under this Agreement or now or hereafter existing at law or in equity or by statute. No delay or omission to exercise any right or power accruing upon any default shall impair any such right or power or shall be construed to be a waiver thereof, but any such right and power may be exercised from time to time and as often as may be deemed expedient. In order to entitle the City or the Trustee to exercise any remedy reserved to it in this Article, it shall not be necessary to give any notice, other than such notice as may be herein expressly required.

Such rights and remedies as are given the City hereunder shall also extend to the Trustee, and the Trustee and the holders of the Bonds shall be deemed third party beneficiaries of all covenants and agreements herein contained.

SECTION 6.5. NO ADDITIONAL WAIVER IMPLIED BY ONE WAIVER. In the event any agreement or covenant contained in this Agreement should be breached by the Borrower and thereafter waived by the City or the Trustee, such waiver shall be limited to the particular breach so waived and shall not be deemed to waive any other breach hereunder.

ARTICLE VII

PREPAYMENT

SECTION 7.1. REDEMPTION OF BONDS WITH PREPAYMENT MONIES. By virtue of the assignment of certain of the rights of the City under this Agreement to the Trustee as is provided in Section 4.4 hereof, the Borrower agrees to and shall pay directly to the Trustee any amount permitted or required to be paid by it under this Article VII. The Trustee shall use the moneys so paid to it by the Borrower to effect redemption of the Bonds in accordance with Article IV of the Indenture on the date specified for such redemption pursuant to Section 7.5 hereof.

SECTION 7.2. OPTIONS TO PREPAY INSTALLMENTS. The Borrower shall have the option to prepay the amounts payable under Section 4.2 hereof, in whole or in part, by paying to the Trustee, for deposit in the Bond Fund, the amount set forth in Section 7.4 hereof, under the circumstances set forth in Section 4.01(a) of the Indenture; provided, however, that if any event specified in Section 4.01(a)(1)(A) through (D) of the Indenture gives rise to the Borrower's exercise of its option to prepay such amounts payable hereunder, the amount of such loan payment prepaid shall not exceed the original cost of the portion of the Project affected by such event.

SECTION 7.3. MANDATORY PREPAYMENT. (a) The Borrower shall have and hereby accepts the obligation to prepay Repayment Installments to the extent mandatory redemption of the Bonds is required pursuant to Section 4.01(b) of the Indenture. The Borrower shall satisfy its obligation hereunder by prepaying such Repayment Installments within one hundred eighty (180) days after the occurrence of any event set forth in paragraphs (1) through (3) of said Section 4.01(b) giving rise to such required prepayment, and immediately upon the occurrence of any event set forth in paragraph (3) thereof giving rise to such required prepayment. The amount payable by the Borrower in the event of a prepayment required by this Section shall be

determined as set forth in Section 7.4 and shall be deposited in the Bond Fund.

SECTION 7.4. AMOUNT OF PREPAYMENT. In the case of a prepayment of the entire amount due hereunder pursuant to Section 7.2 or 7.3 hereof, the amount to be paid shall be a sum sufficient, together with other funds and the yield on any securities deposited with the Trustee and available for such purpose, to pay (1) the principal of all Bonds outstanding on the redemption date specified in the notice of redemption, plus interest accrued and to accrue to the payment or redemption date of the Bonds, plus premium, if any, pursuant to the Indenture, (2) all reasonable and necessary fees and expenses of the City, the Trustee, the Registrar, the Tender Agent and any Paying Agent accrued and to accrue through final payment of the Bonds, and (3) all other liabilities of the Borrower accrued and to accrue under this Agreement.

In the case of partial prepayment of the Repayment Installments, the amount payable shall be a sum sufficient, together with other funds deposited with the Trustee and available for such purpose, to pay the principal amount of and premium, if any, and accrued interest on the Bonds to be redeemed, as provided in the Indenture, and to pay expenses of redemption of such Bonds.

SECTION 7.5. NOTICE OF PREPAYMENT. The Borrower shall give forty-five days' prior written notice to the City and the Trustee specifying the date upon which any prepayment pursuant to this Article VII will be made. If, in the case of a mandatory prepayment pursuant to Section 7.3 hereof, the Borrower fails to give such notice of a prepayment required by this Section 7.5, such notice may be given by the City or by any holder or holders of ten percent (10%) or more in aggregate principal amount of the Bonds Outstanding, and shall be given by the Trustee, but solely at the times and under the circumstances provided in Section 4.01(b) of the Indenture. The City and the Trustee, at the request of the Borrower or any such Bondholder or Bondholders, shall forthwith take all steps necessary under the applicable provisions of the Indenture (except that the City shall not be required to make payment of any money required for such redemption) to effect redemption of all or part of the then outstanding Bonds, as the case may be, on the earliest practicable date thereafter on which such redemption may be made under applicable provisions of the Indenture.

Notwithstanding anything to the contrary in this Agreement, each notice contemplated in this Section 7.5 that is given with respect to an optional prepayment pursuant to Section 7.2 hereof may state that it is subject to and conditional upon receipt by the Trustee on or prior to the proposed prepayment date of amounts sufficient to effect such prepayment and, if a notice so states, such notice shall be of no force and effect and the prepayment need not be made and the Repayment Installments will not become due and payable on the proposed prepayment date unless such amounts are so received on or prior to the proposed prepayment date.

ARTICLE VIII

NON-LIABILITY OF CITY; EXPENSES; INDEMNIFICATION

SECTION 8.1. NON-LIABILITY OF CITY. The City shall not be obligated to pay the principal of, or premium, if any, or interest on the Bonds, or to discharge any other financial liability (including but not limited to financial liability under Section 5.6 hereof) in connection herewith, except from Revenues. The Borrower hereby acknowledges that the City's sole source of moneys to repay the Bonds will be provided by the payments made by the Borrower pursuant to this Agreement (excluding payments to the City or the Trustee pursuant to Section 4.2(b), 4.2(c), 4.2(e), 5.6, 6.3, 8.2 and 8.3 of this Agreement), together with other Revenues, including investment income on certain funds and accounts held by the Trustee under the Indenture, and hereby agrees that if the payments to be made hereunder shall ever prove insufficient to pay all principal of, and premium, if any, and interest on the Bonds as the same shall become due (whether by maturity, redemption, acceleration or otherwise), then upon notice from the Trustee, the Borrower shall pay such amounts as are required from time to time to prevent any deficiency or default in the payment of such

principal, premium or interest, including, but not limited to, any deficiency caused by acts, omissions, nonfeasance or malfeasance on the part of the Trustee, the Borrower, the City or any third party.

SECTION 8.2. EXPENSES. The Borrower covenants and agrees to pay within fifteen (15) days after billing therefor and to indemnify the City and the Trustee against all costs and charges, including fees and disbursements of attorneys, accountants, consultants, including financial consultants, engineers and other experts incurred, in the absence of willful misconduct, in connection with this Agreement, the Bonds or the Indenture. The City shall notify the Borrower in writing prior to engaging any professional or expert for which the City plans to bill the Borrower.

SECTION 8.3. INDEMNIFICATION. The Borrower releases the City and the Trustee from, and covenants and agrees that neither the City nor the Trustee shall be liable for, and covenants and agrees, to the extent permitted by law, to indemnify, defend and hold harmless the City and the Trustee and their officers, employees and agents from and against, any and all losses, claims, damages, liabilities or expenses, of every conceivable kind, character and nature whatsoever arising out of, resulting from or in any way connected with (1) the Project, or the conditions, occupancy, use, possession, conduct or management of, or work done in or about, or from the planning, design, acquisition, installation or construction of the Project or any part thereof; (2) the issuance of any Bonds or any certifications, covenants or representations made in connection therewith and the carrying out of any of the transactions contemplated by the Bonds, the Indenture and this Agreement; (3) the Trustee's acceptance or administration of the trusts under the Indenture, or the exercise or performance of any of its powers or duties under the Indenture or this Agreement; or (4) any untrue statement or alleged untrue statement of any material fact or omission or alleged omission to state a material fact necessary to make the statements made, in light of the circumstances under which they were made, not misleading, in any official statement or other offering circular utilized by the City or any underwriter or placement agent in connection with the sale of any Bonds; provided that such indemnity shall not be required for damages that result from negligence or willful misconduct on the part of the party seeking such indemnity. The indemnity of the Trustee required by this Section shall be only to the extent that any loss sustained by the Trustee exceeds the net proceeds the Trustee receives from any insurance carried with respect to the loss sustained. The Borrower further covenants and agrees, to the extent permitted by law, to pay or to reimburse the City and the Trustee and their officers, employees and agents for any and all reasonable costs, including but not limited to attorneys fees, liabilities or expenses incurred in connection with investigating, defending against or otherwise in connection with any such losses, claims, damages, liabilities, expenses or actions, except to the extent that the same arise out of the negligence or willful misconduct of the party claiming such payment or reimbursement. The provisions of this Section shall survive the retirement of the Bonds or resignation or removal of the Trustee.

ARTICLE IX

MISCELLANEOUS

SECTION 9.1. NOTICES. All notices, certificates or other communications shall be deemed sufficiently given on the second day following the day on which the same have been mailed by first class mail, postage prepaid, addressed to the City, the Borrower or the Trustee, as the case may be, as set forth in the Indenture. A duplicate copy of each notice, certificate or other communication given hereunder by either the City or the Borrower to the other shall also be given to the Trustee. The City, the Borrower and the Trustee may, by notice given hereunder, designate any different addresses to which subsequent notices, certificates or other communications shall be sent.

SECTION 9.2. SEVERABILITY. If any provision of this Agreement shall be held or deemed to be, or shall in fact be, illegal, inoperative or unenforceable, the same shall not affect any other provision or provisions herein contained or render the same invalid, inoperative, or unenforceable to any extent whatever.

SECTION 9.3. EXECUTION OF COUNTERPARTS. This Agreement may be simultaneously executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument; provided, however, that for purposes of perfecting a security interest in this Agreement under Article 9 of the California Uniform Commercial Code, only the counterpart delivered, pledged, and assigned to the Trustee shall be deemed the original.

SECTION 9.4. AMENDMENTS, CHANGES AND MODIFICATIONS. Except as otherwise provided in this Agreement or the Indenture, subsequent to the initial issuance of Bonds and prior to their payment in full, or provision for such payment having been made as provided in the Indenture, this Agreement may not be effectively amended, changed, modified, altered or terminated without the written consent of the Trustee.

SECTION 9.5. GOVERNING LAW. This Agreement shall be governed exclusively by and construed in accordance with the applicable laws of the State of California.

SECTION 9.6. AUTHORIZED BORROWER REPRESENTATIVE. Whenever under the provisions of this Agreement the approval of the Borrower is required or the City or the Trustee is required to take some action at the request of the Borrower, such approval or such request shall be given on behalf of the Borrower by an Authorized Borrower Representative, and the City and the Trustee shall be authorized to act on any such approval or request and neither party hereto shall have any complaint against the other or against the Trustee as a result of any such action taken.

SECTION 9.7. TERM OF THE AGREEMENT. This Agreement shall be in full force and effect from the date hereof and shall continue in effect as long as any of the Bonds are outstanding or the Trustee holds any moneys under the Indenture, whichever is later; provided, however, that the rights of the Trustee and the City under Section 8.2 and 8.3 hereof shall survive the termination of this Agreement, the retirement of the Bonds and the removal or resignation of the Trustee. All representations and certifications by the Borrower as to all matters affecting the Tax-Exempt status of the Bonds shall survive the termination of this Agreement.

SECTION 9.8. BINDING EFFECT. This Agreement shall inure to the benefit of and shall be binding upon the City, the Borrower, the Trustee and their respective successors and assigns; subject, however, to the limitations contained in Section 5.2 hereof.

IN WITNESS WHEREOF, the City of Chula Vista has caused this Agreement to be executed in its name and its seal to be hereunto affixed and attested by its duly authorized officers, and San Diego Gas & Electric Company has caused this Agreement to be executed in its name and its seal to be hereunto affixed by its duly authorized officers, all as of the date first above written.

CITY OF CHULA VISTA

By _____
Mayor

[SEAL]

Attest:

City Clerk

APPROVED AS TO FORM:

Ann Y. Moore
Acting City Attorney

By _____

SAN DIEGO GAS & ELECTRIC COMPANY

By _____
Senior Vice President,
Chief Financial Officer and

[SEAL]
Treasurer

Attest:

Assistant Secretary

EXHIBIT A

Description of the Project

Local Electric Facilities

Acquisition and construction of additions and improvements to the Borrower's electric distribution facilities (12 KV and under) and related substations, and customer service connections located within the Borrower's electric retail service area, required by the Borrower to provide for the transfer and distribution of electric energy to its customers located therein, including all necessary poles, foundations, cable, conduit, transformers, switches, controls, meters, substations, land and land-rights and other like facilities and equipment, as well as necessary other equipment required for the proper installation, protection, maintenance, control and operation of the foregoing local electric distribution facilities. These facilities will be required to meet the needs of new customers, maintain and improve system capabilities, and make overhead to underground conversions.

Local Gas Facilities

Acquisition and construction of additions and improvements to the Borrower's gas distribution (operating at pressures at or below 400 psig) facilities, located within its gas retail service area in San Diego County, required for the distribution of gas for delivery to the Borrower's customers located therein. Such facilities include the acquisition and construction of new, high-pressure distribution mains, and new customer service lines or the extension, replacement or relocation of such existing mains or portions or components thereof, regulator stations controlling the passage of gas from distribution mains of higher pressure to distribution mains of lower pressure and the volume and pressure of gas within the mains, together with all necessary valves, controls, meters, and other measuring and regulating devices, and facilities, plant, property, and other equipment and improvements (including land and land-rights) necessary for the installation, protection, maintenance, control and operation of the foregoing.

LOAN AGREEMENT

Between

CITY OF CHULA VISTA

And

SAN DIEGO GAS & ELECTRIC COMPANY

Dated as of November 1, 1996

Relating to

\$60,000,000
City of Chula Vista
Industrial Development Revenue Bonds
(San Diego Gas & Electric Company)
1996 Series B

LOAN AGREEMENT

TABLE OF CONTENTS

| | Page |
|--|--|
| PARTIES | 1 |
| PREAMBLES | 1 |
| ARTICLE I | |
| DEFINITIONS | |
| SECTION 1.1. | DEFINITION OF TERMS 2 |
| SECTION 1.2. | NUMBER AND GENDER 2 |
| SECTION 1.3. | ARTICLES, SECTIONS, ETC. 2 |
| ARTICLE II | |
| REPRESENTATIONS | |
| SECTION 2.1. | REPRESENTATIONS OF THE CITY 2 |
| SECTION 2.2. | REPRESENTATIONS OF THE BORROWER 3 |
| ARTICLE III | |
| ISSUANCE OF THE BONDS; APPLICATION OF PROCEEDS | |
| SECTION 3.1. | AGREEMENT TO ISSUE BONDS; APPLICATION OF BOND PROCEEDS 4 |
| SECTION 3.2. | INVESTMENT OF MONEYS IN FUNDS 4 |
| SECTION 3.3. | AMENDMENT OF DESCRIPTION OF THE PROJECT 4 |
| ARTICLE IV | |
| LOAN TO BORROWER; REPAYMENT PROVISIONS | |
| SECTION 4.1. | LOAN TO BORROWER 5 |

| | | |
|--------------|--|---|
| SECTION 4.2. | REPAYMENT AND PAYMENT OF OTHER AMOUNTS PAYABLE | 5 |
| SECTION 4.3. | UNCONDITIONAL OBLIGATION | 6 |
| SECTION 4.4. | ASSIGNMENT OF CITY'S RIGHTS | 7 |
| SECTION 4.5. | AMOUNTS REMAINING IN FUNDS | 7 |
| SECTION 4.6. | CREDIT FACILITY | 7 |

ARTICLE V

SPECIAL COVENANTS AND AGREEMENTS

| | | |
|---------------|---|----|
| SECTION 5.1. | RIGHT OF ACCESS TO THE PROJECT | 8 |
| SECTION 5.2. | THE BORROWER'S MAINTENANCE OF ITS EXISTENCE; ASSIGNMENTS | 8 |
| SECTION 5.3. | RECORDS AND FINANCIAL STATEMENTS OF BORROWER | 9 |
| SECTION 5.4. | MAINTENANCE AND REPAIR | 9 |
| SECTION 5.5. | QUALIFICATION IN CALIFORNIA | 9 |
| SECTION 5.6. | TAX EXEMPT STATUS OF BONDS | 9 |
| SECTION 5.7. | NOTICE OF RATE PERIODS | 10 |
| SECTION 5.8. | REMARKETING OF THE BONDS | 11 |
| SECTION 5.9. | NOTICES TO TRUSTEE AND CITY | 12 |
| SECTION 5.10. | CONTINUING DISCLOSURE | 12 |

ARTICLE VI

EVENTS OF DEFAULT AND REMEDIES

| | | |
|--------------|---|----|
| SECTION 6.1. | EVENTS OF DEFAULT | 12 |
| SECTION 6.2. | REMEDIES ON DEFAULT | 13 |
| SECTION 6.3. | AGREEMENT TO PAY ATTORNEYS' FEES AND EXPENSES | 15 |
| SECTION 6.4. | NO REMEDY EXCLUSIVE | 15 |
| SECTION 6.5. | NO ADDITIONAL WAIVER IMPLIED BY ONE WAIVER | 15 |

ARTICLE VII

PREPAYMENT

| | | |
|--------------|--|----|
| SECTION 7.1. | REDEMPTION OF BONDS WITH PREPAYMENT MONEYS | 15 |
| SECTION 7.2. | OPTIONS TO PREPAY INSTALLMENTS | 16 |
| SECTION 7.3. | MANDATORY PREPAYMENT | 16 |
| SECTION 7.4. | AMOUNT OF PREPAYMENT | 16 |
| SECTION 7.5. | NOTICE OF PREPAYMENT | 16 |

ARTICLE VIII

NON-LIABILITY OF CITY; EXPENSES; INDEMNIFICATION

| | | |
|--------------|-----------------------|----|
| SECTION 8.1. | NON-LIABILITY OF CITY | 17 |
| SECTION 8.2. | EXPENSES | 17 |
| SECTION 8.3. | INDEMNIFICATION | 18 |

ARTICLE IX

MISCELLANEOUS

| | | |
|--------------|---------------------------------------|----|
| SECTION 9.1. | NOTICES | 18 |
| SECTION 9.2. | SEVERABILITY | 18 |
| SECTION 9.3. | EXECUTION OF COUNTERPARTS | 19 |
| SECTION 9.4. | AMENDMENTS, CHANGES AND MODIFICATIONS | 19 |
| SECTION 9.5. | GOVERNING LAW | 19 |
| SECTION 9.6. | AUTHORIZED BORROWER REPRESENTATIVE | 19 |
| SECTION 9.7. | TERM OF THE AGREEMENT | 19 |
| SECTION 9.8. | BINDING EFFECT | 19 |

| | | |
|-------------|--|----|
| TESTIMONIUM | | 20 |
|-------------|--|----|

| | | |
|----------------------|--|----|
| SIGNATURES AND SEALS | | 20 |
|----------------------|--|----|

| | | |
|-----------|----------------------------|-----|
| EXHIBIT A | Description of the Project | A-1 |
|-----------|----------------------------|-----|

LOAN AGREEMENT

THIS LOAN AGREEMENT, dated as of November 1, 1996, by and

between the CITY OF CHULA VISTA, a municipal corporation and charter city duly organized and existing under the laws and Constitution of the State of California (the "City"), and SAN DIEGO GAS & ELECTRIC COMPANY, a corporation organized and existing under the laws of the State of California (the "Borrower"),

W I T N E S S E T H :

WHEREAS, the City is a municipal corporation and charter city, duly organized and existing under a freeholders' charter pursuant to which the City has the right and power to make and enforce all laws and regulations in accordance with and as more particularly provided in Sections 3, 5 and 7 of Article XI of the Constitution of the State of California and Section 200 of the Charter of the City (the "Charter"); and

WHEREAS, the City Council of the City, acting under and pursuant to the powers reserved to the City under Sections 3, 5 and 7 of Article XI of the Constitution and Section 200 of the Charter, has enacted Chapter 3.48 of the Chula Vista Municipal Code, pursuant to Ordinance No. 1970 adopted on February 9, 1982, as amended from time to time (the "Law"), establishing a program to provide financial assistance for the acquisition, construction and installation of facilities for industrial, commercial or public utility purposes; and

WHEREAS, the Borrower has duly applied to the City for financial assistance to refinance the costs of acquisition, construction and installation of certain facilities for the distribution of electric energy and gas, as more fully described in Exhibit A hereto (the "Project"), by prepaying a loan (the "Prior Loan") made to the Borrower with the proceeds of The City of San Diego Industrial Development Revenue Bonds (San Diego Gas & Electric Company) 1986 Series B (the "Prior Bonds"), resulting in the refunding of the Prior Bonds; and

WHEREAS, the City after due investigation and deliberation has determined that the Project and the refinancing thereof, and the resulting refunding of the Prior Bonds, will directly benefit the citizens of the City by substantially promoting the public interests recited in the Law and has adopted its resolutions authorizing the provision or lending of financial assistance to the Borrower to refinance the costs of acquisition, construction and installation of the Project and to prepay the Prior Loan, and the issuance and sale of its bonds, including its Industrial Development Revenue Bonds (San Diego Gas & Electric Company) 1996 Series B (the "Bonds"), for such purposes; and

WHEREAS, the City proposes to assist in such refinancing upon the terms and conditions set forth herein;

NOW, THEREFORE, in consideration of the premises and the respective representations and covenants herein contained, the parties hereto agree as follows:

ARTICLE I

DEFINITIONS

SECTION 1.1. DEFINITION OF TERMS. Unless the context otherwise requires, the terms used in this Agreement shall have the meanings specified in Section 1.01 of the Indenture of Trust, of even date herewith relating to the Bonds (the "Indenture"), by and between the City and First Trust of California, National Association, as trustee (the "Trustee"), as originally executed or as it may from time to time be supplemented or amended as provided therein.

SECTION 1.2. NUMBER AND GENDER. The singular form of any word used herein, including the terms defined in Section 1.01 of the Indenture, shall include the plural, and vice versa. The use herein of a word of any gender shall include all genders.

SECTION 1.3. ARTICLES, SECTIONS, ETC. Unless otherwise specified, references to Articles, Sections and other subdivisions of this Agreement are to the designated Articles, Sections and other subdivisions of this Agreement as originally executed. The words "hereof," "herein," "hereunder" and words of similar import refer to this Agreement as a whole. The headings or titles of the several articles and

sections, and the table of contents appended to copies hereof, shall be solely for convenience of reference and shall not affect the meaning, construction or effect of the provisions hereof.

ARTICLE II

REPRESENTATIONS

SECTION 2.1. REPRESENTATIONS OF THE CITY. The City makes the following representations as the basis for its undertakings herein contained:

(a) The City is a municipal corporation and charter city in the State of California. Under the provisions of the Law, the City has the power to enter into the transactions contemplated by this Agreement and to carry out its obligations hereunder. The Project constitutes a "project" as that term is defined in the Law. By proper action, the City has been duly authorized to execute, deliver and duly perform this Agreement and the Indenture.

(b) To refinance the cost of the Project, the City will issue the Bonds which will mature, bear interest and be subject to redemption as set forth in the Indenture.

(c) The Bonds will be issued under and secured by the Indenture, pursuant to which the City's interest in this Agreement (except certain rights of the City to give approvals and consents and to receive payment for expenses and indemnification and certain other payments) will be pledged to the Trustee as security for payment of the principal of, premium, if any, and interest on the Bonds.

(d) The City has not pledged and will not pledge its interest in this Agreement for any purpose other than to secure the Bonds under the Indenture.

(e) The City is not in default under any of the provisions of the laws of the State of California or the City's Charter which default would affect its existence or its powers referred to in subsection (a) of this Section 2.1.

(f) The City has found and determined and hereby finds and determines that all requirements of the Law with respect to the issuance of the Bonds and the execution of this Agreement and the Indenture have been complied with and that refinancing the Project by issuing the Bonds, refunding or replacing the Prior Bonds and entering into this Agreement and the Indenture will be in furtherance of the purposes of the Law.

(g) On May 21, 1996, the City Council of the City adopted Resolution No. 18302 authorizing the issuance and sale of the Bonds.

(h) On July 23, 1996, the City Council adopted Resolution No. 18384 authorizing the execution and delivery of a bond purchase agreement and official statement in connection with the sale of the Bonds.

SECTION 2.2. REPRESENTATIONS OF THE BORROWER. The Borrower makes the following representations as the basis for its undertakings herein contained:

(a) The Borrower is a corporation duly formed under the laws of the State of California, is in good standing in the State of California and has the power to enter into and has duly authorized, by proper corporate action, the execution and delivery of this Agreement and all other documents contemplated hereby to be executed by the Borrower.

(b) Neither the execution and delivery of this Agreement, the consummation of the transactions contemplated hereby, nor the fulfillment of or compliance with the terms and conditions hereof and thereof, conflicts with or results in a breach of any of the terms, conditions or provisions of the Borrower's Articles of Incorporation or By-laws or of any corporate actions or of any agreement or instrument to which the Borrower is now a party or by which it is bound, or constitutes a default (with due notice or the passage of time or both) under any of

the foregoing, or results in the creation or imposition of any prohibited lien, charge or encumbrance whatsoever upon any of the property or assets of the Borrower under the terms of any instrument or agreement to which the Borrower is now a party or by which it is bound.

(c) The Project consists and will consist of those facilities described in Exhibit A hereto, and the Borrower shall make no changes to such portion of the Project or to the operation thereof which would affect the qualification of the Project as a "project" under the Law or impair the exemption from gross income of the interest on the Bonds for federal income tax purposes. In particular, the Borrower shall comply with all requirements of the San Diego Gas & Electric Company Engineering Certificate, dated the Issue Date (the "Engineering Certificate"), which is hereby incorporated by reference herein. The Project consists of facilities for the local furnishing of electric energy and gas as described in the Engineering Certificate. The Borrower intends to utilize such portion of the Project as facilities for the local furnishing of electric energy and gas throughout the foreseeable future.

(d) The Borrower has and will have title to the Project sufficient to carry out the purposes of this Agreement.

(e) The economic useful life of the Project is as set forth in the Engineering Certificate.

(f) All certificates, approvals, permits and authorizations with respect to the construction of the Project of agencies of applicable local governmental agencies, the State of California and the federal government have been obtained; and pursuant to such certificates, approvals, permits and authorizations the Project has been constructed and is in operation.

ARTICLE III

ISSUANCE OF THE BONDS; APPLICATION OF PROCEEDS

SECTION 3.1. AGREEMENT TO ISSUE BONDS; APPLICATION OF BOND PROCEEDS. To provide funds to enable the Borrower to refinance a portion of the cost of the Project by prepaying the Prior Loan, the City agrees that it will issue under the Indenture, sell and cause to be delivered to the purchasers thereof, the Bonds, bearing interest as provided and maturing on the date set forth in the Indenture. The City will thereupon apply the proceeds received from the sale of the Bonds as provided in Section 3.02 of the Indenture.

SECTION 3.2. INVESTMENT OF MONEYS IN FUNDS. Any moneys in any fund held by the Trustee shall, at the written request of an Authorized Borrower Representative, be invested or reinvested by the Trustee as provided in the Indenture. Such investments shall be held by the Trustee and shall be deemed at all times a part of the fund from which such investments were made, and the interest accruing thereon and any profit or loss realized therefrom shall, except as otherwise provided in the Indenture, be credited or charged to such fund.

SECTION 3.3. AMENDMENT OF DESCRIPTION OF THE PROJECT. In the event that the Borrower desires to amend or supplement the Project, as described in Exhibit A hereto, and the City approves of such amendment or supplement, the City will enter into, and will instruct the Trustee to consent to, such amendment or supplement upon receipt of:

(i) a certificate of an Authorized Borrower Representative describing in detail the proposed changes and stating that they will not have the effect of disqualifying any component of the Project as a facility that may be financed pursuant to the Law;

(ii) a copy of the proposed form of amended or supplemented Exhibit A hereto; and

(iii) an Opinion of Bond Counsel that such proposed changes will not affect the exclusion from gross income of interest on the Bonds for federal income tax purposes.

ARTICLE IV
LOAN TO BORROWER; REPAYMENT PROVISIONS

SECTION 4.1. LOAN TO BORROWER. The City and the Borrower agree that the application of the proceeds of sale of the Bonds to refund and retire a portion of the Prior Bonds and the first mortgage bonds of the Borrower relating thereto will be deemed to be and treated for all purposes as a loan to the Borrower of an amount equal to the principal amount of the Bonds.

SECTION 4.2. REPAYMENT AND PAYMENT OF OTHER AMOUNTS PAYABLE.

(a) The Borrower covenants and agrees to pay to the Trustee as a Repayment Installment on the loan to the Borrower pursuant to Section 4.1 hereof, on each date provided in or pursuant to the Indenture for the payment of principal (whether at maturity or upon redemption or acceleration) of, premium, if any, and/or interest on the Bonds, until the principal of, premium, if any, and interest on the Bonds shall have been fully paid or provision for the payment thereof shall have been made in accordance with the Indenture, in immediately available funds, for deposit in the Bond Fund, a sum equal to the amount then payable as principal (whether at maturity or upon redemption or acceleration), premium, if any, and interest upon the Bonds as provided in the Indenture.

Each payment required to be made pursuant to this Section 4.2(a) shall at all times be sufficient to pay the total amount of interest and principal (whether at maturity or upon redemption or acceleration) and premium, if any, then payable on the Bonds; provided that any amount held by the Trustee in the Bond Fund on any due date for a Repayment Installment hereunder shall be credited against the installment due on such date to the extent available for such purpose; and provided further that, subject to the provisions of this paragraph, if at any time the amounts held by the Trustee in the Bond Fund are sufficient to pay all of the principal of and interest and premium, if any, on the Bonds as such payments become due, the Borrower shall be relieved of any obligation to make any further payments under the provisions of this Section. Notwithstanding the foregoing, if on any date the amount held by the Trustee in the Bond Fund is insufficient to make any required payments of principal of (whether at maturity or upon redemption or acceleration) and interest and premium, if any, on the Bonds as such payments become due, the Borrower shall forthwith pay such deficiency as a Repayment Installment hereunder.

The obligation of the Borrower to make any payment under this Section 4.2(a) with respect to the Bonds shall be deemed to have been satisfied to the extent of any corresponding payment by the Credit Provider under the Credit Facility, if any, for such Bonds.

(b) The Borrower also agrees to pay to the Trustee until the principal of, premium, if any, and interest on the Bonds shall have been fully paid or provision for the payment thereof shall have been made as required by the Indenture, (i) the annual fee of the Trustee for its ordinary services rendered as trustee, and its ordinary expenses incurred under the Indenture, as and when the same become due, (ii) the reasonable fees, charges and expenses of the Trustee, the Registrar and the reasonable fees of any paying agent on the Bonds as provided in the Indenture, as and when the same become due, (iii) the reasonable fees, charges and expenses of the Trustee for the necessary extraordinary services rendered by it and extraordinary expenses incurred by it under the Indenture, as and when the same become due. The Borrower shall also pay the cost of printing any Bonds required to be furnished by the City.

(c) The Borrower also agrees to pay, within 60 days after receipt of request for payment thereof, all expenses required to be paid by the Borrower under the terms of the bond purchase agreement executed by it in connection with the sale of the Bonds, and all reasonable expenses of the City related to the financing of the Project which are not otherwise required to be paid by the Borrower under the terms of this Agreement; provided that the City shall have obtained the prior written approval of the Authorized Borrower Representative for any expenditures other than those provided for herein or in said bond purchase agreement.

The Borrower also agrees to pay to the City within five days

following the Issue Date an issuance fee in the amount of \$150,000.00.

(d) The Borrower hereby agrees to provide or cause to be provided in immediately available funds, for deposit into the Bond Purchase Fund maintained by the Tender Agent, all amounts necessary to purchase Bonds tendered for purchase in accordance with Sections 2.01(d) and 2.01(e) of the Indenture.

(e) In the event the Borrower should fail to make any of the payments required by subsections (a) through (d) of this Section, such payments shall continue as obligations of the Borrower until such amounts shall have been fully paid. The Borrower agrees to pay such amounts, together with interest thereon until paid, to the extent permitted by law, at the rate of one percent (1%) per annum over the rate borne by any Bonds in respect of which such payments are required to be made pursuant to said subsection (a), and one percent (1%) per annum over the average rate then borne by the Bonds as to all other payments. Interest on overdue payments required under subsection (a) or (d) above shall be paid to Bondholders as provided in the Indenture.

(f) Upon written request of the Trustee, the Borrower shall pay any Repayment Installment directly to the Paying Agent.

(g) Any unpaid obligation of the Borrower under subsections (b) through (e) of this Section 4.2 shall survive the payment and discharge of the Bonds and the termination of this Agreement.

SECTION 4.3. UNCONDITIONAL OBLIGATION. The obligations of the Borrower to make the payments required by Section 4.2 hereof and to perform and observe the other agreements on its part contained herein shall be absolute and unconditional, irrespective of any defense or any rights of set-off, recoupment or counterclaim it might otherwise have against the City, and during the term of this Agreement, the Borrower shall pay absolutely net the payments to be made on account of the loan as prescribed in Section 4.2 and all other payments required hereunder, free of any deductions and without abatement, diminution or set-off. Until such time as the principal of, premium, if any, and interest on the Bonds shall have been fully paid, or provision for the payment thereof shall have been made as required by the Indenture, the Borrower (i) will not suspend or discontinue any payments provided for in Section 4.2 hereof; (ii) will perform and observe all of its other covenants contained in this Agreement; and (iii) will not terminate this Agreement for any cause, including, without limitation, the occurrence of any act or circumstances that may constitute failure of consideration, destruction of or damage to the Project, commercial frustration of purpose, any change in the tax or other laws of the United States of America or of the State of California or any political subdivision of either of these, or any failure of the City or the Trustee to perform and observe any covenant, whether express or implied, or any duty, liability or obligation arising out of or connected with this Agreement or the Indenture, except to the extent permitted by this Agreement.

SECTION 4.4. ASSIGNMENT OF CITY'S RIGHTS. As security for the payment of the Bonds, the City will assign to the Trustee the City's rights, but not its obligations, under this Agreement, including the right to receive payments hereunder (except (i) the rights of the City to receive notices under this Agreement, (ii) the right of the City to receive certain payments, if any, with respect to fees, expenses and indemnification and certain other purposes under Sections 4.2(c), 4.2(e), 6.3, 8.2 and 8.3 hereof, and (iii) the right of the City to give approvals or consents pursuant to this Agreement) and the City hereby directs the Borrower to make the payments required hereunder (except such payments for fees, expenses and indemnification) directly to the Trustee. The Borrower hereby assents to such assignment and agrees to pay the Repayment Installments directly to the Trustee (subject to the provisions of Section 4.2(f)) without defense or set-off by reason of any dispute between the Borrower and the City or the Trustee.

SECTION 4.5. AMOUNTS REMAINING IN FUNDS. It is agreed by the parties hereto that after payment in full of (i) the Bonds, or after provision for such payment shall have been made as provided in the Indenture, (ii) the fees and expenses of the City in accordance with this Agreement, (iii) the fees, charges and expenses of the Trustee, the Registrar and Paying Agents in accordance with the Indenture and this Agreement and (iv) all other amounts required to be paid under this

Agreement and the Indenture, any amounts remaining in any fund held by the Trustee under the Indenture shall belong, subject to the requirements of Section 6.06 of the Indenture, to the Borrower and be paid to the Borrower by the Trustee.

SECTION 4.6. CREDIT FACILITY. No initial Credit Facility shall be provided with respect to the Bonds. The Borrower may provide and subsequently terminate or remove a Credit Facility with respect to the Bonds pursuant to the provisions of Section 5.07 of the Indenture; provided, however, that, except in connection with the redemption of Bonds, the Borrower shall not intentionally cause the termination or substitution of any Credit Facility with respect to Bonds during a Term Rate Period or a Variable Term Segment with respect to such Bonds. Not less than twenty-five days prior to the termination, removal, substitution or delivery of any Credit Facility with respect to the Bonds, the Borrower shall mail written notice of such termination, removal, substitution or delivery to the Trustee. Not less than fifteen days prior to the delivery of any substitute or new Credit Facility for the Bonds, the Borrower shall mail written notice of such substitution or delivery to each Rating Agency.

ARTICLE V

SPECIAL COVENANTS AND AGREEMENTS

SECTION 5.1. RIGHT OF ACCESS TO THE PROJECT. The Borrower agrees that during the term of this Agreement the City, the Trustee and the duly authorized agents of either of them shall have the right at all reasonable times during normal business hours to enter upon the site of the Project described in Exhibit A hereto to examine and inspect such Project; provided, however, that this right is subject to federal and State of California laws and regulations applicable to such site. The rights of access hereby reserved to the City and the Trustee may be exercised only after such agent shall have executed release of liability (which release shall not limit any of the Borrower's obligations hereunder) and secrecy agreements if requested by the Borrower in the form then currently used by the Borrower, and nothing contained in this Section or in any other provision of this Agreement shall be construed to entitle the City or the Trustee to any information or inspection involving the confidential know-how of the Borrower.

SECTION 5.2. THE BORROWER'S MAINTENANCE OF ITS EXISTENCE; ASSIGNMENTS. (a) The Borrower agrees that during the term of this Agreement it will maintain its corporate existence in good standing and will not dissolve or otherwise dispose of all or substantially all of its assets and will not consolidate with or merge into another corporation or permit one or more other corporations to consolidate or merge into it; provided, that the Borrower may, without violating the covenants contained in this Section, consolidate with or merge into another corporation, or permit one or more other corporations to consolidate with or merge into it, or sell or otherwise transfer to another corporation all or substantially all of its assets and thereafter dissolve, provided that (1) either (A) the Borrower is the surviving corporation or (B) the surviving, resulting or transferee corporation, as the case may be, (i) assumes and agrees in writing to pay and perform all of the obligations of the Borrower hereunder and (ii) qualifies to do business in the State of California; and (2) the Borrower shall deliver to the Trustee an Opinion of Bond Counsel to the effect that such consolidation, merger or transfer and dissolution does not in and of itself adversely affect the exclusion from gross income for federal income tax purposes of interest on the Bonds.

(b) With the prior written consent of the City (which consent shall not be unreasonably withheld), the rights and obligations of the Borrower under this Agreement may be assigned by the Borrower, in whole or in part, subject, however, to each of the following conditions:

(i) No assignment (other than pursuant to a merger, consolidation or combination described in Section 5.2(a)) shall relieve the Borrower from primary liability for any of its obligations hereunder, and in the event of any assignment not pursuant to Section 5.2(a), the Borrower shall continue to remain primarily liable for the payments specified in Section 4.2 hereof and for performance and observance of the other agreements on its part herein provided to be performed and observed

by it.

(ii) Any assignment from the Borrower shall retain for the Borrower such rights and interests as will permit it to perform its obligations under this Agreement, and any assignee from the Borrower shall assume the obligations of the Borrower hereunder to the extent of the interest assigned.

(iii) The Borrower shall, within thirty days after delivery of such assignment, furnish or cause to be furnished to the City and the Trustee a true and complete copy of each such assignment together with an instrument of assumption.

(iv) The Borrower shall cause to be delivered to the City and the Trustee an Opinion of Bond Counsel that such assignment will not, in and of itself, result in the interest on the Bonds being determined to be includable in the gross income for federal income tax purposes of the owners thereof (other than a "substantial user" of the Project or a "related person" within the meaning of Section 103(b)(13) of the 1954 Code).

SECTION 5.3. RECORDS AND FINANCIAL STATEMENTS OF BORROWER. The Borrower agrees (a) to keep and maintain full and accurate accounts and records of its operations in accordance with generally accepted accounting principles, (b) to permit the Trustee for itself or on behalf of the holders of the Bonds and its designated officers, employees, agents and representatives to have access to such accounts and records and to make examinations thereof at all reasonable times and (c) upon request of the Trustee, to provide the Trustee with the Borrower's most recent audited financial statements.

SECTION 5.4. MAINTENANCE AND REPAIR. The Borrower agrees that as long as it owns the Project it will (i) maintain, or cause to be maintained, the Project in as reasonably safe condition as its operations shall permit and (ii) maintain, or cause to be maintained, the Project in good repair and in good operating condition, ordinary wear and tear excepted, making from time to time all necessary repairs thereto and renewals and replacements thereof.

SECTION 5.5. QUALIFICATION IN CALIFORNIA. The Borrower agrees that throughout the term of this Agreement it, or any successor or assignee as permitted by Section 5.2, will be qualified to do business in the State of California.

SECTION 5.6. TAX EXEMPT STATUS OF BONDS. (a) It is the intention of the parties hereto that interest on the Bonds shall be and remain excluded from gross income for federal income tax purposes. To that end, the covenants and agreements of the City and the Borrower in this Section and in the Tax Certificate are for the benefit of the Trustee and each and every person who at any time will be a holder of the Bonds. Without limiting the generality of the foregoing, the Borrower and the City agree that there shall be paid from time to time all amounts required to be rebated to the United States pursuant to Section 148(f) of the Code and any temporary, proposed or final Treasury Regulations as may be applicable to the Bonds from time to time. This covenant shall survive payment in full or defeasance of the Bonds. The Borrower specifically covenants to pay or cause to be paid for and on behalf of the City to the United States at the times and in the amounts determined under Section 6.06 of the Indenture the Rebate Requirement as described in the Tax Certificate. The City shall not be liable to make any such payment except from funds provided by the Borrower for such purpose.

(b) The City covenants and agrees that it has not taken and will not take any action which results in interest to be paid on the Bonds being included in gross income of the holders of the Bonds for federal income tax purposes, and the Borrower covenants and agrees that it has not taken or permitted to be taken and will not take or permit to be taken any action which will cause the interest on the Bonds to become includable in gross income for federal income tax purposes; provided that neither the Borrower nor the City shall have violated these covenants if interest on any of the Bonds becomes taxable to a person solely because such person is a "substantial user" of the Project or a "related person" within the meaning of Section 147(a) of the Code; and provided further that none of the covenants and agreements herein contained shall require either the Borrower or the City to enter an appearance or intervene in

any administrative, legislative or judicial proceeding in connection with any changes in applicable laws, rules or regulations or in connection with any decisions of any court or administrative agency or other governmental body affecting the taxation of interest on the Bonds. The Borrower acknowledges having read Section 6.06 of the Indenture and agrees to perform all duties imposed on it by such Section, by this Section and by the Tax Certificate. Insofar as Section 6.06 of the Indenture and the Tax Certificate impose duties and responsibilities on the City or the Borrower, they are specifically incorporated herein by reference.

(c) Notwithstanding any provision of this Section 5.6 or Section 6.06 of the Indenture, if the Borrower shall provide to the City and the Trustee an Opinion of Bond Counsel to the effect that any specified action required under this Section 5.6 and Section 6.06 of the Indenture is no longer required or that some further or different action is required to maintain the exclusion from federal income tax of interest on the Bonds, the Borrower, the Trustee and the City may conclusively rely on such opinion in complying with the requirements of this Section, and the covenants set forth in this Section 5.6 shall be deemed to be modified to that extent.

SECTION 5.7. NOTICE OF RATE PERIODS. The Borrower shall designate and give timely written notice to the Trustee as required by the Indenture prior to any change in Rate Periods for the Bonds. In addition, if the Borrower shall elect to change Rate Periods in accordance with the Indenture and the Bonds under circumstances requiring the delivery of an Opinion of Bond Counsel, the Borrower shall deliver such opinion to the Trustee concurrently with the giving of notice with respect thereto, and no such change shall be effective without an Opinion of Bond Counsel to the effect that such change is authorized or permitted by the Indenture and the Law and will not adversely affect the Tax-Exempt status of the interest on the Bonds.

SECTION 5.8. REMARKETING OF THE BONDS .

(a) The Borrower agrees to perform all obligations and duties required of it by the Indenture with respect to the remarketing of the Bonds, and, to appoint as set forth below a Remarketing Agent and a Tender Agent meeting the qualifications and otherwise meeting the requirements set forth in this Section 5.8.

(b) Tender Agent.

(i) Appointment and Duties: In order to carry out the duties and obligations of the Tender Agent contained in the Indenture, the Borrower shall appoint a Tender Agent or Tender Agents in order to carry out such duties and obligations, subject to the conditions set forth below. Each Tender Agent shall designate to the Trustee its principal office and signify its acceptance of the duties and obligations imposed upon it under the Indenture by entering into a Tender Agreement with the Borrower and such other parties as shall be appropriate, which may be combined with a Remarketing Agreement into a single document, delivered to the City, the Trustee, the Borrower and the Remarketing Agent, under which the Tender Agent shall agree, particularly (but without limitation): (A) to perform the duties and comply with the requirements imposed upon it by the Tender Agreement, the Indenture and this Agreement; and (B) to keep such books and records with respect to its activities as Tender Agent as shall be consistent with prudent industry practice and to make such books and records available for inspection by the City, the Trustee and the Borrower at all reasonable times.

(ii) Qualifications: The Tender Agent shall be a financial institution organized and doing business under the laws of the United States or of a state thereof, authorized under such laws to exercise corporate trust powers, having a combined capital and surplus of at least Fifty Million Dollars (\$50,000,000), and subject to supervision or examination by federal or state authority. If such financial institution publishes a report of condition at least annually, pursuant to law or to the requirements of any supervising or examining authority above referred to, then for the purposes of this Section the combined capital and surplus of such financial institution shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published.

(c) Remarketing Agent. In order to carry out the duties and obligations contained in the Indenture, the Borrower, by an instrument in writing (which may be the Remarketing Agreement) signed by an Authorized Borrower Representative, shall select the Remarketing Agent for the Bonds subject to the conditions set forth below. The Remarketing Agent shall designate to the Trustee its principal office and signify its acceptance of the duties and obligations imposed upon it under the Indenture by a written instrument of acceptance (which may be the execution of a Remarketing Agreement) delivered to the City, the Trustee and the Borrower under which the Remarketing Agent shall agree, particularly (but without limitation): (i) to perform the duties and comply with the requirements imposed upon it by the Remarketing Agreement, the Indenture and this Agreement; and (ii) to keep such books and records with respect to its activities as Remarketing Agent as shall be consistent with prudent industry practice and to make such books and records available for inspection by the City, the Trustee and the Borrower at all reasonable times.

(d) Remarketing Agreement. In order to provide for the remarketing of the Bonds, the Borrower shall enter into a Remarketing Agreement with the Remarketing Agent and such other parties as shall be appropriate, which may be combined with a Tender Agreement into a single document. The Remarketing Agreement shall include the following: (i) a requirement that the Remarketing Agreement shall not be terminated by the Borrower without cause for a period of at least six months after the effective date thereof; and (ii) a statement to the effect that the Remarketing Agent is not acting in an agency capacity with respect to the Borrower in establishing interest rates and Rate Periods as described in Section 2.01 of the Indenture, but is acting as agent of the City pursuant to the Law with respect to such functions.

SECTION 5.9. NOTICES TO TRUSTEE AND CITY. The Borrower hereby agrees to provide the Trustee and the City with notice of any event of which it has knowledge which, with the passage of time or the giving of notice, would be an Event of Default, such notice to include a description of the nature of such event and what steps are being taken to remedy such Event of Default.

SECTION 5.10. CONTINUING DISCLOSURE. The Borrower hereby covenants and agrees, upon the adjustment of the Rate Period for the Bonds to a Term Rate Period pursuant to Section 2.01(c)(iv) of the Indenture and the remarketing of such Bonds in accordance with the Indenture, to comply with the continuing disclosure requirements for the Bonds as promulgated under Rule 15c2-12, as it may from time to time hereafter be amended or supplemented. Notwithstanding any other provision of this Agreement, failure of the Borrower to comply with the requirements of Rule 15c2-12 applicable to the Bonds, as it may from time to time hereafter be amended or supplemented, shall not be considered an Event of Default hereunder or under the Indenture; however, any Bondholder or beneficial owner of any Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Borrower to comply with its obligations pursuant to this Section 5.10.

ARTICLE VI

EVENTS OF DEFAULT AND REMEDIES

SECTION 6.1. EVENTS OF DEFAULT. Any one of the following which occurs and continues shall constitute an Event of Default pursuant to this Agreement:

(a) failure by the Borrower to pay any amounts required to be paid under Section 4.2(a) or 4.2(d) hereof at the times required to avoid causing an Event of Default pursuant to the Indenture; or

(b) failure of the Borrower to observe and perform any covenant, condition or agreement on its part required to be observed or performed by this Agreement, other than making the payments referred to in (a) above, which continues for a period of 60 days after written notice, which notice shall specify such failure and request that it be remedied, given to the Borrower by

the City or the Trustee, unless the City and the Trustee shall agree in writing to an extension of such time; provided, however, that if the failure stated in the notice cannot be corrected within such period, the City and the Trustee will not unreasonably withhold their consent to an extension of such time if corrective action is instituted within such period and diligently pursued until the default is corrected; or

(c) an Act of Bankruptcy of the Borrower; or

(d) a default under any Credit Facility if the Credit Provider notifies the Trustee in writing that such default shall be treated as an Event of Default hereunder.

The provisions of subsection (b) of this Section are subject to the limitation that the Borrower shall not be deemed in default if and so long as the Borrower is unable to carry out its agreements hereunder by reason of strikes, lockouts or other industrial disturbances; acts of public enemies; orders of any kind of the government of the United States or of the State of California or any of their departments, agencies, or officials, or any civil or military authority; insurrections, riots, epidemics, landslides; lightning; earthquake; fire; hurricanes; storms; floods; washouts; droughts; arrests; restraint of government and people; civil disturbances; explosions; breakage or accident to machinery, transmission pipes or canals; partial or entire failure of utilities; or any other cause or event not reasonably within the control of the Borrower; it being agreed that the settlement of strikes, lockouts and other industrial disturbances shall be entirely within the discretion of the Borrower, and the Borrower shall not be required to make settlement of strikes, lockouts and other industrial disturbances by acceding to the demands of the opposing party or parties when such course is, in the judgment of the Borrower, unfavorable to the Borrower. This limitation shall not apply to any default under subsections (a), (c) or (d) of this Section.

SECTION 6.2. REMEDIES ON DEFAULT. Whenever any Event of Default shall have occurred and shall continue, the following remedies may be pursued:

(a) The Trustee may, and upon the written request of any Credit Provider or the holders of not less than 25% in aggregate principal amount of Bonds then outstanding, shall, by notice in writing delivered to the Borrower with copies of such notice being sent to the City and each Credit Provider, declare the unpaid balance of the loan payable under Section 4.2(a) of this Agreement and the interest accrued thereon to be immediately due and payable and such principal and interest shall thereupon become and be immediately due and payable. Upon any such acceleration, the Bonds shall be subject to mandatory redemption as provided in Section 4.01(b)(3) of the Indenture. After any such declaration of acceleration, the Trustee shall immediately take such actions as necessary to realize moneys under any Credit Facility.

(b) The Trustee shall have access to and the right to inspect, examine and make copies of the books and records and any and all accounts, data and federal income tax and other tax returns of the Borrower.

(c) The City or the Trustee may take whatever action at law or in equity as may be necessary or desirable to collect the payments and other amounts then due and thereafter to become due or to enforce performance and observance of any obligation, agreement or covenant of the Borrower under this Agreement.

The provisions of clause (a) of the preceding paragraph, however, are subject to the condition that if, at any time after the loan shall have been so declared due and payable, and before any judgment or decree for the payment of the moneys due shall have been obtained or entered as hereinafter provided, there shall have been deposited with the Trustee a sum sufficient (together with any amounts held in the Bond Fund) to pay all the principal of the Bonds matured prior to such declaration and all matured installments of interest (if any) upon all the Bonds, with interest on such overdue installments of principal as provided herein, and the reasonable expenses of the Trustee, and any and all other defaults known to the Trustee (other than in the payment of

principal of and interest on the Bonds due and payable solely by reason of such declaration) shall have been made good or cured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate shall have been made therefor, then, and in every such case, the holders of at least a majority in aggregate principal amount of the Bonds then outstanding, by written notice to the City and to the Trustee, may, on behalf of the holders of all the Bonds, rescind and annul such declaration and its consequences and waive such default; provided that no such rescission and annulment shall extend to or shall affect any subsequent default, or shall impair or exhaust any right or power consequent thereon; and provided further that there shall not be rescinded or annulled any such declaration which follows an event described in Section 6.1(d) without the written consent of the Credit Provider.

In case the Trustee or the City shall have proceeded to enforce its rights under this Agreement and such proceedings shall have been discontinued or abandoned for any reason or shall have been determined adversely to the Trustee or the City, then, and in every such case, the Borrower, the Trustee and the City shall be restored respectively to their several positions and rights hereunder, and all rights, remedies and powers of the Borrower, the Trustee and the City shall continue as though no such action had been taken (provided, however, that any settlement of such proceedings duly entered into by the City, the Trustee or the Borrower shall not be disturbed by reason of this provision).

In case the Borrower shall fail forthwith to pay amounts due by reason of this Section 6.2 upon demand of the Trustee, the Trustee shall be entitled and empowered to institute any action or proceeding at law or in equity for the collection of the sums so due and unpaid, and may prosecute any such action or proceeding to judgment or final decree, and may enforce any such judgment or final decree against the Borrower and collect in the manner provided by law the moneys adjudged or decreed to be payable.

In case proceedings shall be pending for the bankruptcy or for the reorganization of the Borrower under the federal bankruptcy laws or any other applicable law, or in case a receiver or trustee shall have been appointed for the property of the Borrower or in the case of any other similar judicial proceedings relative to the Borrower, or the creditors or property of the Borrower, then the Trustee shall be entitled and empowered, by intervention in such proceedings or otherwise, to file and prove a claim or claims for the whole amount owing and unpaid pursuant to this Agreement and, in case of any judicial proceedings, to file such proofs of claim and other papers or documents as may be necessary or advisable in order to have the claims of the Trustee allowed in such judicial proceedings relative to the Borrower, its creditors or its property, and to collect and receive any moneys or other property payable or deliverable on any such claims, and to distribute such amounts as provided in the Indenture after the deduction of its charges and expenses. Any receiver, assignee or trustee in bankruptcy or reorganization is hereby authorized to make such payments to the Trustee, and to pay to the Trustee any amount due it for compensation and expenses, including expenses and fees of counsel incurred by it up to the date of such distribution.

SECTION 6.3. AGREEMENT TO PAY ATTORNEYS' FEES AND EXPENSES. In the event the Borrower should default under any of the provisions of this Agreement and the City or the Trustee should employ attorneys or incur other expenses for the collection of the payments due under this Agreement or the enforcement of performance or observance of any obligation or agreement on the part of the Borrower herein contained, the Borrower agrees to pay to the City or the Trustee the reasonable fees of such attorneys and such other expenses so incurred by the City or the Trustee.

SECTION 6.4. NO REMEDY EXCLUSIVE. No remedy herein conferred upon or reserved to the City or the Trustee is intended to be exclusive of any other available remedy or remedies, but each and every such remedy shall be cumulative and shall be in addition to every other remedy given under this Agreement or now or hereafter existing at law or in equity or by statute. No delay or omission to exercise any right or power accruing upon any default shall impair any such right or power or shall be construed to be a waiver thereof, but any such right and power

may be exercised from time to time and as often as may be deemed expedient. In order to entitle the City or the Trustee to exercise any remedy reserved to it in this Article, it shall not be necessary to give any notice, other than such notice as may be herein expressly required. Such rights and remedies as are given the City hereunder shall also extend to the Trustee, and the Trustee and the holders of the Bonds shall be deemed third party beneficiaries of all covenants and agreements herein contained.

SECTION 6.5. NO ADDITIONAL WAIVER IMPLIED BY ONE WAIVER.

In the event any agreement or covenant contained in this Agreement should be breached by the Borrower and thereafter waived by the City or the Trustee, such waiver shall be limited to the particular breach so waived and shall not be deemed to waive any other breach hereunder.

ARTICLE VII

PREPAYMENT

SECTION 7.1. REDEMPTION OF BONDS WITH PREPAYMENT MONIES. By virtue of the assignment of certain of the rights of the City under this Agreement to the Trustee as is provided in Section 4.4 hereof, the Borrower agrees to and shall pay directly to the Trustee any amount permitted or required to be paid by it under this Article VII. The Trustee shall use the moneys so paid to it by the Borrower to effect redemption of the Bonds in accordance with Article IV of the Indenture on the date specified for such redemption pursuant to Section 7.5 hereof.

SECTION 7.2. OPTIONS TO PREPAY INSTALLMENTS. The Borrower shall have the option to prepay the amounts payable under Section 4.2 hereof, in whole or in part, by paying to the Trustee, for deposit in the Bond Fund, the amount set forth in Section 7.4 hereof, under the circumstances set forth in Section 4.01(a) of the Indenture; provided, however, that if any event specified in Section 4.01(a)(1)(A) through (D) of the Indenture gives rise to the Borrower's exercise of its option to prepay such amounts payable hereunder, the amount of such loan payment prepaid shall not exceed the original cost of the portion of the Project affected by such event.

SECTION 7.3. MANDATORY PREPAYMENT. (a) The Borrower shall have and hereby accepts the obligation to prepay Repayment Installments to the extent mandatory redemption of the Bonds is required pursuant to Section 4.01(b) of the Indenture. The Borrower shall satisfy its obligation hereunder by prepaying such Repayment Installments within one hundred eighty (180) days after the occurrence of any event set forth in paragraphs (1) through (3) of said Section 4.01(b) giving rise to such required prepayment, and immediately upon the occurrence of any event set forth in paragraph (3) thereof giving rise to such required prepayment. The amount payable by the Borrower in the event of a prepayment required by this Section shall be determined as set forth in Section 7.4 and shall be deposited in the Bond Fund.

SECTION 7.4. AMOUNT OF PREPAYMENT. In the case of a prepayment of the entire amount due hereunder pursuant to Section 7.2 or 7.3 hereof, the amount to be paid shall be a sum sufficient, together with other funds and the yield on any securities deposited with the Trustee and available for such purpose, to pay (1) the principal of all Bonds outstanding on the redemption date specified in the notice of redemption, plus interest accrued and to accrue to the payment or redemption date of the Bonds, plus premium, if any, pursuant to the Indenture, (2) all reasonable and necessary fees and expenses of the City, the Trustee, the Registrar, the Tender Agent and any Paying Agent accrued and to accrue through final payment of the Bonds, and (3) all other liabilities of the Borrower accrued and to accrue under this Agreement.

In the case of partial prepayment of the Repayment Installments, the amount payable shall be a sum sufficient, together with other funds deposited with the Trustee and available for such purpose, to pay the principal amount of and premium, if any, and accrued interest on the Bonds to be redeemed, as provided in the Indenture, and to pay expenses of redemption of such Bonds.

SECTION 7.5. NOTICE OF PREPAYMENT. The Borrower shall

give forty-five days' prior written notice to the City and the Trustee specifying the date upon which any prepayment pursuant to this Article VII will be made. If, in the case of a mandatory prepayment pursuant to Section 7.3 hereof, the Borrower fails to give such notice of a prepayment required by this Section 7.5, such notice may be given by the City or by any holder or holders of ten percent (10%) or more in aggregate principal amount of the Bonds Outstanding, and shall be given by the Trustee, but solely at the times and under the circumstances provided in Section 4.01(b) of the Indenture. The City and the Trustee, at the request of the Borrower or any such Bondholder or Bondholders, shall forthwith take all steps necessary under the applicable provisions of the Indenture (except that the City shall not be required to make payment of any money required for such redemption) to effect redemption of all or part of the then outstanding Bonds, as the case may be, on the earliest practicable date thereafter on which such redemption may be made under applicable provisions of the Indenture.

Notwithstanding anything to the contrary in this Agreement, each notice contemplated in this Section 7.5 that is given with respect to an optional prepayment pursuant to Section 7.2 hereof may state that it is subject to and conditional upon receipt by the Trustee on or prior to the proposed prepayment date of amounts sufficient to effect such prepayment and, if a notice so states, such notice shall be of no force and effect and the prepayment need not be made and the Repayment Installments will not become due and payable on the proposed prepayment date unless such amounts are so received on or prior to the proposed prepayment date.

ARTICLE VIII

NON-LIABILITY OF CITY; EXPENSES; INDEMNIFICATION

SECTION 8.1. NON-LIABILITY OF CITY. The City shall not be obligated to pay the principal of, or premium, if any, or interest on the Bonds, or to discharge any other financial liability (including but not limited to financial liability under Section 5.6 hereof) in connection herewith, except from Revenues. The Borrower hereby acknowledges that the City's sole source of moneys to repay the Bonds will be provided by the payments made by the Borrower pursuant to this Agreement (excluding payments to the City or the Trustee pursuant to Section 4.2(b), 4.2(c), 4.2(e), 5.6, 6.3, 8.2 and 8.3 of this Agreement), together with other Revenues, including investment income on certain funds and accounts held by the Trustee under the Indenture, and hereby agrees that if the payments to be made hereunder shall ever prove insufficient to pay all principal of, and premium, if any, and interest on the Bonds as the same shall become due (whether by maturity, redemption, acceleration or otherwise), then upon notice from the Trustee, the Borrower shall pay such amounts as are required from time to time to prevent any deficiency or default in the payment of such principal, premium or interest, including, but not limited to, any deficiency caused by acts, omissions, nonfeasance or malfeasance on the part of the Trustee, the Borrower, the City or any third party.

SECTION 8.2. EXPENSES. The Borrower covenants and agrees to pay within fifteen (15) days after billing therefor and to indemnify the City and the Trustee against all costs and charges, including fees and disbursements of attorneys, accountants, consultants, including financial consultants, engineers and other experts incurred, in the absence of willful misconduct, in connection with this Agreement, the Bonds or the Indenture. The City shall notify the Borrower in writing prior to engaging any professional or expert for which the City plans to bill the Borrower.

SECTION 8.3. INDEMNIFICATION. The Borrower releases the City and the Trustee from, and covenants and agrees that neither the City nor the Trustee shall be liable for, and covenants and agrees, to the extent permitted by law, to indemnify, defend and hold harmless the City and the Trustee and their officers, employees and agents from and against, any and all losses, claims, damages, liabilities or expenses, of every conceivable kind, character and nature whatsoever arising out of, resulting from or in any way connected with (1) the Project, or the conditions, occupancy, use, possession, conduct or management of, or work done in or about, or from the planning, design, acquisition, installation or construction of the Project or any part thereof; (2) the issuance of

any Bonds or any certifications, covenants or representations made in connection therewith and the carrying out of any of the transactions contemplated by the Bonds, the Indenture and this Agreement; (3) the Trustee's acceptance or administration of the trusts under the Indenture, or the exercise or performance of any of its powers or duties under the Indenture or this Agreement; or (4) any untrue statement or alleged untrue statement of any material fact or omission or alleged omission to state a material fact necessary to make the statements made, in light of the circumstances under which they were made, not misleading, in any official statement or other offering circular utilized by the City or any underwriter or placement agent in connection with the sale of any Bonds; provided that such indemnity shall not be required for damages that result from negligence or willful misconduct on the part of the party seeking such indemnity. The indemnity of the Trustee required by this Section shall be only to the extent that any loss sustained by the Trustee exceeds the net proceeds the Trustee receives from any insurance carried with respect to the loss sustained. The Borrower further covenants and agrees, to the extent permitted by law, to pay or to reimburse the City and the Trustee and their officers, employees and agents for any and all reasonable costs, including but not limited to attorneys fees, liabilities or expenses incurred in connection with investigating, defending against or otherwise in connection with any such losses, claims, damages, liabilities, expenses or actions, except to the extent that the same arise out of the negligence or willful misconduct of the party claiming such payment or reimbursement. The provisions of this Section shall survive the retirement of the Bonds or resignation or removal of the Trustee.

ARTICLE IX

MISCELLANEOUS

SECTION 9.1. NOTICES. All notices, certificates or other communications shall be deemed sufficiently given on the second day following the day on which the same have been mailed by first class mail, postage prepaid, addressed to the City, the Borrower or the Trustee, as the case may be, as set forth in the Indenture. A duplicate copy of each notice, certificate or other communication given hereunder by either the City or the Borrower to the other shall also be given to the Trustee. The City, the Borrower and the Trustee may, by notice given hereunder, designate any different addresses to which subsequent notices, certificates or other communications shall be sent.

SECTION 9.2. SEVERABILITY. If any provision of this Agreement shall be held or deemed to be, or shall in fact be, illegal, inoperative or unenforceable, the same shall not affect any other provision or provisions herein contained or render the same invalid, inoperative, or unenforceable to any extent whatever.

SECTION 9.3. EXECUTION OF COUNTERPARTS. This Agreement may be simultaneously executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument; provided, however, that for purposes of perfecting a security interest in this Agreement under Article 9 of the California Uniform Commercial Code, only the counterpart delivered, pledged, and assigned to the Trustee shall be deemed the original.

SECTION 9.4. AMENDMENTS, CHANGES AND MODIFICATIONS. Except as otherwise provided in this Agreement or the Indenture, subsequent to the initial issuance of Bonds and prior to their payment in full, or provision for such payment having been made as provided in the Indenture, this Agreement may not be effectively amended, changed, modified, altered or terminated without the written consent of the Trustee.

SECTION 9.5. GOVERNING LAW. This Agreement shall be governed exclusively by and construed in accordance with the applicable laws of the State of California.

SECTION 9.6. AUTHORIZED BORROWER REPRESENTATIVE. Whenever under the provisions of this Agreement the approval of the Borrower is required or the City or the Trustee is required to take some action at the request of the Borrower, such approval or such request shall be given on behalf of the Borrower by an Authorized Borrower

Representative, and the City and the Trustee shall be authorized to act on any such approval or request and neither party hereto shall have any complaint against the other or against the Trustee as a result of any such action taken.

SECTION 9.7. TERM OF THE AGREEMENT. This Agreement shall be in full force and effect from the date hereof and shall continue in effect as long as any of the Bonds are outstanding or the Trustee holds any moneys under the Indenture, whichever is later; provided, however, that the rights of the Trustee and the City under Section 8.2 and 8.3 hereof shall survive the termination of this Agreement, the retirement of the Bonds and the removal or resignation of the Trustee. All representations and certifications by the Borrower as to all matters affecting the Tax-Exempt status of the Bonds shall survive the termination of this Agreement.

SECTION 9.8. BINDING EFFECT. This Agreement shall inure to the benefit of and shall be binding upon the City, the Borrower, the Trustee and their respective successors and assigns; subject, however, to the limitations contained in Section 5.2 hereof.

IN WITNESS WHEREOF, the City of Chula Vista has caused this Agreement to be executed in its name and its seal to be hereunto affixed and attested by its duly authorized officers, and San Diego Gas & Electric Company has caused this Agreement to be executed in its name and its seal to be hereunto affixed by its duly authorized officers, all as of the date first above written.

CITY OF CHULA VISTA

By _____
Mayor

[SEAL]

Attest:

City Clerk

APPROVED AS TO FORM:

JOHN M. KAHENY
CITY ATTORNEY

By _____
Deputy City Attorney

SAN DIEGO GAS & ELECTRIC COMPANY

By _____
Senior Vice President,
Chief Financial Officer and

[SEAL]
Treasurer

Attest:

Assistant Secretary

EXHIBIT A

Description of the Project

Local Electric Facilities

Acquisition and construction of additions and improvements to the Borrower's electric distribution facilities (12 KV and under) and related substations, and customer service connections located within the Borrower's electric retail service area, required by the Borrower to provide for the transfer and distribution of electric energy to its customers located therein, including all necessary poles, foundations, cable, conduit, transformers, switches, controls, meters, substations, land and land-rights and other like facilities and equipment, as well as necessary other equipment required for the proper installation, protection, maintenance, control and operation of the foregoing local electric distribution facilities. These facilities will be required to meet the needs of new customers, maintain and improve system capabilities, and make overhead to underground conversions.

Local Gas Facilities

Acquisition and construction of additions and improvements to the Borrower's gas distribution (operating at pressures at or below 400 psig) facilities, located within its gas retail service area in San Diego County, required for the distribution of gas for delivery to the Borrower's customers located therein. Such facilities include the acquisition and construction of new, high-pressure distribution mains, and new customer service lines or the extension, replacement or relocation of such existing mains or portions or components thereof, regulator stations controlling the passage of gas from distribution mains of higher pressure to distribution mains of lower pressure and the volume and pressure of gas within the mains, together with all necessary valves, controls, meters, and other measuring and regulating devices, and facilities, plant, property, and other equipment and improvements (including land and land-rights) necessary for the installation, protection, maintenance, control and operation of the foregoing.

LOAN AGREEMENT

Between

CALIFORNIA POLLUTION CONTROL FINANCING AUTHORITY

And

SAN DIEGO GAS & ELECTRIC COMPANY

Dated as of June 1, 1996

Relating to

\$129,820,000
California Pollution Control Financing Authority
Pollution Control Refunding Revenue Bonds
(San Diego Gas & Electric Company)
1996 Series A

LOAN AGREEMENT

TABLE OF CONTENTS

| | Page |
|-----------|------|
| PARTIES | 1 |
| PREAMBLES | 1 |

ARTICLE I

DEFINITIONS

| | | |
|--------------|--------------------------|---|
| SECTION 1.1. | DEFINITION OF TERMS | 3 |
| SECTION 1.2. | NUMBER AND GENDER | 3 |
| SECTION 1.3. | ARTICLES, SECTIONS, ETC. | 3 |

ARTICLE II

REPRESENTATIONS

| | | |
|--------------|----------------------------------|---|
| SECTION 2.1. | REPRESENTATIONS OF THE AUTHORITY | 3 |
| SECTION 2.2. | REPRESENTATIONS OF THE BORROWER | 4 |

ARTICLE III

ISSUANCE OF THE BONDS; APPLICATION OF PROCEEDS

| | | |
|--------------|---|---|
| SECTION 3.1. | AGREEMENT TO ISSUE BONDS; APPLICATION OF BOND PROCEEDS | 5 |
| SECTION 3.2. | INVESTMENT OF MONEYS IN FUNDS | 6 |
| SECTION 3.3. | AMENDMENT OF DESCRIPTION OF THE PROJECT | 6 |

ARTICLE IV

LOAN TO BORROWER; REPAYMENT PROVISIONS

| | | |
|--------------|---|---|
| SECTION 4.1. | LOAN TO BORROWER | 6 |
| SECTION 4.2. | REPAYMENT AND PAYMENT OF OTHER AMOUNTS PAYABLE | 6 |
| SECTION 4.3. | UNCONDITIONAL OBLIGATION | 8 |
| SECTION 4.4. | ASSIGNMENT OF AUTHORITY'S RIGHTS | 8 |
| SECTION 4.5. | AMOUNTS REMAINING IN FUNDS | 9 |

ARTICLE V

SPECIAL COVENANTS AND AGREEMENTS

| | | |
|--------------|--|----|
| SECTION 5.1. | RIGHT OF ACCESS TO THE PROJECT | 9 |
| SECTION 5.2. | THE BORROWER'S MAINTENANCE OF ITS EXISTENCE; ASSIGNMENTS | 9 |
| SECTION 5.3. | RECORDS AND FINANCIAL STATEMENTS OF BORROWER | 11 |
| SECTION 5.4. | MAINTENANCE AND REPAIR; TAXES; UTILITY AND OTHER CHARGES; INSURANCE | 11 |
| SECTION 5.5. | QUALIFICATION IN CALIFORNIA | 12 |
| SECTION 5.6. | TAX EXEMPT STATUS OF BONDS | 12 |
| SECTION 5.7. | NOTICE AND CERTIFICATES TO TRUSTEE | 13 |
| SECTION 5.8. | CONTINUING DISCLOSURE | 14 |

ARTICLE VI

EVENTS OF DEFAULT AND REMEDIES

| | | |
|--------------|--|----|
| SECTION 6.1. | EVENTS OF DEFAULT | 14 |
| SECTION 6.2. | REMEDIES ON DEFAULT | 15 |
| SECTION 6.3. | AGREEMENT TO PAY ATTORNEYS' FEES AND EXPENSES | 17 |
| SECTION 6.4. | NO REMEDY EXCLUSIVE | 17 |
| SECTION 6.5. | NO ADDITIONAL WAIVER IMPLIED BY ONE WAIVER | 18 |

ARTICLE VII

PREPAYMENT

| | | |
|--------------|---|----|
| SECTION 7.1. | REDEMPTION OF BONDS WITH PREPAYMENT MONEYS | 18 |
| SECTION 7.2. | OPTIONS TO PREPAY INSTALLMENTS | 18 |
| SECTION 7.3. | MANDATORY PREPAYMENT | 18 |
| SECTION 7.4. | AMOUNT OF PREPAYMENT | 19 |
| SECTION 7.5. | NOTICE OF PREPAYMENT | 19 |

ARTICLE VIII

NON-LIABILITY OF AUTHORITY; EXPENSES; INDEMNIFICATION

| | | |
|--------------|----------------------------|----|
| SECTION 8.1. | NON-LIABILITY OF AUTHORITY | 20 |
| SECTION 8.2. | EXPENSES | 20 |
| SECTION 8.3. | INDEMNIFICATION | 20 |

ARTICLE IX

MISCELLANEOUS

| | | |
|--------------|---------------------------------------|----|
| SECTION 9.1. | NOTICES | 21 |
| SECTION 9.2. | SEVERABILITY | 22 |
| SECTION 9.3. | EXECUTION OF COUNTERPARTS | 22 |
| SECTION 9.4. | AMENDMENTS, CHANGES AND MODIFICATIONS | 22 |
| SECTION 9.5. | GOVERNING LAW | 22 |
| SECTION 9.6. | AUTHORIZED BORROWER REPRESENTATIVE | 23 |
| SECTION 9.7. | TERM OF THE AGREEMENT | 23 |

| | | |
|----------------------|----------------------------|-----|
| SECTION 9.8. | BINDING EFFECT | 23 |
| TESTIMONIUM | | 24 |
| SIGNATURES AND SEALS | | 24 |
| EXHIBIT A | Description of the Project | A-1 |

LOAN AGREEMENT

THIS LOAN AGREEMENT, dated as of June 1, 1996, by and between the CALIFORNIA POLLUTION CONTROL FINANCING AUTHORITY, a public instrumentality and political subdivision of the State of California (the "Authority"), and SAN DIEGO GAS & ELECTRIC COMPANY, a corporation organized and existing under the laws of the State of California (the "Borrower"),

W I T N E S S E T H

WHEREAS, the Authority is a public instrumentality and political subdivision of the State of California, organized and existing under the California Pollution Control Financing Authority Act, being Division 27 of the California Health and Safety Code, as amended and supplemented (the "Act"); and

WHEREAS, the Act authorizes the Authority to issue its revenue bonds for the purpose of paying all or any part of the costs of a "project" as defined in the Act and for the purpose of funding or refunding any such bonds; and

WHEREAS, pursuant to the Act, the Authority previously has issued California Pollution Control Financing Authority Pollution Control Revenue Bonds (San Diego Gas & Electric Company), 1977 Series A, issued April 27, 1977, in the original aggregate principal amount of \$9,575,000, of which \$8,855,000 principal amount are now outstanding (the "1977A Bonds"), pursuant to an Indenture, dated as of April 1, 1977 (the "1977 Indenture"), between the Authority and First Trust of California, National Association, as successor trustee (the "Prior Trustee"), in order to provide financial assistance to the Borrower for the acquisition, construction and installation of certain air and water pollution control and sewage and solid waste disposal facilities (the "1977A Project") located at the Encina Project, South Bay Project, Silver Gate Project and Station "B" Project in San Diego County, California; and

WHEREAS, pursuant to the Act, the Authority previously has issued California Pollution Control Financing Authority Pollution Control Revenue Bonds (San Diego Gas & Electric Company), 1979 Series A, issued March 21, 1979, in the original aggregate principal amount of \$5,700,000, of which \$5,480,000 principal amount are now outstanding (the "1979A Bonds"), pursuant to the 1977 Indenture, as supplemented by a First Supplemental Indenture of Trust, dated as of March 15, 1979, between the Authority and the Prior Trustee, in order to provide financial assistance to the Borrower for the acquisition, construction and installation of certain air and water pollution control and sewage and solid waste disposal facilities (the "1979A Project") located at the Encina Project, South Bay Project, Silver Gate Project and Station "B" Project in San Diego County, California; and

WHEREAS, pursuant to the Act, the Authority previously has issued California Pollution Control Financing Authority Flexible Demand Pollution Control Revenue Bonds (San Diego Gas & Electric Company), 1984 Series A, issued May 8, 1984, in the original aggregate principal amount of \$53,000,000, all of which are now outstanding (the "1984A Bonds"), pursuant to an Indenture of Trust, dated as of May 1, 1984, between the Authority and the Prior Trustee, in order to provide financial assistance to the Borrower for the acquisition, construction and installation of certain air and water pollution control and sewage and solid waste disposal facilities (the "1984A Project") located at the San Onofre Nuclear Generating Station; and

WHEREAS, pursuant to the Act, the Authority previously has issued California Pollution Control Financing Authority Variable Rate

Demand Pollution Control Revenue Bonds (San Diego Gas & Electric Company), 1984 Series B, issued December 19, 1984, in the original aggregate principal amount of \$27,000,000, all of which are now outstanding (the "1984B Bonds"), pursuant to an Indenture of Trust, dated as of December 1, 1984, between the Authority and the Prior Trustee, in order to provide financial assistance to the Borrower for the acquisition, construction and installation of certain air and water pollution control and sewage and solid waste disposal facilities (the "1984B Project") located at the San Onofre Nuclear Generating Station; and

WHEREAS, pursuant to the Act, the Authority previously has issued California Pollution Control Financing Authority Pollution Control Revenue Bonds (San Diego Gas & Electric Company), 1985 Series A, issued December 10, 1985, in the original aggregate principal amount of \$35,000,000, all of which are now outstanding (the "1985A Bonds" and, together with the 1977A Bonds, the 1979A Bonds, the 1984A Bonds and the 1984B Bonds, the "Prior Bonds"), pursuant to an Indenture of Trust, dated as of December 1, 1985, between the Authority and the Prior Trustee in order to provide financial assistance to the Borrower for the acquisition, construction and installation of certain air and water pollution control and sewage and solid waste disposal facilities (the "1985A Project" and, together with the 1977A Project, the 1979A Project, the 1984A Project and the 1984B Project, the "Project") located at the San Onofre Nuclear Generating Station; and

WHEREAS, the Borrower has duly requested that the Authority issue refunding bonds to refund the Prior Bonds; and

WHEREAS, the Authority, after due investigation and deliberation has taken all necessary action approving such request and authorizing the issuance of its pollution control refunding revenue bonds as provided in the Indenture of Trust, dated as of June 1, 1996 (the "Indenture"), between the Authority and First Trust of California, National Association, as trustee (the "Trustee"), in an aggregate principal amount not to exceed \$129,820,000 (the "Bonds"), in order to refund the Prior Bonds and refinance the Project;

WHEREAS, the Authority and the Borrower desire to enter into this Agreement in order to specify the terms and conditions of the lending of the proceeds of the Bonds to the Borrower for the purpose of refunding the Prior Bonds and refinancing the Project, as well as the terms and conditions of the repayment by the Borrower of such loan and certain other matters;

NOW, THEREFORE, in consideration of the premises and the respective representations and covenants herein contained, the parties hereto agree as follows:

ARTICLE I

DEFINITIONS

SECTION 1.1. DEFINITION OF TERMS. Unless the context otherwise requires, the terms used in this Agreement shall have the meanings specified in Section 1.01 of the Indenture, as originally executed or as it may from time to time be supplemented or amended as provided therein.

SECTION 1.2. NUMBER AND GENDER. The singular form of any word used herein, including the terms defined in Section 1.01 of the Indenture, shall include the plural, and vice versa. The use herein of a word of any gender shall include all genders.

SECTION 1.3. ARTICLES, SECTIONS, ETC. Unless otherwise specified, references to Articles, Sections and other subdivisions of this Agreement are to the designated Articles, Sections and other subdivisions of this Agreement as originally executed. The words "hereof," "herein," "hereunder" and words of similar import refer to this Agreement as a whole. The headings or titles of the several articles and sections, and the table of contents appended to copies hereof, shall be solely for convenience of reference and shall not affect the meaning, construction or effect of the provisions hereof.

ARTICLE II

REPRESENTATIONS

SECTION 2.1. REPRESENTATIONS OF THE AUTHORITY. The Authority makes the following representations as the basis for its undertakings herein contained:

(a) The Authority is a public instrumentality and political subdivision of the State of California. Under the provisions of the Act, the Authority has the power to enter into the transactions contemplated by this Agreement and to carry out its obligations hereunder. By proper action, the Authority has been duly authorized to execute, deliver and duly perform this Agreement and the Indenture.

(b) To refinance the cost of the Project, the Authority will issue the Bonds, which will mature, bear interest and be subject to redemption as provided in the Indenture.

(c) The Bonds will be issued under and secured by the Indenture, pursuant to which the Authority's interest in this Agreement (except certain rights of the Authority to give approvals and consents and to receive payment for expenses and indemnification and certain other payments) will be pledged to the Trustee as security for payment of the principal of, premium, if any, and interest on the Bonds.

(d) The Authority has not pledged and will not pledge its interest in this Agreement for any purpose other than to secure the Bonds under the Indenture.

(e) The Authority is not in default under any of the provisions of the laws of the State of California which default would affect its existence or its powers referred to in subsection (a) of this Section 2.1.

(f) The Authority has found and determined and hereby finds and determines that all requirements of the Act with respect to the issuance of the Bonds and the execution of this Agreement and the Indenture have been complied with and that refinancing the Project by issuing the Bonds, refunding or replacing the Prior Bonds and entering into this Agreement and the Indenture will be in furtherance of the purposes of the Act.

(g) On May 22, 1996, the Authority conducted a public hearing with respect to the Bonds and the Project in accordance with the provisions of Section 147(f) of the Code and adopted its resolution approving the issuance and sale of the Bonds. The meeting of the Authority on such date was held in accordance with the applicable provisions of Article 9 of Chapter 1 of Division 3 of Title 2 of the California Government Code, as amended.

(h) No member, officer or other official of the Authority has any interest whatsoever in the Borrower or in the transactions contemplated by this Agreement.

SECTION 2.2. REPRESENTATIONS OF THE BORROWER. The Borrower makes the following representations as the basis for its undertakings herein contained:

(a) The Borrower is a corporation duly formed under the laws of the State of California, is in good standing in the State of California and has the power to enter into and has duly authorized, by proper corporate action, the execution and delivery of this Agreement and all other documents contemplated hereby to be executed by the Borrower.

(b) Neither the execution and delivery of this Agreement, the consummation of the transactions contemplated hereby, nor the fulfillment of or compliance with the terms and conditions hereof and thereof, conflicts with or results in a breach of any of the terms, conditions or provisions of the Borrower's Articles of Incorporation or By-laws or of any corporate actions or of any agreement or instrument to which the Borrower is now a party or by which it is bound, or constitutes a default (with due notice or the passage of time or both)

under any of the foregoing, or results in the creation or imposition of any prohibited lien, charge or encumbrance whatsoever upon any of the property or assets of the Borrower under the terms of any instrument or agreement to which the Borrower is now a party or by which it is bound.

(c) The Project consists and will consist of those facilities described in Exhibit A hereto, and the Borrower shall make no changes to such portion of the Project or to the operation thereof which would affect the qualification of the Project as a "project" under the Act or impair the Tax-Exempt status of interest on the Bonds. In particular, the Borrower shall comply with all requirements of the Tax Certificate, which is hereby incorporated by reference herein.

(d) The Project consists of air and water pollution control and sewage and solid waste disposal facilities and the Borrower intends to utilize the Project as air and water pollution control and sewage and solid waste disposal facilities.

(e) The Borrower has and will have an interest in the Project sufficient to carry out the purposes of this Agreement.

(f) The economic useful life of the Project is as set forth in the Tax Certificate.

(g) To the best knowledge of the Borrower, no member, officer or other official of the Authority has any interest whatsoever in the Borrower or in the transactions contemplated by this Agreement.

(h) All certificates, approvals, permits and authorizations with respect to the construction of the Project of agencies of applicable local governments, the State of California and the federal government that are required on or before the date hereof have been obtained; and pursuant to such certificates, approvals, permits and authorizations the Project has been constructed and is in operation.

ARTICLE III

ISSUANCE OF THE BONDS; APPLICATION OF PROCEEDS

SECTION 3.1. AGREEMENT TO ISSUE BONDS; APPLICATION OF BOND PROCEEDS. To provide funds to refinance the cost of the Project and refund the Prior Bonds, the Authority agrees that it will issue under the Indenture, sell and cause to be delivered to the purchasers thereof, the Bonds, bearing interest as provided and maturing on the date(s) set forth in the Indenture. The Authority will thereupon apply the proceeds received from the sale of the Bonds as provided in Section 3.02 of the Indenture.

SECTION 3.2. INVESTMENT OF MONEYS IN FUNDS. Any moneys in any fund held by the Trustee shall, at the written request of an Authorized Borrower Representative, be invested or reinvested by the Trustee as provided in the Indenture. Such investments shall be held by the Trustee and shall be deemed at all times a part of the fund from which such investments were made, and the interest accruing thereon and any profit or loss realized therefrom shall, except as otherwise provided in the Indenture, be credited or charged to such fund.

SECTION 3.3. AMENDMENT OF DESCRIPTION OF THE PROJECT. In the event that the Borrower desires to amend or supplement the Project, and such amendment or supplement alters the purpose and description of the Project in Exhibit A hereto, and the Authority approves of such amendment or supplement, the Authority will enter into, and will instruct the Trustee to consent to, such amendment or supplement upon receipt of:

(i) a certificate of an Authorized Borrower Representative describing in detail the proposed changes and stating that they will not have the effect of disqualifying the Project as a facility that may be financed pursuant to the Act;

(ii) a copy of the proposed form of amended or supplemented Exhibit A hereto; and

(iii) an Opinion of Bond Counsel that such proposed

changes will not adversely affect the Tax-Exempt status of interest on the Bonds.

ARTICLE IV

LOAN TO BORROWER; REPAYMENT PROVISIONS

SECTION 4.1. LOAN TO BORROWER. The Authority and the Borrower agree that the application of the proceeds of sale of the Bonds to refund and retire the Prior Bonds and the prior first mortgage bonds of the Borrower relating thereto will be deemed to be and treated for all purposes as a loan to the Borrower of an amount equal to the principal amount of the Bonds.

SECTION 4.2. REPAYMENT AND PAYMENT OF OTHER AMOUNTS PAYABLE.

(a) The Borrower covenants and agrees to pay to the Trustee as a Repayment Installment on the loan to the Borrower pursuant to Section 4.1 hereof, on each date provided in or pursuant to the Indenture for the payment of principal (whether at maturity or upon redemption or acceleration) of, premium, if any, and/or interest on the Bonds, until the principal of, premium, if any, and interest on the Bonds shall have been fully paid or provision for the payment thereof shall have been made in accordance with the Indenture, in immediately available funds, for deposit in the Bond Fund, a sum equal to the amount then payable as principal (whether at maturity or upon redemption or acceleration), premium, if any, and interest upon the Bonds as provided in the Indenture.

Each payment required to be made pursuant to this Section 4.2(a) shall at all times be sufficient to pay the total amount of interest and principal (whether at maturity or upon redemption or acceleration) and premium, if any, then payable on the Bonds; provided that any amount held by the Trustee in the Bond Fund on any due date for a Repayment Installment hereunder shall be credited against the installment due on such date to the extent available for such purpose; and provided further that, subject to the provisions of this paragraph, if at any time the amounts held by the Trustee in the Bond Fund are sufficient to pay all of the principal of and interest and premium, if any, on the Bonds as such payments become due, the Borrower shall be relieved of any obligation to make any further payments under the provisions of this Section. Notwithstanding the foregoing, if on any date the amount held by the Trustee in the Bond Fund is insufficient to make any required payments of principal of (whether at maturity or upon redemption or acceleration) and interest and premium, if any, on the Bonds as such payments become due, the Borrower shall forthwith pay such deficiency as a Repayment Installment hereunder.

(b) The Borrower also agrees to pay to the Trustee until the principal of, premium, if any, and interest on the Bonds shall have been fully paid or provision for the payment thereof shall have been made as required by the Indenture, (i) the annual fee of the Trustee for its ordinary services rendered as trustee, and its ordinary expenses incurred under the Indenture, as and when the same become due, (ii) the reasonable fees, charges and expenses of the Trustee, the Registrar and the reasonable fees of any Paying Agent on the Bonds as provided in the Indenture, as and when the same become due, (iii) the reasonable fees, charges and expenses of the Trustee for the necessary extraordinary services rendered by it and extraordinary expenses incurred by it under the Indenture, as and when the same become due. The Borrower shall also pay the cost of printing any Bonds required to be furnished by the Authority.

(c) The Borrower also agrees to pay (i) within 60 days after receipt of request for payment thereof, all expenses required to be paid by the Borrower under the terms of the bond purchase agreement (the "Bond Purchase Agreement") executed by it in connection with the sale of the Bonds, and all expenses of the Authority related to the financing of the Project which are not otherwise required to be paid by the Borrower under the terms of this Agreement; and (ii) all reasonable expenses of the Authority related to the Project which are not otherwise required to be paid by the Borrower under the terms of this Agreement; provided that the Authority shall have obtained the prior written approval of an Authorized Borrower Representative for any expenditures other than those

provided for herein or in the Bond Purchase Agreement.

(d) In the event the Borrower should fail to make any of the payments required by subsection (b) or (c) of this Section, such payments shall continue as obligations of the Borrower until such amounts shall have been fully paid. The Borrower agrees to pay such amounts, together with interest thereon until paid, to the extent permitted by law, at the rate of ten percent (10%) per annum.

(e) Upon written request of the Trustee, the Borrower shall pay any Repayment Installment directly to the Paying Agent.

SECTION 4.3. UNCONDITIONAL OBLIGATION. The obligations of the Borrower to make the payments required by Section 4.2 hereof and to perform and observe the other agreements on its part contained herein shall be absolute and unconditional, irrespective of any defense or any rights of set-off, recoupment or counterclaim it might otherwise have against the Authority, and during the term of this Agreement, the Borrower shall pay absolutely net the payments to be made on account of the loan as prescribed in Section 4.2 and all other payments required hereunder, free of any deductions and without abatement, diminution or set-off. Until such time as the principal of, premium, if any, and interest on the Bonds shall have been fully paid, or provision for the payment thereof shall have been made as required by the Indenture, the Borrower (i) will not suspend or discontinue any payments provided for in Section 4.2 hereof; (ii) will perform and observe all of its other covenants contained in this Agreement; and (iii) except as provided in Article VII hereof, will not terminate this Agreement for any cause, including, without limitation, the occurrence of any act or circumstances that may constitute failure of consideration, destruction of or damage to the Project, commercial frustration of purpose, any change in the tax or other laws of the United States of America or of the State of California or any political subdivision of either of these, or any failure of the Authority or the Trustee to perform and observe any covenant, whether express or implied, or any duty, liability or obligation arising out of or connected with this Agreement or the Indenture, except to the extent permitted by this Agreement.

SECTION 4.4. ASSIGNMENT OF AUTHORITY'S RIGHTS. As security for the payment of the Bonds, the Authority will assign to the Trustee the Authority's rights, but not its obligations, under this Agreement, including the right to receive payments hereunder (except (i) the rights of the Authority to receive notices under this Agreement, (ii) the right of the Authority to receive certain payments, if any, with respect to fees, expenses and indemnification and certain other purposes under Sections 4.2(c), 4.2(d), 6.3, 8.2 and 8.3 hereof, and (iii) the right of the Authority to give approvals or consents pursuant to this Agreement) and the Authority hereby directs the Borrower to make the payments required hereunder (except such payments for fees, expenses and indemnification) directly to the Trustee. The Borrower hereby assents to such assignment and agrees to make payments directly to the Trustee without defense or set-off by reason of any dispute between the Borrower and the Authority or the Trustee.

SECTION 4.5. AMOUNTS REMAINING IN FUNDS. It is agreed by the parties hereto that after payment in full of (i) the Bonds, or after provision for such payment shall have been made as provided in the Indenture, (ii) the fees and expenses of the Authority in accordance with this Agreement, (iii) the fees, charges and expenses of the Trustee, the Registrar and Paying Agents in accordance with the Indenture and this Agreement and (iv) all other amounts required to be paid under this Agreement and the Indenture, any amounts remaining in any fund held by the Trustee under the Indenture shall be applied as provided in Section 5.06 of the Indenture.

ARTICLE V

SPECIAL COVENANTS AND AGREEMENTS

SECTION 5.1. RIGHT OF ACCESS TO THE PROJECT. To the extent such access is within the control of the Borrower, the Borrower agrees that during the term of this Agreement the Authority, the Trustee and the duly authorized agents of either of them shall have the right at all reasonable times during normal business hours to enter upon the site of

the Project to examine and inspect such Project; provided, however, that this right is subject to federal and State of California laws and regulations applicable to such site. The rights of access hereby reserved to the Authority and the Trustee may be exercised only after such agent shall have executed release of liability (which release shall not limit any of the Borrower's obligations hereunder) and secrecy agreements if requested by the Borrower in the form then currently used by the Borrower, and nothing contained in this Section or in any other provision of this Agreement shall be construed to entitle the Authority or the Trustee to any information or inspection involving the confidential know-how of the Borrower.

SECTION 5.2. THE BORROWER'S MAINTENANCE OF ITS EXISTENCE; ASSIGNMENTS. (a) To the extent permitted by law and its Articles of Incorporation, the Borrower agrees that during the term of this Agreement it will maintain its existence as a corporation, will continue to maintain its status as a corporation in good standing in the State and will not dissolve or otherwise dispose of all or substantially all of its assets and will not combine or consolidate with or merge into another person or permit one or more other persons to consolidate or merge into it; provided, however, that if the Borrower has obtained the prior written consent of the Authority, the Borrower may combine, consolidate with, or merge into another person legally existing under the laws of one of the states of the United States, or permit one or more other persons to consolidate with or merge into it, or sell or otherwise transfer to another corporation all or substantially all of its assets as an entity and thereafter dissolve. The consent of the Authority shall be given within thirty (30) days after written evidence acceptable to the Authority is provided by the Borrower to demonstrate that (i) the surviving, resulting or transferee person, as the case may be, (A) assumes and agrees in writing to pay and perform all of the obligations of the Borrower hereunder, (B) qualifies to do business in the State of California and (C) has a net worth (as determined in accordance with generally accepted accounting principles) immediately after such consolidation, merger, sale or transfer equal to at least ninety-five percent (95%) of the net worth of the Borrower at the end of the fiscal quarter immediately preceding the effective date of such consolidation, merger, sale or transfer; and (ii) the ratings on the Bonds, as determined by at least one Rating Agency, shall remain at the same rating level, or a higher rating level, as the ratings on the Bonds immediately prior to the effective date of such consolidation, merger, sale or transfer. If the Authority does not act within thirty (30) days after such written evidence is received, such consent shall be deemed to have been given.

Within ten (10) Business Days after the consummation of the consolidation, merger, sale or other transaction, the Borrower shall provide the Authority with counterpart copies of the consolidation, merger or sale instruments, or other documents constituting the transaction, including (X) copies of the instruments of assumption referred to in (i)(A) above and (Y) evidence of qualification as referred to in (i)(B) above. The Borrower shall also at such time provide the Authority with an Opinion of Counsel satisfactory to the Authority that all of the provisions of this Section 5.2(a) have been complied with. At least thirty (30) days but not more than ninety (90) days prior to any transaction described above, the Borrower shall provide the Authority with drafts of the documents of assumption, with copies of pro forma financial statements showing expected compliance with the requirements of (i)(C) above. The Borrower agrees to provide such other information as the Authority may reasonably request in order to assure compliance with this Section 5.2(a).

Notwithstanding any other provisions of this Section 5.2(a), the Borrower need not comply with any of the provisions of Section 5.2(a) above if, at the time of such merger, combination, sale of assets, dissolution or reorganization, the Bonds will be defeased as provided in Article X of the Indenture.

(b) The rights and obligations of the Borrower under this Agreement may be assigned by the Borrower to any person in whole or in part, subject, however, to each of the following conditions:

(i) No assignment (other than pursuant to subsection (a) of this Section 5.2) shall relieve the Borrower from primary liability for any of its obligations hereunder, and in the event of any assignment

not pursuant to subsection (a) of this Section 5.2, the Borrower shall continue to remain primarily liable for the payments specified in Section 4.2 hereof and for performance and observance of the other agreements on its part herein provided to be performed and observed by it.

(ii) Any assignment from the Borrower shall retain for the Borrower such rights and interests as will permit it to perform its obligations under this Agreement, and any assignee from the Borrower shall assume in writing the obligations of the Borrower hereunder to the extent of the interest assigned.

(iii) The Borrower shall give the Authority thirty (30) days' prior written notice of any assignment (other than pursuant to subsection (a) of this Section 5.2) and shall, within thirty (30) days after delivery of any assignment, furnish or cause to be furnished to the Authority and the Trustee a true and complete copy of each such assignment, together with an instrument of assumption and an Opinion of Counsel satisfactory to the Authority that the provisions of this Section 5.2(b) have been complied with.

SECTION 5.3. RECORDS AND FINANCIAL STATEMENTS OF BORROWER.

The Borrower shall, within one hundred twenty (120) days after the close of each fiscal year, submit to the Authority and to the Trustee audited financial statements with respect to the Borrower for such fiscal year.

The Trustee shall be permitted at all reasonable times during the term of this Agreement to examine the books and records of the Borrower with respect to the Project, subject to the limitations expressed in Section 5.1.

SECTION 5.4. MAINTENANCE AND REPAIR; TAXES; UTILITY AND OTHER CHARGES; INSURANCE. The Borrower agrees to maintain, to the extent permitted by applicable law and regulation, the Project, or cause the Project to be so maintained, during the term of this Agreement (i) in as reasonably safe condition as its operations shall permit and (ii) in good repair and in good operating condition, ordinary wear and tear excepted, making from time to time all necessary repairs thereto and renewals and replacements thereof.

The Borrower agrees to pay or cause to be paid during the term of this Agreement all taxes, governmental charges of any kind lawfully assessed or levied upon the Project or any part thereof, including any taxes levied against the Project which, if not paid, will become a charge on the receipts from the Project prior to or on a parity with the charge thereon and the pledge or assignment thereof to be created therefrom or under this Agreement, all utility and other charges incurred in the operation, maintenance, use, occupancy and upkeep of the Project and all assessments and charges lawfully made by any governmental body for public improvements that may be secured by a lien on the Project, provided that with respect to special assessments or other governmental charges that may lawfully be paid in installments over a period of years, the Borrower shall be obligated to pay only such installments as are required to be paid during the term of this Agreement. The Borrower may, at the Borrower's expense and in the Borrower's name, in good faith, contest any such taxes, assessments and other charges and, in the event of any such contest, may permit the taxes, assessments or other charges so contested to remain unpaid during that period of such contest and any appeal therefrom unless by such nonpayment the Project or any part thereof will be subject to loss or forfeiture.

The Borrower agrees that it will keep, or cause to be kept (i) the Project insured against such risks and in such amounts as similar types of facilities are usually insured by companies similarly situated (which may include self-insurance), and (ii) insurance against all direct or contingent loss or liability for personal injury, death or property damage occasioned by the operation of the Project, which insurance may be a part of the policy or policies of insurance customarily maintained by the Borrower in connection with its general property and liability insurance upon all of the plants and properties operated by it (including such deductibles as may be provided in said policies).

SECTION 5.5. QUALIFICATION IN CALIFORNIA. The Borrower agrees that throughout the term of this Agreement it, or any successor

or assignee as permitted by Section 5.2, will be qualified to do business in the State of California.

SECTION 5.6. TAX EXEMPT STATUS OF BONDS. (a) It is the intention of the parties hereto that interest on the Bonds shall be and remain Tax-Exempt and to that end, the covenants and agreements of the Authority and the Borrower in this Section and in the Tax Certificate are for the benefit of the Trustee and each and every person who at any time will be a holder of the Bonds. Without limiting the generality of the foregoing, the Borrower and the Authority agree that there shall be paid from time to time all amounts required to be rebated to the United States pursuant to Section 148(f) of the Code and any temporary, proposed or final Treasury Regulations as may be applicable to the Bonds from time to time. This covenant shall survive payment in full or defeasance of the Bonds. The Borrower specifically covenants to pay or cause to be paid for and on behalf of the Authority to the United States at the times and in the amounts determined under Section 6.06 of the Indenture the Rebate Requirement as described in the Tax Certificate.

(b) The Authority covenants and agrees that it has not taken and will not take any action which results in interest to be paid on the Bonds being Tax-Exempt to the holders of the Bonds, and the Borrower covenants and agrees that it has not taken or permitted to be taken and will not take or permit to be taken any action which will cause the interest on the Bonds not to be Tax-Exempt to the holders thereof; provided that neither the Borrower nor the Authority shall have violated these covenants if interest on any of the Bonds becomes taxable to a person solely because such person is a "substantial user" of the Project or a "related person" within the meaning of Section 103(b)(13) of the 1954 Code; and provided further that none of the covenants and agreements herein contained shall require either the Borrower or the Authority to enter an appearance or intervene in any administrative, legislative or judicial proceeding in connection with any changes in applicable laws, rules or regulations or in connection with any decisions of any court or administrative agency or other governmental body affecting the taxation of interest on the Bonds. The Borrower acknowledges having read Section 6.06 of the Indenture and agrees to perform all duties imposed on it by such Section, by this Section and by the Tax Certificate. Insofar as Section 6.06 of the Indenture and the Tax Certificate impose duties and responsibilities on the Authority or the Borrower, they are specifically incorporated herein by reference.

(c) Notwithstanding any provision of this Section 5.6 or Section 6.06 of the Indenture, if the Borrower shall provide to the Authority and the Trustee an Opinion of Bond Counsel to the effect that any specified action required under this Section 5.6 and Section 6.06 of the Indenture is no longer required or that some further or different action is required to maintain the Tax-Exempt status of interest on the Bonds, the Borrower, the Trustee and the Authority may conclusively rely on such opinion in complying with the requirements of this Section, and the covenants hereunder shall be deemed to be modified to that extent.

SECTION 5.7. NOTICE AND CERTIFICATES TO TRUSTEE. The Borrower hereby agrees to provide the Trustee with the following:

(a) On or before the fifth business day following June 30 and December 31 (commencing December 31, 1996) of each year in which any of the Bonds are outstanding a certificate of an officer of the Borrower that all payments required under this Agreement have been made, or explaining why not;

(b) Within one hundred twenty (120) days of the end of the fiscal year of the Borrower, (i) a certificate of an officer of the Borrower to the effect that all payments have been made under this Agreement and that, to the best of such officer's knowledge, there exists no event of default or potential default (which exists or which has previously occurred) and (ii) the audited annual report of the Borrower;

(c) Upon knowledge of an Event of Default under this Agreement or the Indenture, notice of such Event of Default, such notice to include a description of the nature of such event and what steps are being taken to remedy such Event of Default; and

(d) On or before January 1 and July 1 of each year

during which any of the Bonds are outstanding, a written disclosure of any significant change known to the Borrower that occurs which would adversely impact the Trustee's ability to perform its duties under the Indenture, or of any conflicts which may result because of other business dealings between the Trustee and the Borrower.

SECTION 5.8. CONTINUING DISCLOSURE. The Borrower hereby covenants and agrees to comply with the continuing disclosure requirements for the Bonds as promulgated under Rule 15c2-12, as it may from time to time hereafter be amended or supplemented, and to comply with the terms of the Continuing Disclosure Agreement. Notwithstanding any other provision of this Agreement, failure of the Borrower to comply with the requirements of the Continuing Disclosure Agreement shall not be considered an Event of Default hereunder or under the Indenture; however, the holders or beneficial owners of the Bonds may enforce the Continuing Disclosure Agreement to the extent provided therein.

ARTICLE VI

EVENTS OF DEFAULT AND REMEDIES

SECTION 6.1. EVENTS OF DEFAULT. Any one of the following which occurs and continues shall constitute an Event of Default pursuant to this Agreement:

(a) failure by the Borrower to pay any amounts required to be paid under Section 4.2(a) or 4.2(d) hereof at the times required to avoid causing an Event of Default pursuant to the Indenture; or

(b) failure of the Borrower to observe and perform any covenant, condition or agreement on its part required to be observed or performed by this Agreement, other than making the payments referred to in (a) above, which continues for a period of thirty (30) days after written notice, which notice shall specify such failure and request that it be remedied, given to the Borrower by the Authority or the Trustee, unless the Authority and the Trustee shall agree in writing to an extension of such time; provided, however, that if the failure stated in the notice cannot be corrected within such period, the Authority and the Trustee will not unreasonably withhold their consent to an extension of such time if corrective action is instituted within such period and diligently pursued until the default is corrected; or

(c) an Act of Bankruptcy of the Borrower.

The provisions of subsection (b) of this Section are subject to the limitation that the Borrower shall not be deemed in default if and so long as the Borrower is unable to carry out its agreements hereunder by reason of strikes, lockouts or other industrial disturbances; acts of public enemies; orders of any kind of the government of the United States or of the State of California or any of their departments, agencies, or officials, or any civil or military authority; insurrections, riots, epidemics, landslides; lightning; earthquake; fire; hurricanes; storms; floods; washouts; droughts; arrests; restraint of government and people; civil disturbances; explosions; breakage or accident to machinery, transmission pipes or canals; partial or entire failure of utilities; or any other cause or event not reasonably within the control of the Borrower; it being agreed that the settlement of strikes, lockouts and other industrial disturbances shall be entirely within the discretion of the Borrower, and the Borrower shall not be required to make settlement of strikes, lockouts and other industrial disturbances by acceding to the demands of the opposing party or parties when such course is, in the judgment of the Borrower, unfavorable to the Borrower. This limitation shall not apply to any default under subsections (a) or (c) of this Section.

SECTION 6.2. REMEDIES ON DEFAULT. Whenever any Event of Default shall have occurred and shall continue, the following remedies may be pursued:

(a) The Trustee may, and upon the written request of the holders of not less than 25% in aggregate principal amount of

Bonds then outstanding, shall, by notice in writing delivered to the Borrower with copies of such notice being sent to the Authority, declare the unpaid balance of the loan payable under Section 4.2(a) of this Agreement and the interest accrued thereon to be immediately due and payable and such principal and interest shall thereupon become and be immediately due and payable. Upon any such acceleration, the Bonds shall be subject to mandatory redemption as provided in Section 4.01(b)(3) of the Indenture.

(b) The Trustee may have access to and may inspect, examine and make copies of the books and records and any and all accounts, data and federal income tax and other tax returns of the Borrower.

(c) The Authority or the Trustee may take whatever action at law or in equity as may be necessary or desirable to collect the payments and other amounts then due and thereafter to become due or to enforce performance and observance of any obligation, agreement or covenant of the Borrower under this Agreement. Nothing in Section 4.4 of this Agreement shall be deemed to limit the rights of the Authority under this Section 6.2(c); provided that, the Authority will not exercise any remedies, with respect to any of the Authority's rights assigned to the Trustee pursuant to Section 4.4 of this Agreement unless, in the Authority's reasonable judgment and after written request to the Trustee, the Trustee has failed to enforce such rights.

The provisions of clause (a) of the preceding paragraph, however, are subject to the condition that if, at any time after the loan shall have been so declared due and payable, and before any judgment or decree for the payment of the moneys due shall have been obtained or entered as hereinafter provided, there shall have been deposited with the Trustee a sum sufficient (together with any amounts held in the Bond Fund) to pay all the principal of the Bonds matured prior to such declaration and all matured installments of interest (if any) upon all the Bonds, and the reasonable expenses of the Trustee, and any and all other defaults known to the Trustee (other than in the payment of principal of and interest on the Bonds due and payable solely by reason of such declaration) shall have been made good or cured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate shall have been made therefor, then, and in every such case, the holders of at least a majority in aggregate principal amount of the Bonds then outstanding, by written notice to the Authority and to the Trustee, may, on behalf of the holders of all the Bonds, rescind and annul such declaration and its consequences and waive such default; provided that no such rescission and annulment shall extend to or shall affect any subsequent default, or shall impair or exhaust any right or power consequent thereon.

In case the Trustee or the Authority shall have proceeded to enforce its rights under this Agreement and such proceedings shall have been discontinued or abandoned for any reason or shall have been determined adversely to the Trustee or the Authority, then, and in every such case, the Borrower, the Trustee and the Authority shall be restored respectively to their several positions and rights hereunder, and all rights, remedies and powers of the Borrower, the Trustee and the Authority shall continue as though no such action had been taken (provided, however, that any settlement of such proceedings duly entered into by the Authority, the Trustee or the Borrower shall not be disturbed by reason of this provision).

The Borrower covenants that, in case an Event of Default shall occur with respect to the payment of any Repayment Installment payable under Section 4.2(a) hereof, then, upon demand of the Trustee, the Borrower will pay to the Trustee the whole amount that then shall have become due and payable under said Section.

In case the Borrower shall fail forthwith to pay such amounts upon such demand, the Trustee shall be entitled and empowered to institute any action or proceeding at law or in equity for the collection of the sums so due and unpaid, and may prosecute any such action or proceeding to judgment or final decree, and may enforce any such judgment or final decree against the Borrower and collect in the manner provided by law the moneys adjudged or decreed to be payable.

In case proceedings shall be pending for the bankruptcy or for the reorganization of the Borrower under the federal bankruptcy laws or any other applicable law, or in case a receiver or trustee shall have been appointed for the property of the Borrower or in the case of any other similar judicial proceedings relative to the Borrower, or the creditors or property of the Borrower, then the Trustee shall be entitled and empowered, by intervention in such proceedings or otherwise, to file and prove a claim or claims for the whole amount owing and unpaid pursuant to this Agreement and, in case of any judicial proceedings, to file such proofs of claim and other papers or documents as may be necessary or advisable in order to have the claims of the Trustee allowed in such judicial proceedings relative to the Borrower, its creditors or its property, and to collect and receive any moneys or other property payable or deliverable on any such claims, and to distribute such amounts as provided in the Indenture after the deduction of its charges and expenses. Any receiver, assignee or trustee in bankruptcy or reorganization is hereby authorized to make such payments to the Trustee, and to pay to the Trustee any amount due it for compensation and expenses, including expenses and fees of counsel incurred by it up to the date of such distribution.

SECTION 6.3. AGREEMENT TO PAY ATTORNEYS' FEES AND EXPENSES. In the event the Borrower should default under any of the provisions of this Agreement and the Authority or the Trustee should employ attorneys or incur other expenses for the collection of the payments due under this Agreement or the enforcement of performance or observance of any obligation or agreement on the part of the Borrower herein contained, the Borrower agrees to pay to the Authority or the Trustee the reasonable fees of such attorneys and such other expenses so incurred by the Authority or the Trustee.

SECTION 6.4. NO REMEDY EXCLUSIVE. No remedy herein conferred upon or reserved to the Authority or the Trustee is intended to be exclusive of any other available remedy or remedies, but each and every such remedy shall be cumulative and shall be in addition to every other remedy given under this Agreement or now or hereafter existing at law or in equity or by statute. No delay or omission to exercise any right or power accruing upon any default shall impair any such right or power or shall be construed to be a waiver thereof, but any such right and power may be exercised from time to time and as often as may be deemed expedient. In order to entitle the Authority or the Trustee to exercise any remedy reserved to it in this Article, it shall not be necessary to give any notice, other than such notice as may be herein expressly required. Such rights and remedies as are given the Authority hereunder shall also extend to the Trustee, and the Trustee and the holders of the Bonds shall be deemed third party beneficiaries of all covenants and agreements herein contained.

SECTION 6.5. NO ADDITIONAL WAIVER IMPLIED BY ONE WAIVER. In the event any agreement or covenant contained in this Agreement should be breached by the Borrower and thereafter waived by the Authority or the Trustee, such waiver shall be limited to the particular breach so waived and shall not be deemed to waive any other breach hereunder.

ARTICLE VII

PREPAYMENT

SECTION 7.1. REDEMPTION OF BONDS WITH PREPAYMENT MONEYS. By virtue of the assignment of the rights of the Authority under this Agreement to the Trustee as is provided in Section 4.4 hereof, the Borrower agrees to and shall pay directly to the Trustee any amount permitted or required to be paid by it under this Article VII. The Trustee shall use the moneys so paid to it by the Borrower to effect redemption of the Bonds in accordance with Article IV of the Indenture on the date specified for such redemption pursuant to Section 7.5 hereof.

SECTION 7.2. OPTIONS TO PREPAY INSTALLMENTS. The Borrower shall have the option to prepay the amounts payable under Section 4.2 hereof with respect to the Bonds, in whole or in part, by paying to the Trustee, for deposit in the Bond Fund, the amount set forth in Section 7.4 hereof, under the circumstances set forth in Section 4.01(a) of the Indenture; provided, however, that if any event specified in Section

4.01(a) (A) through (D) of the Indenture gives rise to the Borrower's exercise of its option to prepay such amounts payable hereunder, the amount of such loan payment prepaid shall not exceed the original cost of the portion of the Project affected by such event.

SECTION 7.3. MANDATORY PREPAYMENT. (a) The Borrower shall have and hereby accepts the obligation to prepay Repayment Installments with respect to the Bonds to the extent mandatory redemption of the Bonds is required pursuant to Section 4.01(b) of the Indenture. The Borrower shall satisfy its obligation hereunder by prepaying such Repayment Installments within one hundred eighty (180) days after the occurrence of any event set forth in paragraphs (1) or (2) of said Section 4.01(b) giving rise to such required prepayment, and immediately upon the occurrence of any event set forth in paragraph (3) thereof giving rise to such required prepayment. The amount payable by the Borrower in the event of a prepayment required by this Section shall be determined as set forth in Section 7.4 and shall be deposited in the Bond Fund.

SECTION 7.4. AMOUNT OF PREPAYMENT. In the case of a prepayment of the entire amount due hereunder with respect to the Bonds pursuant to Section 7.2 or 7.3 hereof, the amount to be paid shall be a sum sufficient, together with other funds and the yield on any securities deposited with the Trustee and available for such purpose, to pay (1) the principal of all Bonds outstanding on the redemption date specified in the notice of redemption, plus interest accrued and to accrue to the payment or redemption date of the Bonds, plus premium, if any, required pursuant to the Indenture, (2) all reasonable and necessary fees and expenses of the Authority, the Trustee, the Registrar and any Paying Agent accrued and to accrue through final payment of the Bonds, and (3) all other liabilities of the Borrower accrued and to accrue under this Agreement.

In the case of partial prepayment of the Repayment Installments, the amount payable shall be a sum sufficient, together with other funds deposited with the Trustee and available for such purpose, to pay the principal amount of and premium, if any, and accrued interest on the Bonds to be redeemed, as provided in the Indenture, and to pay expenses of redemption of such Bonds.

SECTION 7.5. NOTICE OF PREPAYMENT. The Borrower shall give forty-five (45) days' prior written notice to the Authority and the Trustee (or such lesser time as may be acceptable to the Trustee), with a copy to the Authority, specifying the date upon which any prepayment pursuant to this Article VII will be made. If, in the case of a mandatory prepayment pursuant to Section 7.3 hereof, the Borrower fails to give such notice of a prepayment required by this Section 7.5, such notice may be given by the Authority or by any holder or holders of ten percent (10%) or more in aggregate principal amount of the Bonds Outstanding, and shall be given by the Trustee, but solely at the times and under the circumstances provided in Section 4.01(b) of the Indenture. The Authority and the Trustee, at the request of the Borrower or any such Bondholder or Bondholders, shall forthwith take all steps necessary under the applicable provisions of the Indenture (except that the Authority shall not be required to make payment of any money required for such redemption) to effect redemption of all or part of the then outstanding Bonds, as the case may be, on the earliest practicable date thereafter on which such redemption may be made under applicable provisions of the Indenture.

Notwithstanding anything to the contrary in this Agreement, each notice contemplated in this Section 7.5 that is given with respect to an optional prepayment pursuant to Section 7.2 hereof may state that it is subject to and conditional upon receipt by the Trustee on or prior to the proposed prepayment date of amounts sufficient to effect such prepayment and, if a notice so states, such notice shall be of no force and effect and the prepayment need not be made and the Repayment Installments will not become due and payable on the proposed prepayment date unless such amounts are so received on or prior to the proposed prepayment date.

ARTICLE VIII

NON-LIABILITY OF AUTHORITY; EXPENSES; INDEMNIFICATION

SECTION 8.1. NON-LIABILITY OF AUTHORITY. The Authority shall not be obligated to pay the principal of, or premium, if any, or interest on the Bonds, or to discharge any other financial liability in connection herewith, except from Revenues. The Borrower hereby acknowledges that the Authority's sole source of moneys to repay the Bonds will be provided by the payments made by the Borrower pursuant to this Agreement (excluding payments pursuant to Section 4.2(b), 4.2(c), 4.2(d), 5.6, 6.3, 8.2 and 8.3 of this Agreement), together with other Revenues, including investment income on certain funds and accounts held by the Trustee under the Indenture, and hereby agrees that if the payments to be made hereunder shall ever prove insufficient to pay all principal of, and premium, if any, and interest on the Bonds as the same shall become due (whether by maturity, redemption, acceleration or otherwise), then upon notice from the Trustee, the Borrower shall pay such amounts as are required from time to time to prevent any deficiency or default in the payment of such principal, premium or interest, including, but not limited to, any deficiency caused by acts, omissions, nonfeasance or malfeasance on the part of the Trustee, the Borrower, the Authority or any third party.

SECTION 8.2. EXPENSES. The Borrower covenants and agrees to pay within fifteen (15) days after billing therefor and to indemnify the Authority and the Trustee against all costs and charges, including fees and disbursements of attorneys, accountants, consultants and other experts incurred, in good faith in connection with this Agreement, the Bonds or the Indenture.

SECTION 8.3. INDEMNIFICATION. The Borrower releases the Authority and the Trustee from, and covenants and agrees that neither the Authority nor the Trustee shall be liable for, and covenants and agrees, to the extent permitted by law, to indemnify, defend and hold harmless the Authority and the Trustee and their members, directors, officers, employees and agents from and against, any and all losses, claims, damages, liabilities or expenses, of every conceivable kind, character and nature whatsoever arising out of, resulting from or in any way connected with (1) the Project, or the conditions, occupancy, use, possession, conduct or management of, or work done in or about, or from the planning, design, acquisition, installation or construction of the Project or any part thereof; (2) the issuance of any Bonds or any certifications, covenants or representations made in connection therewith and the carrying out of any of the transactions contemplated by the Bonds, the Indenture and this Agreement; (3) the Trustee's acceptance or administration of the trusts under the Indenture, or the exercise or performance of any of its powers or duties under the Indenture or this Agreement; or (4) any untrue statement or alleged untrue statement of any material fact or omission or alleged omission to state a material fact necessary to make the statements made, in light of the circumstances under which they were made, not misleading, in any official statement or other offering circular utilized by the Authority or any underwriter or placement agent in connection with the sale of any Bonds; provided that such indemnity shall not be required for damages that result from negligence or willful misconduct on the part of the party seeking such indemnity. The indemnity required by this Section shall be only to the extent that any loss sustained by the Authority or the Trustee exceeds the net proceeds the Authority or the Trustee receives from any insurance carried with respect to the loss sustained.

The Borrower further covenants and agrees, to the extent permitted by law, to pay or to reimburse the Authority and the Trustee and their officers, employees and agents for any and all costs, reasonable attorneys fees, liabilities or expenses incurred in connection with investigating, defending against or otherwise in connection with any such losses, claims, damages, liabilities, expenses or actions, except to the extent that the same arise out of the negligence or willful misconduct of the party claiming such payment or reimbursement. The provisions of this Section shall survive the retirement of the Bonds or resignation or removal of the Trustee.

ARTICLE IX

MISCELLANEOUS

SECTION 9.1. NOTICES. All notices, certificates or other communications shall be deemed sufficiently given on the second day

following the day on which the same have been mailed by first class mail, postage prepaid, addressed to the Authority, the Borrower or the Trustee, as the case may be, as follows:

To the Authority: California Pollution Control Financing
Authority
915 Capitol Mall, Suite 446
Sacramento, California 95814
Attention: Executive Director

To the Borrower: San Diego Gas & Electric Company
101 Ash Street
P.O. Box 1831
San Diego, CA 92112
Attention: Treasurer

To the Trustee: First Trust of California,
National Association
550 South Hope Street
Los Angeles, CA 90071
Attention: Corporate Trust

A duplicate copy of each notice, certificate or other communication given hereunder by either the Authority or the Borrower to the other shall also be given to the Trustee. The Authority, the Borrower and the Trustee may, by notice given hereunder, designate any different addresses to which subsequent notices, certificates or other communications shall be sent.

SECTION 9.2. SEVERABILITY. If any provision of this Agreement shall be held or deemed to be, or shall in fact be, illegal, inoperative or unenforceable, the same shall not affect any other provision or provisions herein contained or render the same invalid, inoperative, or unenforceable to any extent whatever.

SECTION 9.3. EXECUTION OF COUNTERPARTS. This Agreement may be simultaneously executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument; provided, however, that for purposes of perfecting a security interest in this Agreement by the Trustee under Article 9 of the California Uniform Commercial Code, only the counterpart delivered, pledged, and assigned to the Trustee shall be deemed the original.

SECTION 9.4. AMENDMENTS, CHANGES AND MODIFICATIONS. Except as otherwise provided in this Agreement or the Indenture, subsequent to the initial issuance of Bonds and prior to their payment in full, or provision for such payment having been made as provided in the Indenture, this Agreement may not be effectively amended, changed, modified, altered or terminated without the written consent of the Trustee. Notice of any such amendment to this Agreement or the Indenture shall be promptly delivered to each Rating Agency then maintaining a rating on the Bonds.

SECTION 9.5. GOVERNING LAW. This Agreement shall be governed exclusively by and construed in accordance with the applicable laws of the State of California. This Agreement shall also be enforceable in California and any action arising out of this Agreement shall be filed and maintained in the Sacramento County Superior Court, Sacramento, California; provided that the Authority may waive the requirement of venue. The parties agree that the terms and conditions of this Agreement supersede those of all previous agreements between the parties other than the documents referred to in this Agreement, and that this Agreement, together with the documents referred to in this Agreement, contains the entire agreement between the parties hereto.

SECTION 9.6. AUTHORIZED BORROWER REPRESENTATIVE. Whenever under the provisions of this Agreement the approval of the Borrower is required or the Authority or the Trustee is required to take some action at the request of the Borrower, such approval or such request shall be given on behalf of the Borrower by an Authorized Borrower Representative, and the Authority and the Trustee shall be authorized to act on any such approval or request and neither party hereto shall have any complaint against the other or against the Trustee as a result of any such action taken.

SECTION 9.7. TERM OF THE AGREEMENT. This Agreement shall be in full force and effect from the date hereof and shall continue in effect as long as any of the Bonds are outstanding or the Trustee holds any moneys under the Indenture, whichever is later; provided, however, that the rights of the Trustee and the Authority under Sections 8.2 and 8.3 hereof shall survive the termination of this Agreement, the retirement of the Bonds and the removal or resignation of the Trustee. All representations and certifications by the Borrower as to all matters affecting the Tax-Exempt status of the Bonds shall survive the termination of this Agreement.

SECTION 9.8. BINDING EFFECT. This Agreement shall inure to the benefit of and shall be binding upon the Authority, the Borrower, the Trustee and their respective successors and assigns; subject, however, to the limitations contained in Section 5.2 hereof.

IN WITNESS WHEREOF, the California Pollution Control Financing Authority has caused this Agreement to be executed in its name and its seal to be hereunto affixed and attested by its duly authorized officers, and San Diego Gas & Electric Company has caused this Agreement to be executed in its name and its seal to be hereunto affixed by its duly authorized officers, all as of the date first above written.

CALIFORNIA POLLUTION CONTROL
FINANCING AUTHORITY
By Matt Fong, Chairman

By _____
Deputy

[SEAL]

Attest:

By _____
Executive Director

SAN DIEGO GAS & ELECTRIC COMPANY

By _____
Senior Vice President,
Chief Financial Officer
and Treasurer

[SEAL]

Attest:

By _____
Assistant Secretary

AMENDMENT NO. 3 TO THE
SAN DIEGO GAS & ELECTRIC COMPANY
NUCLEAR FACILITIES QUALIFIED CPUC
DECOMMISSIONING MASTER TRUST
AGREEMENT FOR SAN ONOFRE
NUCLEAR GENERATING STATIONS

This Amendment is entered into as of the 1st day of March, 1996, by and between San Diego Gas & Electric Company, a corporation duly organized and existing under the laws of the State of California, and having its principal office at 101 Ash Street, San Diego, California 92101-3017 (the "Company"), and State Street Bank and Trust Company, as Trustee, having its principal office at 1 Enterprise Drive, Quincy, Massachusetts 01171 (the "Trustee").

WHEREAS, Pursuant to Section 2.12 of the Nuclear Facilities Qualified CPUC Decommissioning Master Trust Agreement dated June 29, 1992 (the "Agreement") between San Diego Gas & Electric Company (the "Company") and the State Street Bank and Trust Company, as Trustee, the Company hereby amends the Agreement as follows;

NOW, THEREFORE, the parties agree as follows:

1. The representations set forth above are incorporated herein by this reference thereto.
2. The Agreement shall be amended by restating the first paragraph of Section 4.03 to read:

"The Trustee shall be entitled to a compensation from the Master Trust as shown on Exhibit C1 attached hereto."

3. The Agreement shall be amended by restating the first sentence of the second paragraph of Section 4.03 as follows:

"This fee schedule is effective through December 31, 1997 and may be extended with the approval of the Trustee."

4. The Agreement shall be amended by restating the first and second sentences of the fourth paragraph of section 4.03 to read as follows:

"This fee schedule shall be effective through December 31, 1997 for all assets placed under the Trustee's investment discretion. After January 1, 1998, the fee schedule for assets placed under the Trustee's investment discretion shall be subject to renegotiation."

5. Except as set forth herein, the Agreement is hereby ratified and confirmed and remains in full force and effect.

IN WITNESS WHEREOF, the Company, the California Public Utilities Commission, and the Trustee have set their Hands and seals to this Amendment to the Agreement as of March 1, 1996.

SAN DIEGO GAS & ELECTRIC COMPANY

By:_____

Title:_____

Attest:_____

Title:_____

CALIFORNIA PUBLIC UTILITIES COMMISSION

By: _____

Title: _____

Attest: _____

Title: _____

Accepted:

STATE STREET BANK AND TRUST COMPANY

By: _____

Title: _____

Attest: _____

Title: _____

Exhibit C1

STATE STREET BANK AND TRUST COMPANY

MASTER TRUST SERVICES FEE SCHEDULE FOR

SAN DIEGO GAS & ELECTRIC NDT

FIXED INCOME PORTFOLIO

I. TRUST/CUSTODY CHARGES

The following charges will be assessed on the month-end net asset value in U.S. dollars:

.50 of one (1) basis point per annum to act as Custodial Trustee

II. PORTFOLIO ADMINISTRATION (ACCOUNTING, RECORDKEEPING & REPORTING)

\$6,000 per portfolio per annum

III. PORTFOLIO ACTIVITY

\$15.00 per depository trade (DTC, FED, PTC)

\$35.00 per physical trade

EQUITY PORTFOLIO

I. TRUST/CUSTODY CHARGES

The following charges will be assessed on the month-end domestic security holdings:

\$40.00 per holding per annum

II. PORTFOLIO ADMINISTRATION (ACCOUNTING, RECORDKEEPING & REPORTING)

\$ 5,000 per portfolio per annum (SSGA managed)
\$15,000 per portfolio per annum (external manager)

III. PORTFOLIO ACTIVITY

\$13.00 per depository trade (DTC, FED, PTC)
\$15.00 per depository trade (DTC, FED, PTC)
\$35.00 per physical trade

INTERNATIONAL PORTFOLIO

I. TRUST/CUSTODY CHARGES

The following charges will be assessed on the month-end net asset value in U.S. dollars:

Global Assets @ eighteen (18) basis points per annum

I. PORTFOLIO ADMINISTRATION (ACCOUNTING, RECORDKEEPING & REPORTING)

\$50,000 per portfolio per annum

II. PORTFOLIO ACTIVITY

International Sub-Custodian Charges

| | Group A | Group B | Group C | Group D | Group E |
|------------------|---------|---------|---------|---------|---------|
| Transaction (\$) | 25 | 45 | 60 | 70 | 100 |
| Holdings (bp)* | 1.25 | 3.50 | 5.25 | 16.0 | 45.0 |

| | | | | |
|----------------|-------------|------------|-------------|------------|
| Australia | Austria | Finland | Brazil | Argentina |
| Canada | Belgium | Indonesia | China | Bangladesh |
| Cedel | Hong Kong | Ireland | Czech | Botswana |
| Denmark | Netherlands | Luxembourg | Egypt | Chile |
| Euroclear | Norway | Malaysia | Jamaica | Columbia |
| France | Sweden | Mexico | So. Korea | Cyprus |
| Germany | | Singapore | Philippines | Ecuador |
| Italy | | Thailand | Portugal | Ghana |
| Japan | | | Sri Lanka | Greece |
| Namibia | | | Taiwan | Hungary |
| New Zealand | | | Turkey | India |
| So. Africa | | | | Israel |
| Spain | | | | Jordan |
| Switzerland | | | | Kenya |
| United Kingdom | | | | Morocco |
| | | | | Pakistan |
| | | | | Peru |
| | | | | Poland |
| | | | | Tunisia |
| | | | | Uruguay |
| | | | | Venezuela |
| | | | | Zambia |
| | | | | Zimbabwe |

* Based on the month-end value in U.S. dollars

OTHER CHARGES (Only if Applicable)

* Plant (Plan) Accounting

\$735.00 per plant (plan) per annum

* Short Term Investment Fund

Annual administrative/management fees are netted out of yield

* Out-of-Pockets

Out-of-Pockets such as wires, courier, and communication charges are borne by the client

* Stamp Duty and Registration

Expenses paid to a third party for stamp duty and registration will be billed to the client

* Foreign Exchange

A charge of \$75.00 will be assessed for each foreign exchange executed through a third party

ANALYTICS SERVICES

* Performance Measurement

\$2,500 Per Portfolio

* Investment Compliance Monitoring

\$750 Per Portfolio

STATE STREET BANK AND TRUST COMPANY

MASTER TRUST SERVICES FEE SCHEDULE FOR

SAN DIEGO GAS & ELECTRIC NDT

DOMESTIC PRO FORMA

TRUST/CUSTODY CHARGES

Fixed Income

| | | | |
|------|----------------|---------------------|----------|
| SGE2 | Brown Brothers | 19,900,000 * .50 bp | 995.00 |
| SGE3 | Brown Brothers | 49,769,000 * .50 bp | 2,488.00 |
| SGE4 | Delaware | 88,438,000 * .50 bp | 4,422.00 |
| | | | 7,905.00 |

Equity

| | | | |
|------|------------------------------|------------------------|-----------|
| SGE1 | Fidelity | 230 Holdings * \$40.00 | 9,200.00 |
| SGE6 | State Street Global Advisors | 600 Holdings * \$40.00 | 24,000.00 |
| | | | 33,200.00 |

PORTFOLIO ADMINISTRATION

| | | |
|------|------------------------------|-----------|
| SGE1 | Fidelity | 15,000.00 |
| SGE2 | Brown Brothers | 6,000.00 |
| SGE3 | Brown Brothers | 6,000.00 |
| SGE4 | Delaware | 6,000.00 |
| SGE6 | State Street Global Advisors | 5,000.00 |
| | | 38,000.00 |

PORTFOLIO ACTIVITY

| | | | |
|------|------------------------------|----------------------|-----------|
| SGE1 | Fidelity | 660 trades * \$15.00 | 9,900.00 |
| SGE2 | Brown Brothers | 30 trades * \$15.00 | 450.00 |
| SGE3 | Brown Brothers | 30 trades * \$15.00 | 450.00 |
| SGE4 | Delaware | 60 trades * \$15.00 | 900.00 |
| SGE6 | State Street Global Advisors | 425 trades * \$13.00 | 5,525.00 |
| | | | 17,225.00 |
| | | TOTAL | 96,330.00 |

ANALYTICS

| | |
|---------------------------|-----------|
| 5 Portfolios * (3,250.00) | 16,250.00 |
|---------------------------|-----------|

STATE STREET BANK AND TRUST COMPANY
MASTER TRUST SERVICES FEE SCHEDULE FOR
SAN DIEGO GAS & ELECTRIC NDT

INTERNATIONAL PRO FORMA

TRUST/CUSTODY CHARGES

Equity

| | | | |
|------|------------------------------|--------------------|-----------|
| SGE7 | State Street Global Advisors | 25,000,000 * 18 BP | 45,000.00 |
|------|------------------------------|--------------------|-----------|

PORTFOLIO ADMINISTRATION

| | | |
|------|------------------------------|-----------|
| SGE7 | State Street Global Advisors | 50,000.00 |
|------|------------------------------|-----------|

PORTFOLIO ACTIVITY

| | | | |
|------|------------------------------|----------------------|------------|
| SGE7 | State Street Global Advisors | 100 trades * \$35.00 | 3,500.00 |
| | | 25,000,000* 3 BP | 7,500.00 |
| | | TOTAL | 106,000.00 |

ANALYTICS

| | |
|---------------------------|----------|
| 1 Portfolios * (3,250.00) | 3,250.00 |
|---------------------------|----------|

AMENDMENT NO. 4 TO THE
SAN DIEGO GAS & ELECTRIC COMPANY
NUCLEAR FACILITIES NON-QUALIFIED CPUC
DECOMMISSIONING MASTER TRUST
AGREEMENT FOR SAN ONOFRE
NUCLEAR GENERATING STATIONS

This Amendment No. 4 is entered into as of the 23rd day of December, 1996, by and between San Diego Gas & Electric Company, a corporation duly organized and existing under the laws of the State of California, and having its principal office at 101 Ash Street, San Diego, California 92101-3017 (the "Company"), and State Street Bank and Trust Company, as Trustee, having its principal office at 1 Enterprise Drive, Quincy, Massachusetts 02171 (the "Trustee").

Pursuant to Section 2.12 of the Nuclear Facilities Qualified CPUC Decommissioning Master Trust Agreement dated June 29, 1992 (the "Agreement") between San Diego Gas & Electric Company (the "Company") and State Street Bank and Trust Company, as Trustee, the parties agree to amend the Agreement as follows:

1. The representations set forth above are incorporated herein by this reference thereto.
2. Section 1.03 of the Agreement is amended and restated to read as follows:

The exclusive purposes of this Master Trust are to provide monies for the decommissioning of the Plants, and to constitute qualified nuclear decommissioning funds for the Units within the meaning of Section 468A of the Code, any applicable successor provision and the regulations thereunder. Assets of the Funds must be used as authorized by Section 468A of the Code and the regulations thereunder

3. The first paragraph of Section 2.12 of the Agreement is amended and restated to read as follows:

The Trustee and the Company understand and agree that modifications or amendments may be required to this Agreement from time to time to effectuate the purposes of the trust. This Agreement may not be amended so as to violate Section 468A of the Code or the regulations thereunder.

4. The second page of Exhibit C1 of the Agreement, the Fee Schedule relating to the International Portfolio, is replaced with the revised second page attached hereto.

5. The first sentence of the second paragraph of Section 4.03 is amended and restated to read as follows:

This fee schedule is effective through December 31, 1997 and may be extended with the approval of the Trustee.

6. The first and second sentences of the fourth paragraph of Section 4.03 are amended and restated as follows:

This fee schedule shall be effective through December 31, 1997 for all assets placed under the Trustee's investment discretion. After January 1, 1998, the fee schedule for assets placed under the Trustee's investment discretion shall be subject to renegotiation."

7. Except as set forth herein, the Agreement is hereby
ratified and confirmed and remain in full force and effect

SAN DIEGO GAS & ELECTRIC
COMPANY

STATE STREET BANK AND
TRUST COMPANY

By: _____

By: _____

Title: _____

Title: _____

Attest: _____

Attest: _____

Title: _____

Title: _____

CALIFORNIA PUBLIC UTILITIES COMMISSION

By: _____

Title: _____

Attest: _____

Title: _____

EXHIBIT C1

INTERNATIONAL PORTFOLIO

I. TRUST/CUSTODY CHARGES

The following charges will be assessed on the month-end net
asset value in U.S. dollars:

Global Assets @ fourteen (14) basis points per annum

I. PORTFOLIO ADMINISTRATION (ACCOUNTING, RECORDKEEPING & REPORTING)

\$20,000 per portfolio per annum

II. PORTFOLIO ACTIVITY

International Sub-Custodian Charges

| | Group A | Group B | Group C | Group D | Group E |
|------------------|---------|---------|---------|---------|---------|
| Transaction (\$) | 25 | 45 | 60 | 70 | 100 |
| Holdings (bp)* | 1.25 | 3.50 | 5.25 | 16.0 | 45.0 |

| | | | | |
|----------------|-------------|------------|-------------|------------|
| Australia | Austria | Finland | Brazil | Argentina |
| Canada | Belgium | Indonesia | China | Bangladesh |
| Cedel | Hong Kong | Ireland | Czech | Botswana |
| Denmark | Netherlands | Luxembourg | Egypt | Chile |
| Euroclear | Norway | Malaysia | Jamaica | Columbia |
| France | Sweden | Mexico | So. Korea | Cyprus |
| Germany | | Singapore | Philippines | Ecuador |
| Italy | | Thailand | Portugal | Ghana |
| Japan | | | Sri Lanka | Greece |
| Namibia | | | Taiwan | Hungary |
| New Zealand | | | Turkey | India |
| So. Africa | | | | Israel |
| Spain | | | | Jordan |
| Switzerland | | | | Kenya |
| United Kingdom | | | | Morocco |

Pakistan
Peru
Poland
Tunisia
Uruguay
Venezuela
Zambia
Zimbabwe

* Based on the month-end value in U.S. dollars

AMENDMENT NO. 1 TO THE
SAN DIEGO GAS & ELECTRIC COMPANY
NUCLEAR FACILITIES NON-QUALIFIED CPUC
DECOMMISSIONING MASTER TRUST
AGREEMENT FOR SAN ONOFRE
NUCLEAR GENERATING STATIONS

This Amendment is entered into as of the 1st day of March, 1996, by and between San Diego Gas & Electric Company, a corporation duly organized and existing under the laws of the State of California, and having its principal office at 101 Ash Street, San Diego, California 92101-3017 (the "Company"), and State Street Bank and Trust Company, as Trustee, having its principal office at 1 Enterprise Drive, Quincy, Massachusetts 01171 (the "Trustee").

WHEREAS, Pursuant to Section 2.12 of the Nuclear Facilities Non-Qualified CPUC Decommissioning Master Trust Agreement dated June 29, 1992 (the "Agreement") between San Diego Gas & Electric Company (the "Company") and the State Street Bank and Trust Company, as Trustee, the Company hereby amends the Agreement as follows;

NOW, THEREFORE, the parties agree as follows:

1. The representations set forth above are incorporated herein by this reference thereto.
2. The Agreement shall be amended by restating the first paragraph of Section 4.03 to read:

"The Trustee shall be entitled to a compensation from the Master Trust as shown on Exhibit C1 attached hereto."

3. The Agreement shall be amended by restating the first sentence of the second paragraph of Section 4.03 as follows:

"This fee schedule is effective through December 31, 1997 and may be extended with the approval of the Trustee."

4. The Agreement shall be amended by restating the first and second sentences of the fourth paragraph of section 4.03 to read as follows:

"This fee schedule shall be effective through December 31, 1997 for all assets placed under the Trustee's investment discretion. After January 1, 1998, the fee schedule for assets placed under the Trustee's investment discretion shall be subject to renegotiation."

5. Except as set forth herein, the Agreement is hereby ratified and confirmed and remains in full force and effect.

IN WITNESS WHEREOF, the Company, the California Public Utilities Commission, and the Trustee have set their Hands and seals to this Amendment to the Agreement as of March 1, 1996.

SAN DIEGO GAS & ELECTRIC COMPANY

By: _____

Title: _____

Attest: _____

Title: _____

CALIFORNIA PUBLIC UTILITIES COMMISSION

By: _____

Title: _____

Attest: _____

Title: _____

Accepted:

STATE STREET BANK AND TRUST COMPANY

By: _____

Title: _____

Attest: _____

Title: _____

Exhibit C1

STATE STREET BANK AND TRUST COMPANY

MASTER TRUST SERVICES FEE SCHEDULE FOR

SAN DIEGO GAS & ELECTRIC NDT

FIXED INCOME PORTFOLIO

I. TRUST/CUSTODY CHARGES

The following charges will be assessed on the month-end net
:asset value in U.S. dollars:
.50 of one (1) basis point per annum to act as Custodial
Trustee

II. PORTFOLIO ADMINISTRATION (ACCOUNTING, RECORDKEEPING &
REPORTING)

\$6,000 per portfolio per annum

III. PORTFOLIO ACTIVITY

\$15.00 per depository trade (DTC, FED, PTC)
\$35.00 per physical trade

EQUITY PORTFOLIO

I. TRUST/CUSTODY CHARGES

The following charges will be assessed on the month-end
domestic security holdings:

\$40.00 per holding per annum

II. PORTFOLIO ADMINISTRATION (ACCOUNTING, RECORDKEEPING & REPORTING)

\$ 5,000 per portfolio per annum (SSGA managed)
\$15,000 per portfolio per annum (external manager)

III. PORTFOLIO ACTIVITY

\$13.00 per depository trade (DTC, FED, PTC)
\$15.00 per depository trade (DTC, FED, PTC)
\$35.00 per physical trade

INTERNATIONAL PORTFOLIO

I. TRUST/CUSTODY CHARGES

The following charges will be assessed on the month-end net asset value in U.S. dollars:

Global Assets @ eighteen (18) basis points per annum

II. PORTFOLIO ADMINISTRATION (ACCOUNTING, RECORDKEEPING & REPORTING)

\$50,000 per portfolio per annum

III. PORTFOLIO ACTIVITY

International Sub-Custodian Charges

| | Group A | Group B | Group C | Group D | Group E |
|------------------|---------|---------|---------|---------|---------|
| Transaction (\$) | 25 | 45 | 60 | 70 | 100 |
| Holdings (bp)* | 1.25 | 3.50 | 5.25 | 16.0 | 45.0 |

| | | | | |
|----------------|-------------|------------|-------------|------------|
| Australia | Austria | Finland | Brazil | Argentina |
| Canada | Belgium | Indonesia | China | Bangladesh |
| Cedel | Hong Kong | Ireland | Czech | Botswana |
| Denmark | Netherlands | Luxembourg | Egypt | Chile |
| Euroclear | Norway | Malaysia | Jamaica | Columbia |
| France | Sweden | Mexico | So. Korea | Cyprus |
| Germany | | Singapore | Philippines | Ecuador |
| Italy | | Thailand | Portugal | Ghana |
| Japan | | | Sri Lanka | Greece |
| Namibia | | | Taiwan | Hungary |
| New Zealand | | | Turkey | India |
| So. Africa | | | | Israel |
| Spain | | | | Jordan |
| Switzerland | | | | Kenya |
| United Kingdom | | | | Morocco |
| | | | | Pakistan |
| | | | | Peru |
| | | | | Poland |
| | | | | Tunisia |
| | | | | Uruguay |
| | | | | Venezuela |
| | | | | Zambia |
| | | | | Zimbabwe |

* Based on the month-end value in U.S. dollars

OTHER CHARGES (Only if Applicable)

* Plant (Plan) Accounting

\$735.00 per plant (plan) per annum

* Short Term Investment Fund

Annual administrative/management fees are netted out of yield

* Out-of-Pockets

Out-of-Pockets such as wires, courier, and communication charges are borne by the client

* Stamp Duty and Registration

Expenses paid to a third party for stamp duty and registration will be billed to the client

* Foreign Exchange

A charge of \$75.00 will be assessed for each foreign exchange executed through a third party

ANALYTICS SERVICES

* Performance Measurement

\$2,500 Per Portfolio

* Investment Compliance Monitoring

\$750 Per Portfolio

STATE STREET BANK AND TRUST COMPANY

MASTER TRUST SERVICES FEE SCHEDULE FOR

SAN DIEGO GAS & ELECTRIC NDT

DOMESTIC PRO FORMA

TRUST/CUSTODY CHARGES

Fixed Income

| | | | | |
|------|----------------|------------|----------|----------|
| SGE2 | Brown Brothers | 19,900,000 | * .50 bp | 995.00 |
| SGE3 | Brown Brothers | 49,769,000 | * .50 bp | 2,488.00 |
| SGE4 | Delaware | 88,438,000 | * .50 bp | 4,422.00 |
| | | | | 7,905.00 |

Equity

| | | | | |
|------|------------------------------|--------------|-----------|-----------|
| SGE1 | Fidelity | 230 Holdings | * \$40.00 | 9,200.00 |
| SGE6 | State Street Global Advisors | 600 Holdings | * \$40.00 | 24,000.00 |
| | | | | 33,200.00 |

PORTFOLIO ADMINISTRATION

| | | |
|------|------------------------------|-----------|
| SGE1 | Fidelity | 15,000.00 |
| SGE2 | Brown Brothers | 6,000.00 |
| SGE3 | Brown Brothers | 6,000.00 |
| SGE4 | Delaware | 6,000.00 |
| SGE6 | State Street Global Advisors | 5,000.00 |
| | | 38,000.00 |

PORTFOLIO ACTIVITY

| | | | |
|------|------------------------------|----------------------|-----------|
| SGE1 | Fidelity | 660 trades * \$15.00 | 9,900.00 |
| SGE2 | Brown Brothers | 30 trades * \$15.00 | 450.00 |
| SGE3 | Brown Brothers | 30 trades * \$15.00 | 450.00 |
| SGE4 | Delaware | 60 trades * \$15.00 | 900.00 |
| SGE6 | State Street Global Advisors | 425 trades * \$13.00 | 5,525.00 |
| | | | 17,225.00 |
| | TOTAL | | 96,330.00 |

ANALYTICS

| | |
|---------------------------|-----------|
| 5 Portfolios * (3,250.00) | 16,250.00 |
|---------------------------|-----------|

STATE STREET BANK AND TRUST COMPANY

MASTER TRUST SERVICES FEE SCHEDULE FOR

SAN DIEGO GAS & ELECTRIC NDT

INTERNATIONAL PRO FORMA

TRUST/CUSTODY CHARGES

Equity

| | | | |
|------|------------------------------|--------------------|-----------|
| SGE7 | State Street Global Advisors | 25,000,000 * 18 BP | 45,000.00 |
|------|------------------------------|--------------------|-----------|

PORTFOLIO ADMINISTRATION

| | | |
|------|------------------------------|-----------|
| SGE7 | State Street Global Advisors | 50,000.00 |
|------|------------------------------|-----------|

PORTFOLIO ACTIVITY

| | | | |
|------|------------------------------|----------------------|------------|
| SGE7 | State Street Global Advisors | 100 trades * \$35.00 | 3,500.00 |
| | | 25,000,000* 3 BP | 7,500.00 |
| | TOTAL | | 106,000.00 |

ANALYTICS

| | |
|---------------------------|----------|
| 1 Portfolios * (3,250.00) | 3,250.00 |
|---------------------------|----------|

AMENDMENT NO. 2 TO THE
SAN DIEGO GAS & ELECTRIC COMPANY
NUCLEAR FACILITIES NON-QUALIFIED CPUC
DECOMMISSIONING MASTER TRUST
AGREEMENT FOR SAN ONOFRE
NUCLEAR GENERATING STATIONS

This Amendment No. 2 is entered into as of the 23rd day of December, 1996, by and between San Diego Gas & Electric Company, a corporation duly organized and existing under the laws of the State of California, and having its principal office at 101 Ash Street, San Diego, California 92101-3017 (the "Company"), and State Street Bank and Trust Company, as Trustee, having its principal office at 1 Enterprise Drive, Quincy, Massachusetts 02171 (the "Trustee").

Pursuant to Section 2.12 of the Nuclear Facilities Non-Qualified CPUC Decommissioning Master Trust Agreement dated June 29, 1992 (the "Agreement") between San Diego Gas & Electric Company (the "Company") and State Street Bank and Trust Company, as Trustee, the parties agree to amend the Agreement as follows:

1. The representations set forth above are incorporated herein by this reference thereto.
2. The second page of Exhibit C1 of the Agreement, the Fee Schedule relating to the International Portfolio, is replaced with the revised second page attached hereto.
3. The first sentence of the second paragraph of Section 4.03 is amended and restated to read as follows:

This fee schedule is effective through December 31, 1997 and may be extended with the approval of the Trustee.

4. The first and second sentences of the fourth paragraph of Section 4.03 are amended and restated as follows:

This fee schedule shall be effective through December 31, 1997 for all assets placed under the Trustee's investment discretion. After January 1, 1998, the fee schedule for assets placed under the Trustee's investment discretion shall be subject to renegotiation."

5. Except as set forth herein, the Agreement is hereby ratified and confirmed and remains in full force and effect.

SAN DIEGO GAS & ELECTRIC
COMPANY

STATE STREET BANK AND
TRUST COMPANY

By: _____

By: _____

Title: _____

Title: _____

Attest: _____

Attest: _____

Title: _____

Title: _____

CALIFORNIA PUBLIC UTILITIES COMMISSION

By: _____

Title: _____

Attest: _____

Title: _____

EXHIBIT C1

INTERNATIONAL PORTFOLIO

I. TRUST/CUSTODY CHARGES

The following charges will be assessed on the month-end net asset value in U.S. dollars:

Global Assets @ fourteen (14) basis points per annum

II. PORTFOLIO ADMINISTRATION (ACCOUNTING, RECORDKEEPING & REPORTING)

\$20,000 per portfolio per annum

III. PORTFOLIO ACTIVITY

International Sub-Custodian Charges

| | Group A | Group B | Group C | Group D | Group E |
|------------------|---------|---------|---------|---------|---------|
| Transaction (\$) | 25 | 45 | 60 | 70 | 100 |
| Holdings (bp)* | 1.25 | 3.50 | 5.25 | 16.0 | 45.0 |

| | | | | |
|----------------|-------------|------------|-------------|------------|
| Australia | Austria | Finland | Brazil | Argentina |
| Canada | Belgium | Indonesia | China | Bangladesh |
| Cedel | Hong Kong | Ireland | Czech | Botswana |
| Denmark | Netherlands | Luxembourg | Egypt | Chile |
| Euroclear | Norway | Malaysia | Jamaica | Columbia |
| France | Sweden | Mexico | So. Korea | Cyprus |
| Germany | | Singapore | Philippines | Ecuador |
| Italy | | Thailand | Portugal | Ghana |
| Japan | | | Sri Lanka | Greece |
| Namibia | | | Taiwan | Hungary |
| New Zealand | | | Turkey | India |
| So. Africa | | | | Israel |
| Spain | | | | Jordan |
| Switzerland | | | | Kenya |
| United Kingdom | | | | Morocco |
| | | | | Pakistan |
| | | | | Peru |
| | | | | Poland |
| | | | | Tunisia |
| | | | | Uruguay |
| | | | | Venezuela |
| | | | | Zambia |
| | | | | Zimbabwe |

* Based on the month-end value in U.S. dollars

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

| | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 |
|------------------------|-----------|-----------|-----------|-----------|-----------|-----------|
| | ----- | ----- | ----- | ----- | ----- | ----- |
| Fixed Charges: | | | | | | |
| Interest: | | | | | | |
| Long-Term Debt | \$ 95,124 | \$ 97,067 | \$ 84,830 | \$ 81,749 | \$ 82,591 | \$ 76,463 |
| Short-Term Debt | 7,010 | 5,043 | 6,676 | 8,894 | 17,886 | 12,635 |
| Amortization of Debt | | | | | | |
| Discount and Expense, | | | | | | |
| Less Premium | 2,471 | 2,881 | 4,162 | 4,604 | 4,870 | 4,881 |
| Interest Portion of | | | | | | |
| Annual Rentals | 18,067 | 14,558 | 9,881 | 9,496 | 9,631 | 8,446 |
| | ----- | ----- | ----- | ----- | ----- | ----- |
| Total Fixed | | | | | | |
| Charges | 122,672 | 119,549 | 105,549 | 104,743 | 114,978 | 102,425 |
| | ----- | ----- | ----- | ----- | ----- | ----- |
| Preferred Dividends | | | | | | |
| Requirements | 10,535 | 9,600 | 8,565 | 7,663 | 7,663 | 6,582 |
| Ratio of Income Before | | | | | | |
| Tax to Net Income | 1.64160 | 1.71389 | 1.79353 | 1.83501 | 1.78991 | 1.88864 |
| | ----- | ----- | ----- | ----- | ----- | ----- |
| Preferred Dividends | | | | | | |
| for Purpose of Ratio | 17,294 | 16,453 | 15,362 | 14,062 | 13,716 | 12,431 |
| | ----- | ----- | ----- | ----- | ----- | ----- |
| Total Fixed Charges | | | | | | |
| and Preferred | | | | | | |
| Dividends for | | | | | | |
| Purpose of Ratio | \$139,966 | \$136,002 | \$120,911 | \$118,805 | \$128,694 | \$114,856 |
| | ===== | ===== | ===== | ===== | ===== | ===== |
| Earnings: | | | | | | |
| Net Income (before | | | | | | |
| preferred dividend | | | | | | |
| requirements) | \$202,544 | \$224,177 | \$215,872 | \$206,296 | \$219,049 | \$222,765 |
| Add: | | | | | | |
| Fixed Charges | | | | | | |
| (from above) | 122,672 | 119,549 | 105,549 | 104,743 | 114,978 | 102,425 |
| Less: Fixed Charges | | | | | | |
| Capitalized | 2,322 | 1,262 | 1,483 | 1,424 | 2,040 | 1,495 |
| Taxes on Income | 129,953 | 160,038 | 171,300 | 172,259 | 173,029 | 197,958 |
| | ----- | ----- | ----- | ----- | ----- | ----- |
| Total Earnings for | | | | | | |
| Purpose of Ratio | \$452,847 | | | | | |
| | | | | | | |
| | \$502,502 | \$491,238 | \$481,874 | \$505,016 | \$521,653 | |
| | ===== | ===== | ===== | ===== | ===== | ===== |
| Ratio of Earnings | | | | | | |
| to Combined Fixed | | | | | | |
| Charges and Preferred | | | | | | |
| Dividends | 3.24 | 3.69 | 4.06 | 4.06 | 3.92 | 4.54 |
| | ===== | ===== | ===== | ===== | ===== | ===== |

<ARTICLE> UT
 <CIK> 0000086521
 <NAME> San Diego Gas and Electric
 <MULTIPLIER> 1000

| <PERIOD-TYPE> | YEAR | |
|--------------------------------|-------------|--|
| <FISCAL-YEAR-END> | DEC-31-1996 | |
| <PERIOD-END> | DEC-31-1996 | |
| <BOOK-VALUE> | PER-BOOK | |
| <TOTAL-NET-UTILITY-PLANT> | 3,074,371 | |
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| <TOTAL-CURRENT-ASSETS> | 365,700 | |
| <TOTAL-DEFERRED-CHARGES> | 91,596 | |
| <OTHER-ASSETS> | 291,329 | |
| <TOTAL-ASSETS> | 4,160,516 | |
| <COMMON> | 291,458 | |
| <CAPITAL-SURPLUS-PAID-IN> | 566,233 | |
| <RETAINED-EARNINGS> | 546,445 | |
| <TOTAL-COMMON-STOCKHOLDERS-EQ> | 1,404,136 | |
| <PREFERRED-MANDATORY> | 25,000 | |
| <PREFERRED> | 78,475 | |
| <LONG-TERM-DEBT-NET> | 1,188,093 | |
| <SHORT-TERM-NOTES> | 0 | |
| <LONG-TERM-NOTES-PAYABLE> | 0 | |
| <COMMERCIAL-PAPER-OBLIGATIONS> | 0 | |
| <LONG-TERM-DEBT-CURRENT-PORT> | 25,047 | |
| <PREFERRED-STOCK-CURRENT> | 0 | |
| <CAPITAL-LEASE-OBLIGATIONS> | 96,723 | |
| <LEASES-CURRENT> | 8,592 | |
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| <TOT-CAPITALIZATION-AND-LIAB> | 4,160,516 | |
| <GROSS-OPERATING-REVENUE> | 1,938,917 | |
| <INCOME-TAX-EXPENSE> | 202,185 | |
| <OTHER-OPERATING-EXPENSES> | 1,427,970 | |
| <TOTAL-OPERATING-EXPENSES> | 1,630,155 | |
| <OPERATING-INCOME-LOSS> | 308,762 | |
| <OTHER-INCOME-NET> | 4,694 | |
| <INCOME-BEFORE-INTEREST-EXPEN> | 313,456 | |
| <TOTAL-INTEREST-EXPENSE> | 90,691 | |
| <NET-INCOME> | 222,765 | |
| <PREFERRED-STOCK-DIVIDENDS> | 6,582 | |
| <EARNINGS-AVAILABLE-FOR-COMM> | 216,183 | |
| <COMMON-STOCK-DIVIDENDS> | 181,866 | |
| <TOTAL-INTEREST-ON-BONDS> | 76,463 | |
| <CASH-FLOW-OPERATIONS> | 529,187 | |
| <EPS-PRIMARY> | 0 | |
| <EPS-DILUTED> | 0 | |

Management's Discussion and Analysis of Financial Condition
and Results of Operations -- Enova Corporation and SDG&E

Background

On January 1, 1996, Enova Corporation (referred to herein as Enova, which includes the parent and its wholly owned subsidiaries) became the parent of San Diego Gas & Electric. SDG&E's outstanding common stock was converted on a share-for-share basis into Enova Corporation common stock. SDG&E's debt securities, preferred stock and preference stock were unaffected and remain with SDG&E.

On October 14, 1996, Enova and Pacific Enterprises, Inc., parent company of Southern California Gas Company, announced that they have agreed to combine the two companies. As a result of the combination, which was unanimously approved by the boards of directors of both companies, (i) each outstanding share of common stock of Enova will be converted into one share of common stock of the new company, (ii) each outstanding share of common stock of Pacific Enterprises will be converted into 1.5038 shares of the new company's common stock and (iii) the preferred stock and preference stock of SDG&E, Pacific Enterprises and Southern California Gas will remain outstanding. On March 11, 1997, the shareholders of Enova and Pacific Enterprises approved the combination. Consummation of the combination is conditional upon the approvals of the California Public Utilities Commission and various other regulatory bodies. Completion of the combination is expected by the end of 1997. Additional information regarding the proposed business combination is described in Note 1 of the notes to consolidated financial statements.

SDG&E is an operating public utility engaged in the electric and gas businesses. It generates and purchases electric energy and distributes it to 1.2 million customers in San Diego County and an adjacent portion of Orange County, California. It also purchases and distributes natural gas to 711,000 customers in San Diego County and also transports electricity and gas for others. Enova has six other subsidiaries (referred to herein as non-utility subsidiaries). Enova Financial invests in limited partnerships representing approximately 1,100 affordable-housing properties located throughout the United States. Califia leases computer equipment. The investments in Enova Financial and Califia are expected to provide income-tax benefits over the next several years. Enova Energy is an energy management and consulting firm offering services to utilities and large consumers. Enova Technologies is in the business of developing new technologies generally related to utilities and energy. On January 14, 1997, Enova Energy and Enova Technologies formed a joint venture with certain subsidiaries of Pacific Enterprises to provide integrated energy and energy-related products and services. The merger agreement with Pacific Enterprises provides that if the business combination is not consummated, either party can terminate the joint venture. Enova International is involved in natural gas and power projects outside the United States. Pacific Diversified Capital is the parent company of Phase One Development, which is engaged in real-estate development. Additional information regarding Enova's subsidiaries is described in Notes 2 and 3 of the notes to consolidated financial statements.

Results of Operations

Operating Revenues Electric revenues increased 6 percent in 1996, primarily due to the accelerated recovery of San Onofre Nuclear Generating Station Units 2 and 3. Additional information about the SONGS recovery and depreciation is discussed below and in Note 2 of the notes to consolidated financial statements. Gas revenues increased 12 percent in 1996, reflecting higher purchased-gas prices. Gas revenues decreased 10 percent in 1995, reflecting lower purchased-gas prices, weather-related lower sales volume and an increase in customers' purchases of gas directly from other suppliers (for whom SDG&E provides transportation).

Operating Expenses Electric fuel expense increased 34 percent in 1996, primarily due to increased nuclear and natural gas-fired generation, as well as increases in natural gas prices. Electric fuel expense decreased 30 percent in 1995, primarily due to lower prices for natural gas and the shifting of energy supply sources from generation to purchased power as a result of two nuclear refuelings during the year.

Purchased-power expenses decreased 9 percent in 1996, reflecting the availability of lower-cost nuclear generation and decreases in purchased-power capacity charges due to a surplus of power from hydro-powered plants in the Northwest.

Gas purchased for resale increased 34 percent in 1996, primarily due to higher natural gas prices. Gas purchased for resale decreased 23 percent in 1995, primarily due to lower prices for natural gas, and lower sales volumes due to warmer weather and an increase in customers' purchases of gas directly from other suppliers.

The changes in maintenance expenses reflect higher power plant emissions

costs and the nuclear refuelings in 1995.

The increase in depreciation and decommissioning expense in 1996 is primarily due to the accelerated recovery of SONGS Units 2 and 3.

The increase in general and administrative expenses in 1996 includes start-up costs for Enova Energy, Enova Technologies and Enova International, expenses related to the proposed merger with Pacific Enterprises, and higher costs for customer service.

Earnings 1996 earnings per common share were \$1.98 compared to \$1.94 in 1995 and \$1.17 in 1994. 1994 earnings per common share from continuing operations were \$1.71. The increase in earnings in 1996 is primarily due to demand-side management rewards, partially offset by SDG&E's lower authorized return on equity. The increase in earnings from continuing operations in 1995 was due to numerous offsetting factors, including the 1994 writedowns (described in Note 2 of the notes to consolidated financial statements), SDG&E's increased authorized return on equity, and changes in incentive rewards for Performance-Based Ratemaking and demand-side management programs.

Earnings per share for the quarter ended December 31, 1996, were \$0.47, compared to \$0.50 for the same period in 1995. The decrease in earnings for the quarter was due to numerous offsetting factors, including SDG&E's lower authorized return on equity, changes in incentive rewards for Performance-Based Ratemaking and demand-side management programs, and 1995 earnings associated with discontinued operations.

Califia and Enova Financial's contributions to earnings for the year were \$0.19 in 1996, \$0.17 in 1995 and \$0.15 in 1994. The impact of the remaining subsidiaries on earnings was not material.

Liquidity and Capital Resources

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

Cash Flows from Operating Activities The major changes in cash flows from operations among the three years result from changes in regulatory balancing accounts, income taxes, and accounts payable and other current liabilities. The changes in cash flows related to regulatory balancing accounts were primarily due to changes in prices for natural gas. The changes in cash flows related to income taxes were primarily due to higher 1996 income tax payments in connection with settlements with the Internal Revenue Service on the timing of certain deductions in prior years. The changes in accounts payable and other current liabilities were primarily due to increased natural gas purchases in 1996 and greater demand-side management activity in 1995.

Quarterly cash dividends of \$0.39 per share were declared for the year ended December 31, 1996. The dividend payout ratios for the years ended December 31, 1996, 1995, 1994, 1993 and 1992 were 79 percent, 80 percent, 130 percent, 82 percent and 81 percent, respectively. The increase in the payout ratio for the year ended December 31, 1994, was due to the writedowns recorded during 1994. Additional information regarding the writedowns is provided in Notes 2 and 3 of the notes to consolidated financial statements. The payment of future dividends is within the discretion of the Enova Board of Directors and is dependent upon future business conditions, earnings and other factors. Net cash flows provided by operating activities currently are sufficient to maintain the payment of dividends at the present level.

Cash Flows from Financing Activities Enova did not issue additional stock or long-term debt in 1996 except for refinancings and does not plan any issuances in 1997 other than for refinancings.

In May 1996, the CPUC approved SDG&E's request to issue up to \$300 million of long-term debt to refinance previously issued long-term debt. The decision also grants a two-year extension of a prior CPUC authorization to issue \$138 million of long-term debt and \$100 million of preferred stock.

During 1996, SDG&E issued \$130 million of Pollution Control Bonds and \$99 million of Industrial Development Bonds. The funds obtained from these issues were used to retire previously issued Pollution Control Bonds and Industrial Development Bonds of \$129 million and \$126 million, respectively. Enova Financial and Califia repaid \$29 million of long-term debt in 1996 during the ordinary course of business.

SDG&E's 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.

| | 1992 | 1993 | 1994 | 1995 | 1996 | Goal |
|-----------------|-------|-------|-------|-------|-------|---------|
| Common equity | 47 % | 47 % | 48 % | 49 % | 50 % | 46-49 % |
| Preferred stock | 5 | 4 | 4 | 4 | 4 | 3-5 |
| Debt and leases | 48 | 49 | 48 | 47 | 46 | 46-49 |
| Total | 100 % | 100 % | 100 % | 100 % | 100 % | 100 % |

The CPUC regulates SDG&E's capital structure, limiting the dividends it may pay Enova. At December 31, 1996, \$67 million of common equity was available for future dividends. This restriction is not expected to affect Enova's ability to meet its cash obligations.

During 1996, Standard & Poor's Ratings Group upgraded SDG&E's long-term-bond rating from an A-/negative outlook to an A+/positive outlook following the passage of California's electric-restructuring law and the announcement of Enova's proposed business combination with Pacific Enterprises. Moody's Investors Service affirmed SDG&E's long-term-bond rating of A1/stable outlook.

The state of California has authorized the issuance of rate-reduction bonds to finance a portion of transition costs that residential and commercial customers will pay from 1998 to 2001. Principal and interest on the bonds will be paid through a charge on customers' bills. SDG&E is expected to receive approximately \$500 million from the proceeds. The bonds are expected to be issued by the California Infrastructure and Economic Development Bank in late 1997. Additional information on the bonds is provided below under "Industry Restructuring."

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

Cash Flows from Investing Activities Cash used in investing activities in 1996 included SDG&E's construction expenditures and payments to its nuclear decommissioning trust. Construction expenditures, excluding nuclear fuel and the allowance for equity funds used during construction, were \$209 million in 1996 and are estimated to be \$240 million in 1997. 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 will depend heavily on the impacts of industry restructuring, and on the timing of expenditures to comply with air-emission reduction and other environmental requirements.

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

Enova's level of non-utility expenditures in the next few years will depend primarily on the activities of its subsidiaries, including the joint venture with Pacific Enterprises. The Mexican Energy Regulatory Commission has awarded Enova International and its partners, Pacific Enterprises International and Proxima S.A. de C.V., the first natural gas privatization license in Mexico, allowing the partnership to build and operate a natural gas distribution system in Mexicali, Baja California. The partnership was granted a 30-year license to supply natural gas to the region, with exclusive rights for the first 12 years. The Mexican company formed by the three partners, Distribuidora de Gas Natural de Mexicali, will invest up to \$25 million during the first five years of the license period. Natural gas service to major commercial and industrial users is expected to begin in the third quarter of 1997, and be extended to more than 25,000 residential customers by the fifth year. Separately, in January 1997, the partnership submitted a bid to the Mexican Energy Regulatory Commission to build and operate a natural gas distribution system in Chihuahua, Mexico. The commission is expected to announce the winning bidder by April 1, 1997. In addition, Enova International is part of two consortia preparing bids to build and operate a power plant and natural gas pipeline in Rosarito, Baja California.

Derivatives The policy of Enova is to use derivative financial instruments to reduce exposure to fluctuations in interest rates, foreign currency exchange rates and natural gas prices. These financial instruments are with major investment firms and expose Enova to market and credit risks. At times, these risks may be concentrated with certain counterparties, although counterparty non-performance is not anticipated. Enova does not use derivatives for speculative purposes.

SDG&E periodically enters into interest-rate swap and cap agreements to moderate its exposure to interest-rate changes and to lower its overall cost of

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

SDG&E's pension fund periodically uses foreign-currency forward contracts to reduce its exposure to exchange-rate fluctuations associated with certain investments in foreign equity securities. These contracts generally have maturities ranging from three to six months. At December 31, 1996, there were no forward contracts.

In October 1996, the Enova Energy and SDG&E boards of directors approved the companies' use of energy derivatives in price-risk management activities for both hedging and trading purposes within certain limitations imposed by company policies. The Enova Corporation board has approved the execution of guarantees by Enova in support of these activities. In November 1996, SDG&E commenced price-risk management activities, on a limited basis, in the area of hedging price volatility of natural gas purchases.

Additional information on derivative financial instruments is provided in Note 8 of the notes to consolidated financial statements.

Electric Industry Restructuring

Background In September 1996, the state of California enacted a law restructuring California's electric utility industry (AB 1890). The legislation adopts the December 1995 CPUC policy decision restructuring the industry to stimulate competition and reduce rates. The new law supersedes the CPUC policy decision when in conflict.

Beginning in January 1998, customers will be able to buy their electricity through a Power Exchange. The Power Exchange will obtain power from Qualifying Facilities, nuclear units, "must-run" facilities (those needed to provide reactive power, voltage support and transmission stability) and, lastly, from the lowest-bidding suppliers. The Power Exchange will serve as a wholesale power pool, allowing all energy producers to participate competitively. An Independent System Operator (ISO) will schedule power transactions and access to the transmission system. Consumers also may choose either to continue to purchase from their local utility under regulated tariffs or to enter into private contracts with generators, brokers or others. The local utility will continue to provide distribution services regardless of which source the consumer chooses. These customer choices will, in effect, open up the service territories of all California utilities. This will allow Enova to pursue customers outside of SDG&E's traditional service territory to provide competitive generation and other energy-related services. This will also allow energy producers, brokers and others to enter SDG&E's service territory to compete for generation customers.

In addition, both the CPUC decision and the California legislation provide that, within certain limits, utilities will be allowed to recover their stranded costs incurred for certain above-market CPUC-approved facilities, contracts and obligations through the establishment of a nonbypassable competition transition charge (CTC). The CPUC's vision is that traditional cost-of-service regulation will move toward performance-based regulation.

Transition Costs Utilities will be allowed a reasonable opportunity to recover their stranded costs through December 31, 2001. Stranded costs such as reasonable employee-related costs directly caused by restructuring and purchased-power contracts (including those with qualifying facilities) may be recovered beyond the 1998-2001 time period. Nuclear decommissioning costs are nonbypassable until fully recovered, although not included as part of transition costs. These decommissioning costs are expected to be recovered through 2013, the estimated last year of service for SONGS, but recovery may be accelerated to the extent possible.

SDG&E's transition cost application, filed in October 1996, identifies \$2 billion of stranded costs, including generation, purchased power and qualifying facilities' contracts, and regulatory assets. These identified transition costs are subject to CPUC audit and approval. The amounts include sunk costs, as well as ongoing costs the CPUC finds reasonable and necessary to maintain generation facilities through December 31, 2001.

For purposes of transition cost recovery, overcollections of \$98 million recorded in the Energy Cost Adjustment Clause and Electric Revenue Adjustment Mechanism balancing accounts as of December 31, 1996, will be applied to recovery of transition costs once those costs are approved by the CPUC. Outside of those exceptions discussed above, stranded costs not recovered by December 31, 2001, will not be collected from customers. Such costs, if any, would be

written off as a charge against earnings. AB 1890 clarifies that all existing and future consumers must pay CTC, except for a segment of self-generators and irrigation districts. SDG&E has very few, if any, of these types of customers and does not anticipate a material impact from the exemption.

Rate-Reduction Bonds The California legislation provides for a 10-percent reduction of residential and small commercial customers' rates beginning in January 1998. The utilities intend to finance the rate reduction with the proceeds of rate-reduction bonds issued by an agency of the state of California. SDG&E estimates that it will need \$500 million of bond proceeds to finance a decrease in rate base sufficient to result in the desired rate reduction. These bonds will be repaid over 10 years by SDG&E's residential and small commercial customers via a charge on their electric bills. SDG&E and the two other major investor-owned utilities in California are in discussions with the Securities and Exchange Commission concerning the accounting for the receipt. For financial reporting purposes, there will be no gain or loss from the issuance of the bonds or the receipt of the proceeds. SDG&E has not yet determined the details of how the proceeds will be used and, therefore, is unable to project the impact on liquidity or on results of operations from utilization of the proceeds.

Rates The California legislation includes a rate freeze for all customers. Until the earlier of March 31, 2002, or when transition cost recovery is complete, SDG&E's system average rate will be frozen at June 10, 1996 levels (9.64 cents per kwh), except for the impact of natural gas price changes and the 10-percent rate reduction. If gas prices change significantly, SDG&E is permitted to seek CPUC authority to increase or decrease rates, but rates cannot be increased above 9.985 cents per kwh.

Late-1996 natural gas prices were more than double early-1996 prices due to weather-related factors, storage levels, etc., resulting in electric rate increases in January and February 1997. The rate changes have increased SDG&E's system average rate from 9.64 cents per kwh to the 9.985 cents-per-kwh rate cap.

Recovery of the transition costs is limited by the rate cap during the 1997 to 2001 transition period. If expenses during a period exceed revenues authorized under the rate cap, SDG&E will be unable to recover transition costs during that period. SDG&E will be able to recover transition costs, including those deferred from earlier periods, in periods in which its other expenses are under the cap. Transition costs not recovered during the transition period, if any, will be written off after December 31, 2001. In addition, recovery of incentive-program rewards such as Performance-Based Ratemaking and demand-side management is also limited by reward amounts included in current rates, and the possibility exists that these rewards may not be recoverable until after 2001, if at all.

Balancing Accounts SDG&E has proposed the elimination of 18 electric balancing accounts, including ERAM and ECAC, and the retention of the catastrophic event and hazardous waste memorandum accounts. The CPUC is currently evaluating the issue.

Elimination of ERAM and ECAC will result in earnings volatility beginning with the first quarter of 1997. Although no significant effect is expected for any full year, quarterly earnings will fluctuate significantly, as is already the case for many electric utilities. The largest impacts will be reduced first-quarter earnings and increased third-quarter earnings.

Regulatory Accounting Standards SDG&E accounts for the economic effects of regulation in accordance with Statement of Financial Accounting Standards No. 71, "Accounting for the Effects of Certain Types of Regulation," under which a regulated entity may record a regulatory asset if it is probable that, through the ratemaking process, the utility will recover that asset from customers. Regulatory liabilities represent future reductions in revenues for amounts due to customers.

The SEC has indicated a concern that the California investor-owned utilities may not meet the criteria of SFAS No. 71 with respect to their electric-generation net regulatory assets. While discussions are ongoing with the SEC, if a decision is ultimately made that would result in the discontinuation of the application of SFAS No. 71 for electric-generation operations, the impact of a writeoff of SDG&E's generation-related net regulatory assets would not be material to SDG&E's financial condition, results of operations or liquidity.

Performance-Based Ratemaking The CPUC has affirmed its belief that the new competitive environment should be based on policies that encourage efficient operation and improved productivity rather than on reasonableness reviews and disallowances. On an experimental basis, SDG&E is participating in a PBR process for base rates, gas procurement, and electric generation and dispatch, beginning in 1993. SDG&E has applied to extend the gas procurement mechanism. The genera-

tion and dispatch mechanism is in the process of being terminated, possibly to be replaced by a new generation mechanism with diminished scope. In addition, SDG&E plans to file a proposal for a new distribution PBR mechanism, which has been delayed pending further CPUC guidance. Discussions are ongoing.

Rates for generation services that the ISO determines will be required to provide reliable service may remain cost-of-service based. These services may be provided under a contract with the ISO, which will be terminable when the ISO determines it no longer requires them. Regardless of whether these services are provided to the ISO under a traditional cost-of-service or PBR-based contract, SDG&E expects to recover its costs of production and the cost of having its generating units available.

Federal Restructuring Activities In April 1996, the Federal Energy Regulatory Commission issued a final rule that will require all utilities to offer wholesale "open-access" transmission service on a nondiscriminatory basis and to share information about available transmission capacity.

In November 1996, the FERC approved a proposal by the three California investor-owned utilities to create a Power Exchange and Independent System Operator to run California's electric transmission facilities. The FERC, which has jurisdiction over the exchange, the ISO and interstate transmission, accepted the proposal to separate the ISO from the Power Exchange and to charge access fees to recover transmission costs and congestion fees to encourage efficient use of the system.

Several bills on electric industry restructuring were filed in 1996 at the federal level. One bill would make states establish rules to let all residences, businesses and industries choose their own power suppliers by December 15, 2000, or force states to give way to the FERC to open the local market to competition after 2000. Another bill calls for full customer choice by January 1, 1998. This measure provides that if retail choice is not a reality by that date, the FERC will set rates until competition takes effect. A third bill, introduced on the last day of the 1996 Congressional session and, therefore, too late for hearings or debate, would, if reintroduced and enacted as written, supersede state regulations and legislations, and prevent utility customers from being charged for stranded investments of the utilities. The other bills and similar bills introduced in 1997 would mandate recovery of stranded costs or leave the recovery to the discretion of each state.

Natural Gas

The ongoing restructuring of the natural gas utility industry has allowed customers to bypass utilities as suppliers and, to a lesser extent, as transporters of natural gas. Currently, non-utility electricity producers and other large customers may use a natural gas utility's facilities to transport gas purchased from non-utility suppliers. Also, smaller customers may form groups to buy natural gas from another supplier.

Cost of Capital

In November 1996, the CPUC adopted the agreement between SDG&E and the CPUC's Office of Ratepayer Advocates setting SDG&E's authorized rate of return, return on equity and capital structure. SDG&E's 1997 return on equity will remain at 11.60 percent and the overall rate of return will change from 9.37 percent to 9.35 percent. This establishes the basis for SDG&E's new cost of capital mechanism, the Market Indexed Capital Adjustment Mechanism (MICAM), effective January 1, 1998, which will automatically reset SDG&E's return annually based on changes in market interest rates. SDG&E's authorized capital structure remains 49.75 percent common equity, 44.5 percent long-term debt and 5.75 percent preferred stock.

During the industry-restructuring transition period, MICAM will apply to distribution rate base and the generation rate base not being recovered in CTC. After the transition period, MICAM will apply to distribution rate base only. Transmission will be regulated by the FERC.

Resource Planning

Sources of Fuel and Energy SDG&E's primary sources of fuel and purchased power include natural gas from Canada and the Southwest, surplus power from other utilities in the Southwest and the Northwest, and uranium from Canada. Although short-term natural gas supplies are volatile due to weather and other conditions, these sources should provide SDG&E with an adequate supply of low-cost natural gas. SDG&E is currently involved in litigation concerning its long-term contracts for natural gas with certain Canadian suppliers. SDG&E has long-term pipeline capacity commitments related to its contracts for Canadian natural gas supplies. If the supply of Canadian natural gas to SDG&E is not resumed, SDG&E intends to use the capacity in other ways. SDG&E cannot predict the outcome of the litigation, but does not expect that an unfavorable outcome would have a material effect on its financial condition, results of operations or liquidity.

San Onofre Nuclear Generating Station In January 1996, the CPUC approved the accelerated recovery of the existing capital costs of Units 2 and 3. The decision allowed SDG&E to recover its remaining investment in the units at a lower rate of return over an 8-year period beginning in 1996, rather than over the life of the units' license, which extends to 2013. The accelerated recovery began in April 1996. At December 31, 1996, approximately \$670 million was unrecovered. California electric-industry-restructuring legislation requires that all generation-related stranded assets, which includes Units 2 and 3, be recovered by 2001. The January decision also includes a performance incentive plan that encourages continued, efficient operation of the plant. Through December 31, 2003, customers will pay about \$0.04 per kilowatt-hour. This pricing structure replaces the traditional method of recovering the units' operating expenses and capital improvements. This is intended to make the units more competitive with other sources.

Cracked and dented tubes were found during the latest refueling of Unit 2. This delayed the restart of the unit and added to the cost of the refueling. The problems and the resultant need to plug a small percentage of the unit's tubes will permanently reduce the unit's output and pose the possibility that the reactor may be taken out of service prior to 2013.

Environmental Matters

SDG&E's operations are conducted in accordance with federal, state and local environmental laws and regulations governing hazardous wastes, air and water quality, land use and solid-waste disposal. SDG&E incurs significant costs to operate its facilities in compliance with these laws and regulations, and to clean up the environment as a result of prior operations of SDG&E or of others.

The costs of compliance with environmental laws and regulations are normally recovered in customer rates. However, restructuring of the California electric-utility industry (see above) will change the way utility rates are set and costs are recovered. SDG&E has proposed the retention of the hazardous waste memorandum account, which is intended to encompass cleanup costs, including those related to generation activities, as described below. Capital costs related to environmental regulatory compliance are intended to be included in transition costs for recovery through 2001. However, depending on the final outcome of industry restructuring and the impact of competition, the costs of compliance with future environmental regulations may not be fully recoverable.

Capital expenditures to comply with environmental laws and regulations were \$6 million in 1996, \$4 million in 1995 and \$5 million in 1994, and are expected to aggregate \$34 million over the next 5 years. These expenditures primarily include the estimated cost of retrofitting SDG&E's power plants to reduce air emissions. They do not include potential expenditures to comply with water-discharge requirements for the Encina, South Bay and SONGS power plants, which are discussed below.

Hazardous Wastes In 1994, the CPUC approved the Hazardous Waste Collaborative which allows utilities to recover cleanup costs of hazardous waste contamination at sites where the utility may have responsibility or liability under the law to conduct or participate in any required cleanup. In general, utilities are allowed to recover 90 percent of their cleanup costs and any related costs of litigation with responsible parties.

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

During the early 1900s, SDG&E and its predecessors manufactured gas from coal and oil at its Station A facility and at two other, small facilities in Escondido and Oceanside. Certain amounts of residual by-products from the gas-manufacturing process and subsurface hydrocarbon contamination were discovered on portions of the Station A site during an environmental assessment, which was completed in 1996. The estimate for cleanup of the on-site contamination is in the \$3 million to \$6 million range. SDG&E may be required to assess whether or not such contamination extends to off-site locations. Not included in this estimate are costs related to a shallow underground tank-like structure found under a public street immediately west of Station A. A risk assessment has been completed for Station A and SDG&E is completing negotiations for an appropriate site-remediation work plan with the County of San Diego's Department of Health.

The Escondido facility was remediated during 1990 through 1993 at a cost of \$3 million and a site-closure letter from the Department of Health has been received. However, contaminants similar to those on the Escondido site have been observed on adjacent property. SDG&E plans to assess the nature of and whether it has any liability for these adjacent contaminants. Finally, potential

contaminants resulting from the gas-manufacturing process by-products will be assessed at the Oceanside facility, as well as on adjacent property. Sufficient information is not currently available to estimate the extent of remediation necessary or the amount of cleanup costs for the property adjacent to the Escondido and Oceanside facilities or at the Oceanside facility itself.

Asbestos was used in the construction of SDG&E's Station B power plant, which closed in 1993. Renovation, reconditioning or demolition of the facility will require the removal of the asbestos in a manner complying with all applicable environmental, health and safety laws. Additionally, reuse of the facility may require the removal or cleanup of PCBs, paints containing heavy metals, fuel oil or other substances. SDG&E has assessed the extent of any possible contamination by these or other hazardous materials at the facility. The estimated cost of this removal effort is estimated to be between \$4 million and \$5 million.

Electric and Magnetic Fields (EMF) In recent property-damage litigation, the California Supreme Court agreed with SDG&E and unanimously affirmed the 1995 California Court of Appeal decision that the CPUC has exclusive jurisdiction over EMF health and safety issues. The California Supreme Court also stated that scientific evidence is insufficient to conclude that EMFs pose a health hazard. Although scientists continue to research the possibility that exposure to EMFs causes adverse health effects, to date, science has demonstrated no cause-and-effect relationship between adverse health effects and exposure to the type of EMFs emitted by utilities' power lines and other electrical facilities. Some laboratory studies suggest that such exposure creates biological effects, but those effects have not been shown to be harmful. The studies that have most concerned the public are certain epidemiological studies, some of which have reported a weak correlation between childhood leukemia and the proximity of homes to certain power lines and equipment. 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 EMF levels and disease, while others do not.

To respond to public concerns, the CPUC has directed California utilities to adopt a low-cost EMF-reduction policy that requires reasonable design changes to achieve noticeable reduction of EMF levels that are anticipated from new projects. However, consistent with the major scientific reviews of the available research literature, the CPUC has indicated that no health risk has been identified.

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

During 1996, SDG&E installed equipment on South Bay Unit 1 in order to comply with the first tier of nitrogen-oxide emission limits that the APCD imposed on electric generating boilers through its Rule 69. Under this rule, SDG&E must maintain the total nitrogen-oxide emissions from its entire system below a prescribed emissions cap which decreases periodically through 2005. The estimated capital costs for compliance with the rule are \$60 million. The California Air Resources Board has expressed concern that Rule 69 does not meet the requirements of the California Clean Air Act and may impose more restrictive emissions limitations, causing SDG&E's Rule 69 compliance costs to increase.

Under a South Coast Air Quality Management District program called RECLAIM, SDG&E is required to reduce its nitrogen-oxide emission levels of the natural gas compressor engines at its Moreno facility by 10 percent a year through 2003. This will be accomplished through the installation of new emission-monitoring equipment, operational changes to take advantage of low-emission engines and engine retrofits. The cost of complying with RECLAIM may be as much as \$3 million.

Water Quality Wastewater discharge permits issued by the Regional Water Quality Control Board (RWQCB) for SDG&E's Encina and South Bay power plants are required to enable SDG&E to discharge its cooling water and certain other wastewaters into the Pacific Ocean and into San Diego Bay. The continued cooling and wastewater discharges and, therefore, the necessary permits are prerequisites to the continued operation of the power plants as they are currently configured. Increasingly stringent cooling-water and waste-water discharge limitations may be imposed in the future and SDG&E may be required to build additional facilities or modify existing facilities to comply with these requirements. Such facilities could include waste-water treatment facilities, cooling towers or offshore-discharge pipelines. However, any required construction could involve substantial expenditures, and certain plants or units may be unavailable for electric generation during construction.

In 1981, SDG&E submitted a demonstration study in support of its request for two exceptions to certain thermal discharge requirements imposed by the

California Thermal Plan for the Encina power plant. In November 1994, the RWQCB issued a new permit, subject to the results of certain additional thermal studies to be used in considering SDG&E's exception requests. The results of these additional studies will be completed in 1997. If SDG&E's exception requests are denied, SDG&E could be required to construct off-shore discharge facilities at a cost of \$75 million to \$100 million or to perform mitigation.

During 1997, in conjunction with its permit requirements to treat wastewater at its Encina and South Bay power plants, SDG&E will be evaluating whether any remediation activities may be required at the power plants. In addition, SDG&E will be determining whether remediation is required at its Silvergate plant, which was shut down in 1984. Sufficient information is not currently available to estimate the costs of any necessary remediation.

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

Wood-Pole Preservatives Mateel Environmental Justice Foundation agreed to the dismissal, without prejudice, of its complaint against Pacific Bell, Pacific Gas & Electric and two wood-pole manufacturers in April 1996. The complaint alleged that utility-pole owners and manufacturers failed to comply with Proposition 65 requirements to warn the public that the poles are treated with hazardous chemicals known to the state to cause cancer or reproductive harm. SDG&E was not a party to the litigation, but had received a copy of the notice served by Mateel stating its intent to bring suit against responsible parties using such poles and chemicals.

Information Regarding Forward-Looking Statements

This Annual Report to Shareholders includes forward-looking statements within the definition of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. When used in this "Management's Discussion and Analysis of Financial Condition and Results of Operations," the words "estimates," "expects," "anticipates," "plans," and "intends," variations of such words, and similar expressions are intended to identify forward-looking statements that involve risks and uncertainties.

Although the Registrants believe that their expectations are based on reasonable assumptions, they can give no assurance that those expectations will be realized. Important factors that could cause actual results to differ materially from those in the forward-looking statements herein include political developments affecting state and federal regulatory agencies, the pace of electric industry deregulation in California and in the United States, the existence of or ability to create a market for rate-reduction bonds, the ability to effect a coordinated and orderly implementation of both state legislation and the CPUC's restructuring regulations, the consummation and timing of the combination of Enova and Pacific Enterprises, international political developments, environmental regulations, and the timing and extent of changes in interest rates and prices for natural gas and electricity.