SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549
FORM 10-K

(Mark One)
[X] Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the fiscal year ended December 31, 1994

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

Commission File Number 1-3779

SAN DIEGO GAS & ELECTRIC COMPANY
(Exact name of registrant as specified in its charter)
CALIFORNIA
(State or other jurisdiction of incorporation or organization)
95-1184800
(I.R.S. Employer Identification No.)
101 ASH STREET, SAN DIEGO, CALIFORNIA
(Address of principal executive offices)
92101
(Zip code)
(619) 696-2000
(Registrant's telephone number, including area code)

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

Title of each class	Name of each exchange on which registered
Preference Stock (Cumulative) Without Par Value (except $1.70 and $1.7625 Series)	American and Pacific
Cumulative Preferred Stock, $20 Par Value (except 4.60% Series)	American and Pacific
Common Stock, Without Par Value	New York and Pacific

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:
None

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

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

Exhibit Index on page 31, Glossary on page 39.

Aggregate market value of the voting stock held by non-affiliates of the registrant as of January 31, 1995:

Common Stock	$2.4 Billion
Preferred Stock	$15 Million

As of January 31, 1995, there were 116,532,416 shares of common stock, without par value, outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the 1994 Annual Report to Shareholders are incorporated by reference into Parts I, II, and IV.

Portions of the March 1995 Proxy Statement prepared for the April 1995 annual meeting of shareholders are incorporated by reference into Part III.

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PART I

Item 1. Business

Description of Business

San Diego Gas & Electric Company is an operating public utility organized and existing under the laws of the State of California. SDG&E is engaged principallyin the electric and natural gas business. It generates and purchases electricenergy and distributes it to 1.1 million customers in San Diego County and a portion of Orange County, California. It also purchases and distributes natural gas to 696,000 customers in San Diego County. In addition, it transports electricity and natural gas for others. Factors affecting SDG&E's utility operations include regulation, deregulation, competition, nonutility generation, customers' bypass of its electric and gas system, population growth, changes in interest and inflation rates, and environmental and other laws.

SDG&E's diversified interests include four subsidiaries: Enova Corporation, which invests in affordable-housing projects; Enova Energy Management, which provides energy management consulting services to utilities and large consumers; Califia Company, which conducts leasing activities; and Pacific Diversified Capital Company, which is a holding company for SDG&E's other subsidiaries. PDC owns an 80-percent share in Wahlco Environmental Systems, a supplier of air pollution control and energy-saving products and services for utilities and other industries. PDC's other subsidiary, Phase One Development, is a commercial real estate developer.

SDG&E is seeking approval to form a holding company. Under the proposed structure, SDG&E would become a subsidiary of the parent company, as would SDG&E's existing subsidiaries. SDG&E believes that it must change its corporate structure to respond to changes in the California utility industry and the movement toward a more competitive marketplace.

Additional information concerning SDG&E's subsidiaries and the formation of a holding company is described in "Management's Discussion and Analysis of Financial Condition and Results of Operations" beginning on page 18 in the 1994 Annual Report to Shareholders and in Notes 1 through 3 of the "Notes to Consolidated Financial Statements" beginning on page 32 of the 1994 Annual Report to Shareholders.

Government Regulation

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

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

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

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

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

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

Other regulatory matters are described throughout this report.

Competition

This topic is discussed in "Electric Operations" and "Rate Regulation" herein and in "Management's Discussion and Analysis of Financial Condition and Results of Operations" beginning on page 18 of the 1994 Annual Report to Shareholders and in Note 11 of the "Notes to Consolidated Financial Statements" on page 38 of the 1994 Annual Report to Shareholders.

Sources of Revenue

(In Millions of Dollars)	1994	1993	1992
Utility revenue by type of customer:			
Electric-			
Residential	$ 612	$ 615	$ 601
Commercial	600	572	543
Industrial	231	250	245
Other	67	77	58
Total Electric	1,510	1,514	1,447
Gas-			
Residential	204	195	181
Commercial	65	63	61
Industrial	31	40	54
Other	46	49	41
Total Gas	346	347	337
Total Utility	1,856	1,861	1,784
Diversified Operations	126	119	87
Total	$1,982	$1,980	$1,871

Industry segment information is contained in "Statements of Consolidated Financial Information by Segments of Business" on page 31 of the 1994 Annual Report to Shareholders.

Construction Expenditures

Construction expenditures, excluding nuclear fuel and the allowance for equity funds used during construction, were $264 million in 1994 and are estimated to be about $240 million annually over the next 5 years.

Electric Operations

Introduction

In April 1994 the CPUC announced its proposal to restructure California's regulated electric utility industry to stimulate competition and to lower rates. The proposed regulatory framework would be phased in by 2002, allowingutility customers to purchase their energy from either utility or nonutility suppliers. The outcome of this and other ongoing proceedings is expected to have a significant impact on SDG&E's operations. These matters are discussed in Note 11 of the "Notes to Consolidated Financial Statements" on page 38 of the 1994 Annual Report to Shareholders and in "Management's Discussion & Analysis of Financial Condition and Results of Operations" beginning on page 18 of the 1994 Annual Report to Shareholders.

Resource Planning

SDG&E's ability to provide energy at the lowest possible cost has been based on a combination of production from its own plants and purchases from other producers. The purchases have been a combination of short-term and long-term contracts and spot purchases. All resource acquisitions are obtained through a competitive bidding process. The CPUC's recent decisions on the Biennial Resource Plan Update proceedings required SDG&E to allow qualified nonutility power producers that cogenerate or use renewable energy technologies to bid for a portion of SDG&E's future capacity needs. As a result of the decisions SDG&E would be required to enter into contracts (ranging in term from 17 to 30 years) to purchase 500 mw of power, including 341 mw from cogenerators, 94 mw from geothermal sources, and the remainder from wind and other sources. On January 17, 1995 SDG&E filed a petition with the FERC, contending that the CPUC's BRPU orders and auction rules do not comply with the Public Utility Regulatory Policies Act and that the FERC should require the CPUC to comply with PURPA. On February 22, 1995 the FERC ruled unanimously that the CPUC violated PURPA because, among other things the CPUC excluded other potential suppliers from the bidding process, which would result in the utilities paying more to the winning bidders than they would pay if the utilities purchased the same quantities of power elsewhere. The FERC acknowledged the CPUC's right, for environmental reasons, to favor particular resources over others so long as the state does not set prices above the purchasing utility's avoided cost. The FERC held that the BRPU auction procedures were unlawful and that SDG&E and Edison cannot lawfully be compelled to enter into contracts resulting from the current BRPU auction until the CPUC corrects the auction procedures.

In 1994 SDG&E also negotiated contracts for 745 mw of short-term purchased-power. The CPUC has also ordered utilities in the state to implement pilot demonstration projects to allow others to bid to supply utilities' customers with energy-conservation services that could reduce the need for generation capacity.

Additional information concerning resource planning and industry restructuring is discussed in Note 11 of the "Notes to Consolidated Financial Statements" on page 38 of the Annual Report to Shareholders and in "Management's Discussion & Analysis of Financial Condition and Results of Operations" beginning on page 18 of the 1994 Annual Report to Shareholders.

Electric Resources

Based on generating plants in service and purchased-power contracts in place as of January 31, 1995, 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	1,611
Nuclear generating plants*	214
Combustion turbines	332
Long-term contracts with other utilities	675
Short-term contracts with other utilities	666
Contracts with others	470
Total	3,968

*Excludes San Onofre Nuclear Generating Station Unit 3 (216 mw) which is scheduled for refueling from July through August 1995.

SDG&E's record system peak demand of 3,294 mw occurred on August 12, 1994 when the net system capability, including power purchases, was 3,767 mw.

Gas/Oil Generating Plants: SDG&E's South Bay and Encina power plants are equipped to burn either natural gas or fuel oil. The four South Bay units went into operation between 1960 and 1971 and can generate 690 mw. The five Encina units began operation between 1954 and 1978 and can generate 921 mw. SDG&E sold and leased back Encina Unit 5 (315 mw) in 1978. The lease term is through 2004, with renewal options for up to 15 additional years.

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

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

Additional information concerning SDG&E's power plants is described under "Environmental Matters" and "Electric Properties" herein and in "Management's Discussion and Analysis of Financial Condition and Results of Operations" beginning on page 18 of the 1994 Annual Report to Shareholders.

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

In November 1992 the CPUC issued a decision to permanently shut down SONGS 1. 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 1992 and 1994, SDG&E spent $79 million on capital modifications and additions for all three units and expects to spend $29 million in 1995 on SONGS 2 and 3. SDG&E deposits funds in an external trust to provide for the future dismantling and decontamination of the units. The shutdown of SONGS 1 does not affect

contributions to the trust. For additional information, see Note 6 of the "Notes to Consolidated Financial Statements" on page 34 of the 1994 Annual Report to Shareholders.

In 1983 the CPUC adopted performance-based incentive plans for SONGS that set a Target Capacity Factor range of 55 to 80 percent for SONGS 2 and 3. Energy costs or savings outside that range are shared equally by SDG&E and its customers. Since the TCF was adopted, these units have operated above 55 percent for each of their fuel cycles. In addition to always attaining the minimum TCF, SONGS 2 and 3 have exceeded the range a total of five times in the twelve completed cycles. However, there can be no assurance that they will continue to achieve a 55 percent capacity factor. SONGS Unit 2 was shut down on February 11, 1995 to begin its scheduled 55-day refueling after operating continuously for 552 days. If the refueling is completed on schedule, SONGS 2 would be eligible for a Target Capacity Factor incentive reward.

On November 15, 1994 SDG&E, Edison and the CPUC's Division of Ratepayer Advocates signed a settlement agreement on the accelerated recovery of SONGS Units 2 and 3 capital costs. The agreement would allow SDG&E to recover more than $750 million over an eight-year period beginning in February 1996, rather than over the anticipated operational life of the units, which is expected to extend to 2013. During the eight-year period, the authorized rate of return would be reduced from 9.76 percent to 7.52 percent (SDG&E's 1995 authorized cost of debt). The agreement also includes an incentive plan that would encourage continued, efficient operation of the plant. However continued operation of SONGS beyond the eight-year period would be at the owners' discretion. Under the plan, customers would pay about four cents per kilowatt-hour during the eight-year period. This pricing plan would replace the traditional method of recovering the units' operating expenses and capital improvements. This is intended to make the plants more competitive with other sources. SDG&E is unable to predict the impact of this proposal, if approved, on the results of its operations. However, it is expected to be considered in conjunction with the CPUC's industry restructuring proposal. A CPUC decision is expected in the first half of 1995.

Additional information concerning the SONGS units and the CPUC's industry restructuring proposal is presented under "Environmental Matters" and "Legal Proceedings" herein, in "Management's Discussion & Analysis of Financial Condition and Results of Operations" beginning on page 18 of the 1994 Annual Report to Shareholders, and in Notes 10 and 11 of the "Notes to Consolidated Financial Statements" beginning on page 36 of the 1994 Annual Report to Shareholders.

Purchased Power: The following table lists contracts with other utilities and others:

Supplier	Period	Megawatt Commitment	Source
Long-Term Contracts with Other Utilities:			
Bonneville Power Administration	May Through September (1995 and 1996)	300	Hydro Power
Comision Federal de Electricidad (Mexico)	Through August 1996	150	Geothermal
Portland General Electric Company	Through December 1998 Through December 2013	50 75	Hydro storage Coal
Public Service Company of New Mexico	Through April 2001	100	System supply
Short-Term Contracts with Other Utilities:			
Imperial Irrigation District	Through March 1995	200	System Supply
PacifiCorp	Through December 1995	200	System Supply
Rocky Mountain Generation Cooperative	Through December 1995	66	Coal
Salt River Project	Through December 1995	200	System Supply
Contracts with Others:			
Cities of Azusa, Banning and Colton	Through December 1995	40	Coal
Enron Power Marketing, Inc.	Through March 1995 and June through September 1995	50	System Supply
Goal Line Limited Partnership	Through December 2024	50	Cogeneration
Louis Dreyfus Electric Power, Inc.	June through September 1995	150	System Supply
Sithe Energies USA, Inc.	Through December 2019	102	Cogeneration
Yuma Cogeneration Associates	Through June 2024	50	Cogeneration
Other	Various	28	Various

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

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

The locations of the suppliers which have long-term contracts with SDG&E and the primary transmission lines (and their capacities) used by SDG&E are shown on the following map of the Western United States. The transmission capacity shown for the Pacific Intertie does not reflect the effects of the fire at the DC terminal at Sylmar discussed under "Transmission Arrangements - Pacific Intertie" herein. Where applicable, interconnection to the primary lines is provided by contract.

[MAP]

Long-Term Contracts with Other Utilities

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

Comision Federal de Electricidad: In 1986 SDG&E began the 10-year term of a purchase agreement under which SDG&E purchases firm energy and capacity of 150 mw from CFE. The agreement will terminate on September 1, 1996.

Portland General Electric Company: In 1985 SDG&E and PGE entered into an agreement for the purchase of 75 mw of capacity from PGE's Boardman Coal Plant from January 1989 through December 2013. SDG&E pays a monthly capacity charge plus a charge based upon the amount of energy received. In addition, SDG&E has 50 mw of available 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

Imperial Irrigation District: In April 1994 SDG&E and IID entered into agreements for the purchase of up to 200 mw of firm energy from July 1994 through March 1995. The energy charge is based on the amount of energy received.

PacifiCorp: In October 1994 SDG&E entered into an agreement with PacifiCorp for the purchase of 200 mw of capacity through 1995. SDG&E pays a capacity charge plus a charge based on the amount of energy received.

Rocky Mountain Generation Cooperative: In November 1994 SDG&E and RMGC entered into an agreement for the purchase of 66 mw of capacity through December 1995. SDG&E pays a capacity charge plus a charge based on the amount of energy received.

Salt River Project: In November 1994 SDG&E and SRP entered into an agreement for the purchase of 200 mw of capacity through December 1995. SDG&E pays a capacity charge plus a charge based on the amount of energy received.

Contracts with Others

Cities of Azusa, Banning and Colton: In 1993 SDG&E and the cities entered into an agreement for the purchase of 40 mw of capacity from January 1995 through December 1995. SDG&E pays a capacity charge plus a charge based on the amount of energy received.

Enron Power Marketing, Inc.: In April 1994 SDG&E and Enron entered into an agreement for the purchase of 50 mw of firm energy from July 1994 through March 1995. In November 1994 SDG&E and Enron entered into an agreement for the purchase of 50 mw of firm energy from June through September 1995. The energy charge is based on the amount of energy received.

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

Louis Dreyfus Electric Power, Inc.: In November 1994 SDG&E and Dreyfus entered into an agreement for the purchase of 150 mw of firm energy from June through September 1995. The energy charge is based on the amount of energy received.

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

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

Other: SDG&E currently purchases capacity and energy from 115 as-available Qualifying Facilities. SDG&E also has four 20-year agreements with Pacific Energy and Landfill Generating Partners for the purchase of 5 mw of firm capacity through the years 2006-2011. SDG&E pays a capacity charge plus a charge based on the amount of energy received. These account for approximately 28 mw of capacity annually.

Additional information concerning SDG&E's purchased-power contracts is described in "Legal Proceedings" herein and in "Management's Discussion & Analysis of Financial Condition and Results of Operations" beginning on page 18 of the 1994 Annual Report to Shareholders, and in Notes 10 and 11 of the "Notes to Consolidated Financial Statements" beginning on page 36 of the 1994 Annual Report to Shareholders.

Power Pools

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

SDG&E is a participant in the Western Systems Power Pool, which involves an electric power and transmission rate agreement with utilities and power agencies located from British Columbia through the western states and as far east as the Mississippi River. The 64 investor-owned and municipal utilities, state and federal power agencies, energy brokers and power marketers share power and information in order to increase efficiency and competition in the bulk power market. Participants are able to target and coordinate delivery of cost-effective sources of power from outside their service territories through a centralized exchange of information.

Transmission Arrangements

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

Pacific Intertie: The Pacific Intertie enables SDG&E to purchase and receive surplus coal and hydroelectric power from the Northwest. SDG&E, PG&E, and Edison share transmission capacity on the Pacific Intertie under an agreement that expires in July 2007. SDG&E's share of the intertie is 466 mw through 1996 and 266 mw through July 2007. In October 1994 a major fire at the DC terminal at Sylmar reduced SDG&E's rights on the DC line by 100 mw. Repairs are not expected to be completed until October 1995. This is not expected to have a significant impact on SDG&E's transmission capabilities within California.

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

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

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

Transmission Access

As a result of the enactment of the National Energy Policy Act of 1992, the FERC has established rules to implement the Act's transmission access provisions. These rules specify FERC-required procedures for others' requests for transmission service.

Additional information regarding transmission access is described in "Management's Discussion & Analysis of Financial Condition and Results of Operations" beginning on page 18 of the 1994 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 Kwh		
	1994	1993	1992	1994	1993	1992
Natural gas	22.4%	24.4%	27.4%	3.1	3.4	3.1
Nuclear fuel	21.8	17.2	22.3	0.5	0.6	0.8
Fuel oil	1.4	3.7	0.6	2.6	2.5	4.0
Total generation	45.6	45.3	50.3			
Purchased power-net	54.4	54.7	49.7	3.7	3.5	3.8
Total	100.0%	100.0%	100.0%			

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

Electric Fuel Supply

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

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

Mining and milling of uranium concentrate(1)	1995
Conversion of uranium concentrate to uranium hexafluoride(2)	1995
Enrichment of uranium hexafluoride(3)	1998
Fabrication of fuel assemblies	2000
Storage and disposal of spent fuel(4)	-

1 SDG&E's contracted supplier of uranium concentrate is United States Enrichment Corporation. However, the majority is supplied by purchases from the spot market.

2 Competitive bids will be sought in 1995 for a multi-year contract to supply conversion services beginning in 1996.

3 The Department of Energy is committed to offer any required enrichment services through 2014.

4 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 $1 per megawatt-hour of net nuclear generation. Disposal fees average $3 million per year. SDG&E recovers these disposal fees in customer rates.

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

Additional information concerning nuclear fuel costs is discussed in Note 10 of the "Notes to Consolidated Financial Statements" beginning on page 36 of the 1994 Annual Report to Shareholders.

Fuel Oil: SDG&E has no long-term commitments to purchase fuel oil. The use of fuel oil is dependent upon price differences between it and alternative fuels, primarily natural gas. During 1994 SDG&E burned 337,000 barrels of fuel oil. Fuel oil usage in 1995 will depend on its price relative to natural gas and the availability of natural gas and other alternatives. The lowest-priced fuel is used in order to minimize fuel costs for electric generation.

Natural Gas Operations

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

During 1994 SDG&E purchased approximately 95 billion cubic feet of natural gas. The majority of SDG&E's natural gas requirements are met through contracts of less than one year. SDG&E purchases natural gas primarily from various spot-market suppliers and from suppliers under short-term contracts. These supplies originate in New Mexico, Oklahoma and Texas, and are transported to the SoCal Gas Company pipeline at the California border by El Paso Natural Gas Company and by Transwestern Pipeline Company. SDG&E also purchases natural gas under long-term contracts with four Canadian suppliers. This natural gas is transported to SDG&E's system over Alberta Natural Gas, Pacific Gas Transmission, and PG&E pipelines. The contracts have varying terms through 2004.

Additional information concerning SDG&E's gas operations is described under "Legal Proceedings" herein and in "Management's Discussion & Analysis of Financial Condition and Results of Operations" beginning on page 18 of the 1994 Annual Report to Shareholders and Note 10 of the "Notes to Consolidated Financial Statements" beginning on page 36 of the 1994 Annual Report to Shareholders.

Rate Regulation

Introduction
In April 1994 the CPUC announced its proposal to restructure California's regulated electric utility industry to stimulate competition and to lower rates. The proposed regulatory framework would be phased in by 2002, allowing utility customers to purchase their energy from either utility or nonutility suppliers. The utilities would continue to provide transmission and distribution services to customers that chose to purchase their energy from other providers. The CPUC also proposed that the cost of providing these services and the cost of serving remaining utility customers would be recovered through a performance-based ratemaking process. SDG&E is currently participating in a performance-based ratemaking process on an experimental basis which commenced in 1993 and runs through 1998. The CPUC is holding several hearings to consider whether its proposal or some other form of a competitive market should be developed and how the cost of the transition to competition should be shared among utility shareholders and customers. The CPUC has stated that it expects to issue a final decision by May 1995 and require implementation by September 1995. SDG&E cannot predict the impact of the CPUC's final decision. However, it is expected to change significantly the following ratemaking mechanisms that are currently in effect.

Base Rates
Base rates allow SDG&E to recover the cost of operating and maintaining the utility system, taxes, depreciation, and other non-fuel business costs. In addition, SDG&E files an annual application to establish its cost of capital, which reflects the cost of debt and equity.

Cost of Capital
On November 22, 1994 the CPUC issued its decision on the 1995 Cost of Capital proceeding. The Commission authorized higher returns in 1995 for the six California investor-owned utilities to maintain the utilities' financial integrity, compensate investors for the increased costs of doing business, and recognize the increased levels of risk arising from industry restructuring. SDG&E was authorized a return on equity of 12.05 percent for an overall rate of return of 9.76 percent. SDG&E's 1994 authorized return on equity and rate of return were 10.85 percent and 9.03 percent, respectively.

Fuel and Energy Rates

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

Electric Fuel Costs and Sales Volumes

Rates to recover electric fuel and purchased-power costs are determined in the Energy Cost Adjustment Clause proceeding. This proceeding normally takes place annually, in two phases. In the forecast phase, prices are set based on the estimated cost of fuel and purchased power for the following year and are adjusted to reflect any changes from the previous period. These adjustments are made by amortizing any accumulation in the balancing accounts described above. In the second phase, the reasonableness review, the CPUC evaluates the prudence of SDG&E's nuclear and natural gas storage operations. As described under "Performance-Based Ratemaking", reviews of fuel and purchased-power transactions, electric operations and natural gas transactions now are required only if SDG&E's fuel and energy expenses vary significantly from the established benchmarks.

The Electric Revenue Adjustment Mechanism compensates for variations in sales volume compared to the estimates used for setting the non-fuel component of rates. ERAM is designed to stabilize revenues, which may otherwise vary due to changes in sales volumes resulting from weather fluctuations and other factors. Any accumulation in the ERAM balancing account is amortized when new rates are set in the ECAC proceeding.

Natural Gas Costs and Sales Volumes

Rates to recover the cost of purchasing and transporting natural gas to SDG&E are determined in the Biennial Cost Allocation Proceeding. The BCAP proceeding normally occurs every two years and is updated in the interim year for purposes of amortizing any accumulation in the balancing accounts.

Balancing accounts for natural gas costs and sales volumes are similar to those for electric fuel costs and sales volumes. The natural gas balancing accounts include the Purchased Gas Account for natural gas costs and the Gas Fixed Cost Account for sales volumes. Balancing account coverage includes both core customers (primarily residential and commercial customers) and noncore customers (primarily large industrial customers). However, SDG&E receives balancing account coverage on only 75 percent of noncore GFCA overcollections and undercollections.

Performance-Based Ratemaking

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

The CPUC approved the first two mechanisms on a two-year experimental basis beginning August 1, 1993. SDG&E plans to file a request with the CPUC to continue the two mechanisms beyond their July 31, 1995 expiration until the CPUC has evaluated their effectiveness. 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.

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

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

On August 3, 1994 the CPUC approved the Base Rate component of SDG&E's Performance-Based Ratemaking proposal, implementing the base-rate mechanism beginning in 1994 and ending in 1998, thereby replacing the traditional general rate case application. The base-rate mechanism has three segments. The first is a formula similar to the traditional attrition mechanism used to determine SDG&E's annual revenue requirement for operating, maintenance and capital costs. SDG&E's initial revenue requirements were based on SDG&E's 1993 General Rate Case decision. The second is a set of indicators which determine performance standards for customer rates, employee safety, electric system reliability and customer satisfaction. Each indicator specifies a range of possible shareholder benefits and risks. SDG&E could be penalized up to a total of $21 million should it fall significantly below these standards or earn up to $19 million if it exceeds all of the performance targets. The third segment sets limits on SDG&E's rate of return. If SDG&E realizes an actual rate of return that exceeds its authorized rate of return from 1 percent to 1 1/2 percent, it is required to return 25 percent of the excess over 1 percent to customers. If SDG&E's rate of return exceeds the authorized level by more than 1 1/2 percent, SDG&E will also return 50 percent of the excess over 1 1/2 percent to customers. SDG&E will be at risk if its rate of return falls less than 3 percent below the authorized level. However, if SDG&E's rate of return is 3 percent or more below or above the authorized level, a rate case review would automatically occur. SDG&E may request a rate case review if at any time its rate of return drops 1 1/2 percent or more below the authorized level.

On October 31, 1994 SDG&E filed reports with the CPUC on the results of the generation and dispatch and the gas procurement mechanisms for the year ended July 31, 1994. SDG&E's fuel and purchased power expenses fell below the benchmarks for these mechanisms by $35 million. As a result, SDG&E's ECAC application (see above) and its current Biennial Cost Allocation Proceeding application request a shareholder reward of $8 million and that the remainder of these savings be given to customers through lower rates. SDG&E must file a report with the CPUC on the results of the 1994 PBR Base Rates mechanism by May 15, 1995. SDG&E expects to determine the final 1994 PBR base rate reward or penalty in September 1995 when the Edison Electric Institute publishes its final report on 1994 national electric rates.

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 of $54 million from 1993 through 1995. However, the CPUC has also ordered utilities to conduct a test program to determine if unaffiliated suppliers could offer energy conservation services at a lower cost.

Low Emission Vehicle Programs

Since 1991 SDG&E has conducted a CPUC-approved natural gas vehicle program. The program includes building refueling stations, demonstrating new technology, providing incentives and converting portions of SDG&E's fleet vehicles to natural gas. The cost of this program is being recovered in natural gas rates. In 1994 SDG&E and the other investor-owned utilities in California filed applications with the CPUC for funding to implement natural gas vehicle and electric vehicle programs through the year 2000. A CPUC decision is expected in the second quarter of 1995.

Electric Rates
The average price per kilowatt-hour charged to electric customers was 9.7 cents in 1994 and 9.4 cents in 1993.

Natural Gas Rates
The average price per therm of natural gas charged to customers was 59.9 cents in 1994 and 55.1 cents in 1993.

Additional information concerning rate regulation is described in "Management's Discussion and Analysis of Financial Condition and Results of Operations" beginning on page 18 of the 1994 Annual Report to Shareholders.

Environmental Matters
SDG&E's operations are guided by federal, state and local environmental laws and regulations governing air quality, water quality, hazardous substance handling and disposal, land use, and solid waste. Compliance programs to meet these laws and regulations increase the cost of electric and natural gas service by requiring changes or delays in the location, design, construction and operation of new facilities. SDG&E may also incur significant costs to operate its facilities in compliance with these laws and regulations and to clean up the environment as a result of prior operations of SDG&E or others. The costs of compliance with environmental laws and regulations are normally recovered in customer rates.

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

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

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

To respond to public concern and scientific uncertainty, the CPUC created the California Consensus Group in 1991 and assigned this group the responsibility of reaching agreement on interim measures which could be implemented until science provides direction. In November 1993 the CPUC adopted an interim policy regarding EMFs, which implemented the Consensus Group's recommendations. Consistent with the more than twenty major scientific reviews of available research literature, the CPUC concluded that no health risk has been identified with exposure to low-frequency magnetic fields. The November 1993 decision also created two utility-funded programs (a public education program and a research program), which directed utilities to adopt a low-cost EMF-reduction policy for new projects. The low-cost EMF-reduction policy entails design changes to new projects to achieve a noticeable reduction of magnetic-field levels. The CPUC indicated that utilities should use 4 percent of the cost of new or upgraded facilities as a benchmark in developing low-cost measures which produce a noticeable reduction in field levels. In May 1994 SDG&E adopted design guidelines which implement the low-cost measures, subject to safety, reliability, efficiency and other operational criteria.

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

Hazardous Substances
On May 4, 1994 the CPUC issued its decision on the Hazardous Waste Collaborative, approving a mechanism for utilities to recover their hazardous waste costs, including those related to Superfund sites or similar sites requiring cleanup. Basically, the decision allows utilities to recover 90 percent of their cleanup costs and related third-party litigation costs and 70 percent of the related insurance-litigation expenses.

BKK Corporation: SDG&E was one of several hundred companies using the BKK Corporation's West Covina facility, which operated under a permit for the disposal of hazardous waste prior to its 1984 closure. The site is listed for cleanup in the California Superfund Site Priority List under the Hazardous Substance Account Act, which imposes cleanup liability on the sites' owners, operators or users. The California Department of Toxic Substances Control is working with the site owner/operator to determine whether a post-closure permit should be issued for the facility. In addition, the U.S. Environmental Protection Agency is overseeing BKK's assessment of potential releases from the site, including releases into the groundwater, to determine whether any remediation will be required. SDG&E believes the site owner/operator will perform any required assessment and remedial activities. SDG&E is unable to estimate the cost of cleaning up the site or what liability, if any, it may have for such cleanup costs.

North American Environmental: In 1992 the U.S. Environmental Protection Agency named SDG&E as a Potentially Responsible Party (PRP), for the North American Environmental, Inc. site in Clearfield, Utah. The EPA has evaluated the extent of the site's contamination and potential remediation costs. All required cleanup and corrective actions at the site have been completed. Any individual liability among the PRPs has not been determined. The contractor who had transported SDG&E's hazardous wastes to the site has agreed to indemnify SDG&E against liability for remediation, if any, associated with the site. Although SDG&E's ultimate liability, if any, cannot be determined, it is not expected to be material.

Rosens: SDG&E was named as a PRP with respect to the Rosen's Electrical Equipment Supply Company site in Pico Rivera, California. Additional information concerning this site is described in "Management's Discussion & Analysis of Financial Condition and Results of Operations" beginning on page 18 of the 1994 Annual Report to Shareholders.

Waste Water Treatment: SDG&E is authorized to operate the waste-water-treatment facilities at the Encina and South Bay power plants under the California Hazardous Waste Treatment Permit Reform Act of 1992. To comply with the state's regulations, construction of secondary containment for the waste-water-treatment facilities was completed in 1994 at a total cost of $3 million. New waste-water-storage tanks for these facilities were installed in 1991. SDG&E received authorization to operate the new tanks from the California Department of Toxic Substances Control pursuant to a variance from the hazardous-waste-facility permitting requirements. In June 1993 this variance was withdrawn due to a change in the Department's policy. SDG&E and the Department successfully negotiated a agreement that authorizes the continued operation of these storage tanks without the need for a complete hazardous-waste-facility permit. Recently, however, the California legislature adopted a new law which supersedes the agreement and allows the storage tanks to be operated as a part of and subject to the same requirements governing the waste-water-treatment facility.

Underground Storage: California has enacted legislation to protect ground water from contamination by hazardous substances. Underground storage containers require permits, inspections and periodic reports, as well as specific requirements for new tanks, closure of old tanks and monitoring systems for all tanks. SDG&E's capital program to comply with these requirements has cost $3 million to date. It is expected that cleanup of sites previously contaminated by underground tanks will occur for an unknown number of years. SDG&E cannot predict the cost of such cleanup. Additionally, if a facility is reactivated, the removal and replacement of existing tanks may be required. Specific known underground locations requiring assessment and/or remediation are indicated below:

On May 29, 1987 the San Diego Regional Water Quality Control Board issued SDG&E a cleanup and abatement order for gasoline contamination originating from an underground storage tank located

at SDG&E's Mountain Empire operation and maintenance facility. To comply with the order SDG&E has implemented a "pump and treat"

program to remediate the site. Because the source of the area's drinking water is near the contamination, the Environmental Health Services Department and the Regional Board have required SDG&E to further assess the extent of the contamination and may require SDG&E to undertake alternative remediation to further protect the drinking water from contamination. SDG&E is unable to estimate the costs for the assessment or for alternative remediation.

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

In 1993 SDG&E discovered a shallow underground tank-like structure while installing underground electric facilities. The structure was located under a public street immediately west of a former generating facility. The past ownership, operation and use of the structure is unknown. Hydrocarbon contamination has been found in the vicinity of the structure, but it has not been established whether the structure was the source of the contamination. The San Diego County Department of Health Services has issued a cleanup and abatement order to SDG&E. The order requires SDG&E to conduct a site assessment to delineate the nature and scope of the contamination. SDG&E's duty to meet these requirements has been postponed pending the resolution of property ownership. SDG&E is unable to estimate the nature and extent of the contamination or the potential remediation costs.

Station B: Station B is located in downtown San Diego and was operated as a generating facility from 1911 until June 1993. During 1986, three 100,000-gallon underground diesel-fuel storage tanks were removed. Pursuant to a cleanup and abatement order, SDG&E remediated the existing hydrocarbon contamination. In the course of the remediation effort, detectible levels of PCB were discovered. Further analysis of PCB contamination in the area is required before site closure. SDG&E has not completed its assessment of such PCBs and therefore is unable to estimate the cost of any PCB remediation, or whether or not any will be required.

In addition, asbestos was used in the construction of the facility. Renovation, reconditioning or demolition of the facility will require the removal of the asbestos in a manner complying with all applicable environmental, health and safety laws. The estimated capital cost of this removal is between $3 million and $6 million. Additionally, reuse of the facility may require the removal or cleanup of PCBs, paints containing heavy metals or fuel oil. SDG&E is assessing the extent of any possible contamination by these or other hazardous materials at the facility. However, until the assessment is completed, SDG&E is unable to estimate the extent of any contamination or the cost of any associated remediation.

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

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

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

locations with the department.

SDG&E has not found any similar town gas site residuals at the San Diego site. However, ash residue similar to that at Escondido was found on property adjacent to SDG&E's Oceanside gas regulator station. This ash residue has been covered with asphalt to prevent public exposure. Some ash residue has also been observed in soil adjacent to the San Diego site, which is a possible location for a new sports arena for the City of San Diego. As a part of its investigation of the site, the City is proposing to conduct a sampling and analysis effort to determine whether or not the site has been contaminated by hazardous materials.

Due to the possibility that town gas residuals exist under the San Diego and Oceanside sites, and as a result of the proposed sampling and analysis plan to be conducted by the City of San Diego, SDG&E will implement an environmental assessment of the sites in 1995. SDG&E is unable to estimate the cost of assessment and potential remediation of these sites.

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

Air Quality

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

Although SDG&E facilities comply with very strict emission limits and contribute only about 3 percent of the air emissions in San Diego County, the APCD is required by the California Clean Air Act to further reduce emissions from all San Diego industry. The APCD has adopted Rule 69 to further reduce nitrogen oxide emissions from SDG&E power plants. This rule will require the retrofit of the Encina and South Bay power plants with catalytic converters to remove approximately 87 percent of current nitrogen oxide emissions. The estimated capital cost to comply with Rule 69 is $110 million. In addition, annual operating costs will increase about $6 million after all units have been retrofitted. SDG&E expects this to be completed by 2001.

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

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

Water Quality

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

SDG&E is unable to predict the terms and conditions of any renewed permits or their effects on plant or unit availability, the cost of constructing new cooling-water-treatment facilities, or the cost of modifying the existing treatment facilities. However, any modifications required by such permits could involve substantial expenditures, and certain plants or units may be unavailable for electric generation during such modification. Additional information concerning discharge permits for the South Bay, Encina

and SONGS plants is provided in

"Management's Discussion & Analysis of Financial Condition and Results of Operations" beginning on page 18 of the 1994 Annual Report to Shareholders.

Additional information concerning SDG&E's environmental matters is described in "Management's Discussion and Analysis of Financial Condition and Results of Operations" beginning on page 18 of the 1994 Annual Report to Shareholders and in Note 10 of the "Notes to Consolidated Financial Statements" beginning on page 36 of the 1994 Annual Report to Shareholders. Litigation concerning hazardous substances is discussed in "Legal Proceedings - Metropolitan Transit Development Board" herein.

Other

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

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

Employees of Registrant
As of December 31, 1994 SDG&E had 3,998 employees compared to 4,166 at December 31, 1993. SDG&E's subsidiaries had 550 employees at December 31, 1994 compared to 818 at December 31, 1993.

Foreign Operations
SDG&E foreign operations in 1994 included power purchases and sales with CFE in Mexico and purchases of energy and natural gas from suppliers in Canada and purchases of uranium from suppliers in Canada and Brazil.

SDG&E's subsidiaries operated in various foreign locations in 1994, including Great Britain, Australia, and Italy and sold products and services to customers in additional foreign countries.

Additional information concerning foreign operations is described under "Electric Operations" and "Natural Gas Operations" herein and in "Management's Discussion and Analysis of Financial Condition and Results of Operations" beginning on page 18 of the 1994 Annual Report to Shareholders and in Note 10 of the "Notes to Consolidated Financial Statements" beginning on page 36 of the 1994 Annual Report to Shareholders.

Item 2. Properties

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

Information concerning SDG&E's properties is discussed below. Additional information is described under "Electric Operations" and "Gas Operations" herein and in "Management's Discussion and Analysis of Financial Condition and Results of Operations" beginning on page 18 of the 1994 Annual Report to Shareholders and in Notes 1 through 3, 6, 10 and 11 of the "Notes to Consolidated Financial Statements" beginning on page 32 of the 1994 Annual Report to Shareholders.

Electric Properties

As of December 31, 1994 SDG&E's installed generating capacity based on summer ratings, was as follows:

Plant	Location	Net Megawatts
Encina	Carlsbad	921
South Bay	Chula Vista	690
San Onofre	South of San Clemente	430*
Combustion Turbines (19)	Various	332
Silver Gate**	San Diego	0

*SDG&E's 20 percent share.
**Placed in storage in 1984. Net generating capability is 230 mw.

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

The 1994 system load factor was 57 percent and ranged from 55 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, the Encanto storage facility in San Diego, various high-pressure transmission pipelines, high-pressure and low-pressure distribution mains, and service lines. SDG&E's natural gas system is sufficient to meet customer demand and short-term growth. SDG&E is currently undergoing an expansion of its high-pressure transmission lines to accommodate expected long-term customer growth.

General Properties

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

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

Subsidiary Properties

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

Item 3. Legal Proceedings

The Subsidiary Shareholder, Blackburn v. Watt, Graybill and Tang proceedings, described in SDG&E's 1993 Annual Report on Form 10-K, were concluded during the year ended December 31, 1994. Information concerning the conclusion of these proceedings is contained in SDG&E's Quarterly Reports on Form 10-Q for the three-month periods ended March 31, 1994 and June 30, 1994.

Century Power

On April 1, 1987 Century Power Corporation, formerly Alamito Company, submitted a filing to justify its rates for the following 24 months under a power sales and interconnection agreement with SDG&E. The Federal Energy Regulatory Commission permitted the rates to become effective as of June 1, 1987 subject to refund. In 1988 an administrative law judge ruled unreasonable a component of rates based on the return on equity of Tucson Electric Power Company, a supplier and former affiliate of Century. If the decision stands, demand charges paid by SDG&E could be reduced by $12 million, plus interest, to be refunded principally to SDG&E customers. On September 23, 1993 SDG&E filed a motion requesting the FERC to decide this matter. On December 23, 1993 the FERC issued an order denying SDG&E's motion on the grounds that the matter had been resolved under a settlement reached by the parties in 1991 and approved by the FERC. On January 24, 1994 SDG&E filed a request for rehearing.

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

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

American Trails

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

On September 21, 1993 judgment was entered by the court in favor of Wahlco and the other defendants and against the plaintiffs on all of plaintiffs' claims. Wahlco was denied any recovery on its cross-claims. As a result of the trial court's decision, all claims and causes of action by the plaintiffs against Wahlco have been determined in favor of Wahlco. Subsequently, the plaintiffs filed a notice of appeal from the court's judgment and the appeal is pending. Wahlco intends to continue defending this lawsuit vigorously.

By agreements dated September 19, 1987, October 28, 1987, and March 1, 1990, Robert R. Wahler, as Trustee of the Wahler Family Trust; John H. McDonald; and Westfore, a California limited partnership, agreed, subject to certain exceptions, to indemnify Pacific Diversified Capital Company and its subsidiaries in connection with the American Trails litigation. Wahlco, Inc. is pursuing these parties for indemnification pursuant to the indemnification agreements.

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

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.

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

Canadian Natural Gas

During early 1991 SDG&E signed four long-term natural gas supply contracts with Husky Oil Ltd., Canadian Hunter Ltd. and Noranda Inc., Bow Valley Energy Inc., and Summit Resources Ltd. Canadian-sourced natural gas began flowing to SDG&E under these contracts 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 Queens Bench in Alberta, Canada, seeking a declaration that they are entitled to damages or, in the alternative, that they may terminate their respective natural gas supplies with SDG&E. SDG&E has answered these claims. On February 27, 1995 SDG&E and Husky Oil reached a tentative 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.

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

Additional information concerning these contracts is provided under "Natural Gas Operations" herein and in "Management's Discussion and Analysis of Financial Condition and Results of Operations" beginning on page 18 of the 1994 Annual Report to Shareholders and in Note 10 of the "Notes to Consolidated Financial Statements" beginning on page 36 of the 1994 Annual Report to Shareholders.

Electric and Magnetic Fields

McCartin

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

Trial began on April 11, 1994 on the inverse condemnation claim only. The plaintiffs had dismissed all other claims prior to trial. On May 13, 1994 the jury returned a verdict in favor of SDG&E. The jury found that SDG&E's

power lines did not diminish the value of the plaintiffs' properties. On May 16, 1994 the judge ratified the jury's verdict and on June 17, 1994 the judge signed the final judgment in SDG&E's favor. On August 19, 1994 the plaintiffs filed a notice of appeal of the trial court's decision.

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

Covalt

On December 16, 1993 Martin and Joyce Covalt filed a complaint against SDG&E in Orange County Superior Court. The Covalt lawsuit involves the same lawyers, allegations and neighborhood as the McCartin lawsuit. On April 13, 1994 SDG&E filed a demurrer to plaintiffs' claims. On June 22, 1994 an Orange County Superior Court judge, different from the judge who presided over the McCartin case, denied SDG&E's demurrer. On July 15, 1994 SDG&E petitioned the California Court of Appeal to review the trial judge's decision on the grounds that the California Public Utilities Commission, not the courts, has exclusive jurisdiction over power line health and safety issues. The Court of Appeal agreed to consider SDG&E's petition on August 17, 1994 and stayed the trial court proceedings. The Court of Appeal heard oral argument on SDG&E's petition on November 16, 1994, but has not yet issued a decision.

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

North City West

On June 14, 1993 the Peninsula at Del Mar Highlands Homeowners Association filed a complaint with the Superior Court of San Diego County against the City of San Diego and SDG&E to prevent SDG&E from continuing construction of an electric substation in an area which is known as North City West. In the complaint, plaintiffs sought to have the city either revoke previously issued permits or reopen the hearing process to address alleged EMF concerns. On July 6, 1993 the court denied the plaintiffs' motion for a temporary restraining order. On July 30, 1993 the court denied the plaintiffs' motion for a preliminary injunction. On September 28, 1993 the plaintiffs withdrew their complaint and the court dismissed it without prejudice.

On August 18, 1993 the plaintiffs filed a complaint with the CPUC requesting that construction of the substation be immediately halted until the CPUC conducts an initial environmental assessment and determines whether an environmental impact report is necessary. On September 22, 1993 SDG&E moved to dismiss the complaint on the grounds that the city's environmental review of the project in 1989 was proper and sufficient. On January 7, 1994 the CPUC dismissed the plaintiffs' complaint, ruling that the city had performed all appropriate environmental reviews. On February 7, 1994 the plaintiffs filed an application with the CPUC, asking it to reconsider its January 7, 1994 decision. On December 7, 1994 the CPUC granted the plaintiff's request for a rehearing of the January 7, 1994 dismissal. The CPUC stated that the grounds upon which the complaint originally was dismissed were insufficient. The Administrative Law Judge assigned to the case has ordered public participation and evidentiary hearings to examine whether the substation which SDG&E completed in 1994, causes any unreasonable environmental impacts or other health or safety concerns.

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

Metropolitan Transit Development Board

On October 13, 1993 MTDB filed a complaint in the San Diego County Superior Court against Union Oil Company of California, Graybill Terminal Company, Mary Dutton Boehm as the Executrix of the Estate of Grayson W. Boehm, and SDG&E. MTDB owns property located adjacent to an oil storage tank farm owned by the Graybill Terminal Company and has alleged that contamination from the Graybill site migrated beneath its property, contaminating the soil and ground water.

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

declaratory relief. On November 24, 1993 SDG&E filed an answer to the complaint, denying all of MTDB's allegations.

In January 1995 co-defendants Graybill Terminal Company and Union Oil Company of California agreed to indemnify and defend SDG&E from all stated claims of MTDB. Further, Graybill and Unocal agreed to release SDG&E from any claims of equitable indemnity and contribution, and will dismiss all related cross-complaints with prejudice. A formal agreement is expected to be prepared and executed in early 1995.

Transphase Systems

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

On August 25, 1993 Transphase filed a motion for a preliminary injunction to order SDG&E to cease competitive bidding activities for all generation resources until demand-side-resource providers were permitted to participate. On October 7, 1993 the court dismissed all of Transphase's causes of action with prejudice. On October 19, 1993 Transphase filed a notice of appeal of the court's dismissal.

On May 12, 1994 the Ninth Circuit Court of Appeal denied the appeal. On September 1, 1994 Transphase filed a petition with the United States Supreme Court to have the court review the dismissal of its case by the lower courts. On September 30, 1994 SDG&E filed its opposition to the petition. On October 31, 1994 the U.S. Supreme Court denied Transphase's petition, leaving in place the District Court's original order dismissing all of Transphase's claims.

Additional information concerning competitive bidding is described under "Resource Planning" herein and in the "Management's Discussion & Analysis of Financial Condition and Results of Operations" beginning on page 18 of the 1994 Annual Report to Shareholders.

James Litigation

On July 12, 1994 Glen James filed a complaint in the United States District Court for the Southern District of California against Edison, SDG&E, and Combustion Engineering. The allegations in the complaint are substantially identical to those contained in the complaint of R.C. Tang, which was filed against the same defendants in 1993 and reported in SDG&E's 1993 Annual Report on Form 10-K and its March 31, 1994 Quarterly Report on Form 10-Q. The complaint alleges that the plaintiff was damaged by the emission of radiation while serving as an electrical designer and engineer for outside contractors performing services at the San Onofre Nuclear Generating Station intermittently between 1982 and 1988. The plaintiff has asked for general compensatory damages and punitive damages.

On August 11, 1994 the defendants filed a motion to dismiss plaintiff's complaint. A federal district court judge denied defendants' motion on December 12, 1994. Trial is expected to begin in the summer of 1995.

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

McLandrich Litigation

On February 6, 1995 Cheryl Marie McLandrich and Paul Michael McLandrich, by and through their guardian, Linda McLandrich, filed a complaint in the United States District Court for the Southern District of California against Edison, SDG&E, and Combustion Engineering. The allegations in the complaint are substantially identical to those contained in the complaints of R.C. Tang and Glen James described above. The complaint alleges that the death of the plaintiffs' father, Gregory McLandrich, was the result of the emission of radiation while serving as an

Edison nuclear engineer at SONGS. The plaintiffs have asked for general compensatory damages and punitive damages. The Tang, James and McLandrich complaints were all filed by the same attorneys.

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

Environmental Issues

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

Regulatory Issues

Other legal matters related to regulatory proceedings or actions are described under Regulatory Matters herein.

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

None.

Item 4. Executive Officers of the Registrant

Name	Age	Positions (1990 - Current)
Thomas A. Page	61	Chairman and Chief Executive Officer since January 1983 and President from 1983 through 1991 and since January 1994.
Stephen L. Baum	54	Executive Vice President since January 1993. Senior Vice President - Law and Corporate Affairs and General Counsel from January 1992 through December 1992. Senior Vice President and General Counsel from 1987 through 1991.
Donald E. Felsinger	47	Executive Vice President since January 1993. Senior Vice President - Marketing and Resource Development from January 1992 through December 1992. Vice President - Marketing and Resource Development from February 1989 through December 1991.
Gary D. Cotton	54	Senior Vice President - Customer Operations since January 1993. Senior Vice President - Customer Services from January 1992 through December 1992. Senior Vice President - Engineering and Operations from 1986 through 1991.
Edwin A. Guiles	45	Senior Vice President - Energy Supply since January 1993. Vice President - Engineering and Operations from January 1992 through December 1992. Vice President - Corporate Planning from 1990 through 1991.
Nad A. Peterson	68	Senior Vice President and General Counsel Counsel since June 1993 and Corporate Secretary since January 1994. Senior Vice President and Corporate Secretary at Fluor Corporation from 1987 through 1992.
Frank H. Ault	50	Vice President and Controller since January 1993. Controller from May 1986 through December 1992.
Kathleen A. Flanagan	44	Vice President - Corporate Communications since July 1994. Manager - Corporate Communications at Southern California Edison from 1991 through 1994. Director - Government Relations and Public Affairs at Luz International from 1989 to 1991.
Ronald K. Fuller	57	Vice President - Governmental and Regulatory Services since April 1984.
Margot A. Kyd	41	Vice President - Human Resources since January 1993. Vice President - Administrative Services from 1988 through 1992.
John L. Laun, III	47	Vice President - Customer & Marketing Services since July 1994. Division Manager - Corporate Communication from June 1993 to July 1994. Manager - Special Projects from January 1992 to June 1993. Director - Utility Consulting at Xenergy Inc. from 1991 through 1992. Senior Vice President - Utility Consulting at Palmer Bellevue Corporation from 1989

through 1991.

PART II

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

SDG&E's common stock is traded on the New York and Pacific stock exchanges. At December 31, 1994 there were 70,356 holders of SDG&E common stock. The quarterly common stock information required by Item 5 is incorporated by reference from page 39 of SDG&E's 1994 Annual Report to Shareholders.

Item 6. Selected Financial Data

The information required by Item 6 is incorporated by reference from the Ten-Year Summary beginning on page 16 of SDG&E's 1994 Annual Report to Shareholders.

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

The information required by Item 7 is incorporated by reference from pages 18 through 23 of SDG&E's 1994 Annual Report to Shareholders.

Item 8. Financial Statements and Supplementary Data

The information required by Item 8 is incorporated by reference from pages 24 through 39 of SDG&E's 1994 Annual Report to Shareholders. See Item 14 herein for a listing of financial statements included in the 1994 Annual Report to Shareholders.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

PART III

Item 10. Directors and Executive Officers of the Registrant

The information required on Identification of Directors is incorporated by reference from "Election of Directors" in SDG&E's March 1995 Proxy Statement. The information required on executive officers is incorporated by reference from Item 4 herein.

Item 11. Executive Compensation

The information required by Item 11 is incorporated by reference from "Executive Compensation and Transactions with Management and Others" in SDG&E's March 1995 Proxy Statement.

Item 12. Security Ownership of Certain Beneficial Owners and Management

The information required by Item 12 is incorporated by reference from "Security Ownership of Management and Certain Beneficial Holders" in SDG&E's March 1995 Proxy Statement.

Item 13. Certain Relationships and Related Transactions

None.

PART IV

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

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

1. Financial statements

	Page in Annual Report*
Responsibility Report for the Consolidated Financial Statements.	24
Independent Auditors' Report	24
Statements of Consolidated Income for the years ended December 31, 1994, 1993 and 1992	25
Consolidated Balance Sheets at December 31, 1994 and 1993	26
Statements of Consolidated Cash Flows for the year ended December 31, 1994, 1993 and 1992	27
Statements of Consolidated Changes in Capital Stock and Retained Earnings for the years ended December 31, 1994, 1993 and 1992	28
Statements of Consolidated Capital Stock at December 31, 1994 and 1993	29
Statements of Consolidated Long-Term Debt at December 31, 1994 and 1993	30
Statements of Consolidated Financial Information by Segments of Business for the years ended December 31, 1994, 1993 and 1992	31
Notes to Consolidated Financial Statements	32
Quarterly Financial Data (Unaudited)	39

*Incorporated by reference from the indicated pages of the 1994 Annual Report to Shareholders.

2. Financial statement schedules

SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS

Allowance for doubtful accounts (deducted from accounts receivable):	Balance at Beginning of Year	Charged to Operating Expenses	Deductions (A)	Balance at End of Year
1994	$2,410	$4,738	$4,910	$2,238
1993	$2,154	$6,001	$5,745	$2,410
1992	$2,145	$5,017	$5,008	$2,154

(A) Accounts charged off during the year, net of recoveries of accounts previously charged off.

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

INDEPENDENT AUDITORS' REPORT

San Diego Gas & Electric Company

We have audited the consolidated financial statements of San Diego Gas & Electric Company and subsidiaries as of December 31, 1994 and 1993 and for each of the three years in the period ended December 31, 1994, and have issued our report thereon dated February 27, 1995 (which report contains an emphasis paragraph referring to the Company's consideration of alternative strategies for its 80 percent owned subsidiary, Wahlco Environmental Systems, Inc.); such consolidated financial statements and report are included in your 1994 Annual Report to Shareholders and are incorporated herein by

reference. Our audits also included the consolidated financial statement schedule of San Diego Gas & Electric Company and subsidiaries, listed in Item 14. This consolidated financial statement schedule is the responsibility of the Company's management. Our responsibility is to express an opinion based on our audits. In our opinion, such consolidated financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

DELOITTE & TOUCHE LLP
San Diego, California
February 27, 1995

3. Exhibits

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

Exhibit 3 -- Bylaws and Articles of Incorporation

Bylaws

3.1 Restated Bylaws - December 20, 1993 (Incorporated by reference from SDG&E's 1993 Form 10-K)

Articles of Incorporation

3.2 Restated Articles of Incorporation - April 26, 1994 (Incorporated by reference from SDG&E's March 31, 1994 Quarterly Report on Form 10-Q, Ex 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 Registration No. 2-49810, Exhibit 2A.)

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

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

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

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

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

Exhibit 10 -- Material Contracts (Previously filed exhibits are incorporated by reference from SDG&E's Forms 10-K or Forms 10-Q as referenced below).

Compensation

10.1 Form of San Diego Gas & Electric Company Deferred Compensation Agreement for Officers #3 (1995 compensation, 1996 bonus).

10.2 Form of San Diego Gas & Electric Company Deferred Compensation Agreement for Officers #1 (1995 compensation, 1996 bonus).

10.3 Form of San Diego Gas & Electric Company Deferred Compensation Agreement for Nonemployee Directors (1995 compensation).

10.4 Form of San Diego Gas & Electric Company 1986 Long-Term Incentive Plan 1994 restricted stock award agreement.

10.5 San Diego Gas & Electric Company Retirement Plan for Directors, restated as of October 24, 1994.

10.6 Form of San Diego Gas & Electric Company Deferred Compensation Agreement for Officers #3 (1994 compensation) (1993 Form 10-K Exhibit 10.1).

10.7 Form of San Diego Gas & Electric Company Deferred Compensation Agreement for Officers #1 (1994 compensation, 1995 incentive) (1993 Form 10-K Exhibit 10.2).

10.8 Form of San Diego Gas & Electric Company Deferred Compensation Agreement for Nonemployee Directors (1994 compensation)(1993 Form 10-K Exhibit 10.3).

10.9 Form of San Diego Gas & Electric Company 1986 Long-Term Incentive Plan 1993 restricted stock award agreement(1993 Form 10-K Exhibit 10.4).

10.10 Form of San Diego Gas & Electric Company Deferred Compensation Agreement for Officers #3 (1993 compensation) (1992 Form 10-K Exhibit 10.1).

10.11 Form of San Diego Gas & Electric Company Deferred Compensation Agreement for Officers #1 (1993 compensation, 1994 incentive) (1992 Form 10-K Exhibit 10.2).

10.12 Form of San Diego Gas & Electric Company Deferred Compensation Agreement for Nonemployee Directors (1993 compensation) (1992 Form 10-K Exhibit 10.3).

10.13 Form of San Diego Gas & Electric Company 1986 Long-Term Incentive Plan 1992 restricted stock award agreement (1992 Form 10-K Exhibit 10.4).

10.14 Supplemental Executive Retirement Plan restated as of July 1, 1994.

10.15 Amended 1986 Long-Term Incentive Plan, Restatement as of October 25, 1993 (1993 Form 10-K Exhibit 10.6).

10.16 Executive Incentive Plan dated April 23, 1985 (1991 Form 10-K Exhibit 10.39).

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

10.18 Supplemental Pension Agreement with Thomas A. Page, dated as of April 3, 1978 (1988 Form 10-K Exhibit 10V).

Financing Agreements

10.19 Loan agreement with Mellon Bank, N.A dated as of January 3, 1995.

10.20 Loan agreement with First Interstate Bank of California dated as of January 3, 1995

10.21 Loan agreement with CIBC Inc. dated as of December 1, 1993 as amended (1993 Form 10-K Exhibit 10.7).

10.22 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 Form 10-Q Exhibit 10.1).

10.23 Loan agreement with the City of San Diego in connection with the issuance of $92.7 million of Industrial Development Bonds 1993 Series C dated as of July 1, 1993 (June 30, 1993 Form 10-Q Exhibit 10.2).

10.24 Loan agreement with Mellon Bank, N.A dated as of April 15, 1993 as amended (March 31,1993 Form 10-Q Exhibit 10.1).

10.25 Loan agreement with First Interstate Bank of California dated as of April 15, 1993 as amended (March 31,1993 Form 10-Q Exhibit 10.2).

10.26 Loan agreement with the City of San Diego in connection with the issuance of Industrial Development Bonds 1993 Series A dated as of April 1, 1993 (March 31,1993 Form 10-Q Exhibit 10.3).

10.27 Loan agreement with the City of San Diego in connection with the issuance of Industrial Development Bonds 1993 Series B dated as of April 1, 1993 (March 31,1993 Form 10-Q Exhibit 10.4).

10.28 Loan agreement with the City of Chula Vista in connection with the issuance of $250 million of Industrial Development Revenue Bonds, dated as of December 1, 1992 (1992 Form 10-K Exhibit 10.5).

10.29 Loan agreement with the City of San Diego in connection with the issuance of $25 million of Industrial Development Revenue Bonds, dated as of September 1, 1987 (1992 Form 10-K Exhibit 10.6).

10.30 Loan agreement between Mellon Bank, N.A. and San Diego Gas & Electric Company dated December 15, 1992, as amended (1992 Form 10-K Exhibit 10.10).

10.31 Loan Agreement with the City of San Diego in connection with the issuance of $118.6 million of Industrial Development Revenue Bonds dated as of September 1, 1992 (Sept 30, 1992 Form 10-Q Exhibit 10.1).

10.32 Loan agreement with California Pollution Control Financing Authority, dated as of December 1, 1985, in connection with the issuance of $35 million of pollution control bonds (1991 Form 10-K Exhibit 10.10).

10.33 Loan agreement with California Pollution Control Financing Authority, dated as of December 1, 1991, in connection with the issuance of $14.4 million of pollution control bonds (1991 Form 10-K Exhibit 10.11).

10.34 Loan agreement with the City of San Diego in connection with the issuance of $44.25 million of Industrial Development Revenue Bonds, dated as of July 1, 1986 (1991 Form 10-K Exhibit 10.36).

10.35 Loan agreement with the City of San Diego in connection with the issuance of $81.35 million of Industrial Development Revenue Bonds, dated as of December 1, 1986 (1991 Form 10-K Exhibit 10.37).

10.36 Loan agreement with the City of San Diego in connection with the issuance of $100 million of Industrial Development Revenue Bonds, dated as of September 1, 1985 (1991 Form 10-K Exhibit 10.38).

10.37 Loan agreement with California Pollution Control Financing Authority dated as of December 1, 1984, in connection with the issuance of $27 million of pollution control bonds (1991 Form 10-K Exhibit 10.40).

10.38 Loan agreement with California Pollution Control Financing Authority dated as of May 1, 1984, in connection with the issuance of $53 million of pollution control bonds (1991 Form 10-K Exhibit 10.41).

10.39 Loan agreement between Union Bank and SDG&E dated November 1, 1988 as amended (1989 Form 10-K Exhibit 10I).

10.40 Loan agreement between Bank of America National Trust & Savings Association and SDG&E dated November 1, 1988 as amended (1989 Form 10-K Exhibit 10J).

10.41 Loan agreement between First Interstate Bank of California and SDG&E dated November 1, 1988 as amended (1989 Form 10-K Exhibit 10K).

Natural Gas Commodity, Transportation and Storage Contracts

10.42 Long-Term Natural Gas Storage Service Agreement dated January 12, 1994 between Southern California Gas Company and SDG&E.

10.43 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 Form 10-K Exhibit 10.53).

10.44 Gas Purchase Agreement, dated March 12, 1991 between Husky Oil Operations Limited and San Diego Gas & Electric Company (1991 Form 10-K Exhibit 10.1).

10.45 Gas Purchase Agreement, dated March 12, 1991 between Canadian Hunter Marketing Limited and San Diego Gas & Electric Company (1991 Form 10-K Exhibit 10.2).

10.46 Gas Purchase Agreement, dated March 12, 1991 between Bow Valley Industries Limited and San Diego Gas & Electric Company (1991 Form 10-K Exhibit 10.3).

10.47 Gas Purchase Agreement, dated March 12, 1991 between Summit Resources Limited and San Diego Gas & Electric Company (1991 Form 10-K Exhibit 10.4).

10.48 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 Form 10-K Exhibit 10.5).

10.49 Firm Transportation Service Agreement, dated December 31, 1991 between Pacific Gas and Electric Company and San Diego Gas & Electric Company (1991 Form 10-K Exhibit 10.7).

10.50 Firm Transportation Service Agreement, dated April 25, 1991 between Pacific Gas Transmission Company and San Diego Gas & Electric Company (March 31, 1991 Form 10-Q Exhibit 28.2).

10.51 San Diego Gas & Electric Company and Southern California Gas Company Restated Long-Term Wholesale Natural Gas Service Contract, dated September 1, 1990 (1990 Form 10-K Exhibit 10.9).

Nuclear

10.52 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 by modifications dated September 13, 1985, January 8, April 10, June 17 and August 8, 1986, March 26, 1987, February 20 and July 25, 1990, October 7, 1991, March 31, 1993 and March 17, 1994 (1991 Form 10-K Exhibit 10.9).

10.53 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 Form 10-K Exhibit 10.11).

10.54 Agreement dated March 19, 1987, for the Purchase and Sale of Uranium Concentrates between SDG&E and Saarberg-Interplan Uran GmbH (assigned to Pathfinder Mines Corporation in June 1993) (1990 Form 10-K Exhibit 10.5).

10.55 Nuclear Facilities Qualified CPUC Decommissioning Master Trust Agreement for San Onofre Nuclear Generating Station, approved November 25, 1987 (1992 Form 10-K Exhibit 10.7).

10.56 Amendment No. 1 to the Qualified CPUC Decommissioning Master Trust Agreement dated September 22, 1994 (see Exhibit 10.55 herein).

10.57 Second Amendment to the San Diego Gas & Electric Company Nuclear Facilities Qualified CPUC Decommissioning Master Trust Agreement for San Onofre Nuclear Generating Stations (see Exhibit 10.55 herein).

10.58 Nuclear Facilities Non-Qualified CPUC Decommissioning Master Trust Agreement for San Onofre Nuclear Generating Station, approved November 25, 1987 (1992 Form 10-K Exhibit 10.8).

10.59 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 Form 10-K Exhibit 10.6).

10.60 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 Form 10-K Exhibit 10N).

Purchased Power

10.61 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 Form 10-K Exhibit 10H).

10.62 San Diego Gas & Electric Company and Portland General Electric Company Long-Term Power Sale and Transmission Service agreements dated November 5, 1985 (1988 Form 10-K Exhibit 10I).

10.63 Comision Federal de Electricidad and San Diego Gas & Electric Company Contract for the Purchase and Sale of Electric Capacity and Energy dated November 20, 1980 and additional Agreement to the contract dated March 22, 1985 (1988 Form 10-K Exhibit 10J).

10.64 Agreement with Arizona Public Service Company for Arizona transmission system participation agreement - contract 790116 (1988 Form 10-K Exhibit 10P).

Other

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

10.66 City of San Diego Electric Franchise (Ordinance No.10466) (1988 Form 10-K Exhibit 10Q).

10.67 City of San Diego Gas Franchise (Ordinance No.10465) (1988 Form 10-K Exhibit 10R).

10.68 County of San Diego Electric Franchise (Ordinance No.3207) (1988 Form 10-K Exhibit 10S).

10.69 County of San Diego Gas Franchise (Ordinance No.5669) (1988 Form 10-K Exhibit 10T).

10.70 Lease agreement dated as of March 25, 1992 with American National Insurance Company as lessor of an office complex at Century Park.

10.71 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 Form 10-K Exhibit 10W).

10.72 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 10.71 herein).

10.73 Lease agreement dated as of July 14, 1975 with New England Mutual Life Insurance Company, as lessor (1991 Form 10-K Exhibit 10.42).

10.74 Assignment of Lease agreement dated as of November 19, 1993 to Shapery Developers as lessor by New England Mutual Life Insurance Company (See Exhibit 10.73 herein).

Exhibit 12 -- Statement re computation of ratios

12.1 Computation of Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends for the years ended December 31, 1994, 1993, 1992, 1991 and 1990.

Exhibit 13 -- The financial statements and other documents listed under Part IV Item 14(a)1. and Management's Discussion and Analysis of Financial Condition and Results of Operations listed under Part II Item 7 of this Form 10-K are incorporated by reference from the 1994 Annual Report to Shareholders.

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

Exhibit 24 - Independent Auditors' Consent, page 37.

Exhibit 27 - Financial Data Schedules

27.1 Financial Data Schedule for the year ended December 31, 1994.

(b) Reports on Form 8-K:

A Current Report on Form 8-K was filed on October 26, 1994 announcing the appointments of Thomas C. Stickel and William D. Jones to SDG&E's Board of Directors.

A Current Report on Form 8-K was filed on November 8, 1994 to report SDG&E's filing of an application with the California Public Utilities Commission to form a holding company.

INDEPENDENT AUDITORS' CONSENT

We consent to the incorporation by reference of our report dated February 27, 1995 (which report contains an emphasis paragraph referring to the Company's consideration of alternative strategies for its 80 percent-owned subsidiary, Wahlco Environmental Systems, Inc.) appearing on page 24 of the 1994 Annual Report to Shareholders of San Diego Gas & Electric Company incorporated by reference in this Annual Report on Form 10-K for the year ended December 31, 1994.

We also consent to the incorporation by reference of the above-mentioned report in San Diego Gas & Electric Company Post-Effective Amendment No. 1 to Registration Statement No. 33-46736 on Form S-3, Post-Effective Amendment No. 4 to Registration Statement No. 2-71653 on Form S-8, Registration Statement No. 33-7108 on Form S-8, Registration Statement No. 33-45599 on Form S-3, Registration Statement No. 33-52834 on Form S-3 and Registration Statement No. 33-49837 on Form S-3.

DELOITTE & TOUCHE LLP
San Diego, California
February 28, 1995

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

SAN DIEGO GAS & ELECTRIC COMPANY

February 27, 1995 By: /s/ Thomas A. Page

Thomas A. Page
Chairman, President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report is signed below by the following persons on behalf of the Registrant in the capacities and on the dates indicated.

Signature	Title	Date
Principal Executive Officer:		
/s/ Thomas A. Page		
Thomas A. Page	Chairman, President and Chief Executive Officer and a Director	February 27, 1995
Principal Financial Officer:		
/s/ Stephen L. Baum		
Stephen L. Baum	Executive Vice President	February 27, 1995
Principal Accounting Officer:		
/s/ Frank H. Ault		
Frank H. Ault	Vice President and Controller	February 27, 1995
Directors:		
/s/ Richard C. Atkinson		
Richard C. Atkinson	Director	February 27, 1995
/s/ Richard A. Collato		
Richard A. Collato	Director	February 27, 1995
/s/ Daniel W. Derbes		
Daniel W. Derbes	Director	February 27, 1995
/s/ Catherine T. Fitzgerald		
Catherine T. Fitzgerald	Director	February 27, 1995
/s/ Robert H. Goldsmith		
Robert H. Goldsmith	Director	February 27, 1995
/s/ William D. Jones		
William D. Jones	Director	February 27, 1995
/s/ Ralph R. Ocampo		
Ralph R. Ocampo	Director	February 27, 1995
/s/ Thomas C. Stickel		
Thomas C. Stickel	Director	February 27, 1995

GLOSSARY

APCD	Air Pollution Control District
BCAP	Biennial Cost Allocation Proceeding
BPA	Bonneville Power Administration
BRPU	Biennial Resource Plan Update
CEC	California Energy Commission
CFE	Comision Federal de Electricidad
CPUC	California Public Utilities Commission
DOE	Department of Energy
ECAC	Energy Cost Adjustment Clause
Edison	Southern California Edison Company and/or its parent, SCEcorp
EMF	Electric and magnetic fields
Enron	Enron Power Marketing
ERAM	Electric Revenue Adjustment Mechanism
FERC	Federal Energy Regulatory Commission
GFCA	Gas Fixed Cost Account
IID	Imperial Irrigation District
kv	Kilovolt
kwh	Kilowatt hour
MTDB	Metropolitan Transit Development Board
mw	Megawatt
NRC	Nuclear Regulatory Commission
Pacific Intertie	A transmission line connecting San Diego to the Pacific Northwest
PCB	Polychlorinated Biphenyl
PDC	Pacific Diversified Capital Company
PG&E	Pacific Gas and Electric Company
PGE	Portland General Electric Company
PNM	Public Service Company of New Mexico
PURPA	Public Utility Regulatory Policies Act
RECLAIM	Regional Clean Air Incentive Market
RMGC	Rocky Mountain Generation Cooperative
SDG&E	San Diego Gas & Electric Company
SONGS/San Onofre	San Onofre Nuclear Generating Station
SRP	Salt River Project
Southwest Powerlink	A transmission line connecting San Diego to Phoenix and intermediate points
TCF	Target Capacity Factor
WES	Wahlco Environmental Systems, Inc.

SAN DIEGO GAS & ELECTRIC COMPANY
1995 DEFERRED COMPENSATION AGREEMENT
FOR OFFICERS #3

THIS AGREEMENT is made and entered into this _____ day of December, 1994, by and between San Diego Gas & Electric Company (hereinafter "SDG&E") and _____ (hereinafter "Officer"), an elected officer of SDG&E.

WITNESSETH:

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

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

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

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

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

2. SDG&E shall credit to an account on SDG&E's books, in Officer's name, that percentage of Officer's 1995 base compensation (in equal biweekly installments of whole dollar amounts) and 1996 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 1995 base compensation and 1996 bonus that may be contributed as Pretax Contributions or After-tax Contributions under the terms of the Savings Plan (determined prior to any reduction of such percentage required under applicable law), reduced by any amount contributed by Officer as After-tax Contributions or on Officer's behalf as Pretax Contributions to the Savings Plan. Further, the amount credited under this paragraph 2 shall be limited to an amount

which when added to SDG&E's matching contribution under paragraph 3 of this Agreement and all allocations to his or her accounts under the Savings Plan, does not exceed the maximum amount that could have been allocated to Officer's Savings Plan accounts pursuant to Section 415 of the Code, as in effect prior to the enactment of the 1986 Tax Act. For purposes of this paragraph 2, "base compensation and bonus" shall include Officer's Pretax Contributions to the Savings Plan. SDG&E shall have the sole and complete authority to determine the maximum amount that may be credited under this paragraph 2.

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

4. There shall be credited to Officer's account an additional amount equal to nine and four-tenths percent (9.4%) per annum computed on the balance in Officer's account as of the end of each month. SDG&E reserves the right to increase or decrease from time to time such percentage credited with respect to amounts to be credited under paragraphs 2 and 3 to the account after the date of such increase or decrease, provided that upon a "change-in-control" (as defined in the SDG&E Amended 1986 Long-Term Incentive Plan) no decrease will result in a percentage credited under the previous sentence of less than the last published interest rate shown in Moody's Average of Yields on Public Utility Bonds for a utility having a rating equivalent to SDG&E.

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

6. In the event of Officer's death after installment payments to Officer have commenced hereunder, installment payments shall continue to be paid to the person(s) specified by Officer on the Election Form for the remainder of the period selected by Officer on the Election Form. In the event of Officer's death

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

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

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

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

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

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

the event of any conflict between this Agreement and such provisions of the employment agreement, this Agreement shall control.

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

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

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

OFFICER SAN DIEGO GAS & ELECTRIC COMPANY

_____ By: _____

SAN DIEGO GAS & ELECTRIC COMPANY
1995 DEFERRED COMPENSATION AGREEMENT
FOR OFFICERS #1

(1995 BASE COMPENSATION)
(1996 BONUS)

THIS AGREEMENT, made and entered into this_____ day of December, 1994, by and between San Diego Gas & Electric Company, (hereinafter "Company") and _____ (hereinafter "Officer"), an elected Officer of Company.

WITNESSETH:

WHEREAS, in addition to 1995 base compensation, incentive compensation payable in the form of a single sum cash bonus may be paid to Officer in 1996 for outstanding performance in 1995 ("1996 Bonus"); and

WHEREAS, Officer and Company desire that the payment of said 1995 base compensation and/or 1996 bonus to Officer be deferred, pursuant to the terms and provisions of this Agreement;

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

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

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

3. There shall be credited to Officer's account an additional amount equal to nine and four-tenths percent (9.4%) per annum computed on the balance in Officer's account as of the end of each month; provided, however, that Company reserves the right to increase or decrease from time to time such amounts to be credited to the account after the date of such increase or decrease, provided that upon a "change-in-control" (as defined in the SDG&E Amended 1986 Long-Term Incentive Plan) the percentage used shall not decrease to less than the last published percentage shown in Moody's Average of Yields on Public Utility Bonds for a utility having a rating equivalent to SDG&E.

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

paragraph 4 shall at least equal the entire annual income earned by the account
and if the spouse dies prior to distribution of all amounts in Officer's account,
all undistributed income on such account shall be distributed to the spouse's
estate. Upon the death of Officer's beneficiary, the balance in Officer's
account (after the application of the previous sentence, if the spouse is
the beneficiary) shall be distributed to the person(s) designated by the beneficiary
on a form provided by Company or, if no designation is made, to the
beneficiary's estate.

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

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

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

8. This Agreement may be terminated by Company upon 30 days written notice to the Officer. Such termination shall be applicable only with respect to bonuses and/or base compensation payable to Officer on and after the first day of the calendar year following the date of termination. Funds previously deferred and credited (and income earned on such funds) will continue to be governed by the applicable year's Officer's Deferred Compensation Agreement Election Form and Section 3 of this Agreement.

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

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

OFFICER SAN DIEGO GAS & ELECTRIC COMPANY

_____ By _____

SAN DIEGO GAS & ELECTRIC COMPANY
1995 DEFERRED COMPENSATION AGREEMENT
FOR NONEMPLOYEE DIRECTORS

THIS AGREEMENT, made and entered into this _____ day of December, 1994, by and between San Diego Gas & Electric Company, (hereinafter "SDG&E") and _____ (hereinafter "Director"), a member of the Board of Directors of SDG&E (hereinafter the "Board"),

WITNESSETH:

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

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

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

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

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

3. There shall be credited to Director's account an additional amount equal to nine and four-tenths percent (9.4%) per annum computed on the balance in Director's account as of the end of each month; provided, however, that SDG&E reserves the right to increase or decrease from time to time such amount with respect to amounts to be credited to the account subsequent to the date of such increase or decrease, provided that upon a "change-in-control" (as defined in the SDG&E Amended 1986 Long-Term Incentive Plan) the percentage used shall not decrease to less than the last published rate shown in Moody's Average of Yields on Public Utility Bonds for a utility having a rating equivalent to SDG&E.

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

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

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

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

8. This Agreement may be terminated by SDG&E upon 30 days written notice to the Director. Such termination shall be applicable only with respect to fees payable to Director on and after the first day of the calendar year following the date of termination. Funds previously deferred and credited (and income earned on such funds) will continue to be governed by the applicable year's director election form and Section 3 of this Agreement.

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

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

DIRECTOR SAN DIEGO GAS & ELECTRIC COMPANY

_____ By: _____

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

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

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

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

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

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

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

1. Grant of Restricted Stock Award

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

2. Purchase and Sale of Shares

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

Participant, and Participant acknowledges receipt into escrow of, a certificate or certificates evidencing the Shares, duly issued to Participant by SDG&E. Concurrently with the execution hereof, Participant acknowledges that the Secretary or Assistant Secretary of SDG&E, holds on behalf of Participant all certificates evidencing the Shares. Participant also acknowledges prior receipt of a prospectus for the Plan, a copy of the Plan, and an Annual Report of SDG&E for the year 1992. Participant shall execute all such stock powers and other instruments of transfer in favor of SDG&E as are necessary at any time in the future to perform this contract.

3. Purchase Price; Payment

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

4. Restricted Term

(a) The Restricted Term with respect to the Shares shall commence on the date first above written. The restrictions will be removed from and the restricted term will expire on one quarter of the restricted shares after the end of each of the years 1994, 1995, 1996 and 1997 if:

(1) At the end of each of such years SDG&E's earnings per share meets or exceeds the target earnings per share as set by the Committee.

(2) Beginning in 1995, at the end of any quarter, the published quarterly earnings meets or exceeds the previous year's target earnings plus 25% of the annual target per quarter.

5. Voting and Other Rights

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

6. Restrictions On Inter Vivos Transfer

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

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

7. Termination of Participant's Employment

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

8. Election to Recognize Income

Check one:

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

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

9. Withholding and Registration

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

in paragraph 9(b) below, to SDG&E in an amount sufficient to satisfy any taxes or other amounts SDG&E determines is required by any governmental authority to be withheld and paid over by SDG&E or any of its subsidiaries to such authority for the account of Participant (collectively, "Withholding Taxes"), or shall otherwise make arrangements satisfactory to SDG&E for the payment of such amounts through withholding or otherwise. For purposes of paragraph 8(a), such payment or arrangements shall be made by December 9, 1993. For purposes of paragraph 8(b), the date shall be 30 days after the restrictions are removed. Participant shall, if requested by SDG&E, make appropriate representations in a form satisfactory to SDG&E that such Shares will not be sold other than pursuant to an effective registration statement under the Securities Act of 1933, as amended, or an applicable exemption from the registration requirements of such Act.

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

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

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

(ii) such election shall be irrevocable;

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

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

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

10. Delivery of Shares

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

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

11. Effects On Participant's Continued Employment

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

12. Further Action

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

13. Parties in Interest and Governing Law

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

14. Entire Agreement

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

15. Invalid Provisions

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

16. Amendment

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

17. Counterparts

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

18. Notices

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

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

Attention: Corporate Secretary

If to Participant: _____

_____

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

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

PARTICIPANT

_____
Signature of Participant

SAN DIEGO GAS & ELECTRIC COMPANY

By:_____

Title:_____

SAN DIEGO GAS & ELECTRIC COMPANY

RETIREMENT PLAN FOR DIRECTORS

(Restated as of October 24, 1994)

I. Purpose

The purpose of this Plan shall be to provide recognition and retirement compensation to eligible members of the San Diego Gas & Electric Company ("SDG&E") Board of Directors ("Board"), to facilitate SDG&E's ability to attract, retain and reward members of the Board.

II. Eligibility

Eligibility in this Plan shall be limited to members of the Board of Directors of SDG&E who have at least five years of total service (which need not be continuous service) as Directors, and who retire or resign from the Board in good standing or die while in service and in good standing.

III. Amount of Annual Benefit

This Plan shall pay an annual retirement benefit equal to the amount of annual compensation in effect at the time of the eligible Director's retirement, resignation or death. For purposes of determining the annual retirement benefit, annual compensation shall include the annual retainer, meeting fees, committee chair fees and the cash value of any stock grant, calculated at the effective date of grant, paid or payable to the eligible Director during the calendar year next preceding such retirement, resignation or death.

These amounts shall be paid quarterly in advance in four equal payments. No additional amount shall be paid for service on any of the committees of the Board nor shall interest be paid on these amounts.

All benefits payable under this Plan shall be offset by the benefits payable to the eligible Director for service as an SDG&E Director from the Retirement Plan for the Directors of SCEcorp and Southern California Edison Company.

IV. Duration of Payments

The Plan shall pay the retired Director or his/her surviving spouse a benefit for the number of years of total service on the Board (the Benefit Period). Service on the Board of an SDG&E subsidiary shall not be counted for computation of the amount of annual retirement benefit under the Plan or the Plan's Benefit Period. For the purpose of computing the Benefit Period, periods of service as an employee Director shall be disregarded.

If the years and months of actual service includes a fractional year, it shall be rounded up to a full year for purposes of determining the Benefit Period.

Commencement of Payments

The first quarterly payment shall be made on the first day of the calendar quarter following:

* the Director's retirement, or

* the 65th anniversary of the Director's birth,

whichever occurs later.

Survivor Benefits

If the Director dies without leaving a surviving spouse, no further benefits shall be payable under this Plan.

If the Director dies leaving a surviving spouse before retiring from the Board, benefit payments to that spouse shall begin on the first day of the calendar quarter following:

* the date of the Director's death, or

* the 65th anniversary of the Director's birth,

whichever occurs later.

If the Director dies leaving a surviving spouse after retirement from the Board but before benefit payments have begun, benefit payments to that spouse shall begin on the first day of the calendar quarter following the 65th anniversary of the Director's birth.

Termination of Benefit Payments

Once begun, benefit payments to a retired Director or his/her surviving spouse shall continue until:

* completion of payments for the Benefit Period, or

* payment of the quarterly payment preceding the date of death of the later to die of both the Director and the surviving spouse, if any, whichever occurs first.

V. Administration

This Plan shall be non-contributory, non-qualified and unfunded and shall represent an unsecured general obligation of SDG&E or a successor corporation. No special fund or trust shall be created nor shall any notes or securities be issued with respect to any retirement benefits.

The Chairman of the Compensation Committee of the Board or the Vice President - Human Resources of SDG&E shall have full and final authority to interpret this Plan, to make determinations advisable for the administration of this Plan, to approve ministerial changes and to approve changes as may be required by law or regulation. All such decisions and determinations shall be final and binding upon all parties.

If any person entitled to payments under this Plan is, in the opinion of the Committee or its designee, incapacitated and unable to use such payments in his/her own best interest, the Committee or its designee may direct that payments (or any portion) be made to the person's spouse or legal guardian, as an alternative to the payment to the person unable to use the payments. The Committee or its designee shall have no obligation to supervise the use of such payments.

This Plan shall be governed by the laws of the State of California.

CONFIDENTIAL

SAN DIEGO GAS & ELECTRIC COMPANY

SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN
(Restated as of July 1, 1994)

1. Purpose and Nature of Plan; Effective Date.

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

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

The Plan was effective July 15, 1981, and amended on April 24, 1985, October 20, 1986, April 28, 1987, October 24, 1988, November 21, 1988, October 28, 1991, May 26, 1992, May 24, 1993, November 22, 1993, and July 25, 1994.

2. Definitions.

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

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

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

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

Notwithstanding the foregoing, an Officer or Executive shall not be deemed to have been terminated for Cause unless and until there shall have been delivered to the Officer or Executive a copy of a resolution duly adopted by the affirmative vote of not less than three-quarters of the entire

membership of the Board, excluding the Officer or Executive if a Board member, at a meeting of the Board called and held for the purpose (after reasonable notice and an opportunity, together with counsel, to be heard before the Board), finding that in the good faith opinion of the Board the Officer or Executive was guilty of conduct set forth above and specifying the particulars thereof in detail.

c. Change-in-Control means (1) the dissolution or liquidation of the Company, (2) a reorganization, merger, or consolidation of the Company with one or more corporations as a result of which the Company is not the surviving corporation, (3) the acquisition of beneficial ownership, directly or indirectly, of more than 25% of the voting power of the outstanding stock of the Company by one person, group, association, corporation, or other entity, (the group) coupled with the election to the Board of Directors of new members who were not originally nominated by the Board at the last annual meeting and who constitute a new majority of the Board or (4) upon the sale of all or substantially all the property of the Company. The term Change-in-Control shall not apply to any reorganization or merger initiated voluntarily by the Company in which the Company is the surviving entity. At such time, or within three years thereafter, regardless of whether provisions are made in connection with such transaction for the continuance of the Plan, if the Company or surviving corporation shall terminate the Officer's or Executive's employment for other than Cause, Retirement, Death, or Disability, or if the Officer or Executive shall terminate employment for Good Reason, then the Officer or Executive shall become eligible for and entitled to benefits calculated under the provisions in Section 4.a.i. with survivor benefits calculated under the provisions of Section 4.e.i., both based upon ten years of service and calculated without reference to the service ratio noted in Section 4.a.ii. Such benefit shall be paid by the Company to the Officer or Executive in a lump sum, in cash, on the fifth day following the date of termination. Except for any limitations of Section 280G of the Internal Revenue Code described below, such amount will equal the Actuarial Present Value of the

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

d. Company means San Diego Gas & Electric Company.

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

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

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

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

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

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

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

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

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

j. Retirement.

i. Early Retirement means retirement from service with the Company anytime after attaining age 55 and completing 5 Years of Service, but before age 65. Provided there shall be no reduction in the Normal Retirement Benefit computed under Section 4.a.ii. in the case of an Officer or Executive who has attained age 62.

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

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

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

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

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

3. Eligibility and Participation.

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

4. Benefits.

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

i. Normal Retirement Benefit , as to Officers and Executives who are Participants in the Plan on June 30, 1994, shall be a monthly benefit equal to 6% times Years of Service (to a maximum of 10 years) times Final Pay. As to Officers and Executives who become Participants in the Plan on or after July 1, 1994, Normal Retirement Benefit shall be a monthly benefit equal to 5% times Years of Service (to a maximum of 10 years) times Final Pay.

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

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

continues in the employment of the Company after age 65 at the request of the Board of Directors.

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

c. Normal Form of Retirement Benefits shall be a monthly benefit payable for the lifetime of the Officer or Executive, with benefits payable after his or her death to a Surviving Spouse in accordance with Section 4.e.

d. Optional Forms of Retirement Benefit are not available.

e. Death Benefit.

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

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

f. Termination of Service.

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

g. Disability Benefit.

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

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

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

h. Adjustment of Benefits.

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

i. Forfeiture of Benefits.

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

5. Administration of the Plan.

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

The Committee (or the Board of Directors, to the extent provided in the Plan) shall have the exclusive right and full discretion to interpret the Plan and to decide any and all matters arising hereunder (including the right to remedy possible ambiguities, inconsistencies or omissions), to make, amend and rescind such rules as it deems necessary for the proper administration of the Plan and to make all other determinations necessary or advisable for the administration of the Plan,

including determinations regarding eligibility for benefits under the Plan and determinations of the amount of benefits payable under the Plan. All interpretations of the Committee or the Board of Directors with respect to any matter hereunder shall be final, conclusive and binding on all persons affected thereby.

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

6. Amendment and Termination of the Plan.

The Board of Directors may amend or terminate the Plan at any time except that no such amendment or termination may occur as a result of a Change-in-Control, within three years after a Change-in-Control, or as a part of any plan to effect a Change-in-Control.

However, no such amendment or termination shall apply to any person who has then qualified for or is receiving benefits under the Plan.

7. Claims Procedure.

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

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

a. The specific reason for the denial;

b. Specific references to pertinent Plan provisions on which the denial is based;

c. A description of any additional material or information necessary for the Claimant to perfect the claim and an explanation of why such material or information is necessary; and

d. An explanation of the Plan's claim review procedure.

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

8. Miscellaneous.

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

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

c. The Committee shall not recognize any transfer, mortgage, pledge, hypothecation, order or assignment by any Officer, Executive or Surviving Spouse of all or part of his or her interest hereunder, and such interest shall not be subject in any manner to transfer by operation of law, and shall be exempt from the claims of creditors or other claimants from all orders,

decrees, levies, garnishment and/or executions and other legal or equitable process or proceedings against such Officer, Executive or Surviving Spouse to the fullest extent which may be permitted by law;

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

9. Offset for Certain Benefits Payable Under Split-Dollar Life Insurance Agreements.

a. Offset Value

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

b. Manner and Calculation of Payment.

i. At the time when the Participant terminates employment, if the Plan Value exceeds the Actuarial Equivalent (as defined in paragraph 9.d) of the Offset Value, the excess of the Plan Value over the Actuarial Equivalent of the Offset Value shall be paid to the Participant or beneficiary in the manner

provided under this Plan; provided that, if the excess of the Plan Value over the Actuarial Equivalent of the Offset Value is less than $10,000, such excess shall be paid to the Participant or beneficiary at that time in a cash lump sum.

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

c. Payment of Certain Benefits.

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

d. Actuarial Equivalent.

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

e. Interest Rate.

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

LOAN AGREEMENT

BETWEEN

MELLON BANK, N.A.

AND

SAN DIEGO GAS & ELECTRIC COMPANY

Dated as of January 3, 1995

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LOAN AGREEMENT

THIS LOAN AGREEMENT made and entered into as of January 3, 1995 between SAN DIEGO GAS & ELECTRIC COMPANY, a California corporation (the "Borrower"), and the bank identified in Annex 1 hereto (the "Bank"), with respect to the following:

ARTICLE I

DEFINITIONS AND FINANCIAL REQUIREMENTS

1.1 Definitions

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

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

"Availability Period" means the period from the date of this Loan Agreement through January 3, 2000.

"Bank Home Town" means the city identified in Annex 1 as the "Domestic Lending Office."

"Banking Day" means a day on which banks are open for business in New York, New York and the Bank Home Town, and on which dealings are carried on in Dollar deposits in offshore Dollar interbank markets.

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

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

"Business Day" means a day, except a Saturday or Sunday, in which the Bank is open for business.

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

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

CD Rate = Certificate of Deposit Rate + Assessment Rate
1.00 - Reserve Percentage

Where,

(a) "Assessment Rate" means the rate (rounded upward, if necessary, to the nearest 1/100 of one percent) determined by the Bank to be the net annual assessment rate in effect on the first day of such CD Rate Interest Period for calculating the net annual assessment payable to the Federal Deposit Insurance Corporation (or any successor) for insuring deposits at offices of the Bank in the United States.

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

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

"CD Rate Interest Period" means, for each CD Loan, the period commencing on the date the CD Loan is made and ending thirty (30), sixty (60), ninety (90), or one hundred eighty (180) days thereafter, or any other period as mutually agreed upon, but in no event ending later than the last day of the Availability Period, as requested by the Borrower pursuant to a Notice of Borrowing.

"CD Rate Margin" means, with respect to any CD Rate Loan, the percentage figure set forth opposite the applicable S&P Bond Rating and the Moody's Bond Rating in Annex 1 hereto as the "CD Rate Margin" provided that if the S&P Bond Rating and the Moody's Bond Rating do not fall within the same Level, the CD Rate Margin will be the rate opposite the lower Level (with Level III being the lowest Level) and provided, further, that in the event an S&P Bond Rating or a Moody's Bond Rating is not available from either rating agency, the CD Rate Margin will be the rate opposite Level III.

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

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

"Commitment Fee" shall have the meaning given such term in Section 2.8 hereof.

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

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

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

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

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

"Event of Default" has the meaning set forth in Article VI hereof.

"Interest Period" means (a) with respect to any CD Loan, the CD Rate Interest Period for such Loan, (b) with respect to any Offshore Loan, the Offshore Rate Interest Period for such Loan and (c) with respect to any Money Market Loan, the Money Market Interest Rate Period for such Loan.

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

"Loan" means a CD Loan, a Money Market Loan, an Offshore

Loan or a Reference Rate Loan.

"Money Market Loan" means a Loan in any amount the Bank, in its sole and absolute discretion, shall agree upon with the Borrower and for which interest is based on the Money Market Rate.

"Money Market Rate" means the rate of interest upon each Money Market Loan, as the Bank, in its sole and absolute discretion, shall agree upon with the Borrower.

"Money Market Rate Interest Period" means the Interest Period for each Money Market Loan, as agreed upon by the Bank, in its sole and absolute discretion, and the Borrower.

"Notice of Borrowing" shall have the meaning given such term in Section 2.3 hereof.

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

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

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

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

Where:

(a) "IBOR" means, for each such Offshore Rate Interest Period, the interest rates per annum at which Dollar deposits for such Offshore Rate Interest Period would be offered by the Bank's Offshore Lending Office, to major banks in the offshore Dollar interbank markets upon request of such banks at approximately 11:00 a.m. New York time two (2) Banking Days prior to the first day of such Offshore Rate Interest Period;

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

"Offshore Rate Interest Period" means, for each Offshore Loan, the period commencing on the date the Offshore Loan is made and ending one (1), three (3), or six (6) months thereafter, or any other period as mutually agreed upon, but in no event ending later than the last day of the Availability Period, as requested by the Borrower pursuant to a Notice of Borrowing.

"Offshore Rate Margin" means, with respect to any Offshore Loan, the percentage figure set forth opposite the applicable S&P Bond Rating and the Moody's Bond Rating in Annex 1 hereto as the "Offshore Rate Margin" provided that if the S&P Bond Rating and the Moody's Bond Rating do not fall within the same Level, the Offshore Rate Margin will be the rate opposite the lower Level (with Level III being the lowest Level) and provided, further, that in the event an S&P Bond Rating or a Moody's Bond Rating is not available from either rating agency, the Offshore Rate Margin will be the rate opposite Level III.

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

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

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

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

"Reference Rate" means the rate of interest publicly announced from time to time by the Bank in the Bank Home Town, as its commercial loan base rate. The Reference Rate is a rate set by the Bank based on various factors including the Bank's costs and desired return, general economic conditions, and other factors, and is used as a reference point for pricing some loans. Loans may be priced at, above or below the Reference Rate. Any change in the fluctuating interest rate hereunder resulting from a change of the Reference Rate shall take effect at the opening of business on the day specified in the public announcement of a change in the Reference Rate, or if no such public announcement is made, on the date of such change.

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

"Repayment Date" means the due date for any Loan disbursed prior to the last day of the Availability Period and shall be no later than the last day of the Availability Period.

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

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

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

1.2 Interpretation

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

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

1.3 Financial Requirements

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

ARTICLE II

AMOUNT AND TERMS OF CREDIT

2.1 Commitment For Loans

(a) Commitment. Subject to the terms and conditions of this Agreement, the Bank agrees, from time to time during the Availability Period, to make Loans to the Borrower, which

Loans shall be, at the option of the Borrower, CD Loans, Money Market Loans, Offshore Loans or Reference Rate Loans; provided, however, that the aggregate principal amount of Loans outstanding shall not at any time exceed the amount of the Commitment.

(b) Reduction of the Commitment. The Borrower may permanently reduce in whole or in part the unutilized portion of the Commitment by giving to the Bank written notice thereof, which notice shall specify the date and the amount of such reduction; provided, that, the Borrower shall, on or prior to the date of reduction or termination so specified, pay to the Bank the accrued Commitment Fee for the period up to such date of reduction or termination; and provided, further, that in no event shall the Commitment be reduced below the aggregate amount of all Loans outstanding on the date of such reduction.

2.2 Minimum Loan Amounts

(a) Each CD Loan and each Offshore Loan hereunder shall be in a minimum aggregate principal amount of One Million Dollars ($1,000,000) or integral multiples of One Hundred Thousand Dollars ($100,000).

(b) Each Reference Rate Loan shall be in a minimum aggregate principal amount of Five Hundred Thousand Dollars ($500,000) or integral multiples of One Hundred Thousand Dollars ($100,000).

2.3 Notice of Borrowing

(a) The disbursement of each Loan shall be made upon written or tested telex request or telephone notice ("Notice of Borrowing") promptly followed by written confirmation, which Notice of Borrowing shall be irrevocable, shall be received by the Bank at least (a) two (2) Banking Days prior to the date of the Loan in the case of an Offshore Loan, and (b) one (1) Business Day prior to the date of the Loan in the case of a CD Loan, or Reference Rate Loan, and shall specify:

(i) The date of such Loan, which shall be a Business Day;

(ii) The aggregate principal amount of such Loan;

(iii) Whether the Loan is to be a CD Loan, Offshore Loan or Reference Rate Loan; and

(iv) If such Loan is to be a CD Loan, or Offshore Loan, the duration of the relevant Interest Period.

(b) The Borrower may also request offers to make Money Market Loans. The Bank may, but shall have no obligation to make such offers and Borrower may, but shall have no obligation to, accept any such offers as set forth as follows:

(i) The date of such Loan, which shall be a Business Day;

(ii) The aggregate principal amount of such Loan;

(iii) The duration of the relevant Interest Period; and

(iv) The applicable Money Market Rate.

2.4 Disbursement of Funds

Not later than 11:00 a.m. (in time zone of Bank Home Town) on the date specified for each Loan, the Bank shall make available such Loan (in the case of a Money Market Loan, if an offer made by Bank has been accepted by Borrower), in immediately available funds credited to the Borrower's bank account identified in Annex 1 hereto.

2.5 Loan Account

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

2.6 Prepayment or Conversion of Loans

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

(i) The Bank has received irrevocable notice of such prepayment at least (A) one (1) Business Day prior to the date thereof in the case of a CD Loan, a Money Market Loan or a Reference Rate Loan, and (B) two (2) Banking Days prior to the date thereof in the case of an Offshore Loan;

(ii) The notice of prepayment specifies (A) the date of prepayment which shall be (x) a Business Day in the case of a CD Loan, a Money Market Loan or

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

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

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

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

(i) The Bank has received irrevocable notice of such conversion at least (A) one (1) Business Day prior to the date thereof if a Loan will be converted into a CD Loan, a Money Market Loan or a Reference Rate Loan, and (B) two (2) Banking Days prior to the date thereof if a Loan will be converted into an Offshore Loan;

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

(iii) On the date of conversion (A) the Borrower pays to the Bank the accrued and unpaid interest due on the Loan to be converted, (B) no Default or Event of Default has occurred or is continuing, (C) the Repayment Date for such Loan has not occurred and (D), if the Loan to be converted is

a CD Loan, Money Market Loan or Offshore Loan affected by the circumstances described in Section 2.12(b) (i)(A), the Borrower also pays to the Bank any additional amounts payable to the Bank in respect of such Loan pursuant to Sections 2.11 and 2.12(b)(i) hereof.

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

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

(ii) The Repayment Date has not occurred.

In addition, the Borrower shall pay to the Bank accrued and unpaid interest due on any Loan converted pursuant to this Section 2.6(c) within the grace period provided in Section 6.1(b) hereof, and any additional amounts as referenced in Section 2.12(b)(i)(A) hereof,

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

2.7 Repayment of Principal and Payment of Interest

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

in addition, (i) if such CD Rate Interest Period is one hundred eighty (180) days, on the date falling ninety (90) days after the commencement of such CD Rate Interest Period, and (ii) if such CD Rate Interest Period is longer than one hundred eighty (180) days, on each date occurring at ninety (90) day intervals after the first date of the CD Rate Interest Period. The entire outstanding principal amount of each CD Loan shall be repaid by the Borrower on the last day of the CD Rate Interest Period for such CD Loan.

(b) Money Market Loans. The outstanding principal balance of each Money Market Loan shall bear interest at a rate per annum equal to the Money Market Rate (as computed by the Bank). Interest on each Money Market Loan shall be paid, by the Borrower, on the last day of the Money Market Rate Interest Period, and, in addition, on such date or dates as the Bank, in its sole and absolute discretion, shall agree upon with the Borrower. The entire outstanding principal amount of each Money Market Loan shall be repaid by the Borrower on the last day of the Money Market Rate Interest Period.

(c) Offshore Loans. The outstanding principal balance of each Offshore Loan shall bear interest at a rate per annum equal to the sum of the Offshore Rate and the Offshore Rate Margin (such interest being computed daily on the basis of a three hundred sixty (360) day year and actual days elapsed, which results in more interest than if a three hundred sixty-five (365) day year were used). Interest on each Offshore Loan shall be paid, by the Borrower, on the last day of the Offshore Rate Interest Period for such Offshore Loan and, in addition, (i) if such Offshore Rate Interest Period is six (6) months, on the date falling three (3) months after the commencement of such Offshore Rate Interest Period, and (ii) if such Offshore Rate Interest Period is longer than six (6) months, on each date occurring at three (3) month intervals after the first day of the Offshore Rate Interest Period. The entire outstanding principal amount of each Offshore Loan shall be repaid by the Borrower on the last day of the Offshore Rate Interest Period for such Offshore Loan.

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

2.8 Commitment Fee

The Borrower shall pay the Bank a fee (the "Commitment Fee"), computed at the per annum rate set forth opposite the applicable S&P Bond Rating and the Moody's Bond Rating in Annex 1 hereto as

the "Commitment Fee Rate," provided that if the S&P Bond Rating and the Moody's Bond Rating do not fall within the same Level, the Commitment Fee Rate will be the rate opposite the lower Level (with Level III being the lowest Level) and provided, further, that in the event an S&P Bond Rating or a Moody's Bond Rating is not available from either rating agency, the Commitment Fee Rate will be the rate opposite Level III. The commitment Fee shall be computed on the difference, if any, between the Amount of Bank Commitment and the average daily total outstanding Loans. The Commitment Fee shall be calculated on the basis of a three hundred sixty-five (365) or three hundred sixty-six (366) day year, as the case may be, and actual days elapsed. The accrued Commitment Fee shall be payable quarterly in arrears with the first quarter commencing on the date hereof and ending on March 31, 1995. Each such payment shall be due and payable on the tenth day following receipt by the Borrower of notice from the Bank of the amount due, and, if the Commitment expires or is terminated or reduced, then on the tenth day following the date of such expiry, termination or reduction.

2.9 Type of Funds for Payment and Place of Payment

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

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

2.10 Past Due Payments

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

2.11 Indemnification for Breaking Deposits

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

2.12 Changes in Funding Circumstances

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

(b) Increased Costs and Illegality of Loans

(i) In the event that the Bank shall have determined

(which determination shall, absent manifest error, be final and conclusive and binding upon the Borrower):

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

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

then, and in any such event, the Bank shall promptly give notice (by telephone confirmed in writing) to the Borrower. Thereafter (x) in the case of clause (A) above, the Borrower shall pay to the Bank, upon written demand therefor, such additional amounts (in the form of an increased rate of, or a different method of calculating, interest or otherwise as the Bank in its sole discretion shall determine) as shall be required to compensate the Bank for such increased costs or reductions in amounts received or receivable hereunder (a written notice as to the additional amounts owed to the Bank, showing the basis for the calculation thereof, submitted to the Borrower by the Bank shall, absent manifest error, be final and conclusive and binding on the Borrower) and (y) in the case of clause (B) above, the Borrower shall take one of the actions specified in Section 2.12(b)(ii) hereof as promptly as possible and, in any event, within the time period required by law.

(ii) At any time that any CD Loan, Money Market Loan or Offshore Loan is affected by the circumstances described in Section 2.12(b)(i)(A) or (B) above, the Borrower may (and in the case of a CD Loan or Offshore Loan affected by the circumstances described in Section 2.12(b)(i)(B) hereof shall)

either (x) if the affected CD Loan, Offshore Loan or Money Market Loan is then being made, cancel its Notice of Borrowing by giving the Bank telephonic notice (confirmed in writing) of the cancellation on the same date that the Borrower was notified by the Bank pursuant to Section 2.12(b)(i)(A) or (B) hereof or (y) if the affected CD Loan, Money Market Loan or Offshore Loan is then outstanding, request the Bank to convert such CD Loan, Money Market Loan or Offshore Loan under Section 2.6(b) hereof; provided, however, that if the Borrower fails to request conversion under such Section 2.6(b), then the Bank may convert the Loans under Section 2.6(c) hereof in accordance with the terms thereof.

(c) Capital Adequacy. If the Bank determines (which determination shall, absent manifest error, be final, conclusive and binding upon the Borrower) at any time that any applicable law or governmental rule, regulation, order or request after the date of this Agreement (whether or not having the force of law) concerning capital adequacy, or any change in interpretation or administration thereof by any governmental authority, central bank or comparable agency, will have the effect of increasing the amount of capital required or expected to be maintained by the Bank or any corporation controlling the Bank based on the existence of the Commitment hereunder or its obligations hereunder to make Loans,

the Borrower shall pay to the Bank upon its written demand therefore sent to the Borrower, such additional amounts as shall be required to compensate the Bank for the increased cost to the Bank as a result of such increase of capital. In determining such additional amounts (in the form of an increased commitment fee or such other form of compensation as the Bank shall, in its sole discretion determine) the Bank will act reasonably and in good faith and will use averaging and attribution methods which are reasonable, provided that the Bank's determination of compensation owing under this Section 2.12(c) shall, absent manifest error, be final and conclusive and binding on the Borrower. The Bank, upon determining that any additional amounts will be payable pursuant to this Section 2.12(c), will send written notice thereof to the Borrower, which notice shall show the basis for calculation of such additional amounts and shall be sent 30 days in advance of the effective date of any additional amounts.

ARTICLE III

CONDITIONS PRECEDENT

3.1 Conditions Precedent to the Loans

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

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

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

(c) A signed copy of a Certificate of the Secretary or an Assistant Secretary of the Borrower which shall certify the names of the officers of the Borrower authorized to sign this Agreement and the other documents or certificates to be delivered pursuant hereto by the Borrower or any of its officers, together with the true signatures of each such

officer. The Bank may conclusively rely on such certificate until it shall receive a further certificate of the Secretary or an Assistant Secretary of the Borrower cancelling or amending the prior certificate and submitting the true signatures of the officers named in such further certificate; and

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

3.2 Conditions Precedent to Each Loan

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

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

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

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

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

ARTICLE IV

REPRESENTATIONS AND WARRANTIES

4.1 Representations and Warranties of the Borrower

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

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

consistently applied and accurately represent the financial condition of the Borrower;

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

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

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

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

(f) None of the proceeds of any Loan hereunder will be used directly or indirectly for the purpose, whether immediate, incidental or ultimate, of purchasing or carrying any "margin stock" (as defined Regulation U, as amended from time to time, of the Board). The Borrower is not engaged principally, as one of its important activities, in the business of extending credit for the purpose of purchasing or carrying margin stocks within the meaning of said Regulation U;

(g) Each Plan is in substantial compliance with ERISA; no Plan is insolvent or in reorganization; no Plan has any material Unfunded Current Liability; no Plan has an accumulated or waived funding deficiency or permitted decreases in its funding standard account within the meaning of Section 412 of the Code; neither the Borrower, any Subsidiary nor any ERISA Affiliate has incurred any material liability to or on account of a Plan pursuant to Sections 515, 4062, 4063, 4064, 4201 or 4204 of ERISA or expects to incur any liability under any of the foregoing Sections on account of the termination of participation in or contributions to any such Plan; no proceedings have been instituted to terminate any Plan in a distressed termination; no condition exists

which presents a material risk to the Borrower or any Subsidiary of incurring a liability to or on account of a Plan pursuant to the foregoing provisions of ERISA and the Code; no lien imposed under the Code or ERISA on the assets of the Borrower or any Subsidiary exists or is likely to arise on account of any Plan; and the Borrower and each Subsidiary may terminate contributions to any other employee benefit plans maintained by them without incurring any material liability to any person interested therein; and

(h) As of the date of this Loan Agreement, there has been no material adverse change in the condition of the Borrower or the operation of the Borrower's business from and after September 30, 1994.

ARTICLE V

COVENANTS OF THE BORROWER

5.1 Covenants of the Borrower

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

(a) Furnish the Bank with copies of the Borrower's 10-K statements, 10-Q statements, and other periodic statements, Registration Statements, 8-K reports and any and all other reports, statements, or documents filed with the Securities and Exchange Commission, promptly after such filings are made, and (i) with respect to the Borrower's 10-K statements, in no event later than one hundred twenty (120) days after the end of each year, and (ii) with respect to the Borrower's 10-Q statements, in no event later than sixty (60) days after the end of each quarter; and promptly after any request by the Bank such other information regarding the Borrower's activities as the Bank may reasonably request;

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

(c) As soon as possible and, in any event, within ten (10) days after the Borrower or any Subsidiary knows or has reason to know of the occurrence of any of the following events, the Borrower or such Subsidiary, as the case may be,

will deliver to the Bank a certificate of the chief financial officer of the Borrower or such Subsidiary, as the case may be, setting forth details as to such occurrence and such action, if any, which the Borrower or such Subsidiary is required or proposes to take, together with any notices required or proposed to be given to or filed with or by the Borrower or such Subsidiary, the PBGC, a Plan participant or the Plan administrator with respect thereto: that a Reportable Event has occurred; that an accumulated funding deficiency has been incurred or an application may be or has been made to the Secretary of the Treasury for a waiver or modification of the minimum funding standard (including any required installment payments) or an extension of any amortization period under Section 412 of the Code with respect to a Plan; that a Plan has been or may be terminated, reorganized, partitioned or declared insolvent under Title IV of ERISA; that a Plan has an Unfunded Current Liability giving rise to a lien under ERISA, that proceedings may be or have been instituted to terminate a Plan; that a proceeding has been instituted pursuant to Section 515 of ERISA to collect a delinquent contribution to a Plan; or that the Borrower or a Subsidiary or any ERISA Affiliate will or may incur any liability (including any contingent or secondary liability) to or on account of the termination of or withdrawal from a Plan under Sections 4062, 4063, 4064, 4201 or 4204 of ERISA. The Borrower will deliver to the Bank a complete copy of the annual report (Form 5500) of each Plan required to be filed with the Internal Revenue Service. In addition to any certificates or notices delivered to the Bank pursuant to the first sentence hereof, copies of annual reports and any other notices received by the Borrower or Subsidiary required to be delivered to the Bank shall be delivered to the Bank no later than ten (10) days after the later of the date such report or notice has been filed with the Internal Revenue Service or the PBGC, given to Plan participants, or received by the Borrower or any Subsidiary.

(d) Promptly, upon any principal officer of the Company obtaining knowledge of the occurrence of an Event of Default, or an event which with the passage of time would create an Event of Default, the Borrower shall deliver to the Bank a certificate signed by the Chief Financial Officer, specifying the nature and period of existence thereof and what action the Company has taken or proposes to take with respect thereof.

ARTICLE VI

EVENTS OF DEFAULT

6.1 Default

Upon the occurrence of any of the following events (each

an "Event of Default"):

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

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

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

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

(e) Any default shall occur under any other agreement involving the borrowing of money or any extension of credit, in the aggregate of Ten Million Dollars ($10,000,000) or more, to which the Borrower may be a party as obligor, if such default gives, or with the giving of notice or the lapse of time or both would give, to the holder of the obligation the right to accelerate the obligation or if the Borrower fails to pay any such obligation when due (including any applicable cure periods) within seven (7) days after written notice from the Bank to the Borrower;

(f) The Borrower shall fail to make, when due, any payment of principal or interest with respect to any debt, the aggregate principal amount of which is in excess of Ten Million Dollars ($10,000,000) and continues for ten (10) days;

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

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

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

(j) The Borrower shall not, nor shall it permit any of its significant Subsidiaries to create, incur, assume or suffer to exist any lien upon any of its property, assets or revenues, whether now owned or hereafter acquired, except for (i) liens permitted by the Borrower's indenture, (ii) existing liens, (iii) liens associated with Califia Company or Enova

Corporation, and (iv) any future liens not exceeding an aggregate amount of Ten Million Dollars ($10,000,000);

(k) The Borrower will not enter into any merger, consolidation or amalgamation, or liquidate, wind up or dissolve itself (or suffer any liquidation or dissolution), or convey, sell, lease, assign, transfer or otherwise dispose of substantially all of its property, business or assets, except the Borrower may be merged or consolidated with another Person provided that (x) Borrower is the surviving corporation, or (y) (i) the survivor shall continue to use and operate the Borrower's public utility business, (ii) the survivor shall assume the Borrower's obligations hereunder in accordance with documentation reasonably acceptable to the Bank and (iii) after giving effect to such merger or consolidation no Default or Event of Default shall have occurred or be continuing; or

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

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

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

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

ARTICLE VII

MISCELLANEOUS

7.1 Notice

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

San Diego Gas & Electric Company
101 Ash Street
San Diego, California 92101
Attn: Cash Management Supv.

Or,

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

Fax: (619) 696-4899

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

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

7.2 Payment of Expenses

The Borrower hereby agrees to pay all reasonable costs and expenses (including, without limitation, the fees and disbursements of outside counsel and the allocated costs, fees and disbursements for in-house legal services) of the Bank in connection with: (a) the preparation, execution, delivery and administration of this Agreement and the documents and instruments referred to herein and any amendment, waiver, amendment or consent

relating hereto or thereto, (b) the enforcement of this Agreement and the documents and instruments referred to herein, and (c) any refinancing or restructuring of the Commitment in the nature of a "work-out".

7.3 Delay

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

7.4 Survival of Representations and Warranties

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

7.5 Waiver

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

7.6 Delivery of Documents

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

7.7 Binding Effect

This Agreement shall be binding upon and inure to the benefit of the Bank, the Borrower, and their respective successors and assigns. The Bank may at any time sell, assign, grant participations in, or otherwise transfer to any other person, firm, or corporation (a "Participant") all or part of the obligations of

the Borrower under this Agreement. The Borrower agrees that each such disposition will give rise to a direct obligation of the Borrower to the Participant. The Borrower authorizes the Bank and each Participant, upon the occurrence of an Event of Default, to proceed directly by right of setoff or banker's lien against any property of the Borrower in the possession of or under the control of the Bank or such Participant, respectively. The Borrower authorizes the Bank to disclose to any prospective Participant and any Participant any and all information in the Bank's possession concerning the Borrower and this Agreement. The Participant shall, for the purposes of Section 2.12 of this Agreement, be considered to be a "Bank," and shall be entitled to the indemnity provided a Bank under Sections 2.10, 2.11, and 2.12 hereof; provided that, the Borrower shall not have to pay any additional amounts under Section 2.12 of this Agreement to such Participant unless such amount would have been payable to the Bank. The Borrower shall not assign its rights and obligations hereunder without the express written consent of the Bank.

7.8 Governing Law

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

7.9 Execution In Counterparts

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

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

SAN DIEGO GAS & ELECTRIC COMPANY

By:_____ Date:_____

Title:_____

MELLON BANK, N.A.

By:_____ Date:_____

Title:_____

ANNEX 1
(Effective January 3, 1995 to January 3, 2000)

This Annex 1 is attached to and forms a part of the Loan Agreement, dated as of January 3, 1995, between Mellon Bank, N.A. and San Diego Gas and Electric Company (the "Borrower").

Name of Bank	Mellon Bank, N.A. (the "Bank")
Amount of Bank Commitment	Fifty million dollars ($50,000,000)
Expiration Date of Availability Period	January 3, 2000

Bond Rating (S&P/Moody's)	Level	Commitment Fee Rate	CD Rate Margin	Offshore Rate Margin
A-/A3 or higher	I	.09%	.375%	.25%
BBB/Baa2 or higher	II	.15%	.575%	.45%
BBB-/Baa3 or lower	III	.30%	.875%	.75%

Bank Account of the Borrower	Bank of America 1850 Gateway Blvd., Concord, CA ABA #121000358 San Diego Gas & Electric Company Account #00506-00076
Domestic Lending Office	Mellon Bank, N.A. One Mellon Bank Center Pittsburgh, PA 15258-0001
Offshore Lending Office	Same address as Domestic Lending Office
Address for Notices to Bank	For Credit Matters: Mellon Bank, N.A. One Mellon Bank Center Pittsburgh, PA 15258-0001 Attention: A. J. Sabatelle, V.P. Phone: 412/236-2784 Fax: 412/234-6375 For Administrative Matters: Mellon Bank, N.A. Three Mellon Bank Center Loan Administration Dept. Pittsburgh, PA 15258-0001 Attention: Florence Lindsay Phone: 412/234-3698 Fax: 412/236-2027

MELLON BANK, N.A.

By:__________________________________ Date:_______________________

Title:_______________________________

LOAN AGREEMENT

BETWEEN

FIRST INTERSTATE BANK OF CALIFORNIA

AND

SAN DIEGO GAS & ELECTRIC COMPANY

Dated as of January 3, 1995

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LOAN AGREEMENT

THIS LOAN AGREEMENT made and entered into as of January 3, 1995 between SAN DIEGO GAS & ELECTRIC COMPANY, a California corporation (the "Borrower"), and the bank identified in Annex 1 hereto (the "Bank"), with respect to the following:

ARTICLE I

DEFINITIONS AND FINANCIAL REQUIREMENTS

1.1 Definitions

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

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

"Availability Period" means, initially, the period from the date of this Agreement through January 3, 2000; provided, however, that the Availability Period shall be extended for successive one (1) or two (2) year periods upon (a) receipt by the Bank from the Borrower of a request for such extension, which request shall be received at least sixty (60) days prior to the current expiration date of the Availability Period, and (b) written approval of such extension from the Bank to the Borrower, which approval shall be given at the sole and absolute discretion of the Bank and shall be received at least thirty (30) days prior to the current expiration date of the Availability Period. After January 3, 1997, Availability Period shall mean the period from the date of the most recent extension of the Availability Period to the date set forth in the then effective Annex 1 hereto as the "Expiration Date of Availability Period."

"Bank Home Town" means the city identified in Annex 1 as the "Domestic Lending Office."

"Banking Day" means a day on which banks are open for business in New York, New York and the Bank Home Town, and on which dealings are carried on in Dollar deposits in offshore Dollar interbank markets.

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

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

"Business Day" means a day, except a Saturday or Sunday, in which the Bank is open for business.

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

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

$$\text{CD Rate} = \frac{\text{Certificate of Deposit Rate} + \text{Assessment Rate}}{1.00 - \text{Reserve Percentage}}$$

Where,

(a) "Assessment Rate" means the rate (rounded upward, if necessary, to the nearest 1/100 of one percent) determined by the Bank to be the net annual assessment rate in effect on the first day of such CD Rate Interest Period for calculating the net annual assessment payable to the Federal Deposit Insurance Corporation (or any successor) for insuring deposits at offices of the Bank in the United States.

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

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

"CD Rate Interest Period" means, for each CD Loan, the period commencing on the date the CD Loan is made and ending thirty (30), sixty (60), ninety (90), one hundred eighty (180), two hundred seventy (270), or three hundred sixty (360) days, or eighteen (18), or twenty-four (24) months thereafter, or any other period as mutually agreed upon, but never greater than the last day of the Availability Period, as requested by the Borrower pursuant to a Notice of Borrowing.

"CD Rate Margin" means, with respect to any CD Rate Loan, the percentage figure set forth opposite the applicable S&P Bond Rating and the Moody's Bond Rating in Annex 1 hereto as the "CD Rate Margin" provided that if the S&P Bond Rating and the Moody's Bond Rating do not fall within the same Level, the CD Rate Margin will be the rate opposite the lower Level (with Level III being the lowest Level) and provided, further, that in the event an S&P Bond Rating or a Moody's Bond Rating is not available from either rating agency, the CD Rate Margin will be the rate opposite Level III.

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

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

"Commitment Fee" shall have the meaning given such term in Section 2.8 hereof.

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

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

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

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

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

"Event of Default" has the meaning set forth in Article VI hereof.

"Interest Period" means (a) with respect to any CD Loan,

the CD Rate Interest Period for such Loan, (b) with respect to any Offshore Loan, the Offshore Rate Interest Period for such Loan and (c) with respect to any Money Market Loan, the Money Market Interest Rate Period for such Loan.

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

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

"Money Market Loan" means a Loan in any amount the Bank, in its sole and absolute discretion, shall agree upon with the Borrower and for which interest is based on the Money Market Rate.

"Money Market Rate" means the rate of interest upon each Money Market Loan, as the Bank, in its sole and absolute discretion, shall agree upon with the Borrower.

"Money Market Rate Interest Period" means the Interest Period for each Money Market Loan, as agreed upon by the Bank, in its sole and absolute discretion, and the Borrower.

"Notice of Borrowing" shall have the meaning given such term in Section 2.3 hereof.

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

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

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

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

Where:

(a) "IBOR" means, for each such Offshore Rate Interest Period, the interest rates per annum at which Dollar deposits for such Offshore Rate Interest Period would be offered by the Bank's branch in Nassau, to major banks in the offshore Dollar interbank markets upon request of such banks at approximately 11:00 a.m. New York time two (2) Banking Days prior to the

first day of such Offshore Rate Interest Period;

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

"Offshore Rate Interest Period" means, for each Offshore Loan, the period commencing on the date the Offshore Loan is made and ending one (1), three (3), six (6), nine (9), twelve (12), eighteen (18), or twenty-four (24) months thereafter, or, such other period or periods as the Bank, in its sole and absolute discretion, shall agree upon with the Borrower, but in any event not later than any other period as mutually agreed upon, but never greater than the last day of the Availability Period, as requested by the Borrower pursuant to a Notice of Borrowing.

"Offshore Rate Margin" means, with respect to any Offshore Loan, the percentage figure set forth opposite the applicable S&P Bond Rating and the Moody's Bond Rating in Annex 1 hereto as the "Offshore Rate Margin" provided that if the S&P Bond Rating and the Moody's Bond Rating do not fall within the same Level, the Offshore Rate Margin will be the rate opposite the lower Level (with Level III being the lowest Level) and provided, further, that in the event an S&P Bond Rating or a Moody's Bond Rating is not available from either rating agency, the Offshore Rate Margin will be the rate opposite Level III.

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

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

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

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

"Reference Rate" means the rate of interest publicly announced from time to time by the Bank in the Bank Home Town, as its commercial loan base rate. The Reference Rate is a rate set by the Bank based on various factors including the Bank's costs and desired return, general economic conditions, and other factors, and is used as a reference point for pricing some loans. Loans may be priced at, above or below the Reference Rate. Any change in the fluctuating interest rate hereunder resulting from a change of the Reference Rate shall take effect at the opening of business on the day specified in the public announcement of a change in the Reference Rate, or if no such public announcement is made, on the date of such change.

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

"Repayment Date" means the due date for any Loan disbursed prior to the last day of the Availability Period and shall be no later than the last day of the Availability Period.

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

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

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

1.2 Interpretation

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

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

1.3 Financial Requirements

Unless otherwise specified in this Agreement, all accounting terms used in this Agreement shall be interpreted, all financial information required under this Agreement shall be

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

ARTICLE II

AMOUNT AND TERMS OF CREDIT

2.1 Commitment For Loans

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

(b) Reduction of the Commitment. The Borrower may permanently reduce in whole or in part the unutilized portion of the Commitment by giving to the Bank written notice thereof, which notice shall specify the date and the amount of such reduction; provided, that, the Borrower shall, on or prior to the date of reduction or termination so specified, pay to the Bank the accrued Commitment Fee for the period up to such date of reduction or termination; and provided, further, that in no event shall the Commitment be reduced below the aggregate amount of all Loans outstanding on the date of such reduction.

2.2 Minimum Loan Amounts

(a) Each CD Loan and each Offshore Loan hereunder shall be in the amount of Five Hundred Thousand Dollars ($500,000) or integral multiples thereof.

(b) Each Reference Rate Loan shall be in a minimum aggregate principal amount of One Hundred Thousand Dollars ($100,000) or integral multiples thereof.

2.3 Notice of Borrowing

(a) The disbursement of each Loan shall be made upon written or tested telex request or telephone notice ("Notice of Borrowing") promptly followed by written confirmation, which Notice of Borrowing shall be irrevocable, shall be received by the Bank at least (a) two (2) Banking Days prior to the date of the Loan in the case of an Offshore Loan, and (b) one (1) Business Day prior to the date of the Loan in the case of a CD Loan, or Reference Rate Loan, and shall specify:

(i) The date of such Loan, which shall be a Business Day;

(ii) The aggregate principal amount of such Loan;

(iii) Whether the Loan is to be a CD Loan, Offshore Loan or Reference Rate Loan; and

(iv) If such Loan is to be a CD Loan, or Offshore Loan, the duration of the relevant Interest Period.

(b) The Borrower may also request offers to make Money Market Loans. The Bank may, but shall have no obligation to make such offers and Borrower may, but shall have no obligation to, accept any such offers as set forth as follows:

(i) The date of such Loan, which shall be a Business Day;

(ii) The aggregate principal amount of such Loan;

(iii) The duration of the relevant Interest Period; and

(iv) The applicable Money Market Rate.

2.4 Disbursement of Funds

Not later than 11:00 a.m. (in time zone of Bank Home Town) on the date specified for each Loan, the Bank shall make available such Loan (in the case of a Money Market Loan, if an offer made by Bank has been accepted by Borrower), in immediately available funds credited to the Borrower's bank account identified in Annex 1 hereto.

2.5 Loan Account

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

2.6 Prepayment or Conversion of Loans

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

(i) The Bank has received irrevocable notice of such prepayment at least (A) one (1) Business Day prior to the date thereof in the case of a CD Loan, a Money Market Loan or a Reference Rate Loan, and (B) two (2) Banking Days prior to the date thereof in the case of an Offshore Loan;

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

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

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

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

(i) The Bank has received irrevocable notice of such conversion at least (A) one (1) Business Day prior to the date thereof if a Loan will be converted into a CD Loan, a Money Market Loan or a Reference Rate Loan, and (B) two (2) Banking Days prior to the date thereof if a Loan will be converted into an Offshore Loan;

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

into which a Loan or Loans are to be converted and the Interest Period applicable thereto; and

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

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

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

(ii) The Repayment Date has not occurred.

In addition, the Borrower shall pay to the Bank accrued and unpaid interest due on any Loan converted pursuant to this Section 2.6(c) within the grace period provided in Section 6.1(b) hereof, and any additional amounts as referenced in Section 2.12(b)(i)(A) hereof,

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

2.7 Repayment of Principal and Payment of Interest

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

(b) Money Market Loans. The outstanding principal balance of each Money Market Loan shall bear interest at a rate per annum equal to the Money Market Rate (as computed by the Bank). Interest on each Money Market Loan shall be paid, by the Borrower, on the last day of the Money Market Rate Interest Period, and, in addition, on such date or dates as the Bank, in its sole and absolute discretion, shall agree upon with the Borrower. The entire outstanding principal amount of each Money Market Loan shall be repaid by the Borrower on the last day of the Money Market Rate Interest Period.

(c) Offshore Loans. The outstanding principal balance of each Offshore Loan shall bear interest at a rate per annum equal to the sum of the Offshore Rate and the Offshore Rate Margin (such interest being computed daily on the basis of a three hundred sixty (360) day year and actual days elapsed, which results in more interest than if a three hundred sixty-five (365) day year were used). Interest on each Offshore Loan shall be paid, by the Borrower, on the last day of the Offshore Rate Interest Period for such Offshore Loan and, in addition, (i) if such Offshore Rate Interest Period is six (6) months, on the date falling three (3) months after the commencement of such Offshore Rate Interest Period, and (ii) if such Offshore Rate Interest Period is longer than six (6) months, on each date occurring at three (3) month intervals after the first day of the Offshore Rate Interest Period. The entire outstanding principal amount of each Offshore Loan shall be repaid by the Borrower on the last day of the Offshore Rate Interest Period for such Offshore Loan.

(d) Reference Rate Loans. The outstanding principal balance of each Reference Rate Loan shall bear interest at a rate per annum equal to the Reference Rate, (computed daily on the basis of a three hundred sixty-five (365) or three hundred

sixty-six (366) day year, as the case may be, and actual days elapsed) as such Reference Rate shall change from time to time until principal is paid in full to the Bank. Interest on each outstanding Reference Rate Loan shall be paid by the Borrower quarterly in arrears commencing on the first Business Day of the calendar quarter immediately following the quarter during which such Reference Rate Loan was made to the Borrower, and upon payment in full of the principal of the Reference Rate Loan. The entire outstanding principal amount of each Reference Rate Loan made to the Borrower shall be repaid by the Borrower on the Repayment Date.

2.8 Commitment Fee

The Borrower shall pay the Bank a fee (the "Commitment Fee"), computed at the per annum rate set forth opposite the applicable S&P Bond Rating and the Moody's Bond Rating in Annex 1 hereto as the "Commitment Fee Rate," provided that if the S&P Bond Rating and the Moody's Bond Rating do not fall within the same Level, the Commitment Fee Rate will be the rate opposite the lower Level (with Level III being the lowest Level) and provided, further, that in the event an S&P Bond Rating or a Moody's Bond Rating is not available from either rating agency, the Commitment Fee Rate will be the rate opposite Level III. The commitment Fee shall be computed on the difference, if any, between the Amount of Bank Commitment and the average daily total outstanding Loans. The Commitment Fee shall be calculated on the basis of a three hundred sixty-five (365) or three hundred sixty-six (366) day year, as the case may be, and actual days elapsed. The accrued Commitment Fee shall be payable quarterly in arrears with the first quarter commencing on the date hereof and ending on March 31, 1995. Each such payment shall be due and payable on the tenth day following receipt by the Borrower of notice from the Bank of the amount due, and, if the Commitment expires or is terminated or reduced, then on the tenth day following the date of such expiry, termination or reduction.

2.9 Type of Funds for Payment and Place of Payment

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

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

2.10 Past Due Payments

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

2.11 Indemnification for Breaking Deposits

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

2.12 Changes in Funding Circumstances

(a) Availability. In the event that the Bank shall determine, which determination shall, absent manifest error, be final and conclusive and binding upon all parties hereto,

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

(b) Increased Costs and Illegality of Loans

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

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

affecting the Bank or the offshore Dollar interbank markets or the secondary certificate of deposit market, as the case may be, or the position of the Bank in such market; or

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

then, and in any such event, the Bank shall promptly give notice (by telephone confirmed in writing) to the Borrower. Thereafter (x) in the case of clause (A) above, the Borrower shall pay to the Bank, upon written demand therefor, such additional amounts (in the form of an increased rate of, or a different method of calculating, interest or otherwise as the Bank in its sole discretion shall determine) as shall be required to compensate the Bank for such increased costs or reductions in amounts received or receivable hereunder (a written notice as to the additional amounts owed to the Bank, showing the basis for the calculation thereof, submitted to the Borrower by the Bank shall, absent manifest error, be final and conclusive and binding on the Borrower) and (y) in the case of clause (B) above, the Borrower shall take one of the actions specified in Section 2.12(b)(ii) hereof as promptly as possible and, in any event, within the time period required by law.

(ii) At any time that any CD Loan, Money Market Loan or Offshore Loan is affected by the circumstances described in Section 2.12(b)(i)(A) or (B) above, the Borrower may (and in the case of a CD Loan or Offshore Loan affected by the circumstances described in Section 2.12(b)(i)(B) hereof shall) either (x) if the affected CD Loan, Offshore Loan or Money Market Loan is then being made, cancel its Notice of Borrowing by giving the Bank telephonic notice (confirmed in writing) of the cancellation on the same date that the Borrower was notified by the Bank pursuant to Section

2.12(b)(i)(A) or (B) hereof or (y) if the affected CD Loan, Money Market Loan or Offshore Loan is then outstanding, request the Bank to convert such CD Loan, Money Market Loan or Offshore Loan under Section 2.6(b) hereof; provided, however, that if the Borrower fails to request conversion under such Section 2.6(b), then the Bank may convert the Loans under Section 2.6(c) hereof in accordance with the terms thereof.

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

ARTICLE III

CONDITIONS PRECEDENT

3.1 Conditions Precedent to the Loans

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

(a) A certified copy of the resolution of the Board of

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

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

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

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

3.2 Conditions Precedent to Each Loan

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

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

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

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

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

ARTICLE IV

REPRESENTATIONS AND WARRANTIES

4.1 Representations and Warranties of the Borrower

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

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

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

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

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

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

(f) None of the proceeds of any Loan hereunder will be used directly or indirectly for the purpose, whether immediate, incidental or ultimate, of purchasing or carrying any "margin stock" (as defined Regulation U, as amended from time to time, of the Board). The Borrower is not engaged principally, as one of its important activities, in the business of extending credit for the purpose of purchasing or carrying margin stocks within the meaning of said Regulation U; and

(g) Each Plan is in substantial compliance with ERISA; no Plan is insolvent or in reorganization; no Plan has any material Unfunded Current Liability; no Plan has an accumulated or waived funding deficiency or permitted decreases in its funding standard account within the meaning of Section 412 of the Code; neither the Borrower, any Subsidiary nor any ERISA Affiliate has incurred any material liability to or on account of a Plan pursuant to Sections 515, 4062, 4063, 4064, 4201 or 4204 of ERISA or expects to incur any liability under any of the foregoing Sections on account of the termination of participation in or contributions to any such Plan; no proceedings have been instituted to terminate any Plan in a distressed termination; no condition exists which presents a material risk to the Borrower or any Subsidiary of incurring a liability to or on account of a Plan pursuant to the foregoing provisions of ERISA and the Code; no

lien imposed under the Code or ERISA on the assets of the Borrower or any Subsidiary exists or is likely to arise on account of any Plan; and the Borrower and each Subsidiary may terminate contributions to any other employee benefit plans maintained by them without incurring any material liability to any person interested therein.

ARTICLE V

COVENANTS OF THE BORROWER

5.1 Covenants of the Borrower

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

(a) Furnish the Bank with copies of the Borrower's 10-K statements, 10-Q statements, and other periodic statements, Registration Statements, 8-K reports and any and all other reports, statements, or documents filed with the Securities and Exchange Commission, promptly after such filings are made, and (i) with respect to the Borrower's 10-K statements, in no event later than one hundred twenty (120) days after the end of each year, and (ii) with respect to the Borrower's 10-Q statements, in no event later than sixty (60) days after the end of each quarter; and promptly after any request by the Bank such other information regarding the Borrower's activities as the Bank may reasonably request;

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

(c) As soon as possible and, in any event, within ten (10) days after the Borrower or any Subsidiary knows or has reason to know of the occurrence of any of the following events, the Borrower or such Subsidiary, as the case may be, will deliver to the Bank a certificate of the chief financial officer of the Borrower or such Subsidiary, as the case may be, setting forth details as to such occurrence and such action, if any, which the Borrower or such Subsidiary is required or proposes to take, together with any notices required or proposed to be given to or filed with or by the Borrower or such Subsidiary, the PBGC, a Plan participant or the Plan administrator with respect thereto: that a Reportable

Event has occurred; that an accumulated funding deficiency has been incurred or an application may be or has been made to the Secretary of the Treasury for a waiver or modification of the minimum funding standard (including any required installment payments) or an extension of any amortization period under Section 412 of the Code with respect to a Plan; that a Plan has been or may be terminated, reorganized, partitioned or declared insolvent under Title IV of ERISA; that a Plan has an Unfunded Current Liability giving rise to a lien under ERISA, that proceedings may be or have been instituted to terminate a Plan; that a proceeding has been instituted pursuant to Section 515 of ERISA to collect a delinquent contribution to a Plan; or that the Borrower or a Subsidiary or any ERISA Affiliate will or may incur any liability (including any contingent or secondary liability) to or on account of the termination of or withdrawal from a Plan under Sections 4062, 4063, 4064, 4201 or 4204 of ERISA. The Borrower will deliver to the Bank a complete copy of the annual report (Form 5500) of each Plan required to be filed with the Internal Revenue Service. In addition to any certificates or notices delivered to the Bank pursuant to the first sentence hereof, copies of annual reports and any other notices received by the Borrower or Subsidiary required to be delivered to the Bank shall be delivered to the Bank no later than ten (10) days after the later of the date such report or notice has been filed with the Internal Revenue Service or the PBGC, given to Plan participants, or received by the Borrower or any Subsidiary.

(d) Promptly, upon any principal officer of the Company obtaining knowledge of the occurrence of an Event of Default, or an event which with the passage of time would create an Event of Default, the Borrower shall deliver to the Bank a certificate signed by the Chief Financial Officer, specifying the nature and period of existence thereof and what action the Company has taken or proposes to take with respect thereof.

ARTICLE VI

EVENTS OF DEFAULT

6.1 Default

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

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

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

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

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

(e) Any default shall occur under any other agreement involving the borrowing of money or any extension of credit, in the aggregate of Ten Million Dollars ($10,000,000) or more, to which the Borrower may be a party as obligor, if such default gives, or with the giving of notice or the lapse of time or both would give, to the holder of the obligation the right to accelerate the obligation or if the Borrower fails to pay any such obligation when due (including any applicable cure periods) within seven (7) days after written notice from the Bank to the Borrower;

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

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

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

(i) The Borrower shall not, nor shall it permit any of its significant Subsidiaries to create, incur, assume or suffer to exist any lien upon any of its property, assets or revenues, whether now owned or hereafter acquired, except for (i) liens permitted by the Borrower's indenture, (ii) existing liens, (iii) liens associated with Califia Company or Enova Corporation, and (iv) any future liens not exceeding an aggregate amount of Ten Million Dollars ($10,000,000);

(j) The Borrower will not enter into any merger, consolidation or amalgamation, or liquidate, wind up or dissolve itself (or suffer any liquidation or dissolution), or convey, sell, lease, assign, transfer or otherwise dispose of substantially all of its property, business or assets, except the Borrower may be merged or consolidated with another Person provided that (x) Borrower is the surviving corporation, or (y) (i) the survivor shall continue to use and operate the Borrower's public utility business, (ii) the survivor shall assume the Borrower's obligations hereunder in accordance with documentation reasonably acceptable to the Bank and (iii) after giving effect to such merger or consolidation no Default or Event of Default shall have occurred or be continuing; or

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

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

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

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

ARTICLE VII

MISCELLANEOUS

7.1 Notice

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

San Diego Gas & Electric Company
101 Ash Street
San Diego, California 92101
Attn: Cash Management Supv.

Or,

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

Fax: (619) 696-4899

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

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

7.2 Payment of Expenses

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

7.3 Delay

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

7.4 Survival of Representations and Warranties

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

7.5 Waiver

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

7.6 Delivery of Documents

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

7.7 Binding Effect

This Agreement shall be binding upon and inure to the benefit of the Bank, the Borrower, and their respective successors and assigns. The Bank may at any time sell, assign, grant participations in, or otherwise transfer to any other person, firm, or corporation (a "Participant") all or part of the obligations of the Borrower under this Agreement. The Borrower agrees that each such disposition will give rise to a direct obligation of the Borrower to the Participant. The Borrower authorizes the Bank and each Participant, upon the occurrence of an Event of Default, to proceed directly by right of setoff or banker's lien against any property of the Borrower in the possession of or under the control of the Bank or such Participant, respectively. The Borrower authorizes the Bank to disclose to any prospective Participant and any Participant any and all information in the Bank's possession concerning the Borrower and this Agreement. The Participant shall, for the purposes of Section 2.12 of this Agreement, be considered to be a "Bank," and shall be entitled to the indemnity provided a Bank under Sections 2.10, 2.11, and 2.12 hereof; provided that, the Borrower shall not have to pay any additional amounts under Section 2.12 of this Agreement to such Participant unless such amount would have been payable to the Bank. The Borrower shall not assign its rights and obligations hereunder without the express written consent of the Bank.

7.8 Governing Law

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

7.9 Execution In Counterparts

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

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

SAN DIEGO GAS & ELECTRIC COMPANY

By:_____ Date:_____

Title: _____

FIRST INTERSTATE BANK OF
CALIFORNIA

By:_____ Date:_____

Title:_____

ANNEX 1
(Effective January 3, 1995 to January 3, 2000)

This Annex 1 is attached to and forms a part of the Loan Agreement, dated as of January 3, 1995, between First Interstate Bank of California and San Diego Gas and Electric Company (the "Borrower").

Name of Bank	First Interstate Bank of California (the "Bank")
Amount of Bank Commitment	Fifty million dollars ($50,000,000)
Expiration Date of Availability Period	January 3, 2000

Bond Rating (S&P/Moody's)	Level	Commitment Fee Rate	CD Rate Margin	Offshore Rate Margin
A-/A3 or higher	I	.09%	.375%	.250%
BBB/Baa2 or higher	II	.15%	.475%	.350%
BBB-/Baa3 or lower	III	.30%	.650%	.525%

Bank Account of the Borrower	Bank of America 1850 Gateway Blvd., Concord, CA ABA #121000358 San Diego Gas & Electric Company Account #00506-00076
Domestic Lending Office	First Interstate Bank of California 1055 Wilshire Boulevard (B10-6) Los Angeles, CA 90017
Offshore Lending Office	Same address as Domestic Lending Office
Address for Notices to Bank	Corporate Loans Operations 1055 Wilshire Boulevard (B10-6) Los Angeles, CA 90017 Fax: (213) 488-9909/9959 Phone: Matt Frey at (213) 614-5038

FIRST INTERSTATE BANK OF CALIFORNIA

By:_____ Date:_____

Title:_____

SOCALGAS/SDG&E LONG-TERM STORAGE SERVICE AGREEMENT

THIS AGREEMENT (the "Agreement") is entered into as of the first day of January, 1994, by and between Southern California Gas Company ("SoCalGas") and San Diego Gas & Electric Company ("SDG&E") and sets forth the terms and conditions under which SoCalGas will provide gas storage injection, inventory and withdrawal services for SDG&E.

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

Section 1 - Supersedes Prior Arrangements

This Agreement supersedes and replaces the provisions regarding gas storage in (a) the "Restated Long-Term Wholesale Natural Gas Service Contract" between the parties dated September 1, 1990 (the "Contract"), including without limitation Section 1.6 and Article 7 of the Contract, and (b) the "Storage Agreement" between the parties dated July 19, 1993. The Contract shall not be utilized in interpreting this Agreement, or any actions or inactions of the parties related hereto. This Agreement shall cover all storage matters between the parties during the term hereof; provided, however, this Agreement shall not be deemed to amend or modify the Mutual Assistance Agreement between the parties dated June 8, 1993, as it may be amended by mutual agreement from time to time, or any reference to storage gas therein.

Section 2 - Independent Entities

(a)Separate Service Territory - SoCalGas and SDG&E each have separate service territories for which the applicable entity shall be solely responsible, subject to CPUC regulation, for providing gas service. SDG&E shall be solely responsible for determining the storage requirements of its customers in SDG&E's service territory, and SoCalGas shall have no responsibility or liability regarding SDG&E's storage determinations and the effect thereof, with SDG&E being solely responsible for defending or discharging and holding SoCalGas harmless from and against any claims or liabilities or costs (including, reasonable attorneys fees for in-house or retained counsel) attributable to SDG&E's storage determinations. Neither party shall be required to curtail any of its third party firm storage arrangements to satisfy any obligation to the other party (this includes any request for assistance by either party under the Mutual Assistance Agreement, although such third party curtailment will occur prior to a request by the requesting party under the Mutual Assistance Agreement).

(b)Exceptions - Notwithstanding the provisions of Section 2(a):

(i)SDG&E - SDG&E may transfer all or a portion of its storage rights hereunder to on-system or off-system third parties so long as SDG&E remains primarily liable and SoCalGas' obligations hereunder are not increased materially; provided, however, that this provision shall be subject to all rules, regulations, orders and decisions issued by the Public Utilities Commission of the State of California related to marketing of storage rights, and SoCalGas' related Tariff Rate Schedules and Tariff Rules approved by the CPUC. SoCalGas shall, subject to SoCalGas' Tariff Rate Schedules and Tariff Rules, as in effect from time to time, cooperate in facilitating timely gas deliveries to third parties.

(ii)SoCalGas - SoCalGas may offer to provide storage services to any and all third parties doing business in SDG&E's service territory; provided, however, that this provision shall be subject to all rules, regulations, orders and decisions issued by the Public Utilities Commission of the State of California related to marketing of storage rights, and SDG&E's related Tariff Rate Schedules and Tariff Rules approved by the CPUC. SDG&E shall, subject to SDG&E's Tariff Rate Schedules and Tariff Rules, as in effect from time to time, cooperate in facilitating timely gas deliveries to such third parties.

Section 3 - Services/Operations

(a)Storage Service - SDG&E has elected firm storage services at the levels specified below:

_	Annual Firm Inventory:	8,280,000 Dth
_	Firm Withdrawal:	241,155 Dth per Day
_	Firm Injection:	31,437 Dth per Day (April-October)
		SDG&E may, without additional cost, vary the above daily firm injection schedule upwards or downwards by up to fifteen percent (15%) in any month provided that written notice of such change is sent by SDG&E to SoCalGas not later than seven (7) business days prior to the start of the month during which such daily change is to apply.

_	Drive Gas:	2,070,000 Dth (See Section 3(c)(iv) below).
_	"As Available" Injection and Withdrawal:	SDG&E may request "as available" injection and withdrawal consistent with SoCalGas' applicable Tariff Rates Schedules and Tariff Rules as in effect from time to time.

(b) Future Services - This Agreement is not intended to foreclose SDG&E from obtaining any additional or different storage services for which it qualifies under SoCalGas' Tariff Rate Schedules and Tariff Rules, as in effect from time to time, as set forth therein; provided, however, the availability of such additional or different services shall not act or be deemed to relieve SoCalGas and/or SDG&E from any obligation hereunder or to modify the terms of this Agreement.

(c) Operating Conditions - The following operating conditions shall apply to storage services:

(i) Operator - SoCalGas shall be solely responsible for carrying out all storage operations and making all determinations in connection therewith, e.g., the availability of "as available" injection.

(ii) Withdrawal - Firm withdrawal service for SDG&E, including intrastate transportation of firm gas withdrawals of SDG&E's storage inventory, to the delivery points specified in SDG&E's current transportation agreement with SoCalGas shall not be curtailed (1) other than in accordance with the Mutual Assistance Agreement between the parties dated June 6, 1993, or (2) in the event of Force Majeure.

(iii) Storage Cycling - During any Contract Year, subject to the limitations on monthly firm injection variances and the retention of Drive Gas in November, December and January of each Contract Year, SDG&E may utilize the injection and withdrawal rights provided herein to cycle its gas inventory. SDG&E shall pay SoCalGas the applicable variable costs, including fuel, but no additional reservation charges shall be payable.

(iv) Drive Gas - The first 2,070,000 decatherms of gas injected for SDG&E in any Contract Year shall be deemed to be "Drive Gas" (any gas retained in storage for SDG&E at the end of any Contract Year and continued as inventory in the following Contract Year shall be deemed to be "injected" for purposes of such calculation). For purposes of the Agreement, "Drive Gas" shall mean gas injected and stored in SoCalGas'

underground storage facilities which will permit increased firm withdrawal by SDG&E of other gas from the same underground storage facilities. Such Drive Gas shall be retained in SoCalGas' gas storage facilities at all times during the period November 1 through January 31 of each Contract Year, and shall be subject to the provisions of Section 7(d) of this Agreement. Subject to the obligation to retain such Drive Gas in SoCalGas' Gas Storage facilities through each January 31, SDG&E shall receive the additional firm withdrawal rights in MMdecatherms per Day which are equal to the amount in MMdecatherms of SDG&E's Drive Gas actually stored in SoCalGas' gas storage facilities at the beginning of the Day of withdrawal times 0.033.

(d) Heating Value Factor - To the extent that it is necessary to convert gas volumetric measurements or calculations to heating values (or vice versa), the heating factor of 1035 shall be utilized.

Section 4 - Effective Date/Conditions

(a) CPUC Approval - This Agreement shall be filed with the CPUC promptly after execution, and shall become effective ("Effective Date") as of the date that both of the following conditions have been satisfied: (i) receipt of approval hereof by the CPUC on terms and conditions satisfactory to each party in its sole opinion (each party shall provide the other party with written notice as to whether or not the CPUC approval is in satisfactory form not later than ten (10) days after the applicable CPUC decision; provided, however, this condition precedent shall be deemed waived if either party's notice is not received within such period), and (ii) implementation of SoCalGas' 1994-1995 BCAP.

(b) Governmental Actions - Subject to Sections 5(b)(iii) and 11(a) below, the parties shall, notwithstanding any other provision hereof, comply with all valid laws, statutes, ordinances, decisions, orders, rules and regulations of any governmental entity having jurisdiction.

Section 5 - Contract Term

(a) Initial Term - This Agreement shall continue in effect from the Effective Date through March 31, 1998. A "Contract Year", with respect to the first "Contract Year", shall mean the period from the Effective Date through March 31, 1995, and with respect to any succeeding "Contract Year" shall mean the period of twelve (12) consecutive months from the end of the preceding "Contract Year" through the following March 31.

(b) Early Termination - Notwithstanding any other provision hereof, this Agreement may be terminated by either party on thirty

(30) days prior written notice to the other party in the event that:

(i) BCAP Allocation Changes - If as a result of the CPUC BCAP decision, which is no longer subject to rehearing, it is reasonably apparent that upon the implementation date of SoCalGas' 1994-1995 BCAP, which was submitted to the CPUC on September 1, 1993, storage costs will not be allocated in a manner consistent herewith, including the accounting treatment contemplated by each party after acceptance of the CPUC authorization under Section 4(a); provided, however, this provision shall be deemed waived if a party's termination notice under this provision is not sent within fourteen (14) days after such CPUC decision; or

(ii) BCAP Implementation Date - If for any reason the 1994-1995 BCAP implementation date is on or after January 1, 1995; or

(iii) Material Adverse CPUC Decision - At any time after the Effective Date, if the CPUC issues a final order, decision or regulation, no longer subject to rehearing, which modifies this Agreement in a material way, adversely affecting either party by altering the reasonable economic and/or operating expectations of such party in its sole reasonable opinion in a manner unacceptable to such party; provided, however, prior to either party sending termination notice, the parties shall meet to discuss in good faith whether this Agreement can be restructured under the then-existing circumstances in a mutually acceptable fashion to avoid early termination; provided, further, that rate increases or decreases approved by the CPUC and not inconsistent with then-effective ratemaking principles being applied generally in California shall not be deemed either "material" or "adverse"; or

(iv) "Hinshaw Exemption" - Either party believes in good faith that its continued performance hereunder could reasonably be determined to jeopardize continuance of its Hinshaw Exemption under 15 U.S.C. 717(C).

(c) Winding Up - In the event of early termination pursuant to Section 4(b) hereof, SDG&E will continue to pay all applicable storage charges until SDG&E has (i) withdrawn all gas which has accrued to its storage account under this Agreement as of the date of such termination on a schedule as mutually agreed in good faith, and (ii) paid all monies owed to SoCalGas which accrued prior to such termination, or during any period of "winding up"; provided, however, in no event shall such withdrawal rights extend beyond the end of the current Contract Year.

(d) Extensions of Term - This Agreement may be extended as follows:

(i) First Extension - The term of this Agreement may be extended at SDG&E's option from April 1, 1998, through March 31, 2003 on the same terms and conditions by notice from SDG&E to SoCalGas which is received not later than September 30, 1997.

(ii) Second Extension - A second extension of the term of this Agreement at SDG&E's option from April 1, 2003, through March 31, 2008, on the same terms and conditions by notice from SDG&E to SoCalGas which is received not later than September 30, 2002.

Section 6 - Definitions

In addition to the terms defined in this Agreement, the applicable definitions of SoCalGas' Tariff Rule No. 1, as in effect from time to time, are incorporated by reference herein.

Section 7 - Rates & Charges

The firm storage services provided hereunder shall be subject to the following charges:

(a) Tariff Rates - Storage Reservation and variable storage charges, including transportation charges for gas injected into storage, and fuel, shall be as established by the CPUC and set forth in the SoCalGas' applicable Tariff Rate Schedules, currently Tariff Rate Schedule G-LTS, as in effect from time to time.

(b) Monthly Billings - SoCalGas shall bill SDG&E for the firm storage services under this Agreement in twelve (12) equal amounts, subject to necessary adjustments. SoCalGas, to the extent feasible, shall bill SDG&E for variable charges in the month immediately succeeding the month in which such charges are incurred, or as soon thereafter as reasonably possible, subject to necessary adjustments.

(c) "As Available "Storage Injection - SoCalGas shall bill SDG&E for any "as available" storage injection used at the rates as set forth in SoCalGas' applicable Tariff Rate Schedules, as in effect from time to time.

(d) Drive Gas - SoCalGas shall not bill SDG&E for reservation charges for any additional firm withdrawal capacity SDG&E obtains by injecting Drive Gas (as defined in Section 3(c)(iv) of this Agreement) in SoCalGas' gas storage facilities so long as SDG&E maintains 2,070,000 decatherms of Drive Gas in inventory during the months of November, December and January of each Contract Year.

(e) BCAP Implementation/Transition Period - It is recognized that a transition treatment may be needed for the storage charges under the Contract, which will continue to be paid to the implementation of SoCalGas' 1994-1995 BCAP Decision. Implementation of such BCAP Decision may not occur in time to accommodate the applicable changes hereunder for SDG&E by April 1, 1994. Any delay in such implementation will result in SDG&E paying for increased storage services based on SoCalGas' applicable Tariff Rate Schedules during the period from April 1, 1994 to the Effective Date ("Transition Period") which could not be utilized by SDG&E pursuant to Section 3(a) hereof. To facilitate an orderly transition, and to provide SDG&E an opportunity to use the storage services paid for, the following rules shall apply:

(i) Transition Injection - SDG&E shall be entitled to firm injection of 61,423 decatherms per Day during the Transition Period.

(ii) Transition Inventory - In addition to the firm storage inventory provided under Section 3(a), during the period from April 1, 1994 through March 31, 1995, SDG&E shall be entitled to increased firm storage inventory equal to the additional costs that SDG&E pays for firm gas inventory and firm gas withdrawal under SoCalGas' applicable Tariff Rate Schedules in effect during the Transition Period which could not otherwise be utilized under this Agreement but for the transition provisions of this Section 7(e), divided by SoCalGas' applicable tariff rate for firm inventory in effect on the Effective Date. For purposes of clarification, it should be noted that the "additional costs" referred to reflect the difference between what SDG&E is actually paying during the Transition Period and the applicable charges under this Agreement. The storage inventory under Section 3(a) plus the storage inventory determined under this Section 7(e)(ii) shall be referred to collectively as the "Transition Inventory".

(iii) Transition Inventory Shortfall - To the extent that any portion of SDG&E's Transition Inventory is not injected in storage by November 1, 1994, SDG&E may inject any "shortfall" (the difference between actual storage injections and the total Transition Inventory) in the second Contract Year (starting April 1, 1995); provided, however, (1) SDG&E is responsible for obtaining separate injection rights for such shortfall, on an "as available" or other basis, since

such injection is not covered by this Agreement, and (2) the applicable variable costs, including fuel, shall be assessed on the withdrawal of the shortfall by SDG&E.

(iv) Excess Inventory - In the event that on the Effective Date SDG&E's actual storage inventory exceeds the Transition Inventory, the amount of inventory, if any, in excess of the Transition Inventory ("Excess Inventory") shall be paid for by SDG&E at SoCalGas applicable tariff rates for inventory until withdrawal; provided, however, since any Excess Inventory is attributable to the uncertainty of the 1994-1995 BCAP implementation and the transition from the Contract, such tariff rate shall be applied to Excess Inventory on a daily basis for only those days when Excess Inventory remains in storage.

Section 8 - Deliveries

SDG&E shall be solely responsible for delivering to SoCalGas all gas, including "Drive Gas", to be stored. Such delivery shall occur at existing points of interconnection with SoCalGas' facilities, and shall be subject to priorities, nomination and confirmation procedures and access or other charges, if any, applicable thereto.

Section 9 - Billing and Payment

(a) Payments - The storage services provided pursuant to Section 3(a) shall be billed and paid for consistent with SoCalGas' Tariff Rate Schedules as in effect from time to time; provided, however, any storage services referenced in Section 7(e) shall be billed and paid for consistent therewith. Invoices are due and payable on receipt. Payment shall be considered past due if full payment has not been received by SoCalGas within nineteen (19) calendar days following the mailing date of each SoCalGas monthly invoice.

(b) Suspension of Service - In addition to any remedies provided under SoCalGas' Tariff Rate Schedules and Tariff Rules, or elsewhere in this Agreement, in the event that SDG&E fails to timely pay any amounts payable in connection with the services provided herein, and if such amounts are not paid in full within seven (7) days following notice by SoCalGas that such payment is in arrears, SoCalGas may immediately suspend performance herein until SDG&E pays all amounts unpaid.

(c) Disputes - In the event of a billing dispute, the bill must be paid in full by SDG&E pending resolution of the dispute. Such payment shall not be deemed a waiver of SDG&E's right to a refund with interest, compounded monthly from the payment date to

the date of the refund. The interest rate used shall be as set forth in subsection 9(d)(iii).

(d) Late Payments -

(i) Interest - In the event of late payment of any invoice by SDG&E, the unpaid amount shall be subject to interest, compounded monthly, from the date due until paid.

(ii) Adjusted Billings - In the event of an adjusted billing, the affected entity shall also be entitled to interest, compounded monthly, on the under-or-over collected amount from the payment due date to the date of payment in full.

(iii) Interest Calculation - The interest rate used herein shall be equal to one hundred twenty-five percent (125%) of the prime rate being charged by Bank of America (NT&SA) to its best class of customers as in effect on the first banking day in the applicable period during which payment was outstanding, and as thereafter revised during such period; provided, however, that the interest assessed shall never exceed the maximum lawful rate in California.

(d) Billing Location - All bills shall be sent to SDG&E at the following location:

San Diego Gas & Electric Co.
P. O. Box 1803
San Diego, California 92112
Attn: Supervisor of Corporate Accounting

Section 10 - Notices

All notices between the parties shall be sent by telefax, with confirming original copy thereof being sent by prepaid certified mail to the following and addressed as specified below:

SDG&E

Contract Matters	Operating Matters
Contact Title: Manager Fuels Department	Contact Title: Manager Gas Operations
Fax. No.: (619) 696-1838	Fax No.: (619) 696-2857
Telephone:(619) 696-1876	Telephone: (619) 696-2095

Confirmation Address:
Fuel Transportation Supervisor
P. O. Box 1831
San Diego, California 92112

SOCALGAS

Contract Matters	Operating Matters
Contact: Perssy M. Mergeanian	Contact Title: Gas Control
Fax No.: (213) 244-8262	Fax No.: (213) 266-5812
Telephone: (213) 244-3701	Telephone: (213) 266-5958

Confirmation Address:
P. O. Box 3249
Los Angeles, CA 90051-1249
Attn: UEG Whole. Mgr.

The above designations may be changed by either party (by either the party's representative with the title identified, or any corporate officer of such party) upon at least seven (7) days prior written notice. The party receiving any notice hereunder may rely thereon as coming from an authorized representative of the sending party.

Section 11 - Miscellaneous

(a) Interpretation - The interpretation and performance of any contracts for gas storage service shall be in accordance with the laws of the State of California, and the orders, rules and regulations of the CPUC, and SoCalGas' Tariff Rate Schedules and Tariff Rules, as each may be in effect from time to time. To the extent of any conflict between the terms of this Agreement and the terms of SoCalGas' Tariff Rate Schedules and Tariff Rules, the terms of this Agreement shall be deemed to control.

(b) Covenant of Assurances - Each party shall do all necessary acts, and execute and deliver such written instruments, as shall be reasonably required from time to time to carry out the intent and terms of this Agreement, including without limitation any non-material changes to this Agreement necessary to make it enforceable consistent with the intent of the parties and to conform to law.

(c) Limited Storage Liability - SoCalGas shall not be responsible for any loss of gas in storage attributable to the inherent qualities of gas, including leakage or migration, or for pilferage or theft of gas by third parties, or due to a physical or legal inability to withdraw gas from storage, unless such loss is caused by failure of SoCalGas to exercise the ordinary care and diligence required by law. In the event of any such loss, the portion of such loss which is attributable to SDG&E shall be determined based on SDG&E's pro rata share of the total recoverable working gas inventory in SoCalGas' storage facilities at the time of the loss.

(d) Damages - No party under this Agreement shall be assessed any special, punitive, consequential, incidental, or indirect damages, whether in contract or tort, for any actions or inaction's arising from or related to this Agreement, including

without limitation any actions or inactions related to an assignee or transferee hereunder.

(e) Force Majeure - Notwithstanding any other provision hereunder, performance under this Agreement shall be excused to the extent a party is prevented from performing due to the existence of a condition of Force Majeure. The term "Force Majeure" for the purpose of this Agreement shall mean acts of God, strikes, lockouts or other industrial disturbances, acts of public enemy, wars, blockades, insurrections, riots, landslides, lighting, earthquakes, explosions, fires, civil disturbances, mechanical breakdowns, and other similar or dissimilar conditions or circumstances which by the exercise of due diligence such party is unable to prevent or overcome. Nothing in this Agreement shall require a party to settle any strike or labor dispute in which it may be involved.

(f) Binding Arbitration - Any dispute or need for interpretation arising out of this Agreement which cannot be resolved after good faith discussion between the parties and which is not cognizable by the CPUC, shall be submitted to binding arbitration by one (1) arbitrator with over fifteen (15) years of diverse professional experience in various segments of the natural gas industry who has not previously been employed by either party, and who has no direct or indirect interest in either party, the Agreement or the subject matter of the dispute. Such arbitrator shall either be as mutually agreed by the parties within thirty (30) days after notice from either party requesting arbitration, or, failing agreement, shall be selected under the expedited rules of the American Arbitration Association. Unless otherwise mutually agreed, no arbitrator shall handle more than one (1) proceeding under the Agreement. Such arbitration shall be held at a location to be mutually agreed, or, failing agreement, in San Clemente, California. Such binding arbitration shall be in lieu of litigation in any state or federal court.

Arbitration Process: Time shall be of the essence in any arbitration, which shall be subject to the following rules:

1) The hearing shall be held as expeditiously as reasonably possible, but in no event shall it commence more than one hundred twenty (120) days from the date the arbitrator is selected.

2) A written arbitrator's decision determining all the issues submitted shall be entered no more than forty-five (45) days following submission of the matter for decision (no arbitration decision shall provide for "continuing jurisdiction" as to future matters).

3) In the event that the arbitration requires a decision (a) as to the allocation or payment of any monetary amounts, or (b) the methodology or accuracy of any calculation, the arbitrator shall select the position of that party which the arbitrator believes most

appropriate under the circumstances. No "compromise" determination or alternate calculations shall be made by the arbitrator, who is bound to adopt the position of one party to the exclusion of the other on such matters.

4) Such arbitrator's decision shall thereafter be deemed to be a part of the Agreement and incorporate by reference herein.

5) Pending such decision, the parties shall continue to operate under the Agreement as on the date the arbitration is requested; however, the arbitrator should consider specifically the appropriateness of retroactive adjustments proposed by the parties.

6) The arbitrator shall establish such rules for discovery and submission of evidence (including compelling testimony, information, documents or evidence) as deemed appropriate under the circumstances of the dispute, having due regard to a timely resolution of the matter.

7) The arbitrator shall consider the failure of any party to provide evidence, participate in the hearing or otherwise fail to facilitate completion of the hearing; provided, however, no actions or inactions of a party shall be permitted to delay or prevent the arbitrator from rendering a timely decision, or the subsequent enforcement of such decision.

8) The allocation of the costs of arbitration shall be considered by the arbitrator to balance the equities between the parties, and, for example, the entire costs of the proceeding, including reasonable attorneys fees (for in-house and retained counsel), may be awarded to the prevailing party.

9) The parties hereby waive any and all rights to a "stay" of the arbitration pending litigation under Section 1281.2 of the California Code of Civil Procedure or otherwise.

10) An arbitration award shall be final, conclusive and binding on the parties and may be filed in any appropriate court for enforcement. In the event that it is necessary to enforce such award, all costs of enforcement, including reasonable attorneys fees (for in-house and retained counsel), shall be payable by the party against whom such award is enforced.

11) The parties may agree on such other rules as they deem necessary, but in the event a subject is not covered in this Section 8(f), and if the parties fail to agree thereon, the rules of the American Arbitration Association shall apply to the extent not inconsistent with the rules specified above; provided, however, in no

event shall this provision on arbitration be construed to mean that an arbitration will be held under the auspices of the American Arbitration Association, and/or subject to any payments of fees to such organization, unless agreed to in writing by both parties.

(g) Audit - SDG&E has the right to audit SoCalGas' accounting records to the extent reasonably necessary to verify any invoices submitted by SoCalGas herein, including without limitation the applicable operating records related thereto. Any such audit(s) shall be undertaken at reasonable times at the location selected by SoCalGas and in conformance with generally accepted auditing principles. SDG&E shall be solely responsible for its costs of audit. The right to audit shall extend during the length of this Agreement and for a period of two (2) years following the date of final payment under this Agreement. SoCalGas shall retain all necessary records and documentation for the entire audit period. SoCalGas shall not claim that any such records are confidential; provided, however, SDG&E's audit rights shall not extend to SoCalGas transactions with third parties or as to any technical "know-how" or trade secret related to operating techniques, procedures, devices or processes. SoCalGas shall be notified in writing of any exception taken as a result of an audit. In the event of a dispute which cannot be resolved between the parties the binding arbitration procedure contained in Section 10(b) may be utilized.

(h) Entire Agreement - This Agreement sets forth the entire understanding of the parties on the matters set forth herein and supersedes any prior correspondence, discussions, conversation or understandings, whether written or oral. This Agreement shall only be modified or amended by an instrument in writing executed by both parties, and shall not be modified or amended by course of performance, course of dealing or usage of trade.

(i) Governing Law - This Agreement shall be governed in all respects, including validity, interpretation and effect by the laws of the State of California and, the orders rules and regulations of the CPUC, as in effect from time to time.

(j) No Waiver - No waiver by any party of one or more defaults under this Agreement shall operate or be construed as a waiver of any other default or defaults, whether of a like or different character.

(k) Preparation - This Agreement was prepared by both parties hereto with advice of counsel, and not by any party to the exclusion of the other, and accordingly, should not be construed against either party by reason of its preparation.

(l) Assignment - Except as provided in Section 2(b) of this Agreement, unless consented to in writing by the non-assigning party, the rights of either party hereunder may only be transferred or assigned to a successor in interest to all, or substantially all, of the assets of a party hereto.

(m) Tax Indemnity - Notwithstanding any other provision hereof, SDG&E shall indemnify and hold harmless SoCalGas from and against any and all Federal and California taxes, levies and assessments imposed on the SoCalGas, not otherwise reflected or to be reflected in SoCalGas' Tariff Rate Schedules, and measured by the amount of gas that is owned by SDG&E and held in SoCalGas' storage facilities for SDG&E's account (or by the amount of gas injected into or withdrawn from such facilities for SDG&E's account) to the extent not previously taxed. SDG&E's responsibility for such taxes, levies and assessments shall be proportional to the quantity of SDG&E's gas, including "Drive Gas", held in SoCalGas' storage (or SDG&E's injections into or withdrawals from SoCalGas' storage) compared to the total quantity of gas held in SoCalGas' storage (or the total quantity of injections into or withdrawals from SoCalGas' storage) which is subject to such taxes, levies and assessments.

IN WITNESS WHEREOF, the authorized representatives of the parties have executed two (2) duplicate original copies of this Agreement as of the date written above.

SAN DIEGO GAS & ELECTRIC COMPANY	SOUTHERN CALIFORNIA GAS COMPANY
By: _____	By: _____
Title: _____	Title: _____

Amendment No. 1 To The Qualified CPUC Decommissioning Master Trust Agreement

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 (additions are underlined, deletions are struck through):

1. Amend the last sentence of Section 4.06 as follows:

Shown as:

"The Trustee shall advise the Company and the Committee if any of the investments, in the Trustee's opinion, may constitute a violation of the restrictions on investment of trust assets outlined in Code Section 501(c)(21) or successor provision, applicable to the Master Trust."

Amend to:

"The Trustee shall advise the Company and the Committee, by means of such monthly report, if any of the investments, in the Trustee's opinion, may constitute a violation of the restrictions on investment of trust assets outlined in Code Section 468A(e)(4)(C), or successor provision, or any CPUC Order filed with the Trustee by the Committee which contains investment restrictions applicable to the Master Trust. In addition, prior to provision of the monthly report, if the Trustee has knowledge of an investment, and knows that such investment violates investment restrictions applicable to the Trust, the Trustee shall notify the Company and the Committee as soon as reasonably possible."

2. Amend the second paragraph of Section 4.07 as follows:

Shown as:

"Notwithstanding the foregoing, the Trustee (and not the Master Trust) shall be liable for (a) any tax imposed pursuant to Section 4951 of the Code (or any applicable successor provision) as such section is made applicable to the Master Trust or the Trustee and/or (b) any consequences flowing from violation of the restrictions on the investment of trust assets outlined in Code Section 501(c)(21) (or applicable successor Code sections) where the act giving rise to the imposition of any tax pursuant to Section 4951 of the Code or the decision to invest trust assets in investments not meeting the restrictions outlined in Code Section 501(c)(21) was made by or was in the power and control of the Trustee as provided by this Agreement."

Amend to:

"Notwithstanding the foregoing, the Trustee (and not the Master Trust) shall be liable for any tax imposed pursuant to Section 4951 of the Code (or any applicable successor provision) as such section is made applicable to the Master Trust or the Trustee where the act giving rise to the imposition of any tax pursuant to Section 4951 of the Code was made by or was in the power and control of the Trustee as provided by this Agreement."

3. Amend Subsection (1) of Section 7.02 as follows:

Shown as:

"(1) unless such investment is permitted to be made by Code Sections 501(c)(21)(B)(ii) and 468(e)(4)(C), the regulations thereunder, and any applicable successor provisions; or"

Amended to:

"(1) unless such investment is permitted to be made by Code Section 468(e)(4)(C), the regulations thereunder, and any applicable successor provisions and any CPUC Order filed with the Trustee by the Committee which contains investment restrictions applicable to the Master Trust; or"

4. Amend the second paragraph of Article 7.03 as follows:

Shown as:

"Notwithstanding anything contained in this Agreement to the contrary, the Trustee may not authorize or carry out (a) any sale, exchange, or other transaction which would constitute an act of "self-dealing" within the meaning of Section 4951 of the Code, as such section is made applicable to the Funds by Section 468(e)(5) of the Code, any regulations thereunder, and any applicable successor provision or (b) any investment which would violate the restrictions on investment of trust assets outlined in Code Section 501(c)(21) and any applicable successor provision."

Amend to:

"Notwithstanding anything contained in this Agreement to the contrary, the Trustee may not authorize or carry out any sale, exchange, or other transaction which would constitute an act of "self-dealing" within the meaning of Section 4951 of the Code, as such section is made applicable to the Funds by Section 468(e)(5) of the Code, any regulations thereunder, and any applicable successor provision".

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 _____, 1994.

SAN DIEGO GAS & ELECTRIC COMPANY

By: /s/ D. E. Felsinger

Title: Executive Vice President

Attest: /s/ L. E. Klein

Title: Acting Treasurer

CALIFORNIA PUBLIC UTILITIES COMMISSION

By: /s/ Neal Shulman

Title: Executive Director

Attest: /s/ Phyllis White

Title: Public Utility Regulatory Analyst V

Accepted:

STATE STREET BANK AND TRUST COMPANY

By: /s/ John S. Connolly

Title: Vice President

Attest: /s/ Catha Hays

Title: Assistant Secretary

SECOND AMENDMENT 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 _____ day of _____, 1994, 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, the Company and the Trustee have entered into that certain Nuclear Facilities Qualified CPUC Decommissioning Master Trust Agreement for San Onofre Nuclear Generating Stations dated June 29, 1992 (the "Qualified Trust Agreement"), pursuant to which, among other things, the Company established the Funds for the exclusive purpose of providing for the decommissioning of the Plants and to constitute qualified nuclear decommissioning reserve funds;

WHEREAS, in section 2.12 of the Qualified Trust Agreement, the parties specifically reserve the right to amend the Qualified Trust Agreement;

WHEREAS, the parties wish to reaffirm their intention that the term "Master Trust," as used throughout the Qualified Trust Agreement, shall refer simply to the aggregation of the Funds; and

WHEREAS, the parties desire to ensure that any pooling of assets of the Funds, in accordance with Section 2.06(1) of the Qualified Trust Agreement, does not create an association taxable as a corporation within the meaning of Treasury Regulations (26 C.F.R.) Section 301.7701-2(a);

NOW, THEREFORE, the parties hereby agree as follows:

1. Paragraph 20 of Section 1.01 is amended to read as follows:
"(20) 'Master Trust' shall be used merely to refer to the Funds in the aggregate and is not intended nor should it be construed to constitute a separate entity."

2. Paragraph (a) of Section 1.04 shall be deleted and Paragraph (b) shall be redesignated as Paragraph (a).
3. Paragraph (c) of Section 1.04 shall be designated as Paragraph (b) and amended to read as follows:
"(b) appoints State Street Bank and Trust Company as Trustee of each of the Funds."

4. Section 2.06(1) of the Qualified Trust Agreement is hereby amended to read as follows:
"The Trustee shall not be precluded from pooling Decommissioning Contributions (or other contributions as described in Section 2.02) with respect to each of the Fund Accounts for investment purposes, and may treat each Fund Account's Decommissioning Contributions (or other contributions as described in Section 2.02) as having received or accrued a ratable portion of the Master Trust income in any year. Any pooling arrangement undertaken as permitted in this Section 2.06(1) can be terminated at any time by any Fund. No Fund in a pooling arrangement may substitute for itself in such arrangement any person that is not a member of that pooling arrangement.

5. Except as expressly amended hereby, the Qualified Trust Agreement is hereby restated, confirmed and ratified in all respects and shall remain in full force and effect.

IN WITNESS WHEREOF, the parties hereto, each intending to be legally bound hereby, have executed this Amendment as of the date first above written.

SAN DIEGO GAS & ELECTRIC COMPANY

By:_____
ATTEST:

_____

STATE STREET BANK & TRUST COMPANY

By:_____
ATTEST:
_____

LEASE AGREEMENT

DATED: March 25, 1992

TENANT: SAN DIEGO GAS & ELECTRIC COMPANY,
a California corporation

LANDLORD: AMERICAN NATIONAL INSURANCE COMPANY,
a Texas insurance corporation

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BASIC LEASE PROVISIONS

1. TENANT: SAN DIEGO GAS & ELECTRIC COMPANY, a California corporation

2. PREMISES:

Buildings 4, 5 and 6 of Century Park Phase II

8306, 8316 and 8326 Century Park Court
San Diego, California

3. PREMISES RENTABLE AREA: approximately 198,306 rentable square feet

4. FIXED RENT:

(a) Initial Annual Fixed Rent: $2,022,721.20 ($10.20 per rentable square foot);

(b) Initial Monthly Fixed Rent: $168,560.10 ($0.85 per rentable square foot).

5. BUILDING OPERATING EXPENSE PASSTHROUGHS: Increases over calendar year 1993 with a real property tax increase cap of 2% per year (except as otherwise provided in Paragraph 8.2(a) hereof).

6. TERM:

(a) Length of term: 15 years;

(b) Estimated Commencement Date: November 1, 1992.

7. OPTIONS TO EXTEND TERM: Two five-year options to extend the term at 90% of the Fair Market Rental Rate (as defined in Paragraph 3.7(a) as of the commencement of each option period).

8. TENANT IMPROVEMENT ALLOWANCES: Up to $28 per rentable square foot as provided in Paragraph 4.1(b)(i) plus certain supplemental allowances as provided in Paragraph 5.2 hereof.

9. PERMITTED USE: Administration and general office purposes (and otherwise as provided in Paragraph 7.1).

10. ADDRESSES FOR PAYMENTS AND NOTICES:

(a) If to Landlord:

American National Insurance Company,
a Texas insurance corporation
One Moody Plaza
Galveston, Texas 77550
Attn: Mortgage and Real Estate
Investment Department

(b) If to Tenant:

San Diego Gas & Electric Company,
a California corporation
101 Ash Street
San Diego, CA 92101
Attn: Manager, Land Services Dept.

LEASE AGREEMENT

This Lease Agreement is made and entered into as of the 25th day of March, 1992, by and between AMERICAN NATIONAL INSURANCE COMPANY, a Texas insurance corporation, whose address is One Moody Plaza, Galveston, Texas 77550, Attn: Mortgage and Real Estate Investment Department, hereinafter referred to as LANDLORD, and SAN DIEGO GAS & ELECTRIC COMPANY, a California corporation, whose address is 101 Ash Street, San Diego, California 92101, hereinafter referred to as TENANT.

1. DEMISE AND PREMISES

1.1 LANDLORD, in consideration of the rents hereinafter reserved and agreed to be paid by TENANT and the other obligations of TENANT provided for herein, hereby lets, leases and demises to TENANT, and TENANT hereby takes from LANDLORD the following described premises, hereinafter referred to as the "Premises", situated within the City of San Diego, County of San Diego, State of California, being that certain development commonly known as Century Park Phase II, Building 4, containing floor space of which the parties agree totals 77,280 rentable square feet, Building 6, containing floor space which the parties agree totals 70,303 rentable square feet, and Building 5 containing floor space which the parties agree totals 50,723 rentable square feet, with mailing addresses of 8306 Century Park Court, San Diego, California, 8326 Century Park Court, San Diego, California, and 8316 Century Park Court, San Diego, California, respectively; together with the non-exclusive right to all of LANDLORD's rights, privileges, easements, and appurtenances in, over and upon adjoining and adjacent public and private land, highways, roads and streets reasonably required for ingress and egress to or from the Premises. Subject to any existing easements and contractual rights relating thereto, TENANT shall have the exclusive right to utilize all available underground conduit serving the Buildings comprising the Premises. TENANT shall have the right to install additional underground conduit under the surface of the real property comprising the Premises for its fiber optic cable located under the surface of the real property comprising the Premises.

1.2 The Premises are more particularly described with the full legal description in Exhibit A.

1.3 TENANT agrees to abide by and conform to the rules and regulations attached hereto as Exhibit B with respect to the Premises, and to cause its employees, suppliers, shippers, customers and invitees to so abide and conform.

1.4 So long as the TENANT is not in default, and subject to the rules and regulations attached hereto, and as established by LANDLORD from time to time, and as acceptable to TENANT, TENANT shall be entitled to utilize the parking areas included within the Premises.

2. TERM OF LEASE

2.1 TENANT shall have and hold the same for an initial term commencing on the Commencement Date, as that term is hereinafter defined, and ending on the last day of the calendar month following the expiration of the fifteenth (15th) Lease Year, as that term is defined in Paragraph 3.5 hereof, upon the terms, conditions, and covenants of this Lease. The term "Commencement Date" is defined as the earlier of (i) the date LANDLORD'S construction manager, Bilbro & Giffen, certifies to LANDLORD and TENANT that the Tenant Improvements (as that term is defined in Paragraph 4.1 hereof) for the entire Premises are substantially complete and the Premises are in move-in condition, or (ii) the date TENANT occupies any portion of any Building comprising the Premises after LANDLORD'S construction manager, Bilbro & Giffen, has certified to LANDLORD and TENANT that the Tenant Improvements for such Building are substantially complete and such Building is in move-in condition. Notwithstanding the foregoing, prior to the Commencement Date, TENANT shall have the right to enter upon the Premises to install TENANT's furniture, fixtures and equipment and other leasehold improvements and to inspect the construction more particularly described in Article 4 hereof, without being deemed to have occupied the Premises. During the period of such entry the provisions of Article 12 hereof shall apply.

2.2 LANDLORD and TENANT agree to sign upon execution hereof, a memorandum of lease in the form set forth in Exhibit C-1. Further, LANDLORD and TENANT agree to sign, on or before the Commencement Date an amendment to the memorandum of lease in the form set forth in Exhibit C-2, reciting the Commencement Date and termination date of the Lease term and the commencement of TEN @ 's liability for

the payment of rent and other charges specified herein, which document shall be conclusive as to the Lease term. The provisions of this Lease shall control, however, in regard to any omissions from the memorandum of lease, or with respect to any provisions hereof which may be in conflict with the memorandum of lease.

2.3 Should TENANT continue to occupy the Premises, or any part thereof, after expiration of the term of this Lease, unless otherwise agreed in writing, such occupancy shall constitute and be construed as a tenancy from month to month only, and not a renewal hereof or an extension for any further term. In such event, TENANT shall pay to LANDLORD rent at a rate equal to 125% of the rate payable prior to such holding over and other monetary sums due hereunder shall be payable in the amount and at the time specified in this Lease, and such month to month tenancy shall be on the same terms and conditions of this Lease then in effect. This paragraph shall not be construed as granting any grace period for vacating the Premises.

2.4 TENANT is hereby given the option to extend the term on all of the provisions contained in this Lease, except for monthly Fixed Rent, for one five (5) year period following the expiration of the initial term (the "First Extended Term"), by giving notice of exercise of the option (the 'First Option Notice") to LANDLORD not less than one hundred eighty (180) days and not more than two hundred seventy (270) days prior to the expiration of the initial term of this Lease. TENANT shall have the additional option to extend the term of this Lease on all the provisions contained in this Lease, except for the monthly Fixed Rent, for an additional five (5) year period (the 'Second Extended Term") following expiration of the First Extended Term, by giving notice of the exercise of the option (the "Second Option Notice") to LANDLORD not less than one hundred eighty (180) days and not more than two hundred seventy (270) days prior to the expiration of the First Extended Term. Provided that, if TENANT is in default under this Lease on the date of giving either the First Option Notice, or the Second Option Notice, the First Option Notice, or the Second Option Notice, shall be totally ineffective, or if TENANT is in default under this Lease on the date the First Extended Term or the Second Extended Term is to commence, the First Extended Term, or the Second Extended Term, as applicable,

shall not commence and this Lease shall expire at the end of the initial term or the First Extended Term, as applicable.

3. RENT

3.1 During the first Lease Year, TENANT agrees and covenants to pay to LANDLORD, or to such other persons or entities at such place or places as LANDLORD may from time to time designate in writing, without offset, abatement, deduction, prior notice or demand of any kind, except as otherwise specifically set forth herein, a monthly fixed rent in the sum equal to EIGHTY-FIVE CENTS ($0.85) per rentable square foot (hereinafter 'Fixed Rent"). Fixed Rent shall be payable in advance on the first day of each month in equal monthly installments of ONE HUNDRED SIXTY-EIGHT THOUSAND FIVE HUNDRED SIXTY AND 10/100 DOLLARS ($168,560.10), and shall not be increased, abated or diminished unless expressly set forth herein.

3.2 Monthly Fixed Rent for the second Lease Year and for each Lease Year thereafter shall be increased to an amount determined by multiplying the total rentable square feet in the Premises (approximately 198,306 rentable square feet) by the following amounts:

LEASE YEAR	$ PER RENTABLE SQUARE FOOT PER MONTH
2	$ 0.91
3	$ 0.94
4	$ 0.96
5	$ 0.98
6	$ 1.01
7	$ 1.03
8	$ 1.055
9	$ 1.08
10	$ 1.11
11	$ 1.135

12	$ 1.165
13	$ 1.195
14	$ 1.225
15	$ 1.25

3.3 Provided TENANT is not in default hereunder, upon not less than thirty (30) days, prior written notice to LANDLORD, TENANT shall have the right to elect to defer payment to LANDLORD of an amount of the monthly Fixed Rent payable during the calendar year 1993 equal to an amount not to exceed fifty percent (50%) of any such monthly Fixed Rent. Any rent so deferred by TENANT shall hereinafter be referred to as the 'Deferred Rent". Such Deferred Rent shall accrue interest at the rate of ten percent (lot) per annum commencing upon the date such Deferred Rent would have been payable had the deferral election not been made by TENANT, with such interest compounding monthly. Commencing January 1, 1994, and on the first day of each and every month thereafter during the term of this Lease, TENANT shall pay to LANDLORD monthly installments sufficient to amortize the aggregate Deferred Rent, plus interest accrued thereon through December 31, 1993 (the 'Deferral Amount") over the remaining term of this Lease (without taking into account the extension terms), at an interest rate of ten percent (10*) per annum. TENANT shall have the right to prepay the Deferral Amount, plus interest accrued thereon, at any time without premium or bonus. Upon the occurrence of any default by TENANT hereunder, or upon any termination of this Lease without default by TENANT, the Deferral Amount, plus interest accrued thereon, shall immediately be due and payable by TENANT to LANDLORD. TENANT expressly acknowledges and agrees that the Deferral Amount, plus interest thereon, is in the nature of a loan from LANDLORD to TENANT, and in this regard, TENANT's obligations to pay such Deferral Amount, along with interest thereon, as herein provided, shall be absolute and unconditional and without offset, abatement or deduction, and TENANT hereby waives demand, presentment for payment, protest, notice of protest, notice of nonpayment of the Deferral Amount and all other notices of any kind or nature relating thereto.

3.4 TENANT's obligation to pay Fixed Rent, shall commence on the Commencement Date. Notwithstanding the foregoing, in the event the Commencement Date occurs prior

to the delivery by LANDLORD'S construction manager, Bilbro & Giffen, to LANDLORD and TENANT of a certification that the Tenant Improvements for the entire Premises are substantially complete and that the Premises are in move-in condition, TENANT's Fixed Rent obligations shall be pro-rated based upon the rentable square footage of the Building(s) occupied by TENANT. Further notwithstanding the foregoing and provided that LANDLORD's construction manager, Bilbro & Giffen, shall have provided to LANDLORD and TENANT a certification (or certifications) that the Tenant Improvements for the entire Premises are substantially complete and in move-in condition not later than sixty (60) days after the Commencement Date, TENANT's obligations to pay Fixed Rent for the entire Premises shall commence on the ninetieth (90th) day after the Commencement Date. In the event TENANT has not been provided with all such certifications within such sixty (60) day period TENANT's obligations to pay Fixed Rent for the entire Premises shall commence on the thirtieth (30th) day after TENANT is provided the final certification from Bilbro & Giffen that the Tenant Improvements in the entire Premises are complete and in move-in condition. The date upon which TENANT's obligation to pay Fixed Rent shall hereinafter be referred to as the 'Fixed Rent Commencement Date". If the Fixed Rent Commencement Date is not the first day of a calendar month, the first month's Fixed Rent shall be prorated on the basis of a thirty (30) day month, and shall be payable with the first full monthly rental due hereunder. TENANT's obligation to pay Additional Rent (as that term is defined in Paragraph 3.6 hereof) and other charges shall commence on the Commencement Date.

3.5 The term "Lease Year" is herein defined as the twelve full calendar month period following the Commencement Date of the term hereof, and any annual anniversary thereof.

3.6(a) In addition to the Fixed Rent, and all other sums due hereunder, TENANT shall pay to LANDLORD increases in Building Operating Expenses (as hereinafter defined and calculated) over those Building Operating Expenses for calendar year 1993. TENANT's obligations to pay to LANDLORD such increases in Building Operating Expenses, as well as all other amounts payable by TENANT to LANDLORD hereunder (other than Fixed Rent, the Deferral Amount, the amortization of the Additional Tenant Improvement Allowance described in Paragraph 4.1(a) or the

Expansion Loan Obligation described in Paragraph 3.8 hereof), together with any late charges or interest that may accrue thereon in the event of TENANT'S failure to timely pay the same, shall be deemed Additional Rent. The term "Building Operating Expense' as used herein shall mean any and all costs, charges, expenses and disbursements of every kind and nature which LANDLORD shall pay or become obligated to pay, during the term of the Lease, because of, or in connection with, the operation, ownership, maintenance, repair and management of the Premises in accordance with the terms of this Lease, including, but not limited to, the cost or charges for the following items: heating, air conditioning, water, steam and fuel, real estate taxes, general and special assessments, license fees, levies, charges, expenses and impositions (as defined in Paragraph 8.1(a) and as qualified by Paragraph 8.2 hereof), Environmental Surcharges (as defined in Paragraph 8.1(b) hereof), waste disposal, janitorial services, security services (if any), window cleaning, materials, supplies, equipment and tools, service agreements on equipment, insurance as required by Paragraph 12 hereof, the cost of compliance with any fire, safety or other governmental rule or regulation imposed upon LANDLORD with respect to the Premises (or any portion thereof), wages and salaries, employee benefits and payroll taxes, reasonable accounting and legal expenses, administrative fees and overhead expenses, management fees (provided that it LANDLORD manages the Premises, the amount included for management fees shall not exceed the amount typically charged by independent management companies in the San Diego metropolitan area), landscape and exterior maintenance for the grounds and parking area of the Premises, the cost to LANDLORD of maintenance and repair of the Premises, in accordance with LANDLORD's obligations herein, and the cost of contesting the validity or applicability of any governmental enactments which may affect Building Operating Expenses. LANDLORD shall furnish or cause to be furnished to the Premises the services set forth in exhibit D attached hereto and made a part hereof, at the times provided therein for the term of this Lease. Any services not expressly described in such Exhibit D or otherwise expressly described herein shall be voluntary and LANDLORD shall have the right to terminate such services at any time in its sole discretion. For the purposes of this Lease, Building Operating Expenses shall not include interest expenses, leasing commissions, depreciation on the buildings comprising the Premises, the matters set forth in Exhibit E attached hereto and made a

part hereof. Building Operating Expenses shall also not include the cost of capital expenditures, however, the costs of structural repairs, Required Capital Improvements and Costs Savings Improvement should be included to the extent of each year's amortization of such costs incurred by LANDLORD after the date any space in the Premises was first occupied by TENANT; such costs shall be amortized (with interest as paid by LANDLORD or if such costs are internally financed, with interest computed at a rate of ten percent (10%r) per annum over the useful life, as calculated pursuant to the provisions of Internal Revenue Code of the items for which such costs were incurred. For purposes hereof "structural repairs" included in Building Operating Expenses shall not include structural repairs which result from latent defects in, or significant design error relating to, the initial design or construction of the shell portion of any Building comprising the Premises; "Required Capital Improvements' shall be improvements or replacements made in or to the Premises in order to conform to changes, after the date any space in the Premises was first occupied by TENANT, in all applicable laws, ordinances, rules, regulations or orders of any governmental authority having jurisdiction over the Premises; "Costs Savings Improvements' shall mean any capital improvements or replacements which are intended to reduce or stabilize Building Operating Expenses, or to provide additional or increased services or facilities to the tenants of the Premises. Costs of structural repairs and Cost Saving improvements exceeding $50,000 which are installed after calendar year 1993 require the prior approval of TENANT before inclusion in Building operating Expenses.

(b) During December, 1993 and during December of each calendar year of the term of this Lease (or as soon thereafter as is reasonably practicable), LANDLORD shall give TENANT written notice of its reasonable estimate of amounts payable under this Section 3.6 for the ensuing calendar year. on or before the first day of each month during the ensuing calendar year, TENANT shall pay to LANDLORD one-twelfth (1/12) of such estimated amounts, provided that if such notice is not given in December, TENANT shall continue to pay on the basis of the prior year's estimate until the first day of the month after such notice is given.

(c) An annual adjustment reflecting the difference between the actual Building Operating Expenses

for such calendar year and the Projected Building Operating Expenses shall be made within sixty (60) days after issuance by LANDLORD of the statement of the actual Building Operating Expenses incurred for such calendar year, and payment shall be due thirty (30) days after the annual adjustment notice is received by TENANT. TENANT shall have the right to audit any LANDLORD'S statement of Building Operating ExPenses, including the statement for base year 1993 expenses at TENANT,s sole cost and expense, upon not less than five (5) business days, prior written notice to LANDLORD. Any such audit shall be undertaken by an employee of TENANT or its contracted representative from a Certified Public Accounting Firm at reasonable business hours and in conformance with generally accepted auditing standards. LANDLORD agrees to cooperate with any such audit provided that such cooperation shall be at no cost or expense to LANDLORD. TENANT's failure to either request an audit of any such statement of Building Operating Expenses within three (3) years after its receipt of any such statement, or to complete such audit within six (6) months of any request therefor, shall render such statement final and binding upon both LANDLORD and TENANT and such statement shall not be available for audit thereafter. In the event TENANT and LANDLORD dispute any audit exception discovered in connection with TENANT's exercise of its audit rights hereunder, the parties shall submit such dispute to their outside audit firm for resolution. In the event the resolution results in a credit to either party, such party shall have the right to elect to obtain such credit in a lump sum or by a credit from the next installment of Fixed Rent if such credit runs to TENANT, or an increase in the next installment of Fixed Rent if such credit runs to LANDLORD.

(d) Notwithstanding LANDLORD's obligations to provide TENANT with the services described in Exhibit D hereto, at any time after calendar year 1993 TENANT becomes dissatisfied with the level of any particular service provided by LANDLORD as described therein, TENANT shall have the right, upon not less than thirty (30) days prior written notice to LANDLORD, to elect to terminate LANDLORD's obligation to provide such service to TENANT and to secure such service for TENANT'S own account at TENANT's sole cost, expense and liability. Upon TENANT's exercise of such election, TENANT's obligations to pay Fixed Rent hereunder shall be reduced by the actual cost to LANDLORD of such service incurred during calendar year 1993. Further,

TENANT's obligations to pay Additional Rent shall be adjusted to exclude any increases in the cost of such service over calendar year 1993. After calendar year 1993, TENANT Shall have the additional right to request LANDLORD to consent to increase or decrease the level of any particular service described in Exhibit D hereto, which LANDLORD's consent shall not be unreasonably withheld, and in such event, upon the exercise of such right TENANT's obligations to pay Fixed Rent shall be increased, as a result of any request for an increase in such service, or decreased as a result of any request for a decrease in such service, by an amount equal to the cost to LANDLORD of any increase or decrease in the level of such service, and any further increases in the cost of such service shall continue to be passed through to TENANT in accordance with the provisions of Paragraph 3.6(a) hereof. In the event that the parties agree to both the scope and cost of any increase or decrease in such services, a similar adjustment to the services, Fixed Rent and Additional Rent may occur during calendar year 1993.

3.7 (a) LANDLORD and TENANT shall have thirty (30) days after LANDLORD receives the First Option Notice in which to agree on monthly Fixed Rent during the First Extended Term. If the parties agree on the monthly Fixed Rent for the First Extended Term during that thirty (30) day period, they shall immediately execute an amendment to this Lease stating the monthly Fixed Rent for such First Extended Term. If the parties are unable to agree on the monthly Fixed Rent for the First Extended Term within that thirty (30) day period, then, within ten (10) days after the expiration of such thirty (30) day period, each party, at its cost and by giving notice to the other party, shall appoint a real estate appraiser, with an MAI designation and at least five (5) years full time commercial appraisal experience in the area in which the Premises are located, to appraise and set the fair market rental rate for the First Extended Term, for a space of comparable size, quality and location (the 'Fair Market Rental Rate"). The term "Fair Market Rental Rate" for the purposes of this Lease, shall mean the annual amount per rentable square foot that a willing, comparable, new non-renewal, non-equity, non-expansion tenant will pay for office space, and LANDLORD would accept, at a=ls length, giving appropriate consideration to annual rental rates per rentable square foot, escalation (including type, gross or net, and if gross, whether base year or expense 'stop"), and abatement

pro,visions reflecting free rent during the Lease term, brokerage commissions, if any, length of the Lease term, size and location of premises being leased, building standard work letters and/or tenant improvement allowance, if any, and other generally applicable terms and condition, of tenancy for comparable space in comparable buildings as evidenced where possible by recently consummated lease transactions. If a party does not appoint an appraiser within ten (10) days after the other party has given notice of the name of its appraiser, the single appraiser appointed shall be the sole appraiser and shall set the Fair Market Rental Rate for the First Extended Term. If the two appraisers are appointed by the parties as stated in this paragraph, they shall meet promptly and attempt to set the Fair Market Rental Rate for the First Extended Term. If they are unable to agree within thirty (30) days after the second appraiser has been appointed, they shall attempt to elect a third appraiser meeting the qualifications stated in this Section 3.7 (a) within ten (10) days after the last day the two appraisers are given to set the Fair Market Rental Rate. If they are unable to agree on the third appraiser, either of the parties to this Lease, by giving ten (10) days, notice to the other party, can file a petition with the American Arbitration Association solely for the purpose of selecting a third appraiser who meets the qualifications stated in this paragraph. Each party shall bear half the cost of the American Arbitration Association appointing the third appraiser and of paying the third appraiser's fee. The third appraiser, however selected, shall be a person who has not previously acted in any capacity for either party. within thirty (30) days after the selection of the third appraiser, a majority of the appraisers shall set the Fair Market Rental Rate for the First Extended Term. If the majority of the appraisers are unable to set the Fair Market Rental Rate within the stipulated period of time, the three appraisals shall be added together and their total divided by three; the resulting quotient shall be the Fair Market Rental Rate for the Premises during the First Extended Term. In setting the Fair Market Rental Rate for the First Extended Term, the appraiser or appraisers shall consider the use to which the Premises are restricted under this Lease and shall not consider the highest and best use for the Premises without regard to the restriction on use of the Premises contained in this Lease. If, however, the low appraisal and/or the high appraisal is/are more than ten percent (10*) lower and/or higher than the middle appraisal, the low appraisal and/or the high appraisal shall be

disregarded. If only one appraisal is disregarded, the remaining two appraisals should be added together and their total divided by two; the resulting quotient shall be the Fair Market Rental Rate for the Premises during the First Extended Term. If both the low appraisal and the high appraisal are disregarded as stated in this Section 3.7(a), the middle appraisal shall be Fair Market Rental Rate for the Premises during the First Extended Term. After the Fair Market Rental Rate for the First Extended Term has been set, the appraiser shall immediately notify the parties. The monthly Fixed Rent for the First Extended Term shall be ninety percent (90%) of the monthly Fair Market Rental Rate determined in the manner provided herein.

(b) The parties shall have thirty (30) days after LANDLORD receives the Second Option Notice in which to agree on a monthly Fixed Rent during the Second Extended Term. If the parties agree on the monthly Fixed Rent for the Second Extended Term during that thirty (30) day period, they shall immediately execute an amendment to this Lease stating the monthly Fixed Rent. If the parties are unable to agree on the minimum monthly rent for the Second Extended Term within that thirty (30) day period, then the parties shall exercise the appraisal procedure outlined in Section 3.7(a) of this Lease to determine the Fair Market Rental Rate for the Second Extended Term. The monthly Fixed Rent for the Second Extended Term shall be ninety percent (90%) of the monthly Fair Market Rental Rate for the Second Extended Term.

(c) Notwithstanding the foregoing subparagraphs (a) or (b) of this Section 3.7, in no instance will the monthly Fixed Rent for the First Extended Term be less than the monthly Fixed Rent provided for during the last year of the original term of this Lease, nor will the monthly Fixed Rent for the first year of the Second Extended Term, be less than the monthly Fixed Rent for the last year of the First Extended Term.

4. IMPROVEMENTS TO THE PREMISES

4.1 (a) Upon execution hereof, LANDLORD shall, in compliance with all applicable codes, laws, regulations and ordinances, including, without limitation, all applicable governmental requirements included within Title 24 Regulations, Handicapped Access and the Americans with Disability Act (1988), complete all deferred maintenance items in the Buildings comprising the Premises, including,

without limitation, existing HVAC systems, window systems and roof systems, and provide reasonable documentation that all necessary repairs have been effected to the roof and HVAC systems such that such systems are in proper working condition. Further LANDLORD shall replace all concrete flooring on the second floor of each of the Buildings comprising the Premises that do not meet TENANT's specifications of 2,000 lbs. per square inch lightweight concrete. LANDLORD shall demolish all existing tenant improvements. All of the foregoing shall be at LANDLORD's cost and expense. A schedule of LANDLORD's obligations to prepare the Premises for TENANT's Tenant Improvements (as that term is hereinafter defined) is attached hereto as Exhibit F and made a part hereof. In addition to the foregoing, LANDLORD agrees to spend $200,000 to upgrade lobbies, rest rooms, loading docks in the buildings, or to create an outside eating and gathering area in the Premises for the exclusive use of TENANT's employees. These funds shall be applied in LANDLORD's discretion after consultation with TENANT for the reasonable enhancement of the Premises as a "campus type" office project. Attached hereto as Exhibit G is TENANT's current schedule for the preparation of a space plan, working drawings and detailed specifications (collectively the 'Plans") for TENANT's improvements of the Premises (the "Tenant Improvements') and for the commencement and completion of the construction of such Tenant Improvements. LANDLORD and TENANT shall make good faith efforts to meet the time frames set forth in such schedule. LANDLORD shall, in compliance with all applicable codes, laws, regulations and ordinances, construct such Tenant Improvements at TENANT's sole cost and expense, subject to LANDLORD's obligations under Paragraphs 4.1(a) and (b) and 5.2 hereof, and subject to TENANT's right to approve the construction contract relating thereto, which consent shall not be unreasonably withheld or delayed. The Plans submitted by TENANT to LANDLORD shall be reviewed by LANDLORD which shall make modifications that may be necessitated for structural purposes and LANDLORD shall approve (and modify as required) such Plans within fifteen (15) days of its receipt of same. Once approved by LANDLORD, the Plans shall not be modified or amended without LANDLORD's prior written consent. LANDLORD agrees that it shall not unreasonably withhold its approval to the Plans or to changes thereto, except as otherwise provided herein. TENANT shall have the right to make reasonable requests for changes to the Plans during the construction of the Tenant Improvements, however any such changes shall be at TENANT's

sole cost and expense, subject to availability of the Tenant Improvement Allowance or the Additional Tenant Improvement Allowance. Further, any delays in the completion of the Tenant Improvements which result from TENANT's delays in completing the Plans or from modifications or changes to the Plans requested by TENANT shall be deducted from the ninety (90) day time period between the Commencement Date and the Fixed Rent Commencement Date for the entire Premises provided in Paragraph 3.4 hereof, to the end that LANDLORD shall suffer no delay in its receipt of such Fixed Rent for the entire Premises as a result of any such modifications or changes to the Plans requested by TENANT. Subject to the foregoing, and to Paragraph 4.2 hereof, LANDLORD shall exercise reasonable efforts to complete such Tenant Improvements in a reasonable period. TENANT shall accept possession of the Premises upon its receipt of a certification from LANDLORD's construction manager, Bilbro & Giffen, that the Tenant Improvements are substantially complete and in move-in condition.

(b) (i) LANDLORD shall provide TENANT with a tenant improvement allowance of $20.00 per rentable square foot, which sum shall be allocated to the cost of design and installation of the Tenant Improvements (the "Tenant Improvement Allowance"). In addition to the Tenant Improvement Allowance, LANDLORD agrees to make available to TENANT an additional sum of $8.00 per rentable square foot for such Tenant Improvements (the "Additional Tenant Improvement Allowance"). The parties acknowledge and agree that the Fixed Rent provided for herein is based upon the calculation that the Tenant Improvement Allowance will be sufficient to fund the Tenant Improvements. in the event that TENANT does not utilize the entire Tenant Improvement Allowance, the differential between the Tenant Improvement Allowance and the amount of monies actually expended in connection with the Tenant Improvements shall be credited against TENANT's Fixed Rent obligations based upon an amortization of such differential over the term of the Lease at an interest rate equal to the yield, as of the date of execution of this Lease, of TENANT's publicly traded 8.75t bonds due March 15, 2007. In the event TENANT utilizes any portion of the Additional Tenant Improvement Allowance, the full amount of the Additional Tenant Improvement Allowance utilized by TENANT shall be charged to TENANT upon completion of all such Tenant Improvements by an increase in the Fixed Rent payable by TENANT hereunder based upon an amortization of such Additional Tenant Improvement Allowance

over the term of the Lease (without considering any extension term) at a rate equal to the yield, as of the date of the execution of this Lease, of TENANT's publicly traded 8.75t bonds due March 15, 2007. TENANT's obligations to repay to LANDLORD any portion of the Additional Tenant Improvement Allowance utilized to fund Tenant Improvements shall be subject to and governed by the provisions of the last sentence of Paragraph 3.3 hereof. Any cash received by LANDLORD as a result of energy credits resulting from the installation of energy saving devices in the Tenant Improvements shall be credited to the Tenant Improvement Allowance.

(ii) During the construction of the Tenant Improvements by LANDLORD, LANDLORD shall, at its own cost and expense, retain Bilbro & Giffen to perform certain construction management services on behalf of LANDLORD. TENANT shall be responsible to reimburse LANDLORD at the substantial completion of the Tenant Improvements for any costs of construction management services incurred from Bilbro & Giffen for any services requested by TENANT beyond the scope of services set forth in Article 1 of the American Institute of Architects Standard Form of Agreement between Owner and Construction manager, AIA Document B801. Such construction management services shall not be deducted from either the Tenant Improvement Allowance or the Additional Tenant Improvement Allowance. TENANTS reimbursement obligations hereunder are subject to and governed by the provisions of the last sentence of Paragraph 3.3 hereof.

(c) In addition to the Tenant Improvement Allowance and the Additional Tenant Improvement Allowance, LANDLORD shall provide TENANT with a refurbishment allowance of up to $3 per rentable square foot for repair, remodel (subject to the provisions of Paragraph 10.1 hereof) refurbishment and/or replacement in similar kind of Tenant Improvements constructed by LANDLORD for TENANT at the commencement of the term of this Lease (the "First Refurbishment Allowance"), which First Refurbishment Allowance may be utilized at any time by the TENANT during the sixth (6th) through the tenth (10th) Lease Year hereof. Further, LANDLORD shall provide TENANT with an additional refurbishment allowance of up to $3 per rentable square foot for repair, remodel (subject to the provisions of Paragraph 10.1) refurbishment and/or replacement in similar kind of the Tenant Improvements in the Premises (the "Additional Refurbishment Allowance,-), which Additional Refurbishment

Allowance can be utilized at any time during the eleventh (llth) through the fifteenth (15th) Lease Year.

(d) In connection with the Tenant Improvement Allowance and the Additional Tenant Improvement Allowance, LANDLORD shall utilize such allowances in connection with its construction of the Tenant Improvements in accordance with the terms of Paragraph 4.1 hereof. In the event the costs of such Tenant Improvements exceed the SUM of such allowances, TENANT shall remit to LANDLORD, immediately upon LANDLORD's demand therefor, such additional amounts incurred by LANDLORD in connection with its construction of such Tenant Improvements. TENANT's obligations hereunder shall be subject to and governed by the last sentence of Paragraph 3.3 hereof. LANDLORD shall disburse the First Refurbishment Allowance and the Additional Refurbishment Allowance to TENANT only upon TENANT'S completion of the repair and refurbishment work relating thereto. All such billings against the Initial Refurbishment Allowance shall be made prior to the expiration of the tenth Lease Year and all billings against the Additional Refurbishment Allowance shall be made prior to the expiration of the fifteenth Lease Year.

4.2 If the time of commencement or completion of the repair and maintenance described in Paragraph 4.1 is delayed because of labor disruptions, war, insurrection, governmental restrictions, fire, flood, storm, or any other cause not reasonably within the control of LANDLORD, the time for commencement and completion shall be extended provided LANDLORD shall have notified TENANT in writing, in the manner provided in Paragraph 2.4 hereof, of the delay within five (5) business days of the onset of such delay. Such written notice from the LANDLORD to TENANT shall specify the number of days commencement or completion of such repair and maintenance is expected to be delayed by the event which caused the delay.

4.3 Both parties must perform their obligations under this Article 4 with reasonable skill and diligence and may not intentionally interfere with or prevent the other party's performance of its obligations under this Article 4.

5 TENANT'S ACCEPTANCE OF THE PREMISES, ADDITIONAL ALLOWANCES

5.1 Subject to LANDLORD'S obligations described in Paragraph 4.1 and 7.2 hereof, TENANT acknowledges that LANDLORD has made no representation or warranty to TENANT regarding the condition of the Premises or their present or future suitability for TENANT'S intended use, except as otherwise expressly set forth in this Lease.

5.2 In addition to the Tenant Improvement Allowance and the Additional Tenant Improvement Allowance, LANDLORD will provide TENANT with the following supplemental allowances (the "Supplemental Allowances,,):

(a) for space programming services for the Buildings comprising the Premises performed by the Austin Hansen Group up to $0.10 per rentable square foot;

(b) for space planning services and working drawings for the Tenant Improvements performed by the Austin Hansen Group up to $0.60 per rentable square foot; and

(c) for consulting services to be performed by Space Matters in connection with the move of TENANT into the Premises up to $0.20 per rentable square foot.

In connection with the foregoing Supplemental Allowances TENANT shall negotiate with the above consultants acceptable contracts for the foregoing services immediately after the execution of this Lease and will provide LANDLORD with such contracts which LANDLORD will execute within a reasonable period of time after its receipt thereof. TENANT agrees that LANDLORD's execution of such contracts is intended solely to expedite the performance of the services described therein and TENANT agrees to hold LANDLORD harmless from any claims that may arise under any such contract regarding the performance by any such consultant of such services. Further, TENANT agrees that it shall certify to LANDLORD, prior to LANDLORD's obligation to pay any portion of the Special Allowances relating thereto, that such amounts have been properly incurred thereunder. Any charges or fees incurred under any such contract which exceed the particular Special Allowance relating thereto shall, at TENANT's

option, (i) be offset against the Tenant Improvement Allowance or the Additional Tenant Improvement Allowance (to the extent sums remain available thereunder), or (ii) be reimbursed directly to LANDLORD.

5.3 In addition to the Tenant Improvement Allowance, the Additional Tenant Improvement Allowance and the Supplemental Reimbursement Allowances, LANDLORD shall provide to TENANT a relocation allowance in the amount of up to $2.00 per rentable square foot for reimbursement to TENANT for relocation expenses incurred by TENANT (the "Moving Allowance-). Not sooner than thirty (30) days after the Fixed Rent Commencement Date, TENANT shall submit to LANDLORD invoices approved by TENANT reflecting such relocation expenses, and LANDLORD shall pay any such invoices within thirty (30) days Of LANDLORD's receipt of any such approved invoices. LANDLORD shall have n, further obligation to disburse any Moving Allowance to TEN@ unless all invoices relating thereto have been submitted by TENANT to LANDLORD not later than six (6) months after the Fixed Rent Commencement Date.

5.4 The Premises shall be thoroughly cleaned, at LANDLORD's sole cost and expense, prior to, and immediately following, TENANT's move into the Premises.

6. EVIDENCE OF POSSESSION

6.1 Attached hereto as Exhibit H is a copy of the preliminary title report of Commonwealth Land Title Company dated March 10, 1992, Order No. 942369 relating to the Premises (the "Title Report').

6.2 LANDLORD covenants with TENANT that the LANDLORD owns the fee simple estate in the Premises and has full right and lawful authority to lease the Premises to TENANT. LANDLORD covenants with TENANT to keep TENANT in quiet possession of the Premises during the term of this Lease and any extension thereof, provided TENANT performs all of its duties and obligations under this Lease.

6.3 LANDLORD hereby represents and warrants to TENANT as follows:

(a) LANDLORD's title to the Premises is subject to certain liens, easements,

restrictions and encumbrances, as described in the Title Report, herein referred to as "Underlying Documents'-; but none of the foregoing prohibit the use of Premises for Purposes contemplated by TENANT and described in Paragraph 7.1 hereof;

(b) To the beet of LORD'S knowledge, its fee title to the Premises is subject only to those liens, easements, restrictions and encumbrances reflected in the Title Report;

(c) To the best of LANDLORD'S knowledge, no existing zoning ordinance or restrictive covenant prevents the use of the Premises for the specific purposes set forth in Paragraph 7.1 if the Premises are constructed in accordance with the space plan to be reviewed and approved by LANDLORD hereunder;

(d) To the best of LANDLORD's knowledge, the terms and conditions of this Lease, including the exhibits attached hereto, are in compliance with and do not violate the provisions of the Underlying Documents;

(e) To the best Of LANDLORD's knowledge, there is no asbestos containing material in the Premises.

7. USE OF PREMISES: POSSESSION

7.1 TENANT may use the Premises for administration and general office purposes, and for such incidental uses reasonably deemed to benefit its employees and invitees, including but not limited to food service, gym and childcare facilities, and for no other purpose without the prior written consent of LANDLORD, which shall not be unreasonably withheld.

7.2 LANDLORD shall be required to comply with legal requirements relating to the physical condition of the structural portions of the Premises, subject to the provisions of Paragraph 4.1 and except as otherwise provided in Paragraph 5 hereof. TENANT shall comply with all legal requirements which relate to the Premises, their physical condition and their use in all other respects.

8. REAL ESTATE TAXES

8.1 LANDLORD shall pay at the times and in the manner set forth below, subject to reimbursement by TENANT under Paragraph 3.6 hereof as more particularly qualified in Paragraph 8.2 hereof, all real estate taxes, general and special assessments, license fees, levies, charges, expenses, impositions and Environmental Surcharges, as more fully described below, including any real estate tax consultant expense incurred for the purpose of maintaining equitable tax assessments on the Premises, payable with respect to the Premises as follows:

(a) "Real estate taxes, general and special assessments, license fees, levies, charges, expenses, and impositions" shall not include any fines, charges, penalties, assessments or impositions incurred by LANDLORD, resulting from LANDLORD's failure to timely pay any such items, violations of law or other negligent or delinquent activities of LANDLORD, but shall mean such taxes, assessments, levies and charges levied, assessed or imposed:

(i) upon or with respect to, or which shall be or may become liens upon the Premises, or any portion thereof or any interest of LANDLORD in them or under this Lease, including any increases thereof resulting from the sale or other disposition of the Premises, or any portion thereof, or any interest therein; or

(ii) upon or against, or which shall be measured by, or shall be or may become liens upon, any rents or rent income, as such, payable to or on behalf of LANDLORD, in connection with the Premises or any portion of them or any interest of LANDLORD in them; or

(iii) upon or with respect to the ownership, possession, leasing operation, management, maintenance, alteration, repair, rebuilding, use or occupancy by TENANT of the Premises or any portion of

them or any building or improvement of which they are a part; or

(iv) upon any document to which TENANT is or becomes, a party creating or transferring an interest in or any estate in the Premises; or

(v) upon or against LANDLORD or any interest of LANDLORD in the Premises in any manner and for any reason whether similar or dissimilar to the foregoing, under or by virtue of any present or future law, ordinance, regulation or other requirement of any governmental or quasi-governmental authority, regardless of whether now customary or within the contemplation of the parties hereto and regardless of whether resulting from increased rate and/or valuation, or whether extraordinary or ordinary, general or special, unforeseen, or foreseen, or similar or dissimilar to any of the foregoing.

(b) "Environmental Surcharge" shall mean and include any and all expenses, taxes, charges or penalties imposed by the Federal Department of Energy, Federal Environmental Protection Agency, The Federal Clean Air Act, or any regulations promulgated thereunder, or by any other local, state or federal governmental agency or entity now or hereafter vested with the power to impose taxes, assessments, or other types of surcharges as a means of controlling or abating environmental pollution or the use of energy in regard to the use, operation or occupancy of the Premises, so long as such expenses, taxes, charges or penalties could not reasonably have been avoided by LANDLORD's reasonable conduct not involving the expenditure of money.

(c) All of the items set forth in subparagraphs (a) and (b) above are sometimes collectively referred to in this Lease as "taxes".

8.2 (a) For purposes of calculating TENANT's obligations to pay increases in ad valorem real estate taxes over such expenses for the calendar year 1993, the maximum

annual increase in such items to be passed through to TENANT under Paragraph 3.6 hereof shall be two percent (2k) per annum, cumulative. Notwithstanding the foregoing, in the event of a sale of the Premises by the LANDLORD executing this Lease, AMERICAN NATIONAL INSURANCE COMPANY ("ANTCO"), any increase in ad valorem real estate taxes resulting from any such change of ownership shall not be passed through to TENANT. Upon any subsequent sale of the Premises by a successor to ANICO, any increase in ad valorem real estate taxes resulting from any such change of ownership shall not be passed through to TENANT, however, LANDLORD shall have the right to exercise the "Buy-Back Right' provided for in Article 37 hereof, in which event such ad valorem real estate tax increases shall be passed through to TENANT. In the event the State of California or any applicable governmental agency changes the manner in which commercial real property is taxed at any time during the term of this Lease, as it may be extended as provided herein, any increase in such taxes shall be passed through to TENANT in its entirety under Paragraph 3.6 hereof, notwithstanding the fact that such increase may occur in calendar year 1993. As used herein, the term "ad valorem real estate tax" shall mean any tax imposed by the State of California, the County of San Diego, the City of San Diego and/or any agency thereof based upon the value of the Premises, any fixtures included therein, and the real property relating thereto.

8.2(b) Notwithstanding anything that may be construed to the contrary in Paragraph 3.6 hereof, TENANT shall be fully responsible to reimburse LANDLORD for any and all additional tax liability resulting from any increase in the costs of the Tenant Improvements over $20.00 per rentable square foot, which obligations shall be subject to and governed by the provisions of the last sentence of Paragraph 3.3 hereof.

8.3 TENANT shall pay, or cause to be paid, prior to delinquency, directly to the taxing authority, any and all taxes levied, assessed or which become payable during the lease term upon TENANT'S leasehold improvements, equipment, furniture, fixtures and other personal property located in the Premises. In the event any or all of TENANT'S leasehold improvements (other than the Tenant improvements), equipment, furniture, fixtures and other personal property shall be assessed and taxed with any building included within the Premises are a part, TENANT shall pay to such taxing authority directly its share of

such taxes within thirty (30) days after delivery to TENANT of a statement in writing setting forth the amount of such taxes applicable to TENANT'S property.

8.4 If any general or special assessment is assessed against the Premises, the following shall apply: Regardless of whether LANDLORD elects to pay the assessment in installments, assessments shall be computed as if LANDLORD had elected to pay the same in installments over the longest period allowable by the taxing authority and only those installments (or partial installments) attributable to installment periods (or partial periods) falling within the term of this Lease shall be considered in determining TENANT'S tax liability under Paragraph 3.6 hereof.

9. MAINTENANCE AND REPAIRS

9.1 LANDLORD shall maintain in good repair and condition the interior and exterior walls, the roof, interior surfaces of the ceilings, walls and floors, the plumbing, window glass, plate glass and doors, heating, ventilation and air conditioning systems, and the electrical wiring, switches and fixtures in the Premises. Except as provided in the preceding sentence, LANDLORD shall not be obligated to paint, repair or replace wallcoverings or repair or replace any Tenant Improvements that are in addition to the improvements described in Exhibit "E" attached hereto. LANDLORD shall not be in default hereunder unless LANDLORD fails to perform obligations required of LANDLORD within a reasonable time, but in no event later than thirty (30) days after written notice by TENANT to LANDLORD (and to any lender holding a first mortgage or deed of trust on the property comprising the Premises) specifying the nature of any obligation LANDLORD has failed to perform, provided however if the nature of LANDLORD's obligation is such that more than thirty (30) days are required for performance, then LANDLORD shall not be in default if LANDLORD commences performance within such thirty (30) day period and thereafter diligently pursues the same to completion.

9.2 (a) Notwithstanding LANDLORD'S obligation to keep the Premises in good condition and repair, TENANT shall be responsible for payment of the costs thereof to LANDLORD as Additional Rent for that portion of the cost of any maintenance and repair of the Premises, or any equipment

(wherever located) that serves only TENANT or the Premises, to the extent that such cost is attributable to causes beyond normal wear and tear. TENANT shall be responsible for the costs of painting, repairing or replacing wallcoverings, and to repair and replace any Tenant Improvements that are in addition to the improvements described in Exhibit "El hereto. LANDLORD may, at its option, upon reasonable notice, elect to have TENANT perform any particulars such as maintenance or repairs, the cost of which is otherwise TENANT's responsibility hereunder.

(b) On the last day of the term hereof, as such term may be extended as herein provided, or on any sooner termination, TENANT shall surrender the Premises to LANDLORD in the same condition as received, ordinary wear and tear excepted, clean and free of debris. Any damage or deterioration of the Premises shall not be deemed ordinary wear and tear if the same could have been prevented by good operating practices by TENANT. TENANT shall repair any damage to the Premises occasioned by the installation or removal of TENANT's trade fixtures, alterations, furnishings and equipment. Except as otherwise stated in this Lease, TENANT shall leave the air lines, power panels (i.e. fuse boxes and/or electrical junction boxes), electrical distribution systems, lighting fixtures, air conditioning, window coverings, wall coverings, carpets, wall paneling, ceilings and plumbing on the Premises and in good operating condition. TENANT shall not be obligated to remove any Tenant Improvements or additional improvements that have been constructed in the Premises and approved by LANDLORD, unless LANDLORD's approval was reasonably conditioned upon TENANT's agreement to remove such additional improvements.

9.3 If TENANT fails or neglects to commence the repair of any of the items described in Paragraph 9.2 hereof within five (5) business days after receipt of LANDLORD's written notice stating the repairs required to be made, or TENANT fails to complete such repairs within thirty (30) days of such notice, or such longer period as is reasonably necessary, provided TENANT is pursuing such repairs with continuity and diligence, or in the event of an emergency, LANDLORD may make such repairs as it deems reasonably necessary for the account of TENANT. Following LANDLORD's completion of such repair work, TENANT shall promptly reimburse LANDLORD for all reasonable expenses incurred upon its receipt of paid invoices.

10. ALTERATIONS, ADDITIONS AND IMPROVEMENTS

10.1 TENANT shall not create any openings in the roof or exterior walls, nor make any structural alterations, additions or improvements to the Premises except in accordance with plans and specifications first approved in writing by LANDLORD, which approval shall not be unreasonably withheld. It shall be reasonable for LANDLORD to disapprove of such plans and specifications (i) if they result in unusual expense to re-adapt the Premises for normal office uses upon the termination of Lease, unless TENANT agrees to restore the Premises to its original configuration prior to Lease termination; or (ii) if such will result in an increase in the cost of insurance, taxes or services to be provided by LANDLORD, under this Lease, unless TENANT first agrees to pay such net increase in expenses or costs. Subject to the preceding sentence, TENANT shall have the right at all times to effect any and all interior non-structural improvements within the Premises costing in the aggregate less than $50,000 per Building provided, TENANT complies with all applicable governmental laws, ordinances and regulations, and that such improvements are of similar or better quality to those being replaced. Further, TENANT shall, at its sole cost, expense and liability, have the right to install satellite receiving equipment or antennas which shall be installed on or about the Premises, and properly shielded from view, in accordance with all applicable laws, codes and ordinances. TENANT shall be solely responsible for all costs associated with the installation and maintenance of such equipment and TENANT shall be responsible for any damage and for future maintenance of the roof systems of the Buildings as a result of the installation of such equipment.

10.2 All alterations, additions or improvements made by TENANT which are permanently attached to and made part of the Premises shall become the property of the LANDLORD at the expiration of the Lease term and any extensions thereof, except for signs, trade fixtures, display furnishings and equipment used on the Premises and furnished by TENANT and any alterations which TENANT has agreed to remove pursuant to Paragraph 9.2.

11. SIGNS

11.1 Subject to the local governing authorities LANDLORD hereby agrees that TENANT may, at its sole cost,

expense and liability and subject to all laws, codes, ordinances and regulations of the City of San Diego, erect and maintain plaques as may be reasonably approved by LANDLORD at the top of Buildings 4, 5 and 6, and shall have the right to construct monument signage as reasonably approved by LANDLORD. Such signage may be paid for out of the Tenant Improvement Allowance and the Additional Tenant Improvement Allowance. At the termination TENANT shall remove such signage at its sole cost and expense.

11.2 During the term hereof TENANT shall not be required to remove its signs unless required to do so by local codes enacted subsequent to the date hereof. TENANT may at any time remodel or replace the sign facia subject to LANDLORD'S prior written approval, which approval shall not be unreasonably withheld or delayed. Except as provided for in the Lease, no other attachments shall be made to the roof, windows, doors, or other exterior walls of the Premises without LANDLORD's prior reasonable consent.

12. INSURANCE

12.1 TENANT shall, at TENANT's expense, obtain and keep in force during the term of this Lease a policy of Combined Single Limit Bodily Injury and Broad Form Property Damage Insurance in an amount not less than $5,000,000 per occurrence of bodily injury and property damage combined or in a greater amount as reasonably determined by LANDLORD, and shall insure TENANT, with LANDLORD as an additional insured, against liability arising out of the use, occupancy or maintenance of the Premises. Compliance with the foregoing requirements shall not, however, limit the liability of TENANT hereunder. LANDLORD shall obtain and keep in force during the term of this Lease, subject to TENANT'S reimbursement as provided in Paragraph 3.6 hereof, a policy of Combined Single Limit Bodily Injury and Broad Form Property Damage Insurance, plus coverage against such other risks LANDLORD reasonably deems advisable from time to time, insuring LANDLORD, but not TENANT, against liability arising out of the ownership, use, occupancy or maintenance of the Complex in an amount not less than $5,000,000 per occurrence.

12.2 TENANT shall, at TENANT's expense, obtain and keep in force during the term of this Lease, for the benefit of TENANT, replacement costs, fire and extended coverage insurance, with vandalism and malicious mischief, sprinkler

leakage and earthquake sprinkler leakage coverage, in an amount sufficient to cover not less than 100% of the full replacement costs, as the same exists from time to time, of all of TENANT's personal property, fixtures, equipment and tenant improvements.

12.3 LANDLORD shall obtain and keep in force during the term of this Lease a policy or policies of insurance covering loss or damage to the Premises, but not TENANT's personal property, fixtures, equipment or tenant improvements, in the amount of the full replacement costs thereof, as the same may exist from time to time, utilizing Insurance Services Office Standard Form, or equivalent, providing protection against all perils included within the classification of fire, extended coverage, vandalism, malicious mischief, plate glass and such other perils as LANDLORD deems advisable, or may be required by a lender having a lien on the Premises, with a deductible amount not to exceed $25,000 without TENANT's prior consent. In addition, LANDLORD shall obtain and keep 'in force during the term of this Lease, a policy of rental value insurance covering a period of one year, with loss payable to LANDLORD, which insurance shall also cover all Building Operating Expenses for said period. TENANT shall not be named in any such policies carried by LANDLORD under Paragraphs 12.1 or 12.3 hereof, and shall have no right to any proceeds therefrom. The policies required to be obtained by the LANDLORD shall contain such deductibles as LANDLORD or its lender (if any) may determine. In the event that the Premises shall suffer any insured loss, the deductible amounts under the applicable insurance policies shall be deemed a Building Operating Expense. TENANT shall not do or permit to be done anything which shall invalidate the insurance policies carried by LANDLORD. TENANT shall pay the entirety of any increase in the property insurance premium for the Premises over what would reasonably be expected for normal office occupancy, if the increases specified by LANDLORD's insurance carrier is being caused by the nature of TENANT's occupancy, or any act or omission of TENANT.

12.4 TENANT shall deliver to LANDLORD certificates evidencing the existence and amounts of liability insurance policies required under Paragraphs 12.1 hereof, within seven (7) days after the Commencement Date. No such policies shall be cancellable or subject to reduction of coverage or other modification below that or as otherwise required in

this Article 12, except after thirty (30) days prior written notice to LANDLORD. TENANT shall, at least thirty (30) days prior to the expiration of such policies, furnish Landlord with renewals thereof.

12.5 Except where LANDLORD's agents or employee's negligence has contributed, to any claims, demands or cause of action, TENANT will indemnify the LANDLORD against, and bold LANDLORD ha=less from all claims, demands or causes of action, including all reasonable expenses of the LANDLORD incidental thereto, for injury to or death of any person arising within or on the Premises, and caused by TENANT'S act or omission or the act or omission of anyone for whom TENANT shall be responsible. The liability of TENANT to indemnify LANDLORD as hereinabove set forth shall not extend to any matter arising out of LANDLORD's wilfull misconduct or to any matter against which LANDLORD shall be effectively protected by insurance, provided, however, that if any such liability shall exceed the amount of the effective and collectable insurance in question, the said liability of TENANT shall apply to such excess.

12.6 Any insurance required to be maintained by TENANT under this Lease may be maintained either under a plan of self-insurance or from a carrier which specializes in providing coverage to or for TENANT; provided, however, that TENANT shall be entitled to utilize such self-insurance or special coverage only so long as TENANT's credit standing, as rated by Moody's Investors Services, Inc., remains BBB or better, or an equivalent rating from a credit rating agency of equivalent stature.

13. RELEASE AND WAIVER OF SUBROGATION Except as otherwise expressly provided in Paragraph 12.5 hereof, LANDLORD and TENANT hereby waive and release each other of and from any and all rights of recovery, claim, action or cause of action against each other, their agents, officers, directors, partners and employees, for any loss or damage that may occur to the Premises, or any portion thereof, or personal property including building contents within the buildings included in the Premises, by reason of fire or the elements of nature regardless of cause or origin including negligence of LANDLORD or TENANT and their agents, officers, directors, partners and employees. Because this Article 13 will preclude the assignment of any claim mentioned in it by way of subrogation or otherwise to any insurance company or any other person, each party to this Lease agrees to (i)

immediately to give to each insurance company which has issued to it policies of insurance covering all risk of direct physical loss, written notice of the terms of mutual waivers contained in this paragraph, and to have the insurance policies properly endorsed to prevent the invalidation of such insurance coverage by reason of these waivers, or (ii) provide the other party with reasonably satisfactory evidence that the policies contain such waivers. Each party shall provide the other annually with evidence that its policies have been so endorsed or continue to contain such waivers.

14. UTILITIES

14.1 LANDLORD shall provide to the Premises, subject to TENANT's reimbursement as provided in Paragraph 3.6 hereof, the services described in Exhibit D hereto.

14.2 TENANT shall pay upon occupancy of the Premises for all light, power, telephone and other utilities and services (other than water, gas, heat and the services described in Exhibit D hereto) specially or exclusively supplied and/or metered exclusively to the Premises or to the TENANT, together with any taxes thereon. LANDLORD shall pay for all such utilities for that portion of the Premises under construction prior to the Fixed Rent Commencement Date for the entire Premises.

14.3 Said services and utilities shall be provided during generally accepted business days and hours or such other days or hours as may hereafter be set forth. Utilities and services required at other times shall be subject to advance requests and reimbursement by TENANT to LANDLORD of the costs thereof.

14.4 TENANT shall not make connection to the utilities except by or through existing outlets and shall not install or use machinery or equipment in or about the Premises that uses excess water, gas or heat, or suffer or permit any act that causes extra burden upon such utilities or services, including, but not limited to, security services and overstandard office usage for the Premises beyond that provided for in Exhibit "D' hereto. LANDLORD shall require TENANT to reimburse LANDLORD for any excess expenses or costs that may arise out of breach of this Paragraph 14.4 by TENANT. LANDLORD may, in its sole discretion, install at TENANT's expense, supplemental

equipment and/or separate metering applicable to TENANT's excess usage or loading. There shall be no abatement of rent, and LANDLORD shall not be liable in any respect whatsoever for the inadequacy, stoppage, interruption or discontinuance of any utility or service due to riot, strike, labor dispute, breakdown, accident, repair or other cause beyond LANDLORD's reasonable control or in cooperation with governmental request or direction.

15. ASSIGNMENTS AND SUBLEASING

15.1 (a) TENANT may not assign or sublease this Lease, in whole or in part, without the express written consent of LANDLORD, which consent shall not be unreasonably withheld or delayed. Anything herein to the contrary notwithstanding, TENANT may assign or sublease this Lease, in whole or in part, without the express written consent of LANDLORD to:

(i) any corporation into which or with which TENANT merges or consolidates;

(ii) any parent, subsidiary, successor, or affiliated corporation of TENANT;

(iii) any corporation which acquires all or substantially all of the assets or issued and

outstanding shares of capital stock of TENANT;

(iv) any partnership, the majority of which shall be owned by TENANT.

(b) Except as set forth herein, if TENANT complies with the following conditions, LANDLORD shall not unreasonably withhold its consent to the subletting of the Premises or any portion thereof or the assignment of this Lease. TENANT shall submit in writing to LANDLORD to (i) the name and legal composition of the proposed subtenant or assignee; (ii) the nature of the business proposed to be carried on in the Premises; (iii) the terms and provisions of the proposed sublease or assignment; and (iv) such reasonable financial information as LANDLORD may request concerning the proposed subtenant or assignee.

(c) No consent by LANDLORD to any assignment or subletting by TENANT shall relieve TENANT of any

obligation to be performed by TENANT under this Lease, whether occurring before or after such consent, assignment or subletting. The consent by LANDLORD to any assignment or subletting shall not relieve TENANT from the obligation to obtain LANDLORD's express written consent to any other assignment or subletting. The acceptance of rent by LANDLORD from any person other than TENANT shall not be deemed to be a waiver by LANDLORD of any provisions of this Lease or to be a consent to any assignment, subletting or other transfer. Consent to one assignment, subletting or other transfer shall not be deemed to constitute consent to any subsequent assignment, subletting or other transfer. For any assignment or sublease to be effective, the assignee or subtenant must assume the obligations of TENANT under this Lease and, upon request, shall execute any document reasonably requested by LANDLORD to evidence the same. No modification or amendment of the Lease between LANDLORD and any such assignee or sublessee, and no assignment or sublease shall relieve TENANT from any obligations to be performed by TENANT under this Lease, but no such modification or amendment shall be effective as to TENANT unless and until TENANT shall execute a written amendment or modification agreement, or a written consent to such modification or amendment.

15.2 Provided any assignee of LANDLORD assumes in writing all of LANDLORD'S obligations under this Lease and so notifies TENANT, LANDLORD may assign its interest in Lease during the term hereof; provided, however, TENANT shall make all payments required under this Lease to LANDLORD, or its successors in interest, unless and until TENANT is notified of such assignment, and TENANT is in no way liable to any assignee for any rentals due hereunder until TENANT is so notified. In the event of sale or conveyance by LANDLORD of LANDLORD's interest in the Premises, LANDLORD shall be relieved from and after the date specified in any such notice of transfer of all obligations and liabilities of LANDLORD under this Lease thereafter accruing. This release shall also apply to the sale or other conveyance by any successor landlord for the benefit of any such successor landlord.

15.3 (a) If TENANT shall receive or be entitled to receive any consideration (defined herein) for an assignment or sublease approved by LANDLORD pursuant to Paragraph 15.1 herein, which consideration is in excess of the Fixed Rent and the Additional Rent (which excess amount

is referred to herein as the "Bonus Rent"), the following shall apply:

(i) If, and for so long as TENANT shall remain liable hereunder following any such assignment or subletting, the net amount of any Bonus Rent (i.e., the total Bonus Rent less leasing commissions, attorney's fees, reasonable renovation expenses, other costs reasonably incurred by TENANT in connection with such assignment or @ lease) shall be divided equally between LANDLORD and TENANT, and LANDLORD's share shall be paid to LANDLORD as Additional Rent hereunder not later than ten (10) days following receipt by.TENANT;

(ii) If TENANT is released from liability hereunder with TENANT's consent, then, from and after the date of such release, LANDLORD shall be entitled to receive the full amount of the net Bonus Rent, which amount shall be paid directly to LANDLORD by the assignee or subtenant.

(b) The term "consideration" shall include consideration of any kind received, or to be received, by TENANT from the assignee or sublessee if such sums are related to TENANT'S interest in this Lease or in the Premises, including but not limited to, key money, bonus money, and payments in excess of the fair market value of TENANT's assets. TENANT's assets shall include, but not be limited to, TENANT's fixtures, inventory, accounts receivable, good will, equipment, furniture, general intangibles, and any capital stock or other equity ownership interest of TENANT.

(c) TENANT immediately and irrevocably assigns to LANDLORD as security for TENANT's obligations under this Lease, all rent from any subletting of all or any portion of the Premises as permitted under this Lease, and LANDLORD, as assignee and as attorney in fact for TENANT, or a receiver for TENANT appointed on LANDLORD's application may collect such rent and apply it toward TENANT's obligations under this Lease; except that, until the

occurrence of an act of default by TENANT, TENANT shall have the right to collect such rent.

16. FIRE AND CASUALTY DAMAGE

16.1 If all or any part of the Premises is damaged or destroyed by fire, tornado or other casualty, TENANT shall give immediate written notice thereof to LANDLORD.

16.2 If the Premises should be damaged by fire or other casualty required to be insured pursuant to the terms of the Lease ("Insured Cause"), except condemnation, and rebuilding or repairs cannot be completed within two hundred seventy (270) days from the date of such damage, TENANT may, within thirty (30) days of the date of the happening of such damage, terminate this Lease on written notice to LANDLORD and rent and all additional charges shall be abated as of the later of the date of the happening of the damage or the date TENANT ceases to do business at the Premises.

16.3 (a) If the Premises should be damaged and such damage is an "Insured Cause" prior to the final twelve (12) full calendar months of the Lease term to such extent that rebuilding or repair can be completed within two hundred seventy (270) days from t-he date of the happening of such damage, LANDLORD shall, limited to the extent of insurance proceeds, and deductibles payable by TENANT (hereinafter "Deductibles"), at its sole cost and expense, proceed forthwith to rebuild or repair the Premises to substantially the condition which existed prior to such damage, except that TENANT shall have the right to request for LANDLORD to make changes to the Premises in the course of such restoration, subject to the provisions of Article 10 herein (but no such changes shall be made without LANDLORD's prior written approval which shall not be unreasonably withheld). If the cost and expense of restoration of the Premises is increased by any change or changes made by TENANT, or if LANDLORD is damaged by any delay caused solely by such change or changes, then TENANT shall pay LANDLORD, as other charges, or changes promptly upon demand, the amount or amounts by which the cost or expense of restoration of the Premises was thereby increased and the amount by which LANDLORD was damaged by such delay.

(b) If the Premises should be damaged and Such damage is an "Insured Cause," during the final twelve (12) full calendar months of the initial term hereof or any

extension term, LANDLORD may, but shall not be required to, rebuild or repair such damage and if LANDLORD does not rebuild, this Lease shall automatically terminate and rent and all additional charges shall be abated as of the later of the date of such damage or the date TENANT ceases to do business in the Premises, unless TENANT exercises its option to extend the term hereof, if any is contained herein, in which case LANDLORD shall at its sole cost and expense, limited to the extent of the insurance proceeds, proceed forthwith to rebuild or repair such damage.

(c) If the existing laws do not permit restoration of the Premises to substantially the same condition as they were in immediately before destruction, then TENANT at its option, may (i) require LANDLORD to restore the Premises so as to comply with the then existing laws or codes, subject to the provisions of Paragraph 16.7 hereof, or (ii) terminate this Lease immediately by giving written notice to LANDLORD, in which case the Lease shall cease as of the later of the date of destruction or the date TENANT ceases to do business on the Premises.

16.4 The determination of whether the Premises can be rebuilt or repaired within two hundred seventy (270) days from the date of any damage shall be in the mutual reasonable judgment of both LANDLORD and TENANT. If LANDLORD and TENANT cannot agree, the determination shall be made by an independent general contractor licensed by the state of California mutually acceptable to both LANDLORD and TENANT.

16.5 If at any time the Premises shall be damaged so that TENANT is unable to conduct business from the Premises, or any part thereof, in its reasonable judgment, TENANT may discontinue the conduct of business from the portion of the damaged Premises and all Fixed Rent shall abate thereafter. If any portion of the Premises is damaged, the Fixed Rent abated shall be pro-rated based upon the square footage of the damaged Premises. The Fixed Rent abatement shall end on the earlier to occur of the date on which the damage shall be repaired or replaced or the date on which the conduct of business from the Premises shall be resumed. If Fixed Rent abates in accordance with this Paragraph 16.5, no other charges, expenses or Additional Rent payable by TENANT to LANDLORD shall abate.

16.6 If LANDLORD is required to restore the Premises and does not commence such restoration within ninety (90) days from date of the damage or destruction, and with reasonable dispatch does not continue to restore the Premises, TENANT shall have the right, upon giving written notice to LANDLORD, in addition to other rights provided herein, to terminate this Lease, and all Fixed Rent and Additional Rent shall be abated as of the date of such notice. In the event that LANDLORD should fail to substantially complete any repairs or rebuilding as contemplated by the terms of this Article 16 within two hundred seventy (270) days from the date of written notification by TENANT to LANDLORD of the happening of the damage, subject to force majeure, TENANT may terminate this Lease on written notice at such time to LANDLORD, and Fixed Rent and Additional Rent shall be abated as of the date of such notice or the date TENANT delivers possession of the Premises to LANDLORD, whichever is later. The date on which rebuilding work or repairs are deemed to be complete shall be the earlier of date on which a certificate of occupancy is issued with respect to such repair or reconstruction or the date TENANT opens for business in the Premises.

16.7 If LANDLORD is required to restore or rebuild or elects to restore or rebuild the Premises, the insurance proceeds with respect to any damage or destruction of the Premises shall be applied solely to the cost of the repair or replacement of the damage or destruction. In the event available insurance funds and deductibles, are less than the insurance proceeds required and properly allocable to the Premises (i.e., insurance funds and deductibles up to the amount required to be insured under the terms of this Lease are insufficient to cover the costs of the repairs required to be insured under the terms of this Lease), the excess costs shall be borne by the TENANT but such amount shall not exceed the amount of insurance funds and deductibles TENANT is required to be insured hereunder pursuant to Paragraph 12.2, less any reasonable attorney's fees required to collect such funds.

16.8 Notwithstanding anything to the contrary herein, any time that LANDLORD is required or permitted to rebuild the Premises or any part thereof, pursuant to Articles 16 and 17, LANDLORD, at its sole cost and expense for the increases resulting from such changes, shall be permitted to update, modernize, and make such other changes which do not adversely affect TENANT's access to, visibility

of, or change TENANT's Tenant Improvements as specified herein without the consent of TENANT.

16.9 If the Premises are damaged by a casualty not required to be insured against hereunder ("Uninsured Cause',), LANDLORD shall not be obligated to repair or rebuild the Premises and may terminate the Lease within thirty (30) days of the damage by prior written notice, provided that upon such notice TENANT shall have the opportunity to reinstate the Lease and reimburse LANDLORD for the costs of such repairs for the Uninsured Cause.

16.10 (a) If (i) the Buildings included within the Premises are damaged in whole or in part by an Insured Cause, and more than fifty percent (50%) of the combined gross floor area of all such Buildings is damaged, destroyed or rendered untenantable; (ii) insurance funds and deductibles pursuant to the terms and conditions of Paragraph 16.7 are insufficient to rebuild the Premises; or (iii) subject to the terms and conditions of Paragraph 16.9, in the event of an Uninsured Cause; Landlord shall have the right, upon thirty (30) days written notice to Tenant to terminate the Lease, provided, however, that if Landlord exercises its right to terminate the Lease, TENANT shall have a right to elect to reinstate the Lease by giving LANDLORD written notice of its election to reinstate the Lease within ten (10) days of its receipt of LANDLORD's notice of its election to terminate, and provided at such time TENANT provides LANDLORD reasonably satisfactory evidence that it has the financial ability to repair and/or restore the Premises. The foregoing right to reinstate the Lease shall survive Landlord's termination of the Lease.

17. CONDEMNATION

17.1 In the event a 'substantial portion of the Premises", as defined in Paragraph 17.4, is taken or condemned by any competent authority, TENANT shall have the right: (a) to terminate this Lease as of the earlier of the date of title transfer or the date of the taking of possession by the condemning authority, in which event the term hereof, Fixed Rent and all Additional Rent shall be abated and any unearned rent paid or credited will be refunded by LANDLORD to TENANT; or (b) to continue the Lease in full force and effect with a reduced Fixed Rent commensurate with the reduced area and/or reduced utility of the Premises, in lieu of the amount of Fixed Rent

hereinabove provided, which reduced rental will become effective upon the earlier of the date of title transfer or the date of such taking. TENANT shall elect among these rights and give notice to LANDLORD of its election within sixty (60) days after the date when possession of the portion of the Premises or Complex is required by the condemning authority.

17.2 If TENANT does not elect to terminate this Lease as set further herein, then the award or payment for the taking shall be paid to and used by LANDLORD to restore, and LANDLORD shall, except as otherwise provided in this paragraph, commence, and proceed with reasonable dispatch and diligence continue, out of the proceeds of the award, to restore the portion of the Premises remaining after the taking to substantially the same condition and tenantability (hereinafter called "Pre-Taking Condition') as existed immediately preceding the taking, except that TENANT shall have the right to request LANDLORD to make changes to the Premises in the course of such restoration, provided that if the cost and expense of restoration of the Premises is increased by any change or changes made by TENANT or if LANDLORD is damaged by any delay caused solely by such change or changes, then TENANT shall pay to LANDLORD, as other charges, promptly upon demand the amount by which the cost and expense of restoration of the Premises was thereby increased and the amount by which LANDLORD was damaged by such delay.

17.3 If LANDLORD does not commence within ninety (90) days of- receipt of the award, and with reasonable dispatch and diligence continue, to restore the portion of the Premises, as aforesaid, TENANT shall have the right, upon giving notice to LANDLORD, in addition to other rights provided herein, terminate this Lease on written notice to LANDLORD, and all Fixed Rent and all Additional Rent shall be abated as of the date of such notice.

17.4 A 'substantial portion of the Premises" is defined to be any of the following: (a) twenty-five percent (25!k) or more of the parking areas of the Premises, (b) loss through the taking or condemnation of direct access from the Premises to any adjacent street or highway, or (c) a portion of land or improvements included within the Premises, the absence of which would have a substantial impact on TENANT's business conducted on or from the Premises.

17.5 The entire award of condemnation or compensation in such proceedings, whether for a total or partial taking or for diminution in the value of the leasehold or for the fee or for any other interest, except as hereinafter expressly provided, shall belong to and be the property of LANDLORD; provided, however, that TENANT shall be entitled to recover from the condemnor such compensation as may be separately awarded by the condemnor to TENANT, or recoverable from the condemnor by TENANT in its own right, for the taking of trade fixtures and equipment owned by TENANT (meaning personal property, excluding fixtures, whether or not attached to the real property, which may be removed without injury to the Premises) and for TENANT's relocation expenses. Each party waives any statutory right in conflict with the provisions of this Paragraph 17, including, without limitation, rights under California Code of Civil Procedure Section 1265.130.

18. DEFAULT

18.1 (a) TENANT shall be in default under this Lease if and only if one of the following events shall occur:

(i) If TENANT shall fail to pay Fixed Rent or Additional Rent when due and the failure shall continue for a (10) day period after LANDLORD shall have given written notice of TENANT's failure to pay.

(ii) If TENANT shall fail to pay any Deferral Amount installment, any installment to amortize the Additional Tenant Improvement Allowance or any Expansion Loan Obligation (as that term is defined in Article 38 hereof) installment, when due, and the failure shall continue for a three (3) day period after LANDLORD shall have given written notice of TENANT's initial failure to pay.

(iii) If TENANT shall fail to perform any of its other obligations under this Lease and the failure shall continue for a thirty (30) day period after LANDLORD shall have given TENANT written notice of its initial failure to perform.

(iv) Assignment or subletting in violation of the provisions of paragraph 15;

(v) A general assignment by TENANT for the benefit of creditors;

(vi) The filing of an involuntary petition by TENANT's creditors with such a petition remaining undischarged for a period of ninety (90) days;

(vii) The appointment of a receiver to take possession of substantially all of TENANT's assets or of the Premises, with receivership remaining undissolved for a period of ninety (90) days; and

(viii) The attachment, execution, or other judicial seizure of substantially all of TENANT's assets or the Premises, with such an attachment, execution or other seizure remaining undismissed or undischarged for a period of ninety (90) days after the levy thereof.

(b) However, if TENANT shall fail to perform an obligation under this Lease, other than an obligation to pay Fixed Rent or Additional Rent, and the failure cannot be cured by TENANT within thirty (30) days after LANDLORD shall have given written notice of the failure, TENANT shall not be in default if TENANT commences to cure the failure within the thirty (30) day period and diligently thereafter prosecutes the cure to completion.

18.1- Upon the occurrence of any of the above events of default or any other breach of this Lease by TENANT, then LANDLORD, besides other rights or remedies it may have under this Lease or by law, shall have the right to: (1) immediately terminate this Lease and TENANT's right to possession of the Premises by giving TENANT written notice that this Lease is terminated, in which event, upon such termination, LANDLORD Shall have the right to recover from TENANT the sum of (A) the worth at the time of the award of the unpaid rent which has been earned at the time of termination; (B) the worth at the time of award of the amount by which the unpaid rent which would have been earned after termination until the time of award exceeds the amount of such rental loss that TENANT proves could have been reasonably avoided; (C) the worth at the time of award by which the unpaid rent for the balance of the term after the time of award exceeds the amount of such rental loss

that TENANT proves could be reasonably avoided; (D) any other amount necessary to compensate LANDLORD for all the detriment proximately caused by TENANT'S failure to perform TENANT's obligations under this Lease or which in the ordinary course of things would be likely to result therefrom; and (E) all such other amounts in addition to or in lieu of the foregoing as may be permitted from time to time under applicable law; or (ii) have this Lease continue in effect for so long as LANDLORD does not terminate this Lease and TENANT's right to possession of the Premises, in which event LANDLORD shall have the right to enforce all of LANDLORD's rights and remedies under this Lease, including the right to recover all rentals payable by TENANT under this Lease as they become due, or (iii) terminate TENANT's right to possession of the Premises (but without terminating this Lease) make such alterations and repairs as may be necessary or desirable in order to relet or attempt to relet the Premises. No re-entry or taking possession of the Premises by LANDLORD shall be construed as an election on its' part to terminate this Lease unless a written notice of such intention is given to TENANT or unless the termination thereof is decreed by a court of competent jurisdiction. Notwithstanding any such reletting or any attempt to relet without termination, LANDLORD may at any time thereafter elect to terminate this Lease for such previous breach. Should LANDLORD at any time terminate this Lease for any breach, in addition to any other remedies it may have, it may recover from TENANT all damages it may incur by reason of such breach, including the cost of recovering the Premises and reasonable attorneys' fees, all of which amounts shall be immediately due and payable from TENANT to LANDLORD. Efforts by the LANDLORD to mitigate damages caused by TENANT's breach of the Lease, which shall be a right but not an obligation of LANDLORD hereunder do not waive LANDLORD's right to recover damages hereunder. At its option, LANDLORD may request the appointment of a receiver for TENANT to take possession of the Premises and to exercise all rights of LANDLORD herein relating to the taking of possession of and reletting the Premises, and to apply any rent and other sums collected from the Premises accordingly. The terms "entry" and Ire-entry" are not limited to their technical meanings. For the purpose of this paragraph, "worth at the time of award" shall be computed (i) for purposes of subparagraphs (i)(A) and (B), by allowing interest at the rate of ten percent (lot) per annum, and (ii) for purposes of subparagraph (C), by discounting such amount by the discount rate of the Federal

Reserve Bank of San Francisco at the time of award plus three percent (3%). No act or omission of landlord hereunder, other than LANDLORD's express written notice of termination shall be deemed a termination of this Lease.

18.3 In the event this Lease is assigned or sublet by TENANT and TENANT remains liable for the performance of TENANT's obligations of this Lease, and should any default occur requiring notice as provided in this paragraph, LANDLORD agrees that it will furnish TENANT with a copy of the notice at the same time it is sent to the assignee or sublessee. TENANT shall have the right and option to resume actual possession of the Premises as TENANT for the unexpired term of this Lease under the terms of the Lease prior to any modifications made to this Lease pursuant to the sublet or assignment. If LANDLORD fails to give notice to TENANT after TENANT's assignment as provided herein, LANDLORD shall give subsequent notice to TENANT and TENANT's cure period shall be the period specified in the Lease for such default from the date of LANDLORD's notice to TENANT.

18.4 (a) Should there be any default or breach of this Lease on part of LANDLORD, TENANT shall give LANDLORD notice thereof, and should LANDLORD fail to correct the breach or default within thirty (30) days after the notice or such longer period of time as is required provided LANDLORD is pursuing the correction of such breach with diligence and continuity, TENANT may remedy the breach or default and deduct the reasonable cost, including interest at the rate of ten percent (lot) per annum on same, from rentals due or to become due LANDLORD.

(b) If LANDLORD shall fail to perform any covenant, term or condition of this Lease on LANDLORD's part to be performed, (other than a failure to apply insurance proceeds, escrow funds or awards in accordance with the terms of the Lease) and as a consequence of its default, TENANT shall recover a money judgment against LANDLORD, such judgment shall be satisfied solely out of (i) the proceeds of sale received upon execution of such judgment levied against the right, title and interest of LANDLORD in the buildings and improvements from time to time constituting the Premises, and its interest in the underlying realty; (ii) the rents or other income from the Premises receivable by LANDLORD; (iii) the consideration received by LANDLORD from the sale or other disposition of all or any part of LANDLORD'S right, title and interest in and to said

property; and (iv) any condemnation awards or insurance proceeds. It is expressly understood and agreed that neither LANDLORD nor any partner of LANDLORD shall be personally liable for any deficiency if the proceeds of the sale or disposition of LANDLORD's interest in the Premises is insufficient for the payment of any such judgment, and TENANT shall not institute any further action, suit, or similar demand against LANDLORD, or any partner of LANDLORD, for or on the account of such deficiency.

(c) TENANT agrees to give the holder of any mortgage or deed of trust encumbering the Premises, by certified mail, return receipt requested, a copy of any notice of default served upon LANDLORD, provided TENANT has previously been notified in writing of the identity and address of the holder of any such mortgage or deed of trust. TENANT further agrees that if LANDLORD has failed to cure any default giving rise to such notice within the time period provided for in the Lease, then the holder of such mortgage or deed of trust shall have the same notice and cure period as provided LANDLORD hereunder for those defaults that can be cured by the payment of money, and a reasonable time thereafter for any default which cannot, with the exercise of reasonable diligence be cured within such time period, (including time to obtain possession of the Premises by power of sale or judicial foreclosure, if such should be necessary to effect a cure) provided the holder of such mortgage or deed of trust has commenced and is diligently pursuing the remedies necessary to cure such default.

18.5 (a) If a dispute shall arise between the parties as to the performance of any obligation, a party contending that an obligation is the other party's duty may perform the obligation under protest. The performance of an obligation under protest shall not be regarded as voluntary performance. A party which shall have performed an obligation under protest shall have the right to bring suit for the recovery of the cost and expense of performance. It shall be determined that the other party as required to perform the obligation, the other party shall reimburse the party that shall have performed the obligation under protest for the cost and expense of performance.

(b) if TENANT is required to reimburse LANDLORD under subsection (a) and an invoice for reimbursement is not paid within thirty (30) days after it

is rendered, the amount of the invoice shall be added to the next installment of Fixed Rent. If LANDLORD is required to reimburse TENANT under subsection (a) and an invoice for reimbursement is not paid within thirty (30) days after it is rendered, the amount of the invoice may be deducted from installments of Fixed Rent that are due or that will become due provided that a final judgment which is not appealed or non appealable has been rendered.

18.6 If TENANT shall fail to pay its Fixed Rent or Additional Rent after ten (10) days written notice thereof from LANDLORD to TENANT or shall fail to pay any other monetary obligation hereunder three (3) days after written notice thereof from LANDLORD to TENANT, TENANT shall pay LANDLORD interest on such amounts from the due date until the date of payment at the reference rate (prime) rate of Bank of America N.T.& S.A., plus two percent (2%) per annum.

19. BANKRUPTCY OR INSOLVENCY

19.1 If at any time during the term hereof proceedings in bankruptcy shall be instituted by or against TENANT that result in an adjudication of bankruptcy, or if TENANT shall file, or any creditor of TENANT shall file any petition under any provision of the United States Bankruptcy Code, as the same is now in force or may hereafter be amended and TENANT be adjudicated bankrupt, or if a receiver of the business or assets of TENANT be adjudicated bankrupt, or if a receiver of the business or assets of TENANT be appointed and this appointment not be vacated within sixty (60) days after notice of TENANT, or TENANT makes an assignment for the benefit of creditors, or any sheriff, marshall, constable, or keeper takes possession of any assets of TENANT by virtue of any attachment or execution proceedings and offers same for sale publicly, then LANDLORD may, at its option, in either or any of these events, immediately take possession of the Premises and terminate this Lease or exercise any of its rights pursuant to Article 19. Upon this termination, all installments of rent earned to the date of termination and unpaid shall at once become due and payable, and in addition thereto LANDLORD shall have all rights provided by the bankruptcy laws relative to the proof of claims on an anticipatory breach of an executory contract. If a successor tenant is brought in by a Trustee such successor must satisfy standards for assignment herein.

19.2 Notwithstanding the foregoing Paragraph 19.1, neither bankruptcy, insolvency, nor the appointment of a receiver of trustee shall affect this Lease so long as the obligations of TENANT are being performed by the TENANT or successors in interest.

20. WAIVER. The failure of LANDLORD or TENANT to insist upon prompt and strict performance of any of the terms, conditions or undertakings of this Lease, or to exercise any option herein conferred, in any one or more instances, except as to the option to extend or renew the term, shall not be construed as a subsequent waiver of the same or any other term, condition, undertaking or option. The subsequent acceptance of rent by LANDLORD shall not be deemed to be a waiver of any preceding breach by TENANT of any term, covenant or condition of this Lease, other than the failure of TENANT to pay particular rent so accepted, regardless of LANDLORD's knowledge of such preceding breach at the time of acceptance of such rent.

21. NOTICES TO TENANT. Any notice required to be given to TENANT under the terms of this Lease shall be effective upon receipt by TENANT, provided such notices is in writing and mailed via registered or certified mail or guaranteed overnight delivery to 101 Ash Street, San Diego, California 92101, Attn: Manager, Land Services Department at the address given on page one of this Lease, or to such other address as TENANT may furnish to LANDLORD in writing, with a copy to the Legal Department at the same address.

22. NOTICES TO LANDLORD. Any notice required to be given to LANDLORD under the terms of this Lease shall be effective upon receipt by LANDLORD provided such notice is in writing and mailed via registered or certified mail or guaranteed overnight delivery to LANDLORD at the address given on page one of this Lease, or to such other address as LANDLORD may furnish to TENANT in writing. Rental payments shall be forwarded to LANDLORD at the referenced address via first class mail. If at any time or from time to time, there shall be more than one LANDLORD, the LANDLORDS shall designate a party to receive all notices and rent payments, and service upon or payment to the designated party shall constitute service upon or payment to all. TENANT shall not be required to issue multiple checks for any single payment of rent or other charges hereunder.

23. PARTIES BOUND. The terms, covenants, agreements, conditions and undertakings contained herein shall be binding upon and shall inure to the benefit of the heirs, successors in interest and assigns of the parties hereto. Where more than one party shall be the LANDLORD in this Lease, the word "LANDLORD" whenever used in this Lease, shall include all landlords jointly and severally.

24. ENTIRE AGREEMENT; MODIFICATION: SEVERABILITY. This Lease contains the entire agreement between the parties hereto and no representations, inducements, promises or agreements, oral or otherwise, entered into prior to the execution of this Lease, will alter the covenants, agreements and undertakings herein set forth. This Lease shall not be modified in any manner, except by an instrument in writing executed by the parties. If any term or provision of this Lease or the application thereof to any person or circumstance shall, to any extent, be invalid or unenforceable, the remainder of this Lease, or the application of such term or provision to persons or circumstances other than those as to which it is held invalid or unenforceable, shall not be affected thereby and each term and provision of this Lease shall be valid and be enforced to the fullest extent permitted by law.

25. SUBORDINATION, NON-DISTURBANCE AND ATTORNMENT

25.1 LANDLORD shall have the right to subject and subordinate this Lease to the lien of any loans or mortgages hereafter upon LANDLORD's interest in the Premises and upon the lands and buildings of which the Premises is part, provided LANDLORD shall have first secured for TENANT's benefit a written non-disturbance agreement, providing that the holder will recognize TENANT's Lease of the Premises and will not disturb the TENANT's quiet possession of the Premises as long as TENANT is not in default of any of the provisions of this Lease, and TENANT will then execute and deliver any instrument reasonably requested by LANDLORD subjecting this Lease to the lien of any such loan or mortgage.

25.2 In the event LANDLORD herein is the tenant under the terms of any Senior Lease, LANDLORD agrees that as soon hereafter as reasonably practicable it shall secure from any such Senior Landlord an agreement satisfactory to TENANT in recordable form whereby Senior Landlord, upon default of LANDLORD herein or termination of LANDLORD's

lease, and for so long as TENANT herein shall not be in default, shall not deprive or disturb TENANT's use and possession of the Premises so long as TENANT attorns to such Senior Landlord which TENANT herein agrees it may do.

26. NUMBER AND GENDER. All of the terms and words used in this Lease, regardless of the number and gender in which they were used, shall be deemed and construed to include any other number (singular or plural), and any other gender (masculine, feminine or neuter), as the context or sense of this Lease or any paragraph or clause hereof may require, the same as if the words had been fully and properly written in the number and gender.

27. EXHIBITS. All exhibits, attachments and addenda referred to herein shall be considered a part hereof for all purposes with the same force and effect as if copied at full length herein. The Exhibits attached hereto are listed as follows:

Exhibit A - LEGAL DESCRIPTION

Exhibit B -RULES AND REGULATIONS

Exhibit C-1 - MEMORANDUM OF LEASE

Exhibit C-2 - AMENDMENT TO MEMORANDUM OF LEASE

Exhibit D -LANDLORD'S SERVICES TO PREMISES

Exhibit E -EXCLUSIONS FROM BUILDING OPERATING EXPENSES

Exhibit F -LANDLORD'S BUILDING WORK PRIOR TO TENANT IMPROVEMENTS

Exhibit G -TENANT'S PLANS AND CONSTRUCTION SCHEDULE

Exhibit H -TITLE REPORT

28. LIENS. If, because of any act or omission of TENANT, a mechanic's or other lien or order for the payment of money shall be filed against the Premises or lands of which the Premises is a part, TENANT shall, at TENANT's own cost and expense, within thirty (30) days after notice of

the filing thereof, cause the same to be cancelled and discharged of record, or furnish LANDLORD with a surety bond issued by a surety company, protecting LANDLORD from any loss because of non-payment of such lien claim. In the event TENANT does post bond, TENANT shall be entitled to contest any such lien claim by appropriate judicial proceedings. If TENANT fails to post bond, LANDLORD shall have the right to obtain bond and TENANT shall reimburse LANDLORD for the cost of the bond immediately upon demand of LANDLORD.

29. LICENSE

29.1 LANDLORD grants TENANT, its employees and agents a license to enter the Premises for purpose of inspecting the LANDLORD's work as well as for inspecting the construction of TENANT's leasehold improvements, all as described in Article 4 hereof, prior to the commencement of the term hereof.

29.2 This license to enter before commencement of the term is conditioned upon TENANT's employees and agents working in harmony and not interfering with the workmen, mechanics and contractors of LANDLORD and of any other tenant.

29.3 Such entry shall be deemed to be under all the terms, covenants, provisions and conditions of this Lease except the covenant to pay rent. All TENANT's materials, work, installations and decorations of any nature brought upon or installed in the Premises before the commencement of the term of this Lease shall be at TENANT's risk, and neither LANDLORD nor any party acting on LANDLORD's behalf shall be responsible for any damage thereto or loss or destruction thereof.

30. LAST EXECUTION AND EFFECTIVE DATE. This Lease shall become effective on the date hereof. Any reference contained in this Agreement to the "date of last execution" or "date hereof" shall mean the last date on which any party required to execute or initial this Agreement does so, and such date shall be set forth in the first paragraph of this Lease were indicated.

31. NO PARTNERSHIP FORMED. LANDLORD does not become a partner of TENANT in the conduct of its business or

otherwise, or a joint venturer or a member of a joint enterprise with TENANT by virtue of this Lease.

32. AUTHORITY TO EXECUTE LEASE,. TENANT and LANDLORD each warrant and represents that the party signing this Lease on behalf of each has authority to enter into this Lease and to bind TENANT and LANDLORD respectively to the terms, covenants and conditions contained herein. Each shall deliver to the other upon request, all documents reasonably requested by the other evidencing such authority including, without limitation, a copy of all corporate resolution, consents or minutes reflecting the authority of persons or parties to enter into agreements on behalf of TENANT or LANDLORD.

33. FORCE MAJEURE. LANDLORD and TENANT shall be excused for the period of any delay in performance of any obligations hereunder prevented from doing so by cause or causes beyond either party's control which shall include, without limitation, all labor disputes, civil disturbances, war, war-like operations, invasions, rebellion, hostilities, military or usurped power, sabotage, governmental regulations or controls, fires or other casualty, inability to obtain material or service or acts of God. Nothing contained in this Paragraph 33 shall excuse TENANT from paying in a timely fashion any payments due under the terms of this Lease.

34. ATTORNEYS' FEES. If any action at law or in equity is brought between LANDLORD and TENANT to enforce any of the provisions and/or rights under this Lease, LANDLORD and TENANT agree to pay to the other party all costs and expenses, including attorneys' fees set by the court in such action or proceeding. If any amount payable to the other party is not paid when due (after the expiration of any grace period), the other party shall pay the reasonable costs of collection, including reasonable attorneys's fees whether or not the suit is instituted.

35. LANDLORD's NONRESPONSIBILITY. Prior to and during construction, remodeling or other work of improvement undertaken by TENANT in or to the Premises, LANDLORD shall have the right to enter upon the Premises and post notices of nonresponsibility thereon and to otherwise notify, actually or constructively, any contractor or subcontractor, laborer, materialman or other entity or person directly or indirectly supplying labor, equipment or materials to the

Premises that LANDLORD is not responsible for the costs thereof.

36. RIGHT OF FIRST REFUSAL TO PURCHASE. If LANDLORD receives an offer from a third party in connection with the sale of all or any part of the Premises, and LANDLORD desires to accept such offer (the "Purchase Offer") LANDLORD shall notify TENANT of the terms of the Purchase Offer. if TENANT, within ten (10) business days after receipt of LANDLORD's notice, indicates in writing its agreement to purchase the Premises, or the part of the Premises to be conveyed by LANDLORD, on the terms stated in the Purchase Offer, LANDLORD shall sell and convey the Premises, or such part of the Premises, to TENANT on the terms stated in the Purchase Offer. If TENANT does not indicate its agreement within such ten (10) business day period, LANDLORD thereafter shall have the right to sell and convey the Premises, or the part of the Premises to a third party under the same terms stated in the Purchase Offer. If LANDLORD does not sell and convey the Premises, or the part of the Premises, within one hundred eighty (180) days thereafter, any further transaction shall be deemed a new determination by LANDLORD to sell and convey the Premises, or a part of the Premises, and the provisions of this Paragraph 36 shall be applicable. If TENANT purchases &11 of the Premises, this Lease shall terminate on the date title vests in TENANT, and LANDLORD shall remit to TENANT all of the prepaid and unearned interest. If TENANT purchases a part of the Premises, this Lease, as to the part purchased, shall terminate on the date title vests in TENANT, and Fixed Rent @ 11 be reduced in the same ratio that the value of the Premises before the purchase bears to the value of the Premises covered by the Lease immediately after the purchase. In the event TENANT exercises its right of first refusal to purchase, and then TENANT fails to consummate the purchase upon the terms and conditions set forth in the Purchase Offer, TENANT shall be obligated to pay to LANDLORD immediately upon demand therefore the sum of Fifty Thousand and No/100 Dollars ($50,000.00) (the "Right of First Refusal Termination Feel) to compensate LANDLORD for TENANT'S default in the exercise of its right of first refusal. The parties acknowledge that LANDLORD's actual damages in the event of a default by TENANT in connection with the exercise of its right of first refusal would be extremely difficult or impracticable to determine. Therefore, by their execution hereof, the parties acknowledge that such Right of First Refusal Termination Fee has been agreed upon, after

negotiation, as the party's reasonable estimate of LANDLORD's damages and as LANDLORD's exclusive remedy against TENANT in the event TENANT fails to complete the purchase of the Premises on the terms and conditions set forth in LANDLORD's notice after the exercise of TENANT's right of first refusal. TENANT'S right of first refusal shall not apply to a transfer between any of the persons who constitute LANDLORD, the blood relatives of any of those persons, either outright or in trust, or to a legal entity (i.e., partnership, corporation, trust or like entity) when the majority of interest is owned by all or some of those persons who constitute LANDLORD, or to transfer to any legal entity which controls, is controlled by or is under common control with LANDLORD, or to any corporation resulting from the merger or consolidation with LANDLORD, or to any person or entity which acquires all, or substantially all of the assets of LANDLORD. LANDLORD agrees, as an accommodation and not as a legal obligation, to exercise good faith efforts to provide TENANT with thirty (30) days advance notice prior to the commencement of marketing efforts for the Premises.

37. LANDLORD'S BUY-BACK RIGHTS.

37.1 The purpose of this Article 37 is to provide LANDLORD (other than ANICO) the right and option to liquidate the provision in this Lease which relieves TENANT of certain future payment obligations with respect to ad valorem real estate taxes as more particularly provided in Paragraph 8.2 hereof. LANDLORD requires such a provision in order to facilitate any future sale, financing or refinancing of the Premises.

37.2 At any time, and from time to time, during the term of this Lease, upon at least thirty (30) days' prior written notice ("Buy-Back Notice") to TENANT, any successor-in-interest to the LANDLORD named in this Lease shall have the right ('Buy-Back Right") to liquidate the Economic Benefit inuring to TENANT under the terms of Paragraph 8.2 hereof this Lease upon the terms and conditions set forth below. The term "Economic Benefit" shall mean and refer to the agreement set forth in Paragraph 8.2 of this Lease to relieve TENANT of certain future obligations to pay money to LANDLORD for increases in ad valorem real estate taxes.

37.3 LANDLORD's Buy-Back Notice shall include a schedule indicating the extent of the Economic Benefit to be

repurchased by LANDLORD pursuant to LORD's Buy-Back Right and which Lease Years during the term of this Lease such Economic Benefit is scheduled to inure to TENANT. The "Effective Date" shall be the date which is thirty (30) days after the date of LANDLORD's Buy-Back Notice. The Buy-Back Notice shall indicate the present value of the Economic Benefit to be repurchased by LANDLORD as of the Effective Date (assuming such Economic Benefit would apply as of the end of the relevant Lease Year), using the "Discount Rates" for each such Lease Year. The 'Discount Rates, shall be two percent (296) over the average yield in effect as of the Effective Date for United States Treasury obligations with maturity dates as close as possible to the end of each Lease Year during which the portions of the Economic Benefit would have benefitted TENANT. The sum of such present value amounts as of the Effective Date may be referred to herein as the "Liquidated Amount'.

37.4 The Liquidated Amount shall be paid by LANDLORD to TENANT either by check from LANDLORD to TENANT delivered to TENANT no later than the Effective Date or, at LANDLORD's option (which must be exercised by LANDLORD by written notice to TENANT on or before the Effective Date), by a rent credit; provided, however, that LANDLORD may only elect to pay the Liquidation Amount by way of a rent credit if TENANT's total rental obligation under the Lease for the period which is ninety (90) days after the Effective Date, exceeds the Liquidation Amount.

37.5 As soon as reasonably possible after an exercise by LANDLORD of its Buy-Back Right, but no later than the Effective Date, LANDLORD and TENANT shall execute an amendment to this Lease or shall execute a Restated and Revised Lease which reflects the elimination from this Lease of the Economic Benefit which was repurchased by LANDLORD pursuant to LANDLORD's Buy-Back Right.

38. EXPANSION ALLOWANCE OPTION. In order to facilitate the possible future expansion of TENANT's operations into one of the buildings comprising Phase I ("Phase 11) of the Century Park office development (of which the Premises comprise Phase II), LANDLORD shall make available to TENANT, for a twenty-four (24) month period commencing on the Commencement Date, a loan of up to ONE MILLION AND NO/100 DOLLARS ($1,000,000.00) (the "Expansion Allowance Loan") the proceeds of which shall be utilized by TENANT to finance the construction of tenant improvements in

a single building in such Phase I leased by TENANT pursuant to a lease executed by TENANT during such twenty-four (24) month period. Such Expansion Allowance Loan shall be disbursed during such twenty-four (24) month period by LANDLORD to TENANT not more frequently than monthly upon TENANT's submission of invoices and lien releases, along with such other information as may be reasonably requested by LANDLORD to substantiate the expenditures for such tenant improvements, and such loan will be funded for no more than six (6) consecutive months. The Expansion Allowance Loan will bear interest, as such funds are disbursed, at the rate equal to the greater of (i) ten percent (10*) per annum, or (ii) the sum of (a) the difference between ten percent (10t) per annum and the yield, as of the date of this Lease, of TENANT's publicly traded 8.75% bonds due March 15, 2007, plus (b) the yield, at the time of such disbursement, of TENANT's publicly traded 8.75%- bonds due March 15, 2007. At such time as the final Expansion Allowance Loan has been funded, or upon the expiration of seven (7) months after the initial disbursement of such loan proceeds, whichever first occurs (but not later than the expiration of such twenty-four (24) mont-@ after the commencement Date), the full amount of the Expansion Allowance Loan funded, plus interest accrued thereon (collectively the 'Expansion Loan obligation") shall be amortized by payment to LANDLORD in equal monthly installments over the remaining term of this Lease (without giving effect to the extension options) at an interest rate equal to, as of the date of the last disbursement of funds under the Expense Allowance Loan, the greater of (i) ten percent (10%) per annum, or (ii) the sum of (a) the difference between ten percent (10%) per annum and the yield, as of the date of this Lease, of TENANT's publicly traded 8.75% bonds due March 15, 2007, plus (b) the yield of TENANT's publicly traded 8.75% bonds due March 15, 2007. Notwithstanding the foregoing, upon TENANT's default under this Lease, or upon termination of this Lease without default by TENANT, the Expansion Loan Obligation, along with interest accrued but unpaid thereon, shall become immediately due and payable to LANDLORD. TENANT acknowledges and agrees that its repayment obligations

hereunder are subject to and governed by the last sentence of Paragraph 3.3 hereof.

IN WITNESS WHEREOF, the parties have caused this Lease to be duly executed as of the dates set forth below for LANDLORD and TENANT.

LANDLORD:

AMERICAN NATIONAL INSURANCE COMPANY, a Texas insurance corporation

BY _____

Its _____

TENANT:

SAN DIEGO GAS & ELECTRIC COMPANY, a California corporation

By _____

Its _____

EXHIBIT A

LEGAL DESCRIPTION

LOT 2 OF CENTURY PARK, IN THE CITY OF SAN DIEGO, COUNTY OF SAN DIEGO, STATE OF CALIFORNIA, ACCORDING TO THE MAP THEREOF NO. 11082, FILED IN THE OFFICE OF THE COUNTY RECORDER OF SAID COUNTY NOVEMBER 14, 1984 AS DOCUMENT NO. 84-429352

EXHIBITS

Exhibit A

Legal Description

LOT 2 OF CENTURY PARK, IN THE CITY OF SAN DIEGO, COUNTY OF SAN DIEGO, STATE OF CALIFORNIA, ACCORDING TO THE MAP THEREOF NO. 11082, FILED IN THE OFFICE OF THE COUNTY RECORDER OF SAID COUNTY NOVEMBER 14, 1984 AS DOCUMENT NO. 84-429352

Exhibit B

RULES AND REGULATIONS FOR CENTURY PARK PHASE II LEASE

Dated: March 25, 1992

By and Between: AMERICAN NATIONAL INSURANCE COMPANY, a Texas insurance corporation ("LANDLORD") and SAN DIEGO GAS & ELECTRIC COMPANY, a California corporation ("TENANT,)

GENERAL RULES

1. TENANT shall not suffer or permit the obstruction of any common areas, including driveways, walkways and stairways.

2. LANDLORD reserves the right to refuse access to any persons LANDLORD in good faith judges to be a threat to the safety, reputation, or property of the Premises and its occupants.

3. TENANT shall not keep animals or birds within the Premises, and shall not bring bicycles, motorcycles or other vehicles into areas not designated as authorized for same.

4. TENANT shall not make, suffer or permit litter except in appropriate receptacles for that purpose.

5. TENANT shall have the right to alter any lock or install new or additional locks or bolts, provided that immediately upon such alteration or installation, TENANT shall so advise LANDLORD and shall furnish copies of all keys and/or combinations for such locks or bolts, at TENANT's sole cost and expense.

6. TENANT shall be responsible for the inappropriate use of any toilet rooms, plumbing or other utilities. No foreign substances of any kind are to be inserted therein.

7. TENANT shall not deface the walls, partitions or other surfaces of the Premises.

8. TENANT shall not suffer or permit any thing in or around the Premises or the Buildings comprising the Premises that causes excessive vibration or floor loading in any part of the Premises or the Buildings comprising the Premises.

9. TENANT shall be responsible for any damage to the Premises arising from the moving of any furniture, significant freight and equipment.

10. TENANT shall be responsible for all costs, expenses and liabilities arising out of TENANT's employment of any service or contractor for services or work to be performed in the Premises, or any part thereof.

ii. TENANT shall return all keys at the termination of its tenancy.

12. No TENANT, employee or invitee shall go upon the roof of any of the Buildings comprising the Premises.

13. TENANT shall not suffer or permit smoking or carrying of lighted cigars or cigarettes in areas reasonably designated by LANDLORD or by applicable governmental agencies as non-smoking areas.

14. TENANT shall not use any method of heating or air conditioning other than as provided by LANDLORD.

15. The Premises shall not be used for lodging or manufacturing.

16. TENANT shall comply with all safety, fire protection and evacuation regulations established by LANDLORD or any applicable governmental agency.

17. LANDLORD reserves the right to waive any one of these rules or regulations, and any such waiver shall not constitute a waiver of any other rule or regulation or any sequent application thereof to such tenant.

18. TENANT assumes all risks from theft or vandalism and agrees to keep its Premises locked as may be required.

19. LANDLORD, with TENANT's consent (not to be unreasonably withheld or delayed), may make such other reasonable rules and regulations as it may from time to time deem necessary for the appropriate operation and safety of the Premises and its occupants. TENANT agrees to abide by these and such rules and regulations.

EXHIBIT C-1

RECORDING REQUESTED BY AND
WHEN RECORDED RETURN TO:

SAN DIEGO GAS & ELECTRIC COMPANY
101 Ash Street
San Diego, California 92101
Attn: manager, Land Services

MEMORANDUM OF LEASE

This Memorandum of Lease is made as of the 25th day of March, 1992 between AMERICAN NATIONAL INSURANCE COMPANY, a Texas insurance corporation, as Landlord, and SAN DIEGO GAS & ELECTRIC COMPANY, a California corporation, as Tenant, who agree as follows:

1. Term and Premises. Landlord leases to Tenant, and Tenant leases from Landlord, the real property located in the City of San Diego, County of San Diego, State of California described in Exhibit A attached to this Memorandum of Lease, for a term of fifteen (15) years commencing on the Commencement Date (as that term is described in the Lease hereinafter described) and subject to extension by Tenant, on the terms and conditions of the lease between the parties, which lease is dated as of March 25, 1992 (the 'Lease"). The provisions of the Lease are incorporated in this Memorandum of Lease by reference.

2. Tenant's Right of First Refusal. Reference is made to paragraph 36 of the Lease, in which Landlord gives Tenant a right of first refusal to acquire the Premises (as that term is defined in the lease).

3. Provisions Binding on Lan r . The provisions of the Lease to be performed by Landlord, whether to be performed at the Premises or at any portion of the Premises, and whether affirmative or negative in nature, are intended to and shall bind Landlord and its successors and tenants at any time, and shall inure to the benefit of Tenant and its successors.

4. Purposes of Memorandum of Lease. This Memorandum of Lease is prepared for the purpose of

recordation, and in no way modifies the provisions of the Lease referred to in paragraph 1 hereof.

LANDLORD

AMERICAN NATIONAL INSURANCE COMPANY, a Texas insurance corporation

By _____

Its _____

By _____

Its _____

TENANT

SAN DIEGO GAS & ELECTRIC COMPANY, a California corporation

By _____

Its _____

STATE OF TEXAS)
) ss.
COUNTY OF _____)

On this ___ day of March, 1992, before me, the undersigned, a Notary Public in and for said State, personally appeared _____ I personally known to me or proved to me on the basis of satisfactory evidence to be the person who executed the within instrument as the _____ of AMERICAN NATIONAL INSURANCE COMPANY, the corporation that executed the within instrument and acknowledged to me that such corporation executed the within instrument pursuant to its bylaws or a resolution of its board of directors.

WITNESS my hand and official seal.

(SEAL)

_____
NOTARY PUBLIC

STATE OF TEXAS)
) ss.
COUNTY OF)

On this day of March, 1992, before me, the undersigned, a Notary Public in and for said State, personally appeared _____ , personally known to me or proved to me on the basis of satisfactory evidence to be the person who executed the within instrument as the _____ of AMERICAN NATIONAL INSURANCE COMPANY, the corporation that executed the within instrument and acknowledged to me that such corporation executed the within instrument pursuant to its bylaws or a resolution of its board of directors.

WITNESS my hand and official seal.

(SEAL)

_____
NOTARY PUBLIC

STATE OF CALIFORNIA)
) ss.
COUNTY OF _____)

On this ___ day of March, 1992, before me, the undersigned, a Notary Public in and for said State, personally appeared _____, personally known to me or proved to me on the basis of satisfactory evidence to be the person who executed the within instrument as the _____ of SAN DIEGO GAS & ELECTRIC COMPANY, the corporation that executed the within instrument and acknowledged to me that such corporation executed the within instrument pursuant to its bylaws or a resolution of its board of directors.

WITNESS my hand and official seal.

(SEAL)

_____

NOTARY PUBLIC

EXHIBIT C-2

RECORDING REQUESTED BY AND
WHEN RECORDED MAIL TO:

HILL, FARRER & BURRILL
445 South Figueroa Street
35th Floor
Los Angeles, California 90071
Attn: ALFRED M. CLARK, III, ESQ.

AMENDMENT NO. I TO MEMORANDUM OF LEASE

This Amendment No. 1 to Memorandum of Lease is made as of the _____ day of _____, 1992 between AMERICAN NATIONAL INSURANCE COMPANY, a Texas insurance corporation, as Landlord, and SAN DIEGO GAS & ELECTRIC COMPANY, a California corporation, as Tenant, who agree as follows:

1. Landlord and Tenant entered into a Lease dated March 25, 1992.(the "Lease'), pursuant to which Landlord leased to Tenant and Tenant leased from Landlord the Premises described therein. To further evidence the Lease, Landlord and Tenant have entered into that certain Memorandum of Lease dated March 25, 1992 and recorded _____, 1992 as Instrument No. _____ in the Official Records of San Diego County.

2. Pursuant to paragraph 2.2 of the Lease, Landlord and Tenant agreed to confirm the commencement and expiration dates of the term and the commencement date for payment of rent which are as follows:

(a) _____ 1 1992 is the Commencement Date, as that term is defined in paragraph 3.4 of the Lease.

(b) _____ 20__ is the expiration date of the term of the Lease; and

(c) _____ 199- is the Fixed Rent Commencement Date as that term is defined in paragraph 3.4 of the Lease.

3. Tenant confirms that:

(a) It has accepted possession of the Premises as provided in the Lease;

(b) The Tenant Improvements required to be furnished by Landlord under the Lease have been furnished;

(c) Landlord has fulfilled all of its duties of an inducement nature;

(d) The Lease has not been modified, altered or amended except as follows: _____

(e) There are no setoffs or credits against rent, and no security deposit has been paid, except as provided by the Lease; and

(f) The Lease is in full force and effect.

4. The provisions of the Amendment No. 1 to Memorandum of Lease shall inure to the benefit, or bind, as the case may require, the parties and their respective successors, subject to the restrictions or assignments and subleasing contained in the Lease.

LANDLORD

AMERICAN NATIONAL INSURANCE COMPANY, a Texas insurance corporation

By _____

Its _____

By _____

Its _____

(SIGNATURES CONTINUED]

(SIGNATURES CONTINUED]

TENANT

SAN DIEGO GAS & ELECTRIC
COMPANY, a California
corporation

By _____

Its _____

STATE OF TEXAS)
) ss.
COUNTY OF _____)

On this ___ day of March, 1992, before me, the undersigned, a Notary Public in and for said State, personally appeared _____ I personally known to me or proved to me on the basis of satisfactory evidence to be the person who executed the within instrument as the _____ of AMERICAN NATIONAL INSURANCE COMPANY, the corporation that executed the within instrument and acknowledged to me that such corporation executed the within instrument pursuant to its bylaws or a resolution of its board of directors.

WITNESS my hand and official seal.

(SEAL)

_____
NOTARY PUBLIC

STATE OF TEXAS)
) ss.
COUNTY OF)

On this day of March, 1992, before me, the undersigned, a Notary Public in and for said State, personally appeared _____ , personally known to me or proved to me on the basis of satisfactory evidence to be the person who executed the within instrument as the _____ of AMERICAN NATIONAL INSURANCE COMPANY, the corporation that executed the within instrument and acknowledged to me that such corporation executed the within instrument pursuant to its bylaws or a resolution of its board of directors.

WITNESS my hand and official seal.

(SEAL)

_____
NOTARY PUBLIC

STATE OF CALIFORNIA)
) ss.
COUNTY OF _____)

On this ___ day of March, 1992, before me, the undersigned, a Notary Public in and for said State, personally appeared _____, personally known to me or proved to me on the basis of satisfactory evidence to be the person who executed the within instrument as the _____ of SAN DIEGO GAS & ELECTRIC COMPANY, the corporation that executed the within instrument and acknowledged to me that such corporation executed the within instrument pursuant to its bylaws or a resolution of its board of directors.

WITNESS my hand and official seal.

(SEAL)

_____
NOTARY PUBLIC

EXHIBIT "D"

LANDLORD'S SERVICES TO THE PREMISES

CENTURY PARK PHASE 11

These service specifications are considered to be the minimum level of service to be provided by the LANDLORD. The LANDLORD has the responsibility to maintain and operate the project in a first class manner by providing the following service consistent with other s@ buildings in the Kearny Mesa area of the City of San Diego, County of San Diego, at the time of the execution of this Lease.

I. PROPERTY MANAGER

The property management company shall be a licensed real estate company in the State of California. The property manager shall be a professional with a minimum of five year's experience with similar type office buildings.

II. BUILDING ENGINEER

The premises will have an on-site Building Engineer whose responsibility is to upgrade and maintain all mechanical, electrical, plumbing and other equipment located on the property.

The following responsibilities should be performed by the Building Engineer or in conjunction with the Property Manager to achieve both high-quality maintenance and economical operation:

- Assign and supervise duties performed by all utility workers
- Enforce established, preventive maintenance program
- Maintain and check engineer's daily work report
- Maintain and check operating logs daily on the following:
  * Air conditioning compressors
  * Pumps
  * Graphic panel
  * Utility meters
  * Air conditioning complaints
  * General complaints

- Order supplies and materials

- Supervise storage and maintain records of supplies and materials

- Maintain monthly inventory of expendable supplies and frequently used materials

- Inventory permanent tools and equipment annually

- Form an effective program for maintaining building facilities and equipment

  * Preventive maintenance program

  * Handle all building or equipment problems

- Evaluate all major systems to ensure continuous maximum efficiency

- Establish emergency procedures for fire, bomb threat, or power failure with Property Manager

- Form an effective cleaning program to maintain a first-class building

- Inspect building in regard to performance of janitorial contractor

  * Periodically inspect public areas, tenant spaces, and windows

  * Inform Property Manager of irregularities or poor personnel performance

  * Maintain communication system with janitorial supervisor and supervise special and tenant-requested cleaning

  * Maintain a high quality window washing program as economically as possible

  * Design emergency clean-up procedures for flood, fire, civil disorder, etc.

- Review and approve products used by janitorial contractor to ensure use of quality items

- Review janitorial contractor's specifications and procedures when necessary

- Follow up on transmittal of drawings and matters affecting construction of tenant areas

  * Meeting with tenant coordinator so that proper locks, keys, directory listings, and signs are ordered

* Inform tenant coordinator of move-in dates and/or changes

- Contact tenants to aid their move whenever possible

  * Coordinate with moving company

  Inspect tenant area before move-in to verify that space is ready for occupancy

- Establish a procedure with bookkeeper to accurately and promptly invoice tenants for the following items:

  * After-hours HVAC charges

  * Special cleaning services for tenants performed by janitorial staff

  * Special work performed by engineering staff

- Establish an adequate security system for tenants and building

  * Determine number of guards and assigned shifts

  * Establish surveillance measure both inside and outside the building

  * Set up procedures for guards and building personnel to maintain security

  * Take adequate measures, as deemed necessary, to protect tenants and their property

- Conduct building tours as needed

- Assist tenant coordinator in arranging for special events

- Assist tenant coordinator in housing tenants in temporary quarters while permanent space is constructed

III. DAY PORTER

The Premises shall have a Day Porter on site during normal business hours (8 hour day) Monday through Friday. The Day Porter shall be responsible for cleaning, sweeping and vacuuming the common areas, replacing rest room supplies and attending to tenants' general needs.

IV. JANITORIAL SERVICE

A. ENTRIES AND LOBBIES

Daily Services:
Sweep and clean immediate entry area outside all entrances and all emergency exits
Spot clean entry door glass and frames Vacuum entry mats
Clean glass and frame of building directories
Clean and polish all drinking fountains
Clean all bright metal
Vacuum fabric wait covering
Empty trash receptacles, replacing liners as needed
Empty and polish all ashtrays and urns
vacuum all carpeting (5 times per week)
Spot clean carpeting as needed
Dust and mop afl hard surface floor covering
Damp mop all hard floor surfaces
Replace burned out lights

Weekly Services:
Dust all flat surfaces
Wash entry door glass, frames and handles
Damp clean ceiling diffuses
Spot clean walls
Edge vacuum all carpets with crevice tool
Dust baseboards

Monthly Services:
Machine scrub and recoat hard floor surfaces

B. CORRIDORS AND STAIRWELLS, INCLUDING PARKING STRUCTURE STAIRWELLS

Daily Services:
Clean and polish drinking fountains
Vacuum hallways and corridors (5 times per week)
Spot clean all carpeting as needed
Empty and wash ashtrays and urns
Police stairwells for litter
Replace burned out lights

Weekly Services:
Dust all railings
Clean doors, frames and push plates
Dust all flat surfaces, including ledges and window sills
Sweep/damp mop stairwells
Vacuum edge of carpets with crevice tool

Monthly Services: Wet mop as needed

C. OFFICE AREAS

Daily Services:
- Empty all waste baskets, replacing liners as needed
- Empty and clean ashtrays and sand urns, replace sand as necessary
- Sweep and/or dust mop non-carpeted floors
- Damp mop non-carpeted traffic areas (5 times per week)
- Pick up paper and trash under desks
- Dust all flat work and furniture surfaces, when tops are free and clear of work papers
- Spot clean interior partition glass
- Spot clean doors and light switches
- Properly arrange all office furniture
- Leave on only designated lights
- Check and lock designated doors upon completion of work
- Replace burned out lights

Weekly Services:
- Clean door kick plates and thresholds
- Whisk broom all upholstered furniture
- Low dust all flat surfaces to hand height
- High dust all flat surfaces above hand height
- Damp wipe and dry horizontal metal partition molding
- Vacuum carpet under desks and furniture
- Spot clean doors, frames and jambs, dust baseboards, vacuum carpeting at baseboards with crevice tool
- Dust ledges and window sills

Monthly Services:
- Vacuum upholstered furniture
- Damp clean and/or vacuum ceiling diffuses
- Wax and spray buff tile floors
- Pile lift vacuum all carpet
- Sponge and wipe leather/plastic furniture
- Wash glass doors and partitions and remove water marks and stains from adjoining areas.

D. ELEVATORS

Daily Services:
- Clean and polish bright metal as needed
- Damp clean walls and doors
- Vacuum and spot clean all carpeting

Dust and mop/damp mob flooring
Clean door tracks and thresholds

Weekly Services: Dust or damp clean air vents
Clean entire wall and door surfaces
Damp clean light diffuses

Monthly Services: Polish thresholds

E. REST ROOMS

Daily Services: Clean and sanitize all fixtures, wash basins, chrome fittings, and dispensers.
Clean and sanitize all toilets, toilet seats, urinals and napkin receptacles
Clean and polish all bright metal surfaces spot clean all mirrors
Restock/refill all dispensers as needed
Dust/wet mop floors with disinfectant cleaner
Empty all waste container/disposal, replacing liners as needed
Spot clean doors, push plates, kick plates and light switches
Damp clean toilet compartment partitions and doors
Remove scale from urinals and toilet bowls
Scrub seams, cracks, grout and edges of floors and walls so as to prevent any soil buildup
Replace burned out lights

Weekly Services: Wash down and sanitize partitions, walls, and doors
Low dust all flat surfaces to hand height

Monthly Services: Clean and sanitize inside of waste receptacles
Dust/damp clean all ceiling vents and grills
High dust all flat surfaces above hand height
Damp clean exterior of refilling light diffuses
Pour clean water down floor drains to prevent sewer gases from escaping

F. GYM/SHOWER FACILITY

Daily Services: Clean door glass and metal hardware, including gym locker fronts

Spot clean mirrors
Sanitize floor mats and equipment
Dust mop wooden floor
Damp mop and dry wooden floor with disinfectant
Clean and disinfect shower walls and floors
Clean restrooms according to specifications
Refill all paper and soap dispensers
Wipe down equipment

Weekly Services: Wash mirrors
Scrub shower walls to remove soap and body oil residue
Machine scrub restroom and shower floors

G. EMPLOYEE LOUNGE/COFFEE AREAS/CAFETERIA

Daily Services: Empty and damp clean waste containers, replacing liners as needed
Vacuum all carpeted areas (5 times per week)
Spot clean all carpeted areas
Dust mop and damp mop all tile floors
Damp clean and sanitize all table tops and chairs
Empty and polish all ashtrays
Damp clean all doors, frames, handles, push plates and light switches
Spot clean door and partition glass
Refill all paper and soap dispensers
Clean and polish all dispensers
Damp clean counter tops, sinks (except in Kitchen area) and fixtures

Weekly Services: Damp clean cupboard faces, doors and handles
Damp clean walls and appliance exteriors
Low dust all flat surfaces to hand height

Semi-Monthly: Machine scrub and rinse floors (moving tables and chairs)

Monthly Services: High dust all flat surfaces above hand height
Machine scrub, re-wax and high speed buff tile flooring

H. PATIOS/OUTSIDE DINNING AREA

Daily Services: Empty and damp clean waste containers as needed
Empty and clean ashtrays and sand urns; replace sand as necessary
Sweep patios and police for litter
Spot mop as required
Damp clean sanitize all table tops and chairs

Weekly Services: Damp mop and sweep

Monthly Services: Hose wash patios

I. JANITORIAL CLOSETS

Daily Services: Closets are to be kept clean and orderly
Clean sinks
Sweep and mop floor
Maintain adequate supply of restroom supplies

J. TRASH REMOVAL

Daily Services: Remove afl trash to designated area
Police trash storage area, sweep as needed
Empty waste containers surrounding buildings and damp clean as needed

V. TRASH DISPOSAL SERVICE

Provided on a three times per week basis for general trash and a once per week basis for recycled trash.

VI. HVAC MAINTENANCE SERVICE (TO BE PROVIDED BY BUILDING ENGINEER)

Provided on a quarterly basis as an on-going maintenance program to include:

Testing and inspecting of all equipment for operating condition and efficiency.

Preventative maintenance program to clean, align, calibrate, tighten, adjust, lubricate and paint equipment for purposes of extending equipment life and assuring proper operating condition and efficiency. Replace any and all components that do not function properly.

Changing all filters as necessary.

Providing minor adjustments and repairs.

Providing coil cleaning once yearly for all units. All equipment to be maintained at or better than manufacturer's recommended maintenance.

VII. PEST CONTROL SERVICES

Provided on a minimum of a quarterly basis using pesticides in accordance with State of California laws.

VIII. PARKING AREA & DRIVEWAY SWEEPING SERVICES

Sweeping services to be provided on an after-business hours once per week basis to include: cleaning debris from curbs, comers and the area behind tire stops, followed by a general sweeping of parking areas, Parking garage and all driveways.

Said contractor shall have an adequate general liability policy of insurance which shall be on file with the property manager.

IX. WINDOW CLEANING

Provided on a minimum of a quarterly basis to include: washing exterior windows and cleaning window frames. On a once per year basis: wash all interior windows.

Said contractor shall have an adequate general liability policy of insurance which shall be on file with Property Manager.

X. ELEVATOR SERVICE

Provided on a monthly basis to keep all elevators properly adjusted and maintained in proper and sate operating condition. The service shag include a 24 hour call back service for emergency minor adjustments.

Said contractor shag have an adequate general liability policy of insurance which

shall be on file with the Property Manager.

XI. SECURITY SERVICE

Provided on an after operating hours basis to include one security officer on site.

Officers will perform duties as specified in the post orders. These include, but are not limited to, the following:

Patrol sidewalk, driveways and parking structures.
Enforce parking regulations.
Maintain high visibility as a deterrent to theft, loitering and vagrancy.

Check all common areas for unauthorized personnel.
Investigate and report all suspicious activities.
Complete Daily Security Report Log for SDG&E's review each day for each shift.
Follow post orders as directed.

LANDLORD will provide the foregoing security services on a 24-hour a day basis to the Premises as required by TENANT, provided however TENANT agrees to reimburse LANDLORD on a monthly basis as Additional Rent from the Commencement Date the cost to LANDLORD of any such services which exceed $750.00 per month.

XII. LANDSCAPE SERVICES

Maintenance of plant material shall be provided on a weekly basis to include, but not be limited to, mowing, trimming, pruning, watering, fertilization, aeration, thatching, weed control, cultivation, pest control and clean-up. It is the intent to provide a plant material maintenance method to keep the site in a state of perpetual growth and repair. Irrigation maintenance shall include operating of system, adjustments, and minor repairs. The walkways shall be cleaned to prevent

impairment of walking surface from plant materials.

In addition, the landscape services contractor shall:

Be responsible for periodic inspection of surface drains located within the landscaped areas. These drains shall be checked to assure proper functioning. Remove any debris or vegetation that might accumulate at the inlet to prevent flow of water.

Exercise due care in protecting from damage all existing facilities, structures, and utilities, both above surface and underground.

Have and maintain a valid C-27 contractors license.

Be licensed or have a subcontractor who is licensed by the State of California and registered with the County of San Diego as a Pest Control Operator in compliance with governmental requirements. Landscape services contractor must ensure that all pesticides are applied and stored in strict accordance with all applicable codes and regulations which apply.

Remove and dispose of all debris resulting from landscape services contractor's operations. No debris will be allowed to remain at the end of any work day.

Be responsible for removing weeds in all hardscape areas.

EXHIBIT "E"

EXCLUSIONS FROM BUILDING OPERATING EXPENSES

In the Lease, there shall be excluded from Building Operating Expenses the following, except to the extent specifically permitted by a specific exception to the following:

(a) Costs incurred in connection with the original construction of any Building or in connection with any major change in any Building, such as adding or deleting floor, adding stairwells, or modifications required per title 24 and/or ADA or any other governmental regulations;

(b) Costs of alterations or improvements to the Premises or any surrounding common areas or the premises of other tenants;

(c) Interest and principal payments or mortgages, and other debt costs, if any;

(d) Costs of correcting major and/or latent defects in or significant design error relating to the initial design or construction of the shell portion of the Buildings;

(e) Legal fees, space planners' fees and advertising expenses incurred in connection with the original development or original leasing of the Buildings or future leasing of the Buildings;

(f) Costs for which the LANDLORD is reimbursed by any tenant or occupant of the Buildings or by insurance by its carrier or any tenant's carrier or by anyone else;

(g) Any bad debt loss, or reserves for bad debts or rent loss;

(h) The expense of extraordinary service provided to other tenants in the Buildings which are made available to the TENANT at cost or for which the TENANT is separately charged and collected;

Costs associated with the operating of the business of the partnership or entity which constitutes the LANDLORD, as the same are distinguished from the costs of operation of the Building, including partnership accounting and legal matters, costs of defending any lawsuits with any mortgagee (except as the actions of the TENANT may be in issue), costs of selling, syndicating, financing, mortgaging or hypothecating any of the LANDLORD's interest in the Building, costs (including attorneys, fees and costs of settlement judgments and payments in lieu thereof) arising from claims, disputes or potential disputes in connection with potential or actual claims, litigation or arbitrations pertaining to the LANDLORD and/or the Buildings and/or the site upon which the Buildings are situated;

(j) The wages and benefits of any employee who does not devote substantially all of his or her employed time to the Buildings unless such wages and benefits are prorated to reflect time spent on operating and managing the Buildings vis-a-vis time spent on matters unrelated to operating and managing the Building;

(k) Fines, penalties, and interest (provided such items do not arise from TENANT's failure to timely pay or perform any obligation on TENANT's part under the Lease);

(m) Any recalculation of or additional Building operating Expenses actually incurred prior to lease commencement and prior to the year in which LANDLORD proposes that such costs be included, except as otherwise provided in Paragraph 3.6(c) of the Lease;

(n) Costs incurred by the LANDLORD with respect to goods and services (including utilities sold and supplied to tenants and occupants of the Building) to the extent that the LANDLORD would be entitled to separate and specific reimbursement for such costs if such goods or services are provided to the TENANT pursuant to this Lease;

(o) Costs, including permit, license and inspection costs, incurred with respect to

the installation of tenant improvements made for new tenants in the Buildings or incurred in renovating or otherwise improving, decorating, painting or redecorating vacant space for tenants or other occupants of the Building (excluding, however, such costs relating to any common areas of the Building or parking facilities); it being understood and agreed that the cost of any fees, assessments or requirements imposed upon LANDLORD or the Premises by any governmental agency in connection with approvals or permits for the Tenant Improvements (as that term is defined in Paragraph 4.1 of the Lease) shall be shared equally by LANDLORD and TENANT;

(p) Expenses in connection with services or other benefits which are not offered and/or provided to the TENANT or for which the TENANT is charged directly but which are provided to another tenant or occupant of the Building without a separate charge;

(q) Overhead and profit increment paid to the LANDLORD or to subsidiaries or affiliates of the LANDLORD for services in the Building to the extent the same exceeds the costs of such services rendered by qualified, first class, unaffiliated third parties on a competitive basis;

(r) Rentals and other related expenses incurred in leasing air conditioning systems, elevators or other equipment ordinarily considered to be of a capital nature if purchased, except equipment not affixed to the Building which is used in providing janitorial or similar services and, further excepting from this excluding such equipment rented or leased to remedy or ameliorate an emergency condition in the Buildings;

(s) All items and services for which the TENANT or any other tenant in the Building reimburses the LANDLORD or which the LANDLORD provides selectively to one or more tenants (other than the TENANT) without reimbursement;

(t) Electric power costs for which any tenant directly contracts with the local public services company;

(u) Costs arising from the LANDLORD's political or charitable contributions;

(v) Costs, other than those incurred in ordinary maintenance and repair, for sculpture, painting, fountains or other objects of art;

(aa) Costs for which the LANDLORD had been compensated by a management fee to the extent that the including of such costs in Building Operating Expenses would result in a double charge to the TENANT;

(ab) Tax penalties incurred as a result of the LANDLORD's negligence, inability or unwillingness to make payments when due;

(ac) The LANDLORD's general corporate overhead and general and administrative expenses provided, however, nothing herein should be deemed to prohibit the LANDLORD from charging a reasonable management fee computed in accordance with industry custom and otherwise subject to the limitations in this Exhibit E. Such fee not to be in excess of a fee that would be charged by an independent management company not involved in brokerage

or leasing activities for the Building;

(ad) Costs (including attorney's fees) incurred by the LANDLORD due to the violation by the LANDLORD or any tenant other than TENANT of the terms and conditions of any lease of space in the Building; and

(ae) Any other expenses which, in accordance with generally accepted accounting principles, consistently applied, would not normally be treated as Building Operating Expense by landlords of comparable buildings; and to the extent that an expense is not specifically included or excluded as a component of Building Operating Expense pursuant to the Lease, whether such expenses shall be treated as Building Operating Expense shall be determined in accordance with generally accepted accounting principles, consistently applied; and to the extent that an expense is

included as Building Operating Expense under the Lease, but a method for the treatment or calculation of such expense is not specifically set forth in the Lease, then the treatment and calculation of such expense shall be done in accordance with generally accepted accounting principles, consistently applied.

EXHIBIT F

LANDLORD BUILDING WORK PRIOR TO TENANT IMPROVEMENTS

In addition to LANDLORD's responsibilities to construct the Tenant Improvements as provided in the Lease, LANDLORD, at its sole cost and expense, shall provide to the Premises, prior to the construction of the Tenant Improvements, the following items for each of the Buildings comprising the Premises:

1. Men's and Women's toilet rooms.

2. A drinking fountain on each floor at the building core.

3. Electrical/telephone closets (including the racks for the telephone systems).

4. Building stairways and elevators for exiting.

5. mechanical equipment rooms with fan units.

6. Sheetrock core walls (including elevator lobby), perimeter and interior columns and exterior walls above and below the windows, taped and spackled, ready for painting.

7. Primary HVAC duct loops for the mechanical equipment room around the building core.

8. Sprinklers for temporary protection consisting if main lines, lateral lines and uprights, installed according to local building codes.

9. Fire protection alarm and fire communication systems installed according to local building codes.

Amendment To Lease Agreement
EXHIBIT B
TO
SECURED LOAN AGREEMENT

This Amendment to Lease Agreement (this "Amendment"), dated as of July 1, 1993, is entered into between SAN DIEGO GAS & ELECTRIC COMPANY ("Lessee") and SANWA BANK CALIFORNIA, as Owner Trustee ("Lessor") with reference to the following:

RECITALS

A. Lessee and Lessor's predecessor, LLOYD'S BANK CALIFORNIA, are parties to that certain Lease Agreement dated as of June 15, 1978 (the "Lease Agreement"), as supplemented by Lease Supplement No. 1, dated August 1, 1978, between the parties; and

B. Contemporaneously with the execution of this Amendment (i) First Interstate Bank of California (formerly known as United California Bank), as Indenture Trustee, and Lessor, as Owner Trustee, are entering into the Second Supplemental Indenture providing for the creation and issuance of Loan Certificates of Series B and (ii) Lessor, Lessee, The Prudential Insurance Company of America, Prudential Property and Casualty Insurance Company and Prudential Reinsurance Company, as Secured Loan Agreement Participants, BA Leasing & Capital Corporation (formerly known as BameriLease, Inc.), as Owner Participant, and the Indenture Trustee are entering into the Secured Loan Agreement pursuant to which the Secured Loan Agreement Participants will receive Loan Certificates of Series B to evidence loans by the Secured Loan Agreement Participants to the Owner Trustee, the proceeds of which will be used by the Owner Trustee simultaneously to refinance all of the outstanding Loan Certificates of Series A;

C. In order to effect the transactions contemplated by the Second Supplemental Indenture and the Secured Loan Agreement, the parties desire to amend the Lease Agreement as set forth heroin.

NOW, THEREFORE, in consideration of the foregoing and for other good and valuable consideration, the receipt and adequacy of which are hereby specifically acknowledged, the Parties hereto agree as follows:

1. Amendments to Lease Agreement. Lessee and Lessor agree that the Lease Agreement is hereby amended as follows:

(a) The definition of "Documents" contained in Section l(a) of the Lease Agreement is amended in its entirety to read as follows:

> "'Documents' shall mean the Financing Agreement, the Secured Loan Agreement, the Trust Agreement, the Trust Agreement Amendment, this Lease, the Lease Supplement, the Lease Amendment, the Facilities Agreement, the Consent, the Indenture, the Indenture Supplement, the Second Supplemental indenture, the Contracts, the Consents to Assignment of Contract Rights, the Deed and the Bill of Sale."

(b) The following new definitions are added to Section l(a) of the Lease Agreement:

> "'Lease Amendment' shall mean the Amendment to Lease Agreement entered into between Lessor and Lessee as of July 1, 1993."

> "'Trust Agreement Amendment' shall mean the Amendment to Trust Agreement entered into between Owner Participant and Owner Trustee as of June 29, 1993."

(c) Section l(e) of the Lease Agreement is amended in its entirety to read as follows:

> "Reference to Indenture. For all purposes of this Lease, the following terms shall have the meanings given them in the Indenture: 'Affiliate', 'Indenture Supplement', 'Second Supplemental Indenture', 'Indenture Trustee Office', 'Loan Certificate', 'Loan Certificates of Series A', 'Loan Certificates of Series B', 'Majority in Interest of Participants', 'Person', 'Secured Loan Agreement', 'Secured Loan Agreement Participants' and 'Trust Indenture Estate',"

(d] Section 5(b) of the Lease Agreement is amended in its entirety to read as follows:

> Basic Rent. Lessee agrees to pay Basic Rent in fifty semi-annual installments on the Semi-Annual Rent Payment Dates during the Basic Term (i) in an amount equal to $5,051,209.87 for each installment due from July 1, 1979 through July 1, 1993, plus any increase therein required pursuant to Section 10(a) of the Financing Agreement if the aggregate of Fees and Expenses under the Financing Agreement exceed $1,650,000 and (ii) in the amount set forth on Schedule 4 hereto for each installment due from January 1, 1994 through January 1, 2004; provided that the amount of Basic Rent payable on any Semi-Annual Rent Payment Date shall in no event be less than the aggregate amount of principal and interest due and payable on the [loan certificates on such Semi-Annual Rent Payment Date.

(e) Section 5(c) of the Lease Agreement is amended to delete the words "Section 9(a) of the Financing Agreement" in the second and third lines thereof and substitute therefor the words "Section 8(a) of the Secured Loan Agreement."

(f) Section 5(d) of the Lease Agreement is amended to delete the words Section 9(a) of the Financing Agreement" in the ninth and tenth lines thereof and substitute therefor the words Section 8(a) of the Secured Loan Agreement.

(g) Section 5(e) of the Lease Agreement is amended to delete the words "Section 9(a) of the Financing Agreement" in the fourth and fifth lines thereof and substitute therefor the words "section 8(a) of the Secured Loan Agreement."

(h) Section 5(f)(vi) of the Lease Agreement is amended to add the words "or the holder of any Loan Certificates" immediately following the words "or any Participant" in each place where they appear therein.

(i) Section 5(f)(vii) of the Lease Agreement is amended to add the words "or the holder of any Loan Certificates" at the end thereof.

(j) section 5(f) of the Lease Agreement is amended to delete the words "Section 10(a) of the Financing Agreement" in the fortieth and forty first lines thereof and substitute therefor the words "Section 9(a) of the Secured Loan Agreement."

(k) Section 6 of the Lease Agreement is amended to add the words ", the Secured Loan Agreement Participants" immediately following the word "Participant" in the twenty fifth and twenty ninth lines thereof.

(1) Section 15(d)(iii) of the Lease Agreement is amended to delete the words "Section 11fd)(vi) of the Financing Agreement" in the thirty third line thereof and substitute therefor the words "section 10fd)(vi) of the Secured Loan Agreement.,,

(m) Section 16(a) of the Lease Agreement is amended to add the words "or Section 3.04(b) of the Second Supplemental Indenture" at the end of the first sentence thereof.

(n) Section 20(a) of the Lease Agreement is amended to delete the words "Section 12 of the Financing Agreement" in the eighth line thereof and substitute therefor the words "Section 11 of the Secured Loan Agreement."

(o) Section 21(a) of the Lease Agreement is amended to add the words "the Secured Loan Agreement

participants," immediately following the words "the participants," in each place where they appear therein.

(p) Sections 21(b) and (c) of the Lease Agreement are each amended to add the words "the Secured Loan Agreement participants," immediately following the words "each participant," in each place where they appear therein.

(q) Section 21(d) of the Lease Agreement is amended (i) to delete the words "Financing Agreement" in the sixth line thereof and substitute therefor the words "Secured Loan Agreement" and (ii) to add the words "the Lease Amendment," immediately following the words "the Lease Supplement," in the sixth and fifteenth lines thereof.

(r) Section 21(e) of the Lease Agreement is amended to add the words "and the Secured Loan Agreement participants" immediately following the words "any Participant" in the first line thereof.

(s) Sections 22(e) and (f) of the Lease Agreement are amended to delete the words "the Financing Agreement" and substitute therefor the words "Secured Loan Agreement" in each place where they appear therein.

(t) Annex 1 to this Amendment hereby replaces Schedule 1 to the Lease Agreement.

(u) Annex 2 to this Amendment is hereby added to the Lease Agreement as new Schedule 4 thereto.

2. Consent to Second Supplemental Indenture. In order to further secure and provide for the payment of the indebtedness evidenced by the Loan Certificates, the Owner Trustee provides in the Second Supplemental Indenture, among other things, for the grant, conveyance, assignment, transfer, mortgage and pledge of, and the creation of a first priority perfected security interest for the benefit of the indenture Trustee in and to, all of the right, title and interest of the Owner Trustee in, to and under this Amendment as provided in the Assignment Clause of the Second Supplemental Indenture. Lessee hereby consents to the terms of the Second Supplemental Indenture, including, without limitation, the issuance to the Secured Loan Agreement Participants of Lean Certificates of Series B thereunder, and such grant, conveyance, assignment, transfer, mortgage, pledge and creation.

3. Continued Effectiveness. Except as expressly modified by this Amendment, the provisions of the Lease Agreement shall remain in full force and effect and are hereby ratified and confirmed. The parties hereto agree that the terms of this Amendment, to the extent inconsistent with the terms of any

operative Document, shall control and supersede the terms of such Operative Document.

4. Effectiveness. This Amendment Shall be effective as of the date first above written, provided that on or before such date the Loan Certificates of Series B have been issued to the Secured Loan Agreement Participants as provided in the Second Supplemental Indenture.

5. Counterparts. This Amendment may be executed in any number of counterparts, each of which shall be deemed to be an original, but all of such separate counterparts shall together constitute but one and the same instrument.

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be duly executed as of the date first above written.

SAN DIEGO GAS & ELECTRIC COMPANY

By: _____

Its: Vice President - Finance and Treasurer

SANWA BANK CALIFORNIA

By: _____

Its: Vice President

By: _____

Its: Vice President

STATE OF CALIFORNIA)
) SS.
COUNTY OF SAN DIEGO)

On July 1, 1993 before me,
_____ , personally appeared
M.K. Malquist, Vice President - Finance and Treasurer of San Diego Gas & Electric Company personally known to me (or proved to me on the basis of satisfactory evidence) to be the persons whose names are subscribed to the within instrument and acknowledged to me that they executed the same in their authorized capacities, and that by their signatures on the instrument the persons or the entity upon behalf of which the persons acted, executed the instrument.

WITNESS my hand and official seal.

Signature _____

(notarial seal)

STATE OF CALIFORNIA)
) SS.
COUNTY OF SAN FRANCISCO)

On July 1, 1993 before me,
_____, personally appeared
_____, Vice Presidents of
Sanwa Bank California personally known to me (or proved to me on the basis of satisfactory evidence) to be the persons whose names are subscribed to the within instrument and acknowledged to me that they executed the same in their authorized capacities, and that by their signatures on the instrument the persons or the entity upon behalf of which the persons acted, executed the instrument.

WITNESS my hand and official seal.

Signature _____

(notarial seal)

ANNEX 1
TO
AMENDMENT TO LEASE AGREEMENT

SCHEDULE 1
TO
LEASE AGREEMENT

STIPULATED LOSS VALUES

The Stipulated Loss Value of the Equipment as of a particular date shall mean the product derived from multiplying (i) the percentage figure opposite the appropriate Semi-Annual Rent Payment Date set forth in the table appearing below by (ii) Lessor's Cost. Stipulated Loss Value does not include any Rent unpaid as of or due on such Date, or any amounts for which Lessee may be obligated for indemnification under Sections 12, 13 and 24 of the Lease.

Semi-Annual Rent Payment No.	Semi-Annual Rent Payment No.	Percentage of Lessor's Cost
30	01/01/1994	74.64639139
31	07/01/1994	70.68790928
32	01/01/1995	70.36526851
33	07/01/1995	66.27903401
34	01/01/1996	65.83777900
35	07/01/1996	61.63310228
36	01/01/1997	61.08070334
37	07/01/1997	56.76701751
38	01/01/1998	56.10895047
39	07/01/1998	51.68997695
40	01/01/1999	50.92809675
41	07/01/1999	46.40596936
42	01/01/2000	45.54251785
43	07/01/2000	40.91956147
44	01/01/2001	39.95697961
45	07/01/2001	35.23572462
46	01/01/2002	34.16997374
47	07/01/2002	29.33823085
48	01/01/2003	28.14517621
49	07/01/2003	23.18499171
50	01/01/2004	20.00000000

ANNEX 2
TO
AMENDMENT TO LEASE AGREEMENT

SCHEDULE 4
TO
LEASE AGREEMENT

RENT PAYMENT SCHEDULE

Semi-Annual Rent Payment No.	Semi-Annual Rent Payment Date	Rent Amount
30	01/01/1994	$2,509,015.62
31	07/01/1994	7,527,046.87
32	01/01/1995	2,509,015.62
33	07/01/1995	7,527,046.87
34	01/01/1996	2,509,015.62
35	07/01/1996	7,527,046.87
36	01/01/1997	2,509,015.62
37	07/01/1997	7,527,046.87
38	01/01/1998	2,509,015.62
39	07/01/1998	7,527,046.87
40	01/01/1999	2,509,015.62
41	07/01/1999	7,527,046.87
42	01/01/2000	2,509,015.62
43	07/01/2000	7,527,046.87
44	01/01/2001	2,509,015.62
45	07/01/2001	7,527,046.87
46	01/01/2002	2,509,015.62
47	07/01/2002	7,527,046.87
48	01/01/2003	2,509,015.62
49	07/01/2003	7,527,046.87
50	01/01/2004	4,990,153.30

RECORDED AT THE REQUEST OF THE ORIGINAL OF THIS DOCUMENT
CHICAGO TITLE CO. WAS RECORDED ON 19-NOV-1993,
DOCUMENT NUMBER 1993-0780594.
ANNETTE EVANS, COUNTY RECORDER SAN DIEGO COUNTY RECORDER'S OFFICE

WHEN RECORDED MAIL TO:

SHAPERY DEVELOPERS GAS & ELECTRIC PROPERTY, L.P.
402 W. Broadway, Suite 1200
San Diego, California 92101
Attention: Sandor W. Shapery

==========
(Above Space for Recorder's Use Only)

ASSIGNMENT AND ASSUMPTION OF LEASE

THIS ASSIGNMENT AND ASSUMPTION OF LEASE is made by and between NEW ENGLAND MUTUAL LIFE INSURANCE COMPANY, a Massachusetts corporation (hereinafter referred to as "Assignor") and SHAPERY DEVELOPERS GAS & ELECTRIC PROPERTY, L.P., a California limited partnership (hereinafter referred to as "Assignee")

WITNESSETH:

WHEREAS, Assignor has this day conveyed to Assignee certain improvements located on but severed from the real property more particularly described on Exhibit "A" attached hereto and incorporated herein by reference (collectively, the "Property").

WHEREAS, Assignor has entered into that certain Lease dated July 14, 1975, as amended, supplemented, or modified through the date hereof, (the "Lease") with San Diego Gas and Electric Company ("Lessee"), whereby Assignor has leased the Property to Lessee; and

WHEREAS, Assignor desires to convey to Assignee all of Assignor's right, title and interest in and to the Lease.

NOW. THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Assignor does hereby GRANT, BARGAIN, SELL, CONVEY, ASSIGN, TRANSFER, SET OVER and DELIVER unto Assignee, its successors and assigns, all of Assignor's right, title and interest in and to the Lease.

TO HAVE AND TO HOLD the above rights, and interest unto Assignee, its successors and assigns, forever, and Assignor does hereby hind itself and its successors to WARRANT and FOREVER DEFEND, all and singular, title to the interests herein assigned unto Assignee, its successors, legal representatives and assigns, against every person whosoever

lawfully claiming or to claim the same, or any, part hereof by, through or through Assignor, but not otherwise; provided, however that this sale, assignment and conveyance is made and accepted expressly subject to the exceptions contained in that certain Grant Deed of even date herewith, executed by Assignor, conveying said improvements to Assignee, all to be effective as of the recordation of said Grant Deed.

It is understood and agreed that, by its execution hereof, Assignee hereby assumes and agrees to perform all of the terms, covenants and conditions of the Lease herein assigned arising from and after the effective date hereof.

This document may he executed in one or more counterparts, each of which shall be an original, and all of which together shall constitute a single instrument. All of the covenants. terms and conditions set forth herein shall be binding upon and inure to the benefit of the parties hereto, their respective successors and assigns.

EXECUTED this 19th day of November, 1993

"ASSIGNOR"

NEW ENGLAND MUTUAL LIFE
INSURANCE COMPANY, a Massachusetts
corporation

By: Copley Real Estate
Advisors, Inc., a
Massachusetts corporation, its asset
manager and advisor hereunder duly
authorized

By: K.M. Mahoney
Its: MANAGING DIRECTOR

"ASSIGNEE"

SHAPERY DEVELOPERS GAS &
ELECTRIC .PROPERTY, L. P. a
California
limited partnership
By: Shapery Developers Gas &
Electric
Corp , a California corporation,
its
general partner
By: Sandor W. Shapery
its President

COMMONWEALTH OF MASSACHUSETTS
COUNTY OF SUFFOLK

On November 17, 1993, before me, Linda J. Barove, a Notary Public in and for said state, personally appeared KEVIN M. MAHONY, personally known to me (or proved to me on the basis of satisfactory evidence) to be the person whose name is subscribed to the within instrument and acknowledged to me that he executed the same in his authorized capacity, and that by his signature on the instrument, the person, or the entity upon behalf of which the person acted, executed the instrument.

WITNESS my hand and official seal.

Linda J. Barove
Notary Public in and for said State

STATE OF CALIFORNIA

COUNTY OF SAN DIEGO

November 19, 1993, before me, Buneva M. Deuel, a Notary Public in and for said state, personally appeared Sandor W. Shapery, personally known to me (or proved to me on the basis of satisfactory evidence) to be the person whose name is subscribed to the within instrument and acknowledged to me that he executed the same in his authorized capacity, and that by his signature on the instrument, the person, or the entity upon behalf of which the person acted, executed the instrument.

WITNESS my hand and official seal.

Buneva M. Deuel
Notary Public in and for said State

LEGAL DESCRIPTION

PARCEL 1:

ALL BUILDINGS AND IMPROVEMENTS SITUATED ON

LOTS A, B, C, D, E, F, G, H, I, J, AND K, IN BLOCK 195 OF HORTON'S ADDITION, IN THE CITY OF SAN DIEGO, COUNTY OF SAN DIEGO, STATE OF CALIFORNIA, ACCORDING TO MAP THEREOF MADE BY L. L. LOCKLING, ON FILE IN THE OFFICE OF THE COUNTY RECORDER OF SAN DIEGO COUNTY.

EXCEPTING FROM SAID LOT K, THE NORTHERLY ONE-HALF THEREOF.

WHICH BUILDINGS AND IMPROVEMENTS ARE AND SHALL REMAIN REAL PROPERTY.

PARCEL 2:

ALL BUILDINGS AND IMPROVEMENTS SITUATED ON

LOT L AND THE NORTHERLY ONE-HALF OF LOT K IN BLOCK 195 OF HORTON'S ADDITION, IN THE CITY OF SAN DIEGO, COUNTY OF SAN DIEGO, STATE OF CALIFORNIA, ACCORDING TO MAP THEREOF MADE BY L. L. LOCKLING, ON FILE IN THE OFFICE OF THE COUNTY RECORDER OF SAN DIEGO COUNTY.

WHICH BUILDINGS AND IMPROVEMENTS ARE AND SHALL REMAIN REAL PROPERTY.

EXHIBIT A

EXHIBIT 12.1

SAN DIEGO GAS & ELECTRIC COMPANY

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

	1990	1991	1992	1993	1994
Fixed Charges:					
Interest:					
Long-Term Debt	$ 97,894	$ 98,802	$100,776	$ 93,402	$ 93,076
Short-Term Debt	12,301	8,234	6,242	7,980	10,322
Amortization of Debt Discount and Expense, Less Premium	2,465	2,471	2,881	4,162	4,604
Interest Portion of Annual Rentals	20,898	18,067	14,677	19,206	21,998
Total Fixed Charges	133,558	127,574	124,576	124,750	130,000
Preferred Dividends Requirements	10,863	10,535	9,600	8,565	7,663
Ratio of Income Before Tax to Net Income	1.75499	1.63017	1.72369	1.67794	1.90447
Preferred Dividends for Purpose of Ratio	19,064	17,174	16,547	14,372	14,594
Total Fixed Charges and Preferred Dividends for Purpose of Ratio	$152,622	$144,748	$141,123	$139,122	$144,594
Earnings:					
Net Income (before preferred dividend requirements)	$207,841	$208,060	$210,657	$218,715	$143,477
Add:					
Fixed Charges (from above)	133,558	127,574	124,576	124,750	130,000
Less: Fixed Charges Capitalized	3,306	2,907	2,242	5,789	6,792
Taxes on Income	156,917	131,114	152,451	148,275	129,771
Total Earnings for Purpose of Ratio	$495,010	$463,841	$485,442	$485,951	$396,456
Ratio of Earnings to Combined Fixed Charges and Preferred Dividends	3.24	3.20	3.44	3.49	2.74

EXCERPT FROM TEN-YEAR SUMMARY PAGES 16-17

In millions of dollars except per share amounts

	1994	1993	1992	1991	1990
For the years ended December 31					
Operating revenues	$1,982.0	$1,980.1	$1,870.9	$1,789.0	$1,771.9
Operating income	$321.9	$293.7	$296.3	$315.5	$314.0
Net income (before preferred dividend requirements)	$143.5	$218.7	$210.7	$208.1	$207.8
Earnings per common share	$1.17	$1.81	$1.77	$1.76	$1.76
Dividends declared per common share	$1.52	$1.48	$1.44	$1.3875	$1.35
At December 31					
Total assets	$4,642.5	$4,702.2	$4,494.6	$4,046.7	$3,945.2
Long-term debt and preferred stock subject to mandatory redemption (excludes current portion)*	$1,480.2	$1,525.0	$1,651.9	$1,331.2	$1,337.1

*Includes long-term debt redeemable within one year.

This summary should be read in conjunction with the consolidated financial statements and notes to consolidated financial statements contained elsewhere in this report.

Management's Discussion and Analysis of Financial Condition and Results of Operations

Results of Operations

San Diego Gas & Electric Company is an operating public utility engaged in the electric and gas businesses. SDG&E generates and purchases electric energy and distributes it to 1.1 million customers in San Diego County and an adjacent portion of Orange County, California. It also purchases and distributes natural gas to 696,000 customers in San Diego County. SDG&E also transports electricity and gas for others. SDG&E has diversified into other businesses. Enova Corporation invests in limited partnerships representing approximately 550 affordable-housing projects located throughout the United States. Califia Company leases computer equipment. The investments in Enova and Califia are expected to provide income tax benefits over the next several years. Enova Energy Management is an energy management consulting firm offering services to utilities and large consumers. Pacific Diversified Capital is a holding company for non-utility subsidiaries, Phase One Development, Inc. which is engaged in real estate development and Wahlco Environmental Systems, Inc. (80 percent owned). Wahlco designs and manufactures air-pollution control and power-efficiency equipment for electric utilities and other power producers, refineries and other manufacturers. Additional information regarding SDG&E's subsidiaries is described in Notes 1 through 3 of the notes to consolidated financial statements.

Revenues

Electric revenues did not change significantly in 1994 and increased 5 percent in 1993. The 1993 increase reflects higher authorized costs and increased sales to other utilities.

Gas revenues did not change significantly in 1994 and increased 3 percent in 1993. Gas revenues in 1994 reflect higher authorized costs offset by lower sales volumes as a result of customers' purchases of gas directly from other suppliers. The 1993 increase reflects higher authorized costs, partially offset by lower sales volume as a result of customers' purchases of gas directly from other suppliers.

Revenues from diversified operations increased in 1994 and 1993 primarily due to Califia's leasing activities. Wahlco's revenues declined in 1994 as a result of the continuing poor market for air pollution control products. There was no significant change in Wahlco's revenues in 1993. Additional information concerning Wahlco is described in Notes 1 through 3 of the notes to consolidated financial statements.

Operating Expenses

Electric fuel expense decreased 18 percent in 1994 and did not change significantly in 1993. The decrease in 1994 was primarily due to lower prices for natural gas and the replacement of fossil fuel generation with lower-cost nuclear generation as a result of San Onofre Nuclear Generating Station Units 2 and 3 completing their refueling cycles.

Purchased-power expenses increased 5 percent in 1994 and 1993. The increase in 1994 is primarily due to increased purchases from higher-cost independent power producers. The increase in 1993 reflects increased purchases of short-term energy as a result of the refueling of the SONGS Units 2 and 3 in 1993 and the permanent shutdown of Unit 1 in late 1992.

Gas purchased for resale decreased 12 percent in 1994 and did not change significantly in 1993. The decrease in 1994 was primarily due to lower prices for natural gas and lower sales volumes due to customers' purchases of gas directly from others.

Other operating expenses did not change significantly in 1994. The increase in 1993 is primarily due to higher utility operating and maintenance expenses, higher subsidiary operating expenses arising from Califia's increased leasing activities and higher depreciation as a result of the accelerated recovery of SDG&E's remaining investment in SONGS Unit 1.

Other Income and Deductions

Other income and deductions decreased in 1994 and did not change significantly in 1993. The decrease in 1994, including the decrease in "Other - net," was primarily due to the writedowns described in Note 3 of the notes to consolidated financial statements.

Earnings
In 1994 earnings per common share were $1.17, compared to earnings of $1.81 in 1993 and $1.77 in 1992. The decrease in 1994 was primarily due to the writedowns described in Note 3 of the notes to consolidated financial statements. The increase in earnings in 1993 is due primarily to the increase in the investment activities of Califia and Enova. Califia and Enova's contributions to earnings were 15 cents in 1994, 9 cents in 1993 and 1 cent in 1992.

Liquidity and Capital Resources

Utility operations continue to be a major source of liquidity for SDG&E. In addition, SDG&E's financing needs are met primarily through issuances of short-term and long-term debt and of common and preferred stock. These capital resources are expected to remain available. Cash requirements include plant construction and other capital expenditures, subsidiaries' affordable-housing and leasing investments, 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 due primarily to changes in prices for natural gas and the replacement of lower-cost nuclear generation with purchased power and gas-fired generation in 1993 due to the refuelings of SONGS Units 2 and 3 and the shutdown of SONGS Unit 1 in late 1992. The changes in cash flows related to income taxes were due primarily to the differences in timing of income tax payments related to regulatory balancing account activity in 1994 and due to higher income tax payments in 1992 in connection with a preliminary settlement with the Internal Revenue Service on the timing of certain deductions in prior years. The changes in accounts payable and other current liabilities were

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primarily due to higher construction activity and higher employee compensation in 1993.

Cash Flows from Financing Activities
SDG&E had only short-term financing needs during 1994. SDG&E did not issue additional stock or long-term debt in 1994 and does not plan any issuances in 1995 other than refinancings. SDG&E's utility capital structure is one factor that has enabled it to obtain long-term financing at attractive rates. The following table shows the percentages of capital represented by the various components. The capital structures are net of the construction funds held by a trustee in 1992 and 1993.

	1990	1991	1992	1993	1994	Goal
Common equity	45%	47%	47%	47%	48%	45-48%
Preferred stock	6	5	5	4	4	5-7
Debt and leases	49	48	48	49	48	46-49
Total	100%	100%	100%	100%	100%	100%

During 1994 the major credit-rating agencies placed the three large California electric utilities under review following an announcement by the California Public Utilities Commission of its plan to restructure California's electric utility industry. The review lead to an affirmation of SDG&E's A+ long-term bond rating by Standard & Poor's and a downgrade in SDG&E's long-term bond rating from Aa3 to A1 by Moody's Investors Service. The rating agencies indicated that the outlook for the California utilities would remain negative due to the long-term risk associated with the CPUC's proposal and due to the concerns about the burden the CPUC has placed on California utilities to buy high-cost power from independent power producers. Additional information concerning electric industry restructuring and SDG&E's purchased-power commitments is described under "Competition" and "Resource Planning" below and in Notes 10 and 11 of the notes to consolidated financial statements.

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. SDG&E would be exposed to interest rate fluctuations on the underlying debt should other parties to the agreement not perform. Such nonperformance is not

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

Cash Flows from Investing Activities
Sources of cash for investing activities in 1994 included the withdrawal of the remaining $58 million in the construction trust fund. Cash used in investing activities in 1994 included utility construction expenditures and payments to the nuclear decommissioning trust. Construction expenditures, excluding nuclear fuel and the allowance for equity funds used during construction, were $264 million in 1994 and are estimated to be about $240 million in 1995. SDG&E continuously reviews its construction, investment and financing programs and revises them in response to changes in competition, customer growth, inflation, customer rates, the cost of capital, and environmental and regulatory requirements. Among other things, the level of expenditures in the next few years after 1995 will depend heavily on the impacts of the CPUC's industry restructuring proposal, on the timing of expenditures to comply with air emission reduction and other environmental requirements, and on whether SDG&E proceeds with its plan to transport natural gas to Mexico. These matters are discussed below.

Payments to the nuclear decommissioning trust are expected to continue until SONGS is decommissioned, which is not expected to occur before 2014. Although Unit 1 was permanently shut down in 1992, it is expected to be decommissioned concurrently with Units 2 and 3.

Regulatory Matters

Base Rates
On August 3, 1994 the CPUC adopted the base-rate component of SDG&E's performance-based ratemaking mechanism for an experimental period beginning in 1994 and ending in 1998, thereby replacing the traditional general rate case process. The base-rate mechanism includes a formula similar to the traditional attrition mechanism used to determine SDG&E's annual revenue requirement for operating, maintenance and capital costs. It also sets performance standards for customer rates, employee safety, electric system reliability and customer satisfaction. Each indicator specifies a range of possible shareholder benefits and risks. Finally, the mechanism provides for revenue sharing with customers should SDG&E earn one percent or more above its authorized rate of return.

On December 21, 1994 the CPUC authorized a $48 million increase in electric and gas rates. The increase is based on the PBR base-rate mechanism's formula for operating and maintenance expenses, SONGS refueling costs, and capital-related costs (including depreciation).

On November 22, 1994 the CPUC issued its decision on the 1995 Cost of Capital proceeding, authorizing returns on equity ranging from 11.30 percent to 12.10 percent for the six California investor-owned utilities. This is an increase from their 1994 authorized returns, which ranged from 10.85 percent to 11.10 percent. The Commission indicated that the higher returns were authorized to maintain the utilities' financial integrity, to compensate investors for the increased costs of doing business, and to recognize the increased levels of risk arising from industry restructuring. SDG&E was authorized a return on equity of 12.05 percent for an overall rate of return of 9.76 percent and an increase in electric and gas rates of $36 million. SDG&E's 1994 authorized return on equity and rate of return were 10.85 percent and 9.03 percent, respectively.

Although the revenue increases for base rates and cost of capital are effective January 1, 1995, the electric portion of the increases will be combined with SDG&E's request for a rate decrease in its Energy Cost Adjustment Clause application (as described in "Electric Fuel and Energy Rates" below) and included in rates effective May 1, 1995. The gas portion of the increases was included in rates on January 1, 1995 (as described in "Gas Rates" below).

Electric Fuel and Energy Rates
On March 9, 1994 the CPUC issued its Energy Cost Adjustment Clause decision finding

SDG&E's electric fuel and purchased-power expenses to be reasonable for the year ended July 31, 1992. This decision included the finding that SDG&E's administration of its Portland General Electric purchased-power contract was reasonable during the three-year period ended July 31, 1992. In May 1994 the CPUC's Division of Ratepayer Advocates issued its report on SDG&E's 1993 Energy Cost Adjustment Clause reasonableness review for the year ended July 31, 1993. The DRA generally found SDG&E's expenses and operations reasonable. A CPUC decision is expected in the first quarter of 1995.

On April 20, 1994 the CPUC issued its decision on the forecast phase of SDG&E's 1994 Energy Cost Adjustment Clause proceeding, approving a $57 million increase in electric rates to cover higher expected fuel and purchased-power expenses and to recover prior undercollections from customers. The fuel and purchased-power portion of the forecast also established the generation and dispatch benchmark for shareholder gains and losses under the performance-based ratemaking mechanism for the year beginning May 1, 1994. The rate increase was effective May 1, 1994.

On October 17, 1994 SDG&E filed its 1995 Energy Cost Adjustment Clause application with the CPUC, requesting a decrease of $67 million in electric rates. The request reflects lower expected fuel and purchased-power costs, and the amortization of previous overcollections from customers, including a refund of $15 million of unspent revenues for demand-side management programs, partially offset by the two-year amortization of the Bayside cogeneration contract termination payment (for additional information see "Cogeneration" below). On December 20 the CPUC's Division of Ratepayer Advocates issued its report on SDG&E's 1995 ECAC application, recommending a $79 million rate decrease. The difference is primarily due to the DRA's assumptions concerning future prices for fuel and purchased power. A CPUC decision is expected in April 1995, with rates effective May 1, 1995.

Under SDG&E's performance-based ratemaking generation and dispatch mechanism and gas procurement mechanism, fuel and energy operations and expenses are not normally subject to CPUC reasonableness reviews. However, SDG&E's nuclear operations and gas storage operations remain subject to review. The current review will cover those operations for the period from August 1993 to July 1994. A CPUC decision is expected in August 1995.

On October 31, 1994 SDG&E filed reports with the CPUC on the results of the generation and dispatch and the gas procurement mechanisms for the year ended July 31, 1994. SDG&E's fuel and purchased-power expenses fell below the benchmarks for these mechanisms by $35 million. SDG&E's ECAC application (see above) and its current Biennial Cost Allocation Proceeding application request a shareholder reward of $8 million and that the remainder of these savings be given to customers through lower rates.

Gas Rates

On December 21, 1994 the CPUC issued its decision on SDG&E's 1993 Biennial Cost Allocation Proceeding, authorizing a $32 million decrease in gas rates. The decrease reflects lower prices for natural gas, transportation and storage, and the amortization of prior over-collections from customers, partially offset by SDG&E's share of a settlement with Southern California Gas Company and others concerning SDG&E's obligation under long-term natural gas supply contracts. SDG&E is recovering its remaining share of the settlement costs over the two-year period ending in 1996. The change in gas rates was effective on January 1, 1995.

San Onofre Nuclear Generating Station

SDG&E is currently recovering its investment in San Onofre Nuclear Generating Station Unit 1 over a four-year period that began in November 1992, when the CPUC issued a decision to permanently shut down the unit. The decision authorized Southern California Edison (majority owner and operator of SONGS) and SDG&E to recover their investments in Unit 1, of which SDG&E's share was $111 million. SDG&E is recovering its investment, earning a return of 9.1 percent.

On November 15, 1994 SDG&E, Edison and the CPUC's Division of Ratepayer Advocates signed a settlement agreement on the accelerated recovery of SONGS Units 2 and 3 capital costs. The agreement would allow SDG&E to recover more than $750 million over an eight-year period beginning in February 1996, rather than over the anticipated operational life of the units, which is expected to

extend to 2013. During the eight-year period, the authorized rate of return would be reduced from 9.76 percent to 7.52 percent (SDG&E's 1995 authorized cost of debt). The agreement also includes a performance incentive plan that would encourage continued, efficient operation of the plant. However, continued operation of SONGS beyond the eight-year period would be at the owners' discretion. Under the plan, customers would pay about four cents per kilowatt-hour during the eight-year period. This pricing plan would replace the traditional method of recovering the units' operating expenses and capital improvements. This is intended to make the plants more competitive with other sources. SDG&E is unable to predict the impact of this proposal, if approved, on the results of its operations. However, it is expected to be considered in conjunction with the CPUC's industry restructuring proposal. A CPUC decision is expected in the first half of 1995. Additional information on industry restructuring is provided under "Competition" below, and in Note 11 of the notes to consolidated financial statements.

Competition

Electric
In April 1994 the CPUC announced its proposal to restructure California's regulated electric utility industry to stimulate competition and to lower rates. The proposed regulatory framework would be phased in over a six-year period. Beginning in 1996, the utilities' largest customers would be allowed to purchase their energy from either utility or nonutility suppliers. Other industrial and commercial customers would have this choice by between 1997 and 1999, depending on their energy requirements. Residential customers would have this choice by 2002. The utilities would continue to provide transmission and distribution services to customers that switch to other suppliers. The CPUC also proposed that the cost of providing these services and the cost of serving remaining utility customers would be recovered through a

performance-based ratemaking process, replacing traditional cost-of-service ratemaking.

The CPUC is holding several hearings to address comments on its proposal. These hearings involve discussions of whether the CPUC's proposal or some other form of a competitive market should be developed, whether direct access and retail competition would be necessary for the CPUC to achieve its industry restructuring objectives, how such a market would be structured, and how the cost of the transition to competition and the cost of the various utility-sponsored social programs should be shared.

Both the Federal Energy Regulatory Commission and the California legislature have raised the issue of whether the CPUC has the authority to unilaterally change the way rates are determined and power is sold, since several California statutes would need to be changed to accommodate the proposal and since the FERC has jurisdiction over interstate power sales and transmission involving California's network.

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

On December 7, 1994 the CPUC issued an interim decision ordering the utilities and interested parties to form a working group to consider how existing social, economic, conservation and environmental programs could be sustained under three broad restructuring concepts and to indicate where applicable laws would need to be changed: 1) complete market reform, allowing all customers to choose any supplier; 2) market reform with a mandatory pool through which all business is transacted; and 3) wholesale-only reform through which the suppliers transact business and retail consumers purchase through their current utility provider.

SDG&E has proposed a multi-step process for the transition to competition, including: the establishment of a schedule for the transition to a competitive market that would allow the recovery of the above-market cost of existing generating plants (including the SONGS units), related regulatory assets, power-purchase contracts and other long-term commitments, decommissioning, and environmental-mitigation costs, without having a significant rate increase or an adverse impact on SDG&E's earnings; the development of a fully competitive, pool-based wholesale market with open access to the transmission system for all power generators; and, to avoid self-dealing concerns, the separation of fossil-fuel generation (power plants and cogeneration contracts), transmission, and distribution assets through the formation of a holding company (see "Holding Company" below). SDG&E's proposal also foresees: the renegotiation of long-term purchased-power contracts, including contracts with independent power producers, to lower the cost of those contracts to market price and to allow the recovery of any excess contract costs and other transition costs by allocating these costs to all utility customers through a distribution charge included in retail rates, which would not be subject to potential bypass; the replacement of mandated long-term resource commitments (such as the Biennial Resource Plan Update process) with short-term resource procurement; and, once the wholesale market is in place, the establishment of access to the competitive wholesale market for all customers at the same time through a local distribution company. SDG&E would make the necessary regulatory filings no later than January 1996 and implement its proposal as soon as regulatory approvals are granted, rather than over the phase-in period ending in 2002 as proposed by the CPUC.

Some interested participants in the proceedings support the CPUC's direct access proposal, but prefer a longer phase-in period to avoid stranded investments (those costs that are in excess of what will be recoverable via market-based pricing structures). Others, who are planning to enter the electric-generation business in California, favor retail wheeling whereby customers may purchase directly from any supplier and avoid paying utilities' fixed costs. They also suggest that a shorter period for the transition to a competitive market is possible.

On January 31, 1995 SDG&E filed with the CPUC its position regarding certain legal issues. SDG&E asserted, among other things:

that federal law prohibits the CPUC from denying recovery of prudently incurred costs; that the CPUC cannot constitutionally compel retail wheeling or divestiture without compensation for above-market assets; and that implementation of the CPUC's retail wheeling proposal would require major changes to state law.

As the restructuring of the industry evolves, SDG&E will become more vulnerable to competition. However, many issues and complications still need to be resolved. California utilities' rates are significantly higher than the national average. However, among the investor-owned utilities in California, SDG&E has been the lowest-cost provider and has a lower concentration of industrial customers, which make its customers a less likely target for outside competitors. In addition, SDG&E has not built a power plant in over 10 years, which lowers the risk associated with the recovery of its power-plant investment.

Utility plant in service by major functional categories at December 31, 1994 are: electric generation $1.7 billion, electric distribution $2.0 billion, electric transmission $0.7 billion, gas $0.7 billion and other $0.2 billion. Accumulated depreciation and decommissioning at December 31, 1994 are $2.0 billion and $0.2 billion, respectively. The balances at December 31, 1993 were substantially the same.

If the CPUC proceeds with the move to a competitive environment, if the prices of competing suppliers are as anticipated, and if the regulatory process does not provide for complete recovery of stranded costs, SDG&E would have to incur a charge against earnings for a significant portion of its generating facilities, the related regulatory assets and the long-term commitments. Additional information on potential stranded costs and SDG&E's long-term purchased-power commitments is described below under "Resource Planning" and in Notes 10 and 11 of the notes to consolidated financial statements. Additional information concerning the recovery of SONGS is described under "San Onofre Nuclear Generating Station."

The CPUC plans to issue a preliminary recommendation setting forth policy conclusions on March 22, 1995, followed by a comment period and a full panel hearing on April 24, 1995. The CPUC has indicated that the implementation of a final policy decision would not occur before September 1995. SDG&E cannot predict the impact of the CPUC's final decision and the transition to a more competitive environment on SDG&E's financial condition and results of operations.

Holding Company

On November 7, 1994 SDG&E filed an application with the CPUC to form a holding company. Under the proposed structure, SDG&E would become a subsidiary of the parent company, as would SDG&E's existing subsidiaries. SDG&E would exchange its outstanding common shares for an equal number of holding company shares. Shareholders will be asked to vote on the proposal at the annual shareholder meeting on April 25, 1995. SDG&E has applied to other regulatory bodies for approval of the proposal and hopes to have the holding company in place by mid 1995. SDG&E believes that changes in the California utility industry and the movement toward a more competitive marketplace will require SDG&E to change its corporate structure. Under the holding company structure the customers of its remaining, regulated utility business would be shielded from the financial effects of the holding company's non-utility or competitive ventures.

Gas

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

In 1993 SDG&E and SoCal Gas submitted a joint proposal to transport natural gas to the Rosarito Power Plant in Baja California, Mexico. The project involves the construction of an 80-mile pipeline from SoCal Gas' service territory to the Mexican border, and is competing with two other proposed pipelines. Mexico has postponed a decision on this project. In 1994 SDG&E and SoCal Gas began negotiations with Mexico for service to Mexicali in Baja California through SoCal Gas' existing system in the Imperial Valley. The recent economic unrest in Mexico has affected progress, and the full impact on the project is unknown.

Resource Planning

South Bay Repower

Project In 1994 the CPUC and the California Energy Commission approved SDG&E's requests to withdraw its applications for the proposed 500-mw South Bay Repower project. SDG&E indicated that the long-term commitment needed for this project would create significant risk, given the uncertainty of the impact of competition resulting from the CPUC's proposed utility industry restructuring.

Biennial Resource Plan Update Proceeding

On December 21, 1994 the CPUC issued a decision ordering SDG&E, Pacific Gas and Electric, and Southern California Edison to proceed with the BRPU auction. SDG&E was ordered to begin negotiating contracts (ranging from 17 to 30 years) to purchase 500 mw of power from independent power producers at an estimated cost of $4.8 billion beginning in 1997. Final contracts must be filed with the CPUC for all firm bids by May 28, 1995. SDG&E expects that prices for BRPU energy will be significantly higher than market prices. However, the CPUC refused to let the utilities include contract provisions that would allow for adjustments to reflect changes in market prices or other economic effects of industry restructuring, contending that utilities already have such rights. The CPUC did not guarantee full recovery of BRPU costs and indicated that the recovery of potential stranded costs would be addressed in the electric industry restructuring proceedings. Additional information on potential stranded costs and SDG&E's purchased-power commitments is described under "Competition" above and in Notes 10 and 11 of the notes to consolidated financial statements.

On January 11, 1995 the Federal Energy Regulatory Commission found that states may not require utilities to purchase power at rates exceeding the purchasing utility's avoided cost. The FERC held that

the Public Utility Regulatory Policies Act (PURPA) preempts a Connecticut statute that requires that state's utilities to purchase power from municipal power plants at rates exceeding the utilities' avoided cost. The FERC indicated that requiring utilities to pay cogenerators more than avoided cost in the new competitive environment conflicts with the Energy Policy Act of 1992. On January 17, 1995 SDG&E filed a petition with the FERC, contending that the CPUC's BRPU orders and auction rules do not comply with PURPA and that the FERC should require the CPUC to comply with PURPA. On February 22, 1995 the FERC ruled favorably on SDG&E's petition. A final order is expected shortly. Edison filed a similar petition with the FERC.

Cogeneration

On July 20, 1994 SDG&E entered into an agreement to terminate its long-term power-purchase agreement with the owners of the 50-mw Bayside cogeneration project proposed for development in San Diego. SDG&E estimates that the termination of the agreement will result in significant savings to SDG&E's customers over the life of the contract. On December 21, 1994 the CPUC approved SDG&E's recovery of the contract termination costs.

Sources of Fuel and Energy

SDG&E's primary sources of fuel and purchased power include natural gas from Canada and the Southwest, surplus power from other utilities in the Southwest and the Northwest, and uranium from Canada. SDG&E expects its fuel and purchased-power costs to remain relatively low in the next few years due to the continued availability of surplus power in the Southwest and the continued availability of natural gas. Although short-term natural gas supplies and prices 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 cannot predict the outcome of the litigation but does not expect that an unfavorable outcome would have a material effect on its financial condition or results of operations.

Environmental Matters

SDG&E's operations are conducted in accordance with federal, state and local environmental laws and regulations governing hazardous wastes, air and water quality, land use, and solid waste disposal. SDG&E incurs significant costs to operate its facilities in compliance with these laws and regulations, and to clean up the environment as a result of prior operations of SDG&E or of others. The costs of compliance with environmental laws and regulations are normally recovered in customer rates. The CPUC is expected to continue allowing the recovery of such costs, subject to reasonableness reviews.

Capital expenditures to comply with environmental laws and regulations were $5 million in 1994 and $8 million in 1993, and are expected to be $90 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

On May 4, 1994 the CPUC issued its decision on the Hazardous Waste Collaborative, approving a mechanism for utilities to recover their hazardous-waste costs, including those related to Superfund sites or similar sites requiring cleanup. Basically, the decision allows utilities to recover 90 percent of their cleanup costs and related third party litigation costs and 70 percent of the related insurance litigation expenses.

On December 6, 1993 SDG&E received notification that the California Department of Toxic Substances Control had assumed responsibility for remediation activities at the Rosen's Electrical Equipment Supply Company site in Pico Rivera, California. Contamination from polychlorinated biphenyls (PCBs) was previously found on and near the site. SDG&E sold transformers to Rosens in the early 1980s and has been identified as a Potentially Responsible Party (PRP) for the site under California law. SDG&E, seven other named PRPs and others may be held liable for the cost of assessment and remediation of the site. The state has indicated that SDG&E may be held responsible for about 7 percent of the hazardous waste at the site. SDG&E is investigating this matter. The state has received documentation and information regarding any possible dealings various PRPs may have had with Rosens, but is awaiting similar information from Rosens before determining whether it will issue a cleanup order to Rosens alone or to all PRPs including Rosens. Based on available information, SDG&E is unable to estimate the range of liability, if any, it may have for remediating this site.

SDG&E has identified or has been associated with various other sites that may require remediation under federal, state or local environmental laws. SDG&E may be held partially or indirectly responsible for remediation of some of these sites. However, SDG&E is unable to estimate the extent of its responsibility for remediation. Furthermore, the timing for assessing the costs of remediation at these sites and the number and identities of other parties that may also be responsible (and their respective ability to share in the cost of the remediation) are also unknown.

Electric and Magnetic Fields

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

Air Quality

In 1996 SDG&E must begin to comply with nitrogen dioxide emission limits imposed by the San Diego Air Pollution Control District. Full compliance is required by 2001. The cost of compliance

includes retrofitting SDG&E's power plants and is estimated to be $110 million in capital costs and increased operating costs.

Water Quality

In 1989 SDG&E submitted applications to the San Diego Regional Water Quality Control Board to renew the discharge permits for its South Bay and Encina power plants. Supplemental applications were submitted in 1993. The Regional Board issued SDG&E a new discharge permit for its Encina power plant in November 1994. SDG&E anticipates that the Regional Board will make its determination in 1995 regarding SDG&E's South Bay power plant. The permits are required to enable SDG&E to discharge its cooling water and its treated in-plant waste water to the ocean and to San Diego Bay and are, therefore, prerequisites to the continued operation of its power plants.

In addition, increasingly stringent cooling-water and treated-waste-water discharge limitations may be imposed and SDG&E may be required to build additional facilities to comply with these requirements. Such facilities could include waste-water treatment facilities, cooling towers or offshore discharge pipelines.

The California Coastal Commission required a study of the offshore impact on the marine environment from the cooling-water discharge by SONGS Units 2 and 3. The study concluded that some environmental damage is caused by the discharge. To mitigate the environmental damage, the California Coastal Commission ordered Edison and SDG&E to improve the plant's fish-protection system, build a 300-acre artificial reef to help restore kelp beds, and restore 150 acres of coastal wetlands. SDG&E may be required to incur capital costs of up to $30 million to comply with this order.

Tree-Trimming Safety

The CPUC is investigating the adequacy of utilities' tree-trimming safety precautions. As a result of a farmworker's death in 1992 in SDG&E's service territory, the CPUC may require SDG&E to pay a fine and implement safety programs. A CPUC decision is expected in April 1995. SDG&E cannot predict the ultimate outcome of this matter.

Responsibility Report for the Consolidated Financial Statements

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

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

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

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

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

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

Frank H. Ault
Vice President and Controller

Independent Auditors' Report

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

We have audited the accompanying consolidated balance sheets and the consolidated statements of capital stock and of long-term debt of San Diego Gas & Electric Company and subsidiaries as of December 31, 1994 and 1993, and the related consolidated statements of income, changes in capital stock and retained earnings, cash flows, and financial information by segments of business for each of the three years in the period ended December 31, 1994. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of San Diego Gas & Electric Company and subsidiaries as of December 31, 1994 and 1993, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1994 in conformity with generally accepted accounting principles.

As discussed in Note 2 to the consolidated financial statements, the Company is considering alternative strategies related to its 80 percent-owned subsidiary, Wahlco Environmental Systems, Inc., which may result in a charge to the Company's future earnings.

DELOITTE & TOUCHE LLP
San Diego, California
February 27, 1995

STATEMENTS OF CONSOLIDATED INCOME
In thousands except per share amounts

For the years ended December 31	1994	1993	1992
Operating Revenues			
Electric	$1,510,320	$1,514,608	$1,447,118
Gas	346,183	346,658	336,992
Diversified operations	125,534	118,849	86,790
Total operating revenues	1,982,037	1,980,115	1,870,900
Operating Expenses			
Electric fuel	143,339	174,444	174,849
Purchased power	342,612	325,966	311,046
Gas purchased for resale	146,579	165,876	167,385
Maintenance	70,776	81,788	73,040
Depreciation and decommissioning	265,244	250,619	213,661
Property and other taxes	44,746	44,902	45,769
Other	496,755	494,369	439,569
Income taxes	150,070	148,477	149,274
Total operating expenses	1,660,121	1,686,441	1,574,593
Operating Income	321,916	293,674	296,307
Other Income and (Deductions)			
Writedown of intangibles	(59,116)	--	--
Writedown of real estate	(25,000)	--	--
Allowance for equity funds used during construction	6,274	17,909	7,547
Taxes on nonoperating income	20,299	202	(3,177)
Other - net	(15,552)	8,229	16,294
Total other income and (deductions)	(73,095)	26,340	20,664
Income Before Interest Charges	248,821	320,014	316,971
Interest Charges			
Long-term debt	93,076	93,402	100,776
Short-term debt and other	14,926	12,142	9,123
Allowance for borrowed funds used during construction	(2,658)	(4,245)	(3,585)
Net interest charges	105,344	101,299	106,314
Net Income (before preferred dividend requirements)	143,477	218,715	210,657
Preferred Dividend Requirements	7,663	8,565	9,600
Earnings Applicable to Common Shares	$ 135,814	$ 210,150	$ 201,057
Average Common Shares Outstanding	116,484	116,049	113,806
Earnings Per Common Share	$ 1.17	$ 1.81	$ 1.77
Dividends Declared Per Common Share	$ 1.52	$ 1.48	$ 1.44

See notes to consolidated financial statements.

CONSOLIDATED BALANCE SHEETS
In thousands of dollars

Balance at December 31	1994	1993
ASSETS		
Utility plant - at original cost	$5,329,179	$5,134,251
Accumulated depreciation and decommissioning	(2,180,087)	(2,016,618)
Utility plant-net	3,149,092	3,117,633
Investments and other property	466,864	464,101
Current assets		
Cash and temporary investments	32,526	17,450
Accounts receivable	213,358	205,712
Notes receivable	31,806	29,201
Inventories	80,794	84,922
Other	36,010	40,810
Total current assets	394,494	378,095
Construction funds held by trustee	--	58,042
Goodwill	--	53,921
Deferred taxes recoverable in rates	305,717	311,564
Deferred charges and other assets	326,284	318,880
Total	$4,642,451	$4,702,236
CAPITALIZATION AND LIABILITIES		
Capitalization (see Statements of Consolidated Capital Stock and of Long-Term Debt)		
Common equity	$1,474,430	$1,516,240
Preferred stock:		
Not subject to mandatory redemption	93,493	93,493
Subject to mandatory redemption	25,000	25,000
Long-term debt	1,340,237	1,411,948
Total capitalization	2,933,160	3,046,681
Current liabilities		
Short-term borrowings	89,325	131,197
Long-term debt redeemable within one year	115,000	88,000
Current portion of long-term debt	35,465	76,161
Accounts payable	138,764	166,622
Dividends payable	46,200	44,962
Taxes accrued	5,641	24,844
Interest accrued	23,627	20,396
Regulatory balancing accounts overcollected-net	111,731	33,179
Other	121,456	104,353
Total current liabilities	687,209	689,714
Customer advances for construction	36,250	41,729
Accumulated deferred income taxes-net	523,680	532,062
Accumulated deferred investment tax credits	109,161	114,159
Deferred credits and other liabilities	352,991	277,891
Contingencies and commitments (Notes 2, 10, and 11)	_	_
Total	$4,642,451	$4,702,236

See notes to consolidated financial statements.

STATEMENTS OF CONSOLIDATED CASH FLOWS

In thousands of dollars

For the years ended December 31	1994	1993	1992
Cash Flows from Operating Activities			
Net Income	$143,477	$218,715	$210,657
Adjustments to reconcile net income to net cash provided by operating activities			
Writedown of intangibles and real property	96,116	--	--
Depreciation and decommissioning	265,244	250,619	213,661
Amortization of deferred charges and other assets	12,944	12,309	3,091
Amortization of deferred credits and other liabilities	(30,370)	(18,616)	(1,168)
Allowance for equity funds used during construction	(6,274)	(17,909)	(7,547)
Deferred income taxes and investment tax credits	(54,152)	45,606	(11,031)
Other-net	54,257	10,227	(2,752)
Changes in working capital components net of effects from purchases of subsidiaries			
Accounts and notes receivable	(10,251)	(10,479)	(1,326)
Regulatory balancing accounts	78,552	(13,245)	24,647
Inventories	4,128	4,616	7,401
Other current assets	4,800	5,039	(2,360)
Accrued interest and taxes	18,661	(19,141)	(30,682)
Accounts payable and other current liabilities	(10,755)	19,691	(16,952)
Net cash provided by operating activities	566,377	487,432	385,639
Cash Flows from Financing Activities			
Dividends paid	(183,492)	(178,708)	(172,211)
Short-term borrowings-net	(41,872)	48,448	38,781
Issuance of long-term debt	--	369,893	509,200
Repayment of long-term debt	(92,468)	(531,526)	(236,994)
Sale (redemption) of common stock	(558)	38,850	58,176
Issuance of preferred stock	--	50,636	24,733
Redemption of preferred stock	--	(65,228)	(40,195)
Net cash provided (used) by financing activities	(318,390)	(267,635)	181,490
Cash Flows from Investing Activities			
Utility construction expenditures	(263,709)	(354,391)	(280,281)
Withdrawals from (contributions to) construction trust funds-net	58,042	190,225	(248,267)
Contributions to decommissioning funds	(22,038)	(22,038)	(22,038)
Leasing investments	--	(19,729)	(13,353)
Other-net	(5,206)	(7,493)	(9,027)
Net cash used by investing activities	(232,911)	(213,426)	(572,966)
Net increase (decrease)	15,076	6,371	(5,837)
Cash and temporary investments beginning of period	17,450	11,079	16,916
Cash and temporary investments end of period	$ 32,526	$ 17,450	$ 11,079
Supplemental Schedule of Noncash Investing and Financing Activities			
Leasing investments	$ --	$150,880	$ 83,077
Real estate investments	28,311	84,278	31,977
Total assets acquired	28,311	235,158	115,054
Cash paid	(452)	(28,209)	(14,368)
Liabilities assumed	$ 27,859	$206,949	$100,686

See notes to consolidated financial statements.

STATEMENTS OF CONSOLIDATED CHANGES IN CAPITAL STOCK AND RETAINED EARNINGS
In thousands of dollars
For the years ended December 31, 1992, 1993, 1994

	Preferred Stock				
	Not Subject to Mandatory Redemption	Subject to Mandatory Redemption	Common Stock	Premium on Capital Stock	Retained Earnings
Balance, December 31, 1991	$87,493	$52,000	$281,240	$480,519	$588,227
Net income					210,657
Common stock sold (2,491,284 shares)			6,228	50,728	
Long-term incentive plan activity-net			117	1,103	
Preferred stock sold (1,000,000 shares)		25,000		(267)	
Preferred stock retired (1,070,000 shares)	(25,000)	(7,000)		(2,597)	(940)
Sinking fund requirement		(1,800)			
Dividends declared					
Preferred stock					(9,533)
Common stock					(164,043)
Balance, December 31, 1992	62,493	68,200	287,585	529,486	624,368
Net income					218,715
Common stock sold (1,457,756 shares)			3,644	33,612	
Long-term incentive plan activity-net			59	1,535	
Preferred stock sold (2,040,000 shares)	51,000			(364)	
Preferred stock retired (633,700 shares)	(20,000)	(43,200)		850	(2,878)
Dividends declared					
Preferred stock					(8,526)
Common stock					(171,846)
Balance, December 31, 1993	93,493	25,000	291,288	565,119	659,833
Net income					143,477
Long-term incentive plan activity-net			53	(611)	
Dividends declared					
Preferred stock					(7,663)
Common stock					(177,066)
Balance, December 31, 1994	$93,493	$25,000	$291,341	$564,508	$618,581

See notes to consolidated financial statements.

STATEMENTS OF CONSOLIDATED CAPITAL STOCK

In thousands of dollars except call price

Balance at December 31	Trading Symbol(B)	Call Price	1994	1993
COMMON EQUITY				
Common stock, without par value, authorized 255,000,000 shares, outstanding: 1994, 116,536,535 shares; 1993, 116,515,073 shares			$ 291,341	$ 291,288
Premium on capital stock			564,508	565,119
Retained earnings			618,581	659,833
Total common equity			$1,474,430	$1,516,240
PREFERRED STOCK (A)				
Not subject to mandatory redemption				
$20 par value, authorized 1,375,000 shares				
5% Series, 375,000 shares outstanding	SDOPrA	$ 24.00	$ 7,500	$ 7,500
4 1/2% 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, 374,650 shares outstanding	--	20.25	7,493	7,493
Without par value (C)				
$7.20 Series, 150,000 shares outstanding	SDOPrG	101.00	15,000	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			$93,493	$93,493
Subject to mandatory redemption				
Without par value (C)				
$1.7625 Series, 1,000,000 shares outstanding (E)	--	$ 25.00(D)	$25,000	$25,000
Total subject to mandatory redemption			$25,000	$25,000

(A) All series of preferred stock have cumulative preferences as to dividends. The $20 par value preferred stock has two votes per share, whereas the no par value preferred stock is nonvoting. The $20 par value preferred stock has a liquidation value at par. The no par value preferred stock has a liquidation value of $25 per share, except for the $7.20 series, which has a liquidation value of $100 per share.

(B) All listed shares are traded on the American and Pacific Stock Exchanges.

(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.

(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.

STATEMENTS OF CONSOLIDATED LONG-TERM DEBT

In thousands of dollars

Balance at December 31	First Call Date	1994	1993
First mortgage bonds			
5 1/2% Series I, due March 1, 1997		$ 25,000	$ 25,000
5 1/2% Series U-2, due September 1, 1994		--	8,468
4.25 Series CC, due May 1, 2008(A)		53,000	53,000
4.25% Series DD, due December 1, 2008(A)		27,000	27,000
9 1/4% Series EE, due September 1, 2020(B)	09/01/95	74,350	74,350
4.25% Series FF, due December 1, 2007(A)		35,000	35,000
7 5/8% Series GG, due July 1, 2021(B)	07/01/96	44,250	44,250
7 3/8% Series HH, due December 1, 2021(B)	12/01/96	81,350	81,350
8 3/4% Series II, due March 1, 2023(B)	09/01/97	25,000	25,000
9 5/8% Series JJ, due April 15, 2020	04/15/00	100,000	100,000
6.8% Series KK, due June 1, 2015(A)		14,400	14,400
8.5% Series LL, due April 1, 2022	04/01/02	60,000	60,000
7 5/8% Series MM, due June 15, 2002		80,000	80,000
6.1% and 6.4% Series NN, due September 1, 2018 and 2019(B)	09/01/02	118,615	118,615
Various % Series OO, due December 1, 2027(C)	12/01/02	250,000	250,000
5.9% Series PP, due June 1, 2018(B)	06/01/03	70,795	70,795
Various % Series QQ, due June 1, 2018(B)		14,915	14,915
5.85% Series RR, due June 1, 2021(A)	06/01/03	60,000	60,000
5.9% Series SS, due September 1, 2018(B)	09/01/03	92,945	92,945
Total		1,226,620	1,235,088
Capitalized leases		103,575	124,782
Debt incurred to acquire limited partnerships, various rates, payable annually through 2003		109,473	94,301
Bank loans, various rates, due 1995-2000		18,681	84,421
Other long-term debt		40,264	45,837
Unamortized discount on long-term debt		(7,911)	(8,320)
Long-term debt redeemable within one year		(115,000)	(88,000)
Current portion of long-term debt		(35,465)	(76,161)
Total		$1,340,237	$1,411,948

(A) Issued to secure the company's obligation under a series of loan agreements with the California Pollution Control Financing Authority under which the Authority loaned proceeds from the sale of $115 million of variable rate/demand and $74 million in fixed-rate pollution control revenue bonds to the company to finance certain qualifying facilities associated with the company's 20 percent interest in San Onofre Units 2 and 3.

(B) Issued to secure the company's obligation under a series of loan agreements with the City of San Diego under which the City loaned the proceeds from the sale of $522 million in industrial development revenue bonds to the company to finance certain qualifying facilities.

(C) Issued to secure the company's obligation under a loan agreement with the City of Chula Vista under which the City loaned the proceeds from the sale of $250 million in tax-exempt industrial development revenue bonds to the company to finance certain qualified facilities.

See notes to consolidated financial statements.

STATEMENTS OF CONSOLIDATED FINANCIAL INFORMATION BY SEGMENTS OF BUSINESS

In thousands of dollars

At December 31 or for the years then ended	1994	1993	1992
Operating Revenues (A), (B)	$1,982,037	$1,980,115	$1,870,900
Operating Income			
Electric operations	$ 255,768	$ 242,143	$ 270,172
Gas operations	50,375	46,071	37,234
Diversified operations (B)	15,773	5,460	(11,099)
Total	$ 321,916	$ 293,674	$ 296,307
Depreciation and Decommissioning			
Electric operations	$ 220,811	$ 210,890	$ 178,513
Gas operations	31,009	28,215	27,667
Diversified operations (B)	13,424	11,514	7,481
Total	$ 265,244	$ 250,619	$ 213,661
Utility Plant Additions (C)			
Electric operations	$ 203,887	$ 291,456	$ 236,918
Gas operations	59,822	62,935	43,363
Total	$ 263,709	$ 354,391	$ 280,281
Identifiable Assets			
Utility plant-net			
Electric operations	$2,725,624	$2,724,139	$2,623,058
Gas operations	423,468	393,494	355,634
Total	3,149,092	3,117,633	2,978,692
Inventories			
Electric operations	56,209	57,410	62,170
Gas operations	19,398	18,703	14,056
Diversified operations (B)	5,187	8,809	10,839
Total	80,794	84,922	87,065
Other identifiable assets			
Electric operations	732,941	744,335	861,236
Gas operations	149,199	139,631	175,156
Diversified operations (B)	391,021	504,359	288,914
Total	1,273,161	1,388,325	1,325,306
Other Assets	139,404	111,356	103,509
Total Assets	$4,642,451	$4,702,236	$4,494,572

(A) The detail to operating revenues is provided in the Statements of Consolidated Income. The gas operating revenues shown therein include $18 million in 1994, $16 million in 1993 and $17 million in 1992, representing the gross margin on sales to the electric segment. These margins arose from interdepartmental transfers of $119 million in 1994, $141 million in 1993 and $142 million in 1992, based on transfer pricing approved by the California Public Utilities Commission in tariff rates.

(B) As discussed in Note 2, SDG&E is considering alternative strategies relative to its investment in Wahlco Environmental Systems, Inc. Included in the totals for diversified operations for 1994 are the following amounts for Wahlco: $70 million in operating revenues, $12 million in operating losses, $3 million in depreciation, $5 million in inventories and $43 million in other identifiable assets.

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

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

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

1 Summary of Accounting Policies

Nature of Operations

San Diego Gas & Electric is an operating public utility. The principal market for SDG&E's electric and gas business is in San Diego County and an adjacent portion of Orange County, California. SDG&E has diversified into other businesses, including subsidiaries Califia Company, Enova Corporation, Enova Energy Management, Inc. and Pacific Diversified Capital Company. Califia and Enova are engaged in non-utility investment activities throughout the United States. Enova Energy Management is an energy management consulting firm offering services to utilities and large consumers. Pacific Diversified Capital is a holding company for non-utility subsidiaries, Phase One Development, Inc., which is engaged in real estate development in San Diego and Colorado Springs, and Wahlco Environmental Systems, Inc. (80 percent owned). Wahlco designs and manufactures air-pollution control and power-efficiency equipment for electric utilities and other power producers, refineries and other manufacturers throughout the world. In 1994 these diversified operations contributed 5 percent to operating income (2 percent in 1993). See additional information regarding Wahlco in Notes 2 and 3.

Utility Plant and Depreciation

Utility plant represents the buildings, equipment and other facilities used to provide electric and gas service. The cost of utility plant includes labor, material, contract services and other related items, and an allowance for funds used during construction. The cost of retired depreciable utility plant, plus removal expenses minus salvage value is charged to accumulated depreciation. Information regarding industry restructuring and its effect on utility plant is included in Note 11.

Depreciation expense reflects the straight-line remaining useful life method. The provisions for depreciation as a percentage of average depreciable utility plant (by major functional categories) are: electric generation 4.04 in 1994 (4.03 in 1993, 3.70 in 1992), electric distribution 4.35 in 1994 (4.35 in 1993, 4.13 in 1992), electric transmission 3.24 in 1994 (3.26 in 1993, 3.55 in 1992), gas 4.11 in 1994 (4.16 in 1993, 4.36 in 1992) and other 5.88 in 1994 (5.80 in 1993, 6.12 in 1992).

Inventories

At December 31, 1994 inventories include $49 million of materials and supplies ($55 million in 1993), and $32 million of fuel oil and natural gas ($30 million in 1993). 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, 1994 is $28 million of investment in SONGS 1 which will be recovered in 1995. The noncurrent portion of $17 million is included in "Deferred Charges and Other Assets" on the Consolidated Balance Sheets.

Allowance for Funds Used During Construction

The allowance represents the cost of funds used to finance the construction of utility plant and is added to the cost of utility plant. AFDC also increases income, partly as an offset to interest charges shown in the Statements of Consolidated Income, although it is not a current source of cash.

Revenues and Regulatory Balancing Accounts

Revenues from utility customers consist of deliveries to customers and the changes in regulatory balancing accounts. Earnings fluctuations from changes in the costs of fuel oil, purchased energy and natural gas, and consumption levels for electricity and the majority of natural gas are eliminated by balancing accounts authorized by the California Public Utilities Commission. The balances of these accounts represent amounts that will be recovered from, or repaid to, customers by adjustments to future prices, generally over a one-year cycle.

Goodwill

Goodwill arose from the acquisition of certain businesses by Pacific Diversified Capital. In 1994 the remaining balance of goodwill was written off as a result of the depressed air pollution-control market and increasing competition. See additional information in Notes 2 and 3.

Deferred Charges and Other Assets
Deferred charges include unrecovered premium on early retirement of debt and other regulatory-related expenditures that SDG&E expects to recover in future rates. These items are amortized as recovered in rates. Additional information is included in Note 11.

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

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

Other
Certain prior year amounts have been reclassified for comparability.

2 Investment in Wahlco Environmental Systems, Inc.

SDG&E's investment in and advances to Wahlco aggregate $21 million at December 31, 1994 after the writedown of Wahlco's goodwill and other assets as described below and in Note 3. At December 31, 1994, Wahlco had consolidated net assets of $7 million. During the years ended December 31, 1992, 1993 and 1994, Wahlco's net loss was $13 million, $11 million and $66 million. During those years Wahlco's cash flow provided by (used in) operations was ($7 million), ($5 million) and $3 million.

Historically, Wahlco's primary and most profitable product line has been flue gas conditioning equipment, which is sold to utilities with coal-fired generating plants. Since the passage of the 1990

Clean Air Act Amendments, Wahlco's prospects for future profitability have been significantly associated with the size and timing of flue gas conditioning equipment orders from utilities responding to that legislation. Phase I of that legislation required certain utilities to be in compliance by January 1, 1995. Phase II requires the remaining utilities with coal-fired generation to be in compliance by January 1, 2000.

Thus far, sales of and orders for flue gas conditioning equipment have not reached anticipated levels in the United States as a result of many companies' delaying decisions on how to comply with the Clean Air Act, and as a result of increasing competition from the availability of federal pollution credits, aggressive pricing strategies by competitors, alternative methods of compliance, such as fuel blending, and other options. In late 1993 Wahlco recorded a restructuring charge to reflect the planned relocation of Wahlco's manufacturing operations in Canada and West Virginia to its other U.S. facilities. During 1994 Wahlco continued to close down various unprofitable operations. See discussion of writedowns in Note 3. Wahlco has also reduced its number of employees by one-third and reduced its manufacturing square footage by about one-half. SDG&E continues to consider alternative strategies relative to its investment in Wahlco. Continued operating losses or the implementation of other strategies could lead to the further writeoff of a significant portion of SDG&E's remaining investment in Wahlco.

3 Writedowns

In June 1994 SDG&E recorded writedowns related to the utility and its subsidiaries. The total amount of the writedowns was $96 million before income taxes. $59 million represents the writedown of goodwill and other intangible assets at Wahlco Environmental Systems as a result of the depressed air pollution-control market and increasing competition. SDG&E also recorded a $25 million writedown of various commercial properties, including $19 million of subsidiary properties in Colorado Springs and in San Diego, to reflect continuing declines in commercial real estate values. As a result of the California Public Utilities Commission's proposal to restructure the electric utility industry and the uncertainty concerning the impact of competition, SDG&E also recorded a $12 million writedown of various non-earning utility assets, including the South Bay Repower project. Additional information on the CPUC's proposed industry restructuring and its potential impacts on SDG&E is described in Note 11.

4 Long-Term Debt

Amounts and due dates of long-term debt are shown on the Statements of Consolidated Long-Term Debt. Excluding capital leases, which are described in Note 10, combined aggregate maturities and sinking fund requirements of long-term debt are $27 million for 1995, $34 million for 1996, $53 million for 1997, $25 million for 1998 and $21 million for 1999. SDG&E has CPUC authorization to issue an additional $263 million in debt.

First Mortgage Bonds
First mortgage bonds are secured by a lien on substantially all utility plant. Additional first mortgage bonds may be issued upon compliance with the provisions of the bond indenture. Certain of the first mortgage bonds may be called at SDG&E's option.

First mortgage bonds totaling $305 million have variable interest rate provisions. On $115 million, bondholders may elect to redeem their bonds at the annual interest-adjustment dates. For purposes of determining the aggregate maturities listed above, it is assumed that these issues will not be redeemed before scheduled maturity.

During 1994 SDG&E retired $8 million of first mortgage bonds at scheduled maturity.

Other Debt
At December 31, 1994 SDG&E had two $50 million bank lines providing a committed source of long-term borrowings, of which no debt was outstanding. Bank lines, unless renewed by SDG&E, expire in 2000. Commitment fees are paid on the unused portion of the lines and there are no requirements for compensating balances.

Loans of $153 million and $149 million at December 31, 1994 and 1993, respectively, are secured by subsidiary equipment and real estate.

Interest
Interest payments, including those applicable to short-term borrowings, amounted to $102 million in 1994, $106 million in 1993 and $108 million in 1992. Interest payments of $34 million in 1992 on income taxes in connection with a preliminary settlement with the Internal Revenue Service are included with income taxes in Note 8.

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, 1994 SDG&E had such agreements, maturing in 1996 and 2002, with underlying debt aggregating $120 million. See additional information in Note 9.

5 Short-Term Borrowings

At December 31, 1994 and 1993 short-term borrowings and weighted average interest rates thereon were:

In millions of dollars	1994		1993	
	Balance	Interest Rate	Balance	Interest Rate
Bank loans	$58	6.4%	$ 91	3.4%
Subsidiaries' bank credit lines	31	7.1%	40	5.2%
Total	$89		$131	

At December 31, 1994 SDG&E had various bank lines, aggregating $170 million, available to support commercial paper and bank loans. SDG&E's subsidiaries had bank credit lines that provided for borrowings up to $31 million at the London Inter-Bank Offered Rate (LIBOR). Commitment fees are paid on the unused portion of the lines and there are no requirements for compensating balances.

6 Facilities Under Joint Ownership

The San Onofre nuclear power plant and the Southwest Powerlink transmission line are jointly owned with other utilities. SDG&E's interests at December 31, 1994 were:

In millions of dollars Project	San Onofre	Southwest Powerlink
Percentage ownership	20	89
Utility plant in service	$1,102	$ 216
Accumulated depreciation	$ 368	$ 74
Construction work in progress	$ 22	$ -

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

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

SDG&E's share of future dismantling and decontamination costs for the San Onofre units is estimated to be $322 million in current dollars and is based on studies performed by outside consultants updated triennially. The most recent study was performed in 1993. These costs are included in setting rates and are expected to be fully recovered by 2014, the estimated last year of service. See discussion on industry restructuring and stranded investment in Note 11.

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 1994, 1993 and 1992.

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

SDG&E invests in externally managed trust funds the amounts collected in rates. In accordance with SFAS 115, Accounting for Certain Investments in Debt and Equity Securities, the securities held by the trust are considered held for sale and are adjusted to market value ($202 million at December 31, 1994, which is included in "Investments and Other Property" on the Consolidated Balance Sheets and which is net of a $10.1 million unrealized loss). The corresponding accumulated accrual is included in accumulated depreciation and decommissioning on the Consolidated Balance Sheets.

The Financial Accounting Standards Board is currently reviewing accounting for the costs of decommissioning 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 an offsetting regulatory asset reflecting anticipated rate recovery of this liability to the extent not already collected from customers. This would have no effect on SDG&E's results of operations.

Additional information regarding San Onofre is included in Note 10.

7 Employee Benefit Plans

SDG&E has a defined-benefit pension plan, which covers substantially all utility employees. Benefits are related to the employees' compensation. Plan assets consist primarily of common stocks and bonds.

SDG&E funds the plan based on the aggregate cost actuarial method. Net pension cost consisted of the following for the year ended December 31:

In thousands of dollars	1994	1993	1992
Cost related to current service	$18,733	$18,233	$17,838

Interest on projected benefit obligation	33,254	29,745	27,933
Return on plan assets	(1,319)	(39,351)	(23,267)
Net amortization and deferral	(34,253)	5,342	(9,124)
Cost pursuant to accounting standards	16,415	13,969	13,380
Regulatory adjustment	(16,415)	(13,969)	(16,201)
Net benefit	$ -	$ -	$(2,821)

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

In thousands of dollars	1994	1993
Accumulated benefit obligation		
Vested	$308,672	$304,053
Nonvested	10,480	10,616
Total	$319,152	$314,669
Plan assets at fair value	$424,455	$435,371
Projected benefit obligation	417,625	457,710
Plan assets less projected benefit obligation	6,830	(22,339)
Unrecognized effect of accounting change	(1,328)	(1,517)
Unrecognized prior service cost	12,956	14,043
Unrecognized actuarial gains	(71,278)	(26,592)
Accrued liability	$(52,820)	$(36,405)

The projected benefit obligation assumes an 8.25 percent actuarial discount rate in 1994 (7.5 percent in 1993) and a 5.0 percent average annual compensation increase (6.0 percent in 1993). The expected long-term rate of return on plan assets is 8.5 percent. The impact of increasing the actuarial discount rate and decreasing the average annual salary increase was to decrease the total accumulated benefit obligation and projected benefit obligation by approximately $35 million and $89 million, respectively.

Eligible employees may make a contribution of 1 percent to 15 percent of their base pay to SDG&E's savings plan for investment in mutual funds or in SDG&E common stock. SDG&E contributes amounts equal to up to 3 percent of participants' base compensation for investment in SDG&E common stock.

SDG&E's expense for the pension and the savings plans and a supplemental retirement plan for a limited number of key employees was approximately $6 million in 1994, $6 million in 1993 and $2 million in 1992.

SDG&E has a long-term incentive stock compensation plan that provides for aggregate awards of up to 2,700,000 shares of common stock over a 10-year period ending in 1996. The plan's term was extended to April 2005 by the SDG&E board of directors, subject to approval by SDG&E shareholders. In each of the last nine years SDG&E issued approximately 40,000 shares to 60,000 shares of stock to officers and key employees for $2.50 per share, subject to buy-back over four years if certain corporate goals are not met.

SDG&E provides certain health and life insurance benefits to retired utility employees. Prior to 1993, SDG&E expensed these benefits when paid and such amounts were normally recovered in rates. Effective January 1, 1993, SDG&E adopted SFAS 106, Employers' Accounting for Postretirement Benefits Other Than Pensions, which requires that these benefits be accrued during the employee's years of service, up to the year of benefit eligibility. The unamortized transition obligation of approximately $42 million is being amortized through 2012. SDG&E is recovering the cost of these benefits based upon actuarial calculations and funding limitations. The amounts expensed for these benefits were $5 million in 1994, $5 million in 1993 and $4 million in 1992.

8 Income Taxes

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

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

The net effect of these changes is almost entirely offset by a regulatory asset of $306 million at December 31, 1994 ($312 million at December 31, 1993). This regulatory asset is expected to be recovered in future rates and will be adjusted as it is recovered through the ratemaking process and as tax rates and laws change. See additional discussion regarding regulatory assets in Note 11.

Effective January 1, 1993 the federal statutory tax rate increased to 35 percent from 34 percent. This change increased SDG&E's net deferred tax liability by approximately $14 million. The impact on income tax expense was not significant.

Income tax payments totaled $167 million in 1994, $116 million in 1993 and $192 million in 1992.

Components of Accumulated Deferred Income Taxes

In thousands of dollars	1994	1993
Deferred tax liabilities		
Differences in financial and tax bases of utility plant	$627,296	$631,250
Loss on reacquired debt	27,576	28,572
Other	60,222	86,126
Total deferred tax liabilities	715,094	745,948
Deferred tax assets		
Unamortized investment tax credits	74,563	79,479
Equipment leasing activities	49,547	61,533
Other	134,761	99,494
Total deferred tax assets	258,871	240,506
Net deferred income tax liability	456,223	505,442
Current portion of deferred income taxes	67,457	26,620

Accumulated deferred income taxes-net	$523,680	$532,062

Components of Income Tax Expense

In thousands of dollars	1994	1993	1992
Current			
Federal	$149,117	$ 79,848	$134,635
State	34,806	22,821	28,847
Total current taxes	183,923	102,669	163,482
Deferred			
Federal	(37,697)	43,365	(2,248)
State	(12,897)	7,001	(3,638)
Total deferred taxes	(50,594)	50,366	(5,886)
Deferred investment tax credits-net	(3,558)	(4,760)	(5,145)
Total income tax expense	$129,771	$148,275	$152,451

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

Reconciliation of Statutory Federal Income Tax Rate to Effective Income Tax Rate

	1994	1993	1992
Statutory federal income tax rate	35.0%	35.0%	34.0%
Depreciation	8.3	5.0	3.7
Writedown of intangibles	8.2	_	_
State income taxes - net of federal income tax benefit	4.6	5.3	4.3
Tax credits	(6.7)	(3.9)	(2.8)
Equipment leasing activities	(4.1)	(1.8)	-
Repair allowance	(3.5)	(2.1)	(1.6)
Allowance for funds used during construction	(0.9)	(1.9)	(0.7)
Other-net	6.6	4.8	5.1
Effective income tax rate	47.5%	40.4%	42.0%

9 Fair Value of Financial Instruments

Due to the nature of the regulatory process, gains and losses attributable to the fair value of financial instruments generally will accrue to SDG&E customers.

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

In millions of dollars	1994		1993	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets				
Cash and temporary investments	$ 32.5	$ 32.5	$ 17.5	$ 17.5
Funds held in trust	201.9	201.9	249.4	251.2
Notes receivable	121.5	121.1	149.9	149.9
Investments in limited partnerships and other assets	170.2	182.5	150.1	158.7
Liabilities				
Dividends payable	46.2	46.2	45.0	45.0
Short-term debt and current portion of long-term debt	231.4	230.5	247.2	247.2
Deposits from customers	56.2	50.2	60.4	55.0
Long-term debt	1,245.0	1,211.1	1,295.3	1,380.5
Preferred stock subject to mandatory redemption	25.0	23.8	25.0	27.3

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

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

Cash and Temporary Investments, Short-Term Notes Receivable and Dividends Payable
The carrying amount approximates fair value due to the short maturity of these items.

Noncurrent Notes Receivable
The fair values of noncurrent notes receivable (included in "Deferred Charges and Other Assets" on the Consolidated Balance Sheets) are based on the present value of the estimated future cash flows discounted at current rates available for similar notes.

Funds Held in Trust
Funds held in trust include the SONGS decommissioning trust (included in "Investments and Other Property" on the Consolidated Balance Sheets) and, in 1993, construction trust funds. The fair values of the funds' assets are based on quoted market values.

Investments in Limited Partnerships and Other Assets
The fair values of investments in limited partnerships and other assets (included in "Investments and Other Property" on the Consolidated Balance Sheets) acquired after 1992 are estimated to approximate carrying value due to the relatively short periods of time between the purchase dates and the valuation date, and the relative market stability during those periods. Fair values of investments acquired prior to 1993 are estimated based on the present value of the estimated future cash flows discounted at yields currently available for similar investments.

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

Debt and Preferred Stock Subject to Mandatory Redemption
The fair values of SDG&E's first mortgage bonds and preferred stock issues are estimated based on quoted market prices for them or for similar issues, or on the current rates offered to SDG&E for debt and stock of the same maturities. The fair values of notes payable are based on the present values of the future cash flows discounted at current rates available for similar notes with comparable maturities. The carrying amount of short-term loans and notes payable approximate fair value due to the short maturities.

Off-Balance-Sheet Interest Rate Cap and Swap Agreements
The fair value of these derivative financial instruments is the estimated amount that would be realized or paid upon termination of the agreements based on quotes from dealers. These agreements, if terminated, would result in net proceeds to SDG&E of $2 million at December 31, 1994 compared to an obligation of $4 million at December 31, 1993.

SDG&E's policy is to utilize derivatives only in hedging situations. SDG&E periodically enters into interest rate swap and cap agreements to moderate its exposure to interest rate changes and to lower its overall cost of borrowing. These swap and cap agreements generally remain off the balance sheet as they involve the exchange of fixed- and variable-rate interest payments without the exchange of the underlying principal amounts. The related gains or losses are reflected in the income statement as part of the expense item applicable to what is being hedged (e.g., interest expense).

At December 31, 1994 SDG&E had two such agreements, including an index cap agreement on $75 million of bonds maturing in 1996, and a floating-to-fixed rate swap associated with another $45 million of variable-rate bonds maturing in 2002. SDG&E expects to hold these derivative financial instruments to their maturity. These agreements have effectively fixed interest rates on the underlying variable-rate debt at 5.4 percent to 6.3 percent. These financial instruments are with major investment firms and, along with cash and cash equivalents and accounts receivable, expose SDG&E to market and credit risks and may at times be concentrated with certain counterparties. SDG&E would be exposed to interest rate fluctuations on the underlying debt should counterparties to the agreement not perform. Such nonperformance is not anticipated.

10 Contingencies and Commitments

Purchased Power Contracts
SDG&E buys electric power under several short-term and long-term contracts. Purchases are for 2 percent to 10 percent of plant output under contracts with other utilities and up to 100 percent of plant output under contracts with independent power producers and other non-utility suppliers. No

one contract provides more than 4 percent of SDG&E's total system requirements. The contracts expire on various dates between 1995 and 2024.

At December 31, 1994 the future minimum payments under the contracts were:

In millions of dollars	
1995	$ 351
1996	216
1997	185
1998	188
1999	187
Thereafter	2,969
Total minimum payments	$4,096

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 $277 million in 1994, $258 million in 1993 and $253 million in 1992. See discussion of the decision on the Biennial Resource Plan Update proceeding in Note 11.

Natural Gas Contracts

SDG&E has a contract with Southern California Gas Company that provides SDG&E with intrastate transportation capacity on SoCal's gas pipelines through August 1995. If a new agreement is not reached by then, SoCal has a continuing obligation to deliver gas to SDG&E under a CPUC-approved tariff. SDG&E's long-term contracts with interstate pipelines for transportation capacity expire on various dates between 1995 and 2023. In 1994 SDG&E signed an agreement with SoCal for 8 billion cubic feet of natural gas storage capacity from January 1, 1995 through March 31, 1998. SDG&E also has four long-term gas supply contracts that expire between 2001 and 2004.

At December 31, 1994 the future minimum payments under natural gas contracts were:

In millions of dollars	Transportation and Storage	Natural Gas
1995	$ 74	$ 25
1996	28	27
1997	27	31
1998	28	35
1999	21	38
Thereafter	279	179
Total minimum payments	$457	$335

Total payments under the contracts were $125 million in 1994, $86 million in 1993 and $80 million in 1992.

Leases

Nuclear fuel, office buildings, a generating facility and other properties are financed by long-term capital leases. Utility plant included $173 million at December 31, 1994 and $193 million at December 31, 1993 related to these leases. The associated accumulated amortization was $73 million and $74 million, respectively. SDG&E also leases office facilities, computer equipment and vehicles under operating leases. Certain leases on office facilities contain escalation clauses requiring annual increases in rent ranging from 2 percent to 7 percent.

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

In millions of dollars	Operating Leases	Capitalized Leases
1995	$ 59	$ 24
1996	57	20
1997	53	12
1998	35	12
1999	11	12

Thereafter	52	57
Total future rental commitments	$267	137
Imputed interest (6% to 9%)		(33)
Net commitment		$104

Rental payments totaled $93 million in 1994, $91 million in 1993 and $57 million in 1992. The increase from 1992 to 1993 was due to Califia's leasing activities.

Environmental Issues

SDG&E's operations are conducted in accordance with federal, state and local environmental laws and regulations governing hazardous wastes, air and water quality, land use, and solid waste disposal. SDG&E incurs significant costs to operate its facilities in compliance with these laws and regulations. The costs of compliance with environmental laws and regulations are normally recovered in customer rates. The CPUC is expected to continue allowing the recovery of such costs, subject to reasonableness reviews. Capital expenditures to comply with environmental laws and regulations were $5 million in 1994 and $8 million in 1993, and are expected to be $90 million over the next 5 years. These expenditures primarily include the estimated cost of retrofitting SDG&E's power plants to reduce air emissions.

SDG&E has identified, or has been associated with, various sites which may require remediation under federal, state or local environmental laws. SDG&E may be partially or indirectly responsible for cleaning up these sites. SDG&E is unable to determine the extent of its responsibility for remediation for these sites until assessments are completed. Furthermore, the number of others who may be also responsible and their ability to share in the cost of the cleanup, is not known. Environmental liabilities that may arise from these assessments are recorded when environmental assessments and/or remedial efforts are probable, and when the minimum costs can be estimated.

In 1994 the CPUC approved a mechanism allowing utilities to recover their hazardous waste costs, including those related to Superfund sites or similar sites requiring cleanup. The decision allows recovery of 90 percent of cleanup costs and related third party litigation costs and 70 percent of the related insurance litigation expenses.

Nuclear Insurance

Public liability claims that could arise from a nuclear incident are limited by law to $9 billion for each licensed nuclear facility. For this exposure, SDG&E and the co-owners of the San Onofre units have purchased primary insurance of $200 million, the maximum amount available. The remaining coverage is provided by secondary financial protection required by the Nuclear Regulatory Commission and provides for loss sharing

among utilities owning nuclear reactors if a costly accident occurs. SDG&E could be assessed retrospective premium adjustments of up to $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.

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 two years, after a waiting period of 21 weeks. Coverage is provided primarily through mutual insurance companies owned by utilities with nuclear facilities. If losses at any of the nuclear facilities covered by the risk-sharing arrangements were to exceed the accumulated funds available for these insurance programs, SDG&E could be assessed retrospective premium adjustments of up to $9 million.

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

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

Distribution System Conversion
Under a CPUC-mandated program and through franchise agreements with various cities, SDG&E is committed in varying amounts to convert overhead distribution facilities to underground. As of December 31, 1994 the aggregate unexpended amount of this commitment was approximately $95 million. SDG&E expended approximately $11 million in 1994, $22 million in 1993 and $18 million in 1992 under this program.

Concentration of Credit
Risk SDG&E grants credit to its utility customers, substantially all of whom are located in its service territory, which covers all of San Diego County and the southern portion of Orange County.

11 Industry Restructuring

In April 1994 the CPUC announced its proposal to restructure California's regulated electric utility industry to stimulate competition and to lower rates. The proposed regulatory framework would be phased in by 2002, allowing utility customers to purchase their energy from either utility or nonutility suppliers. The utilities would continue to provide transmission and distribution services to customers that chose to purchase their energy from other providers. The CPUC also proposed that the cost of providing these services and the cost of serving remaining utility customers would be recovered through a performance-based ratemaking process. SDG&E is currently participating in a performance-based ratemaking process on an experimental basis which commenced in 1993 and runs through 1998. The CPUC is holding several hearings to consider whether its proposal or some other form of a competitive market should be developed and how the cost of the transition to competition should be shared among utility shareholders and customers.

In connection with the proposed restructuring, SDG&E has applied to the CPUC for permission to form a holding company. SDG&E believes that changes in the California utility industry and the movement toward a more competitive marketplace will require SDG&E to change its corporate structure. SDG&E has applied to other regulatory bodies and to shareholders for approval of the proposal.

In addition to $306 million of deferred taxes recoverable in rates, regulatory assets of $197 million are included in "Deferred Charges and Other Assets" on the Consolidated Balance Sheets. They include $60 million of unamortized loss on reacquired debt, $50 million of pension regulatory assets, $38 million of unrecovered plant and regulatory study costs, $17 million of unamortized debt expense and $32 million of various other regulatory assets. Recovery periods range from one to 30 years. It is estimated that at December 31, 1994 SDG&E had approximately $975 million of net utility plant

(including $750 million of nuclear facilities) and $75 million of regulatory assets relating to generating facilities currently being recovered in rates over various periods of time. The CPUC has stated that the recovery of remaining amounts, if and when restructuring occurs, will be provided for in the new environment. In addition, as described in Note 10, SDG&E has entered into significant long-term purchased-power commitments with various utilities and other providers. The CPUC's recent Biennial Resource Plan Update decision requires SDG&E to contract for an additional 500 megawatts of power over 17-year terms at an estimated cost of $4.8 billion beginning in 1997. Prices under these contracts could significantly exceed the future market price. SDG&E is challenging the decision and has petitioned the Federal Energy Regulatory Commission to overrule the CPUC's decision. On February 22, 1995 the FERC ruled favorably on SDG&E's petition. A final order is expected shortly. If the CPUC proceeds with the move to a competitive environment, if the prices of competing suppliers are as anticipated, and if the regulatory process does not provide for complete recovery of those costs that are in excess of what will otherwise be recoverable via market-based pricing structures, SDG&E would incur a charge against earnings for a significant portion of its generating facilities, the related regulatory assets and the long-term commitments. However, as previously discussed, the CPUC has indicated that any unrecovered amounts remaining will be provided for in the new environment. The CPUC has stated its intention to issue a final decision by May 1995 and to require implementation by September 1995. SDG&E cannot predict the impact of the CPUC's final decision and the transition to a more competitive environment on SDG&E's financial condition and results of operations.

Excerpt from page 39 Quarterly Common Stock Data (Unaudited)

Quarterly Common Stock Data (Unaudited)

	1994				1993			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Market price								
High	25	23 1/4	20 7/8	20 1/8	26 5/8	26 7/8	27 3/4	27 1/2
Low	21 1/2	17 1/2	18	18 5/8	23 1/4	24 1/2	25 5/8	23 1/2
Dividends declared	$0.38	$0.38	$0.38	$0.38	$0.37	$0.37	$0.37	$0.37

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YEAR
DEC-31-1994
DEC-31-1994
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126,118
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142,092
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95,202
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(73,095)
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83,701
566,377
1.17
1.17