

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2003

Commission file number 1-3779

SAN DIEGO GAS & ELECTRIC COMPANY

(Exact name of registrant as specified in its charter)

California 95-1184800

(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)

8330 Century Park Court, San Diego, California 92123

(Address of principal executive offices)
(Zip Code)

(619) 696-2000

(Registrant's telephone number, including area code)

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 (or for such shorter period
that the registrant was required to file such reports), and (2) has
been subject to such filing requirements for the past 90 days.

Yes X No

Indicate by check mark whether the registrant is an accelerated filer
(as defined in Rule 12b-2 of the Exchange Act).

Yes X No

Indicate the number of shares outstanding of each of the issuer's
classes of common stock, as of the latest practicable date.

Common stock outstanding: Wholly owned by Enova Corporation

INFORMATION REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report contains statements that are not historical fact
and constitute forward-looking statements within the meaning of the
Private Securities Litigation Reform Act of 1995. The words
"estimates," "believes," "expects," "anticipates," "plans," "intends,"
"may," "would" and "should" or similar expressions, or discussions of
strategy or of plans are intended to identify forward-looking
statements. Forward-looking statements are not guarantees of
performance. They involve risks, uncertainties and assumptions. Future
results may differ materially from those expressed in these forward-
looking statements.

Forward-looking statements are necessarily based upon various
assumptions involving judgments with respect to the future and other
risks, including, among others, local, regional, national and
international economic, competitive, political, legislative and
regulatory conditions and developments; actions by the California
Public Utilities Commission, the California Legislature, the Department
of Water Resources, and the Federal Energy Regulatory Commission;
capital market conditions, inflation rates, interest rates and exchange
rates; energy and trading markets, including the timing and extent of
changes in commodity prices; weather conditions and conservation
efforts; war and terrorist attacks; business, regulatory and legal

decisions; the status of deregulation of retail natural gas and electricity delivery; the timing and success of business development efforts; and other uncertainties, all of which are difficult to predict and many of which are beyond the control of the company. Readers are cautioned not to rely unduly on any forward-looking statements and are urged to review and consider carefully the risks, uncertainties and other factors which affect the company's business described in this report and other reports filed by the company from time to time with the Securities and Exchange Commission.

ITEM 1. FINANCIAL STATEMENTS.

SAN DIEGO GAS & ELECTRIC COMPANY AND SUBSIDIARY
 STATEMENTS OF CONSOLIDATED INCOME
 (Dollars in millions)

Three
 months
 ended June
 30, -----

 2003 2002 -

OPERATING
 REVENUES
 Electric \$
 402 \$ 323
 Natural gas
 118 91

Total
 operating
 revenues
 520 414

OPERATING
 EXPENSES
 Electric
 fuel and
 net
 purchased
 power 137
 79 Cost of
 natural gas
 67 42 Other
 operating
 expenses
 142 152

Depreciation
 and
 amortization
 59 58

Income
 taxes 34
 (2)
 Franchise
 fees and
 other taxes
 28 18

Total
 operating
 expenses
 467 347

Operating
 income 53
 67

Other
 income and
 (deductions)
 Interest
 income 1 2
 Regulatory
 interest
 net (2) (1)
 Allowance
 for equity

~~funds used~~
~~during~~
~~construction~~
~~3-3 Income~~
~~taxes on~~
~~non-~~
~~operating~~
~~income 4~~
~~(1) Other~~
~~net 1~~

~~Total 6~~
~~4~~

~~Interest~~
~~charges~~
~~Long term~~
~~debt 17 19~~
~~Other 1 1~~
~~Allowance~~
~~for~~
~~borrowed~~
~~funds used~~
~~during~~
~~construction~~
~~(1) (1)~~

~~Total 17~~
~~19~~

~~Net~~
~~income 42~~
~~52~~
~~Preferred~~
~~dividend~~
~~requirements~~
~~1 1~~

~~Earnings~~
~~applicable~~
~~to common~~
~~shares \$ 41~~
~~\$ 51~~
~~=====~~

~~===== See~~
~~notes to~~
~~Consolidated~~
~~Financial~~
~~Statements.~~

SAN DIEGO GAS & ELECTRIC COMPANY AND SUBSIDIARY
 STATEMENTS OF CONSOLIDATED INCOME
 (Dollars in millions)

Six months
 ended June
 30, -----

 2003 2002 -

OPERATING
 REVENUES
 Electric \$
 799 \$ 604
 Natural gas
 283 242

~~Total~~
~~operating~~
~~revenues~~
~~1,082 846~~

 OPERATING
 EXPENSES
 Electric
 fuel and
 net
 purchased

power ~~300~~
140 Cost of
natural gas
~~152 120~~
Other
operating
expenses
~~268 255~~
Depreciation
and
amortization
~~116 112~~
Income
taxes ~~74 46~~
Franchise
fees and
other taxes
~~54 37~~

~~Total
operating
expenses
964 710~~

~~Operating
income 118
136~~

~~Other
income and
(deductions)
Interest
income 3 5
Regulatory
interest
net (4) (2)
Allowance
for equity
funds used
during
construction
6 5 Income
taxes on
non-
operating
income 1 1
Other net
2~~

~~Total 6 11~~

~~Interest
charges
Long-term
debt 34 39
Other 3 3
Allowance
for
borrowed
funds used
during
construction
(2) (2)~~

~~Total 35
40~~

~~Net
income 89
107~~

~~Preferred
dividend
requirements
3 3~~

~~Earnings
applicable
to common
shares \$ 86
\$ 104
=====~~

=====
See
notes to
Consolidated
Financial
Statements.

SAN DIEGO GAS & ELECTRIC COMPANY AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
(Dollars in millions)

June 30,
December 31,
2003 2002 -----

----- ASSETS
Utility plant—
at original
cost \$5,617
\$5,408
Accumulated
depreciation
and
amortization
(2,532) (2,775)

Utility plant—
net 3,085 2,633

Nuclear
decommissioning
trusts 534 494

Current assets:
Cash and cash
equivalents 92
159 Accounts
receivable—
trade 184 163
Accounts
receivable—
other 15 18 Due
from
unconsolidated
affiliates 219
292 Income
taxes
receivable 8
Regulatory
assets arising
from fixed-
price contracts
and other
derivatives 58
59 Other
regulatory
assets 75 75
Inventories 63
46 Other 32 11

Total current
assets 746 823

Other assets:
Deferred taxes
recoverable in
rates 184 190
Regulatory
assets arising
from fixed-
price contracts
and other
derivatives 549
579 Other
regulatory
assets 306 342
Sundry 60 62

~~Total other assets 1,099~~
~~1,173~~
~~-----~~
~~Total assets \$5,464~~
~~\$5,123 =====~~
~~===== See notes to Consolidated Financial Statements.~~

SAN DIEGO GAS & ELECTRIC COMPANY AND SUBSIDIARY
 CONSOLIDATED BALANCE SHEETS
 (Dollars in millions)

 June 30,
 December 31,
 2003 2002 -----

 CAPITALIZATION AND LIABILITIES
 Capitalization:

~~Common stock (255,000,000 shares authorized; 116,583,358 shares outstanding) \$ 937 \$ 943~~
~~Retained earnings 221~~
~~235 Accumulated other comprehensive income (loss) (39) (34)~~
~~-----~~

~~Total common equity 1,119 1,144~~

~~Preferred stock not subject to mandatory redemption 79~~
~~79~~
~~-----~~

~~Total shareholders' equity 1,198~~
~~1,223~~

~~Preferred stock subject to mandatory redemption 24~~
~~25~~

~~Long term debt 1,121~~
~~1,153~~
~~-----~~

~~Total capitalization 2,343 2,401~~
~~-----~~

~~Current liabilities:~~

~~Accounts payable 173 159~~
~~Interest payable 12 12~~
~~Due to unconsolidated affiliates 3~~

~~Income taxes payable 41~~
~~Deferred income taxes 40 53~~

Regulatory	
balancing	
accounts—net	
466-394 Fixed-	
price contracts	
and other	
derivatives-58	
59 Current	
portion of	
long-term debt	
66-66 Other-179	
170	
—Total	
current	
liabilities-994	
957	
—Deferred	
credits and	
other	
liabilities:	
Customer	
advances for	
construction-57	
54-Deferred	
income taxes	
592-602	
Deferred	
investment tax	
credits-41-42	
Fixed-price	
contracts and	
other	
derivatives-549	
579-Due to	
unconsolidated	
affiliates-16	
16-Regulatory	
liabilities	
arising from	
asset	
retirement	
obligations-241	
—Asset	
retirement	
obligations-300	
—Deferred	
credits and	
other	
liabilities-331	
472	
—Total	
deferred	
credits and	
other	
liabilities	
2,127-1,765	
Contingencies	
and commitments	
(Note 3) Total	
liabilities and	
shareholders'	
equity \$5,464	
\$5,123 =====	
===== See	
notes to	
Consolidated	
Financial	
Statements.	

SAN DIEGO GAS & ELECTRIC COMPANY AND SUBSIDIARY
CONDENSED STATEMENTS OF CONSOLIDATED CASH FLOWS
(Dollars in millions)
Six months
ended June
30, -----

2003 2002 -

--- CASH
FLOWS FROM
OPERATING
ACTIVITIES
Net income
~~\$ 89~~ ~~\$ 107~~
Adjustments
to
reconcile
net income
to net cash
provided by
operating
activities:
Depreciation
and
amortization
~~116~~ ~~112~~
Deferred
income
taxes and
investment
tax credits
~~(16)~~ ~~(41)~~
Non-cash
rate
reduction
bond
expense ~~32~~
~~40~~ Other
net ~~(2)~~
Net change
in other
working
capital
components
~~(9)~~ ~~118~~
Changes in
other
assets
~~79~~ Changes
in other
liabilities
~~7~~ ~~6~~
----- Net
cash
provided by
operating
activities
~~217~~ ~~421~~

--- CASH
FLOWS FROM
INVESTING
ACTIVITIES
Capital
expenditures
~~(183)~~ ~~(182)~~
Loan
to/from
affiliate
net ~~41~~
~~(156)~~ Other
net ~~(6)~~
~~(6)~~
----- Net
cash used
in
investing
activities
~~(148)~~ ~~(344)~~

--- CASH
FLOWS FROM
FINANCING
ACTIVITIES
Dividends
paid ~~(103)~~
~~(3)~~
Payments on

~~long-term
debt (32)
(59)
Redemptions
of
preferred
stock (1)~~

~~Net
cash used
in
financing
activities
(136) (62)~~

~~Increase
(decrease)
in cash and
cash
equivalents
(67) 15
Cash and
cash
equivalents,
January 1
159 322~~

~~Cash and
cash
equivalents,
June 30 \$
92 \$ 337
=====~~

~~SUPPLEMENTAL
DISCLOSURE
OF CASH
FLOW~~

~~Interest
payments,
net of
amounts
capitalized
\$ 33 \$ 38
=====~~

~~Income tax
payments
(refunds) —
net \$ 138 \$
(40)
=====~~

~~SUPPLEMENTAL
SCHEDULE OF
NON-CASH
INVESTING
AND~~

~~FINANCING
ACTIVITIES
Property,
plant and
equipment
contribution
from Sempra
Energy \$ —
\$ 86
=====~~

~~=====
See
notes to
Consolidated
Financial
Statements.~~

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL

This Quarterly Report on Form 10-Q is that of San Diego Gas & Electric Company (SDG&E or the company). SDG&E's common stock is wholly owned by Enova Corporation (Enova), which is a wholly owned subsidiary of Sempra Energy, a California-based Fortune 500 holding company. The financial statements herein are the Consolidated Financial Statements of SDG&E and its sole subsidiary, SDG&E Funding LLC.

Sempra Energy also indirectly owns all of the common stock of Southern California Gas Company (SoCalGas). SDG&E and SoCalGas are collectively referred to herein as "the California Utilities."

The accompanying Consolidated Financial Statements have been prepared in accordance with the interim-period-reporting requirements of Form 10-Q. Results of operations for interim periods are not necessarily indicative of results for the entire year. In the opinion of management, the accompanying statements reflect all adjustments necessary for a fair presentation. These adjustments are only of a normal recurring nature. Certain changes in classification have been made to prior presentations to conform to the current financial statement presentation.

Information in this Quarterly Report is unaudited and should be read in conjunction with the Annual Report on Form 10-K for the year ended December 31, 2002 (Annual Report) and the Quarterly Report on Form 10-Q for the three months ended March 31, 2003.

The company's significant accounting policies are described in Note 1 of the notes to Consolidated Financial Statements in the Annual Report. The same accounting policies are followed for interim reporting purposes.

As described in the notes to Consolidated Financial Statements in the Annual Report, SDG&E accounts for the economic effects of regulation on utility operations (excluding generation operations) in accordance with Statement of Financial Accounting Standards (SFAS) No. 71, "Accounting for the Effects of Certain Types of Regulation".

COMPREHENSIVE INCOME

The following is a reconciliation of net income to comprehensive income.

(Dollars in millions)	Three months ended June 30,		Six months ended June 30,	
	2003	2002	2003	2002
Net income	\$ 42	\$ 52	\$ 89	\$ 107
Minimum pension liability adjustments	--	(1)	(6)*	(1)
Comprehensive income	\$ 42	\$ 51	\$ 83	\$ 106

* This amount does not equal the change in the reported balance of accumulated other comprehensive income due to rounding.

2. NEW ACCOUNTING STANDARDS

SFAS 143, "Accounting for Asset Retirement Obligations": The adoption of SFAS 143 on January 1, 2003 resulted in the recording of an addition of \$71 million to utility plant, representing the company's share of the San Onofre Nuclear Generating Station (SONGS) estimated future decommissioning costs (as discounted to the present value at the dates the units began operation), and accumulated depreciation of \$41 million related to the increase to utility plant, for a net increase of \$30 million. In addition, the company recorded a corresponding retirement obligation liability of \$309 million (which includes accretion of that discounted value to December 31, 2002) and a regulatory liability of \$215 million to reflect that SDG&E has collected the funds from its customers more quickly than SFAS 143 would accrete the retirement liability and depreciate the asset. These liabilities, less the \$494 million recorded as accumulated depreciation prior to January 1, 2003 (which represents amounts collected for future decommissioning costs),

comprise the offsetting \$30 million.

On January 1, 2003, the company recorded additional asset retirement obligations of \$10 million associated with the future retirement of a former power plant.

The change in the asset retirement obligations for the six months ended June 30, 2003 is as follows (dollars in millions):

Balance as of January 1, 2003	\$ --
Adoption of SFAS 143	319
Accretion expense	10
Payments made	(7)

Balance as of June 30, 2003	\$ 322*
	=====

*A portion of the obligation is included in other current liabilities on the Consolidated Balance Sheets.

Had SFAS 143 been in effect, the asset retirement obligation liability would have been \$307 million, \$330 million, \$354 million and \$319 million as of January 1, 2000 and December 31, 2000, 2001 and 2002, respectively.

Except for the items noted above, the company has determined that there is no other material retirement obligation associated with tangible long-lived assets.

Implementation of SFAS 143 has had no effect on results of operations and is not expected to have a significant one in the future.

SFAS 150 "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity": This statement establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. SFAS 150 requires that certain mandatorily redeemable financial instruments currently classified in the mezzanine section of the balance sheet be reclassified as liabilities. The company will adopt SFAS 150 in the third quarter of 2003 by changing its presentation of \$24 million of mandatorily redeemable preferred stock.

3. MATERIAL CONTINGENCIES

ELECTRIC INDUSTRY REGULATION

The restructuring of California's electric utility industry has significantly affected the company's electric utility operations. The background of this issue is described in the Annual Report. Subsequent developments are described herein.

The power crisis of 2000-2001 has caused the California Public Utilities Commission (CPUC) to adjust its plan for restructuring the electricity industry. In addition, several California state agencies, including the CPUC, the Consumer Power and Conservation Financing Authority, and the California Energy Commission, recently adopted an Energy Action Plan for California. The plan calls for a continuation of regulated electricity rates and existing direct access contracts, increased conservation, more renewable energy, and a stable regulatory environment that encourages private investment in the state.

Subsequent to the electric capacity shortages of 2000-2001, SDG&E's service territory has had and continues to have an adequate supply of electricity. However, various projections of electricity demand in SDG&E's service territory indicate that, without additional electrical generation or reductions in electrical usage, beginning in 2005 electricity demand could begin to outstrip available resources. SDG&E's strategy for meeting this demand is to: (1) reduce power demand through conservation and efficiency; (2) increase the supply of electricity from renewable sources, including wind and solar; (3) establish new transmission lines by 2008 to import more power; and (4) provide new electric generation by 2005 to meet the expected shortfall. SDG&E has issued a request for proposals (RFP) to meet the electric capacity shortfall, estimated at 69 megawatts in 2005 and increasing annually by 100 megawatts. SDG&E is ahead of the interim schedule required by California legislation in meeting the CPUC's requirement of obtaining 20 percent of its electricity from renewable sources by 2017.

There continues to be legislative and regulatory interest in returning California's investor-owned utilities (IOUs) to an ownership role for generation. At present, there is no firm guidance or set of terms and conditions under which this might take place that would provide adequate customer and shareholder protections, and SDG&E continues to state that these items must be in place before it would consider an ownership position. In anticipation of possible direction on these matters, SDG&E has required bidders to include both power purchase and ownership options in their response to the RFP noted above for additional local generation beginning in 2005.

Several legislative proposals relating to utility regulation have failed to be enacted by the California Legislature. California Senate Bill (SB) 429 would have subjected the company and other California energy-utility holding companies to continuing authority of the CPUC to enforce any condition placed upon their authorizations to acquire their California utility subsidiaries, including obligations to give first priority to the capital requirements of the utilities as determined by the CPUC to be necessary to meet the utilities' obligations to serve. It would also require that the CPUC order the holding companies to infuse into the utility subsidiaries sufficient capital, of any type deemed necessary by the CPUC, to enable the utilities to fulfill their service obligations. SB 888 would repeal the provisions of Assembly Bill (AB) 1890, which enabled electric industry restructuring in September 1996.

California Governor Davis recently announced that he is seeking a \$1-billion electric rate reduction. SDG&E's portion of this is 13.51 percent or \$135 million. This rate reduction will have no effect on SDG&E's net income and net cash flows because customer savings are coming from lower charges by the California Department of Water Resources (DWR), and SDG&E is merely transmitting the electricity from the DWR to the customers, acting as a conduit for the parties. In accordance therewith, on July 1, 2003 the DWR submitted to the CPUC a supplemental determination of its 2003 revenue requirement. The DWR's supplemental determination contains a \$1-billion reduction in its revenue requirement for 2003. In order to make the corresponding rate reduction available to ratepayers as soon as possible, and consistent with the very limited scope of this phase of this proceeding, the procedural schedule is being expedited. A draft decision is expected by the end of August 2003, with a final decision by September 2003.

The CPUC has undertaken a proceeding and issued numerous decisions establishing the framework, rules and processes that would govern SDG&E's renewed responsibility of procuring electricity for its customers. These include decisions (1) allocating to the customers of California's IOUs the power from the long-term contracts entered into by the DWR, with the DWR retaining the legal and financial responsibility for the contracts; (2) adopting an Operating Agreement between SDG&E and the DWR to govern the terms and conditions for SDG&E's administration of DWR contracts; (3) adopting annual procurement plans that include securing supplies to satisfy SDG&E's additional power requirements; (4) consideration of a 20-year resource plan to assess SDG&E's resource needs, emphasizing the next five years; and (5) developing the criteria by which the acceptability and recovery of procurement transactions will be determined, including possible development of an incentive mechanism for procurement activities.

The DWR's Operating Agreement with SDG&E, approved by the CPUC, governs SDG&E's relationship with the DWR now that SDG&E has assumed administration of the allocated DWR contracts. The agreement provides that SDG&E is acting as a limited agent on behalf of the DWR in undertaking energy sales and natural gas procurement functions under the DWR contracts allocated to its customers. Legal and financial risks associated with these activities will continue to reside with the DWR. However, in certain limited circumstances involving transactions in which SDG&E, as DWR's limited agent, is selling DWR surplus energy pursuant to the terms of the Operating Agreement, SDG&E may be obligated to provide lines of credit in connection with the allocated contracts. The risk associated with these lines of credit is considered to be minimal. On April 17, 2003, SDG&E filed with the CPUC its natural gas procurement plan related to certain DWR contracts. On July 10, 2003, the CPUC approved SDG&E's natural gas supply plan.

NATURAL GAS INDUSTRY RESTRUCTURING

As discussed in Note 11 of the notes to Consolidated Financial Statements in the Annual Report, in December 2001 the CPUC issued a decision related to natural gas industry restructuring, with implementation anticipated during 2002. During 2002 the California Utilities filed a proposed implementation schedule and revised tariffs

and rules required for implementation. However, on February 27, 2003, the CPUC issued a resolution rejecting without prejudice those proposed tariffs and rules. If the December 2001 decision is implemented, it is not expected to adversely affect the California Utilities' earnings. A CPUC decision is expected during 2004.

BORDER PRICE INVESTIGATION

In November 2002, the CPUC instituted an investigation into the Southern California natural gas market and the price of natural gas delivered to the California-Arizona (CA-AZ) border during the period of March 2000 through May 2001. If the investigation determines that the conduct of any respondent contributed to the natural gas price spikes at the CA-AZ border during this period, the CPUC may modify the respondent's applicable natural gas procurement incentive mechanism, reduce the amount of any shareholder award for the period involved, and/or order the respondent to issue a refund to ratepayers to offset the higher rates paid. The California Utilities, included among the respondents to the investigation, are fully cooperating in the investigation and believe that the CPUC will ultimately determine that they were not responsible for the high border prices during this period. On August 1, 2003, the Administrative Law Judge (ALJ) issued a revised schedule with hearings scheduled to begin in March 2004 and with a Commission decision by late 2004.

CPUC INVESTIGATION OF COMPLIANCE WITH AFFILIATE RULES

On February 27, 2003, the CPUC opened an investigation of the business activities of SDG&E, SoCalGas and Sempra Energy to ensure that they have complied with relevant statutes and CPUC decisions in the management, oversight and operations of their companies. The Assigned Commissioner and ALJ issued a ruling which suspends the procedural schedule until the CPUC completes an independent audit to evaluate energy-related business activities undertaken by Sempra Energy within the service territories of SDG&E and SoCalGas, relative to holding company systems and affiliate activities. The audit is to consider whether these activities pose any problems for ratepayers and whether they are consistent with the CPUC's decision, rules or orders and/or affiliate statutes. The objective of the audit is to analyze the adequacy of the Affiliate Rules. In accordance with existing CPUC requirements, the California Utilities' transactions with other Sempra Energy affiliates have been audited by an independent auditing firm each year, with results reported to the CPUC, and there have been no material adverse findings in those audits.

COST OF SERVICE FILING

On May 22, 2003, the assigned CPUC Commissioner modified his previously adopted procedural schedule on the California Utilities' Cost of Service applications to expedite a decision by approximately one month, permitting a decision by as early as March 2004. The assigned Commissioner also provided for additional comments to be filed on the California Utilities' request for interim relief for the period from January 1, 2004 to the date of the Cost of Service decision and stated that a decision on the request would be prepared for consideration of the full Commission. On June 3, 2003, various parties filed reply comments supporting or opposing the motion for January 1, 2004 interim relief. The CPUC's Office of Ratepayer Advocates' (ORA) report on the California Utilities' filing is due on August 8, 2003.

An October 10, 2001 decision denied the California Utilities' request to continue equal sharing between ratepayers and shareholders of the estimated savings for the 1998 Enova-PE business combination that created Sempra Energy and, instead, ordered that all of the estimated 2003 merger savings go to ratepayers. This decision will adversely affect 2003 net income by \$11 million.

MARKET INDEXED CAPITAL ADJUSTMENT MECHANISM (MICAM)

Under MICAM, automatic adjustments are made to SDG&E's cost of capital based on when the April-September average of single-A utility bond rates in any given calendar year varies more than 100 basis points from a predetermined benchmark. When this occurs, SDG&E's return on common equity (ROE) is adjusted by one-half of the change. SDG&E must file its annual MICAM advice letter with the CPUC on October 15, reporting how the year's April-September average of the utility bond yield compares to the benchmark. Any resulting change in SDG&E's ROE would go into effect January 1 of the following year. Due to a large general decline

in interest rates, it is likely that the existing MICAM mechanism would trigger during 2003. However, if the CPUC approves an all-party settlement previously filed, the likelihood of a trigger this year would be less since the benchmark rate under the settlement was changed to the double-A utility bond rate during a different time period which produced a lower benchmark rate.

The current MICAM benchmark, based on the April-September 1996 single-A utility bond yield, stands at 7.97%. The MICAM benchmark that would take effect under the settlement agreement, 7.24%, is based on the April-September 2002 double-A utility bond yield.

Single-A utility interest rates under the existing mechanism averaged 6.40% from April through June, and an ROE adjustment would occur if the July through September rate averages 7.53% or lower. Double-A utility interest rates under the settlement agreement averaged 6.26% from April through June, and an ROE reduction would occur if the July through September rate averages 6.20% or lower.

In both versions of MICAM, every percentage point of variance between the April-September average and the benchmark in excess of the threshold reduces SDG&E's authorized annual net income by \$5 million.

PERFORMANCE-BASED REGULATION (PBR)

On July 15, 2003, the CPUC issued a Draft Resolution (DR) approving SDG&E's 2001 and 2002 Distribution PBR Performance Reports. If the DR is approved by the CPUC, SDG&E would be awarded \$12.2 million for exceeding PBR benchmarks on all six of its performance indicators in 2001. SDG&E would also be awarded \$6.0 million for exceeding the PBR benchmarks on five of its six performance indicators in 2002. The total maximum reward (or penalty) SDG&E could earn in a given year under the Distribution PBR mechanism is \$14.5 million. A final CPUC decision is expected during the third quarter of 2003.

On March 19, 2003, the ORA issued its Monitoring and Evaluation Report on SDG&E's natural gas procurement activities in Year 9 (August 1, 2001 through July 31, 2002). The ORA analyzed and confirmed the PBR results put forth by SDG&E, resulting in a Year 9 shared loss of \$1.9 million and a shareholder penalty of \$1.4 million, both of which were recorded in 2002. The ORA recommended the extension of the PBR mechanism, as modified in Years 8 and 9, to Year 10 and beyond. The ORA has stated that the CPUC's adoption of the natural gas procurement PBR mechanism is beneficial both to ratepayers and to shareholders of SDG&E.

On July 10, 2003, the CPUC issued a decision relative to SDG&E's Year 11 Gas PBR application, which would extend the PBR mechanism with some modification. The decision approved the Joint Parties' Motion for an Order Adopting Settlement Agreement filed by SDG&E and the ORA, which will apply to Year 10 and beyond. The effect of the modifications is to reduce slightly the potential size of future PBR rewards or penalties.

SDG&E's request for a reward of \$6.7 million for the PBR natural gas procurement period ended July 31, 2001 (Year 8) was approved by the CPUC on January 30, 2003. Since part of the reward calculation is based on CA-AZ natural gas border price indices, the decision reserved the right to revise the reward in the future, depending on the outcome of the CPUC's border price investigation (see above) and the FERC's investigation into alleged energy price manipulation (see below).

Performance incentives rewards are not included in the company's earnings until CPUC approval is received.

TRANSMISSION RATE INCREASE

On May 2, 2003, the FERC accepted SDG&E's request for modification of its Transmission Owner Tariff to adopt a rate increase. The new transmission rates are effective October 1, 2003, and will increase the charges for retail transmission service by \$32.3 million (27 percent). SDG&E has proposed formula-based rates which would allow the company over a 4 to 5 year period to recover all of its recorded costs as well as an adopted ROE. Thus, SDG&E would earn no more or no less than the FERC-adopted ROE for the predetermined period. These new rates are subject to refund based on the FERC's final order. FERC staff and intervenor testimonies are due on August 29, 2003. Litigation of the case would result in a decision by the end of 2004.

In August 2002 the FERC issued Opinion No. 458, which effectively disallowed SDG&E's recovery of the differentials between certain costs paid to SDG&E under existing transmission contracts (the "Participation Agreements") and charges assessed to SDG&E under the ISO FERC tariff.

These charges are for transmission line losses and grid management charges attributable to energy schedules on portions of the Southwest Powerlink. As a result, SDG&E is incurring unreimbursed cost differentials on an ongoing basis at a rate ranging between \$4 million and \$8 million per year. SDG&E has petitioned the United States Court of Appeals for review of these FERC orders. In addition, SDG&E is challenging the propriety of the ISO charges as applied to the portions of the Southwest Powerlink jointly owned with Arizona Public Service Co. and the Imperial Irrigation District in proceedings before the FERC, and in an arbitration under the ISO tariff, the result of which may be appealed to the FERC. To the extent SDG&E prevails in these matters, the FERC may require the ISO to refund to SDG&E all or part of the subject charges. SDG&E has also commenced a private arbitration to reform the Participation Agreements to remove prospectively SDG&E's obligation to provide services giving rise to unreimbursed ISO tariff charges.

FERC ACTIONS

The FERC is investigating prices charged to buyers in the California Power Exchange (PX) and Independent System Operator (ISO) markets by various electric suppliers. It is seeking to determine the extent to which individual sellers have yet to be paid for power supplied during the period of October 2, 2000 through June 20, 2001 and to estimate the amounts by which individual buyers and sellers paid and were paid in excess of competitive market prices. Based on these estimates, the FERC could find that individual net buyers, such as SDG&E, are entitled to refunds and individual net sellers are required to provide refunds. To the extent any such refunds are actually realized by SDG&E, they would reduce SDG&E's rate-ceiling balancing account. In December 2002, a FERC ALJ issued preliminary findings indicating that California owes power suppliers \$1.2 billion (the \$3.0 billion that California still owes energy companies less \$1.8 billion energy companies charged California customers in excess of the FERC cap). On March 26, 2003, the FERC largely adopted the ALJ's findings, but expanded the basis for refunds by adopting a staff recommendation from a separate investigation to change the natural gas proxy component of the mitigated market clearing price that is used to calculate refunds. The March 26 order estimates that the replacement formula for estimating natural gas prices will increase the refund totals to more than \$3.0 billion. The precise number will not be available until the ISO and PX recalculate the number through their settlement models based on the final FERC instructions. California is seeking \$8.9 billion in refunds and has appealed the FERC's preliminary findings and requested rehearing of the March 26 order. The power sellers have joined in appeal of the FERC's preliminary findings and requested rehearing.

In addition to the refund proceeding described above, the FERC is also investigating whether there was manipulation of short-term energy prices in the West that would constitute violations of applicable tariffs and warrant disgorgement of associated profits. In this proceeding, the FERC has authority to look at time periods outside of the October 2, 2000 through June 20, 2001 period relevant to the refund proceeding. In May 2002 the FERC ordered all energy companies engaged in electric energy trading activities to state whether they had engaged in various specific trading activities described as manipulating or "gaming" the California energy markets.

On June 25, 2003, the FERC issued several orders requiring various entities to show cause why they should not be found to have violated California ISO and PX tariffs. The FERC directed 43 entities, including SDG&E, to show cause why they should not disgorge profits from certain transactions between January 1, 2000 and June 20, 2001 that are asserted to have constituted gaming and/or anomalous market behavior under the California ISO tariff. The ISO has calculated SDG&E's gains attributable to these issues at less than \$200,000.

In addition, the FERC determined that it was appropriate to initiate an investigation into possible economic withholding in the California ISO and PX markets. For this purpose, the FERC used an initial screen of \$250 per mW for all bids between May 1, 2000 and October 2, 2000. SDG&E received data requests from the FERC staff. The FERC staff will prepare a report to the Commission, which will be the basis to decide whether additional proceedings are warranted. SDG&E believes that its bids and bidding procedures were consistent with ISO and PX tariffs and protocols and applicable FERC price caps.

NUCLEAR INSURANCE

SDG&E and the other co-owners of SONGS have insurance to respond to any nuclear liability claims related to SONGS. The insurance policy provides \$300 million in coverage, which is the maximum amount available. In addition to this primary financial protection, the Price-Anderson Act provides for up to \$9.25 billion of secondary financial protection if the liability loss exceeds the insurance limit. Should any of the licensed/commercial reactors in the United States experience a nuclear liability loss which exceeds the \$300 million insurance limit, all utilities owning nuclear reactors could be assessed under the Price-Anderson Act to provide the secondary financial protection. SDG&E and the other co-owners of SONGS could be assessed up to \$176 million under the Price-Anderson Act. SDG&E's share would be \$36 million unless default occurs by any other SONGS co-owner. In the event the secondary financial protection limit is insufficient to cover the liability loss, the Price-Anderson Act provides for Congress to enact further revenue-raising measures to pay claims. These measures could include an additional assessment on all licensed reactor operators. SDG&E and the other co-owners of SONGS have \$2.75 billion of nuclear property, decontamination and debris removal insurance.

The coverage also provides the SONGS owners up to \$490 million for outage expenses incurred because of accidental property damage. This coverage is limited to \$3.5 million per week for the first 52 weeks, and \$2.8 million per week for up to 110 additional weeks. Coverage is also provided for the cost of replacement power, which includes indemnity payments for up to three years, after a waiting period of 12 weeks. The insurance is provided through a mutual insurance company owned by utilities with nuclear facilities. Under the policy's risk sharing arrangements, insured members are subject to retrospective premium assessments if losses at any covered facility exceed the insurance company's surplus and reinsurance funds. Should there be a retrospective premium call, SDG&E could be assessed up to \$7.4 million.

Both the nuclear liability and property insurance programs include industry aggregate limits for terrorism-related SONGS losses, including replacement power costs.

LITIGATION

Lawsuits filed in 2000 and currently consolidated in San Diego Superior Court seek class-action certification and damages, alleging that Sempra Energy, SoCalGas and SDG&E, along with El Paso Energy Corp. (El Paso) and several of its affiliates, unlawfully sought to control natural gas and electricity markets. In March 2003, plaintiffs in these cases and the applicable El Paso entities announced that they had reached a settlement in principle of the class actions, certain of the individual actions, claims asserted by the California Attorney General and by other western states, and certain complaint proceedings filed with FERC by the CPUC and the California Energy Oversight Board. On June 26, 2003, the settlement was filed for approval with the relevant state courts and the FERC. The settlement provides more than \$1.5 billion in consideration to be received by customers, with no effect on the income of the utilities processing the refunds. Of these funds, the settlement provides the following allocation for each SDG&E and SoCalGas customer group: SDG&E Electric Customers -- \$60 million, SDG&E Core Gas -- \$29 million and SoCalGas Core Gas -- \$36 million. Non-core natural gas customers will go through a claims process in the courts, by which they can establish their harm and receive a fair share of the consideration.

A similar lawsuit has been filed by the Attorney General of Arizona alleging that El Paso and certain Sempra Energy subsidiaries unlawfully sought to control the natural gas market in Arizona. In April 2003, Sierra Pacific and its utility subsidiary Nevada Power jointly filed a lawsuit in U.S. District Court in Las Vegas against major natural gas suppliers, including Sempra Energy, the California Utilities and other company subsidiaries, seeking damages resulting from an alleged conspiracy to drive up or control natural gas prices, eliminate competition and increase market volatility, and breach of contract and wire fraud.

Various lawsuits, which seek class-action certification, allege that Sempra Energy and certain company subsidiaries, including SDG&E, unlawfully manipulated the electric-energy market. In January 2003, the applicable Federal Court granted a motion to dismiss a similar lawsuit on the grounds that the claims contained in the complaint were subject to the Filed Rate Doctrine and were preempted by the Federal Power Act. That ruling has been appealed in the Ninth Circuit Court of Appeal and a decision is expected by first quarter of 2004. Similar suits filed in Washington and Oregon were voluntarily dropped by the plaintiffs without court intervention in June 2003.

Except for the matters referred to above, neither the company nor its subsidiary are party to, nor is their property the subject of, any material pending legal proceedings other than routine litigation incidental to their businesses.

Management believes that none of these matters will have a material adverse effect on the company's financial condition or results of operations.

PENDING INTERNAL REVENUE SERVICE MATTERS

The company is in discussions with the Internal Revenue Service (IRS) to resolve issues related to various prior years' returns. A recently issued Revenue Ruling dealing with utility balancing accounts, and recent discussions with the IRS concerning this Ruling and another matter lead the company to believe it will be entitled to record a reduction in previously recorded income tax expense, accrue significant interest income on overpayments of tax in certain prior periods and reverse recorded interest associated with the reporting of these items in other prior periods. The company expects that these matters will be favorably resolved before year end and estimates that the resolution will increase reported 2003 earnings in excess of \$60 million.

4. FINANCIAL INSTRUMENTS

Note 8 of the notes to Consolidated Financial Statements in the Annual Report discusses the company's financial instruments, including the adoption of SFAS 133, "Accounting for Derivative Instruments and Hedging Activities," as amended by SFAS 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities." The effect is to recognize all derivatives as assets or liabilities on the balance sheet, measure those instruments at fair value, and recognize any changes in fair value in earnings for the period that the change occurs unless the derivative qualifies as an effective hedge that offsets other exposures.

The company utilizes derivative financial instruments to manage its exposure to unfavorable changes in commodity prices, which are subject to significant and often volatile fluctuations. Derivative financial instruments include futures, forwards, swaps, options and long-term delivery contracts. These contracts allow the company to predict with greater certainty the effective prices to be received by the company and their customers. In accordance with SFAS 133, the company has elected to account for contracts that are settled by physical delivery at historical cost, with gains and losses reflected in the income statement at the contract settlement date.

Fixed-price contracts and other derivatives on the Consolidated Balance Sheets primarily reflect the company's derivative gains and losses related to long-term delivery contracts for purchased power and natural gas transportation. The company has established regulatory assets and liabilities to the extent that these gains and losses are recoverable or payable through future rates. The changes in fixed-price contracts and other derivatives on the Consolidated Balance Sheets for the six months ended June 30, 2003 were primarily due to physical deliveries under long-term purchased-power and natural gas transportation contracts. The transactions associated with fixed-price contracts and other derivatives had no material impact to the Statements of Consolidated Income for the six months ended June 30, 2003 or 2002.

ITEM 2.

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

The following discussion should be read in conjunction with the financial statements contained in this Form 10-Q and "Management's Discussion and Analysis of Financial Condition and Results of Operations" contained in the Annual Report.

RESULTS OF OPERATIONS

Electric revenues increased to \$799 million for the six months ended June 30, 2003 from \$604 million for the same period in 2002, and the cost of electric fuel and purchased power increased to \$300 million in 2003 from \$140 million in 2002. Additionally, electric revenues

increased to \$402 million for the three months ended June 30, 2003 from \$323 million for the same period in 2002, and the cost of electric fuel and purchased power increased to \$137 million in 2003 from \$79 million in 2002. These changes were mainly due to the effect of the DWR's purchasing the net short position of SDG&E during 2002, changes in electric commodity costs, the increase in authorized distribution revenue and higher volumes in 2003. Under the current regulatory framework, changes in commodity costs do not affect net income. The commodity costs associated with the DWR's purchases and the corresponding sale to SDG&E's customers were not included in the Statements of Consolidated Income as SDG&E was merely transmitting the electricity from the DWR to the customers, acting as a conduit to pass through the electricity from the DWR to the customers. During 2003, costs associated with long-term contracts allocated to SDG&E from the DWR were likewise not included in the income statement, since the DWR retains legal and financial responsibility for these contracts.

Natural gas revenues increased to \$283 million for the six months ended June 30, 2003 from \$242 million for the corresponding period in 2002, and the cost of natural gas increased to \$152 million in 2003 from \$120 million in 2002. Additionally, natural gas revenues increased to \$118 million for the three months ended June 30, 2003 from \$91 million for the corresponding period in 2002, and the cost of natural gas increased to \$67 million in 2003 from \$42 million in 2002. These changes were primarily attributable to natural gas price increases, which are passed on to customers, partially offset by reduced volumes.

Under the current regulatory framework, changes in core-market natural gas prices for core customers (primarily residential and small commercial and industrial customers) do not affect net income, since core-customer rates generally recover the actual cost of natural gas on a substantially concurrent basis and are fully balanced. However, SDG&E's gas procurement PBR mechanism provides an incentive mechanism by measuring SDG&E's procurement of natural gas against a benchmark price comprised of monthly natural gas indices, resulting in shareholder rewards for costs achieved below the benchmark and shareholder penalties when costs exceed the benchmark.

The tables below summarize the electric and natural gas volumes and revenues by customer class for the six months ended June 30, 2003 and 2002.

Electric Distribution and Transmission
(Volumes in millions of kilowatt hours, dollars in millions)

	2003	2002
- Volumes		
Revenue		
Volumes		
Revenue	--	--
Residential	3,161	3,161
	\$	\$
	366	3,072
	\$	323
Commercial	2,922	333
	2,853	204
Industrial	907	81
	81	897
75 Direct access	1,565	37
	1,693	54
Street and highway lighting	45	5
	43	4
Off system sales	33	1

~~8,633 823~~
~~8,558 750~~
 Balancing
 accounts
 and other
~~(24) (146)~~

~~— Total~~
~~8,633 \$~~
~~799 8,558~~
~~\$ 604~~

Although commodity-related revenues from the DWR's purchasing of SDG&E's net short position or from the DWR's allocated contracts are not included in revenue, the associated volumes and distribution revenue are included herein.

Gas Sales, Transportation and Exchange
(Volumes in billion cubic feet, dollars in millions)

Gas Sales
 Transportation
 & Exchange
 Total -----

-- Volumes
 Revenue
 Volumes
 Revenue
 Volumes
 Revenue -----

---- 2003+
 Residential
~~19 \$ 173~~ \$
~~19 \$ 173~~
 Commercial
 and
 industrial 9
~~69 2 3 11 72~~
 Electric
 generation
 plants 1
~~28 12 28 13~~

~~28 \$~~
~~243 30 \$ 15~~
~~58 258~~
 Balancing
 accounts and
 other 25
~~— Total \$~~
~~283~~

---- 2002+
 Residential

customer rates, the cost of capital, and environmental and regulatory requirements.

CASH FLOWS FROM FINANCING ACTIVITIES

Net cash used in financing activities totaled \$136 million and \$62 million for the six months ended June 30, 2003 and 2002, respectively. The change in cash flows from financing activities was attributable to higher dividends paid to Sempra Energy of \$100 million in 2003, partially offset by reduced payments on long-term debt in 2003.

In May 2003, SoCalGas and SDG&E replaced their expiring \$500 million, 364-day credit agreement with a substantially identical agreement expiring on May 14, 2004. Under the agreement, each utility may individually borrow up to \$300 million, subject to a combined borrowing limit for both utilities of \$500 million. At the maturity date, each utility may convert its then outstanding borrowings to a one-year term loan, subject to having obtained any requisite regulatory approvals. Borrowings under the agreement would be available for general corporate purposes including back-up support for commercial paper and variable-rate long-term debt, and would bear interest at rates varying with market rates and the borrowing utility's credit rating. The agreement requires each utility to maintain a debt-to-total capitalization ratio (as defined in the agreement) of not to exceed 60 percent. The rights, obligations and covenants of each utility under the agreement are individual rather than joint with those of the other utility, and a default by one utility would not constitute default by the other.

FACTORS INFLUENCING FUTURE PERFORMANCE

Performance of the company will depend primarily on the ratemaking and regulatory process, electric and natural gas industry restructuring, and the changing energy marketplace. These factors are discussed in the Annual Report and in Note 3 of the notes to Consolidated Financial Statements herein.

Income-Tax Issues

Resolution of the income-tax issues described in Note 3 of the notes to Consolidated Financial Statements herein could have a material impact on results of operations for 2003, or one or more future periods.

Electric Industry Restructuring and Electric Rates

Supply/demand imbalances and a number of other factors resulted in abnormally high electric-commodity costs beginning in mid-2000 and continuing into 2001. This caused SDG&E's customer bills to be substantially higher than normal. In response, legislation enacted in September 2000 imposed a ceiling on the cost of electricity that SDG&E could pass on to its small-usage customers on a current basis. SDG&E accumulated the amount that it paid for electricity in excess of the ceiling rate in an interest-bearing balancing account, which it continues to collect from its customers. During the six months ended June 30, 2003, the balance in the balancing account declined from \$215 million to \$174 million.

Subsequent to the electric capacity shortages of 2000-2001, SDG&E's service territory has had and continues to have an adequate supply of electricity. However, various projections of electricity demand in SDG&E's service territory indicate that, without additional electrical generation or reductions in electrical usage, beginning in 2005 electricity demand could begin to outstrip available resources. SDG&E's strategy for meeting this demand is to: (1) reduce power demand through conservation and efficiency; (2) increase the supply of electricity from renewable sources, including wind and solar; (3) establish new transmission lines by 2008 to import more power; and (4) provide new electric generation by 2005 to meet the expected shortfall. SDG&E has issued a request for proposals to meet the electric capacity shortfall, estimated at 69 megawatts in 2005. SDG&E is ahead of the interim schedule required by California legislation in meeting the requirement of obtaining 20 percent of its electricity from renewable sources by 2017.

Operating costs of SONGS Units 2 and 3, including nuclear fuel and related financing costs, and incremental capital expenditures are recovered through the Incremental Cost Incentive Pricing (ICIP) mechanism which allows SDG&E to receive approximately 4.4 cents per kilowatt-hour for SONGS generation. Any differences between these costs and the incentive price affect net income. This mechanism expires on December 31, 2003. For the year ended December 31, 2002, ICIP contributed \$50 million to SDG&E's net income. The CPUC has denied the

previously approved market-based pricing for SONGS beginning in 2004 and instead provided for traditional rate-making treatment, under which the SONGS ratebase would begin at zero, essentially eliminating earnings from SONGS until ratebase grows. The company has applied for rehearing of this decision, which the CPUC has not yet ruled on. The company is in the process of litigating the SONGS revenue requirement, primarily in conjunction with the General Rate Case of Southern California Edison (the operator and 75-percent owner of SONGS), for rates that begin in January 2004. (SDG&E seeks to recover approximately 95 percent of its 2004 SONGS operating & maintenance and capital revenue requirements in that case.) The remaining five percent of the company's SONGS revenue requirement will be litigated in SDG&E's Cost Of Service proceeding.

See additional discussion of this and related topics, including the CPUC's adjustment to its plan for deregulation of electricity, in Note 3 of the notes to Consolidated Financial Statements.

Natural Gas Restructuring and Rates

As discussed in the Annual Report, in December 2001 the CPUC issued a decision related to natural gas industry restructuring, with implementation anticipated during 2002. During 2002 the California Utilities filed a proposed implementation schedule and revised tariffs and rules required for implementation. However, on February 27, 2003, the CPUC issued a resolution rejecting without prejudice those proposed tariffs and rules. If the December 2001 decision is implemented, it is not expected to adversely affect the California Utilities' results of operations, cash flows or financial position. A CPUC decision is expected during 2004.

CPUC Investigation of Compliance with Affiliate Rules

On February 27, 2003, the CPUC opened an investigation of the business activities of SDG&E, SoCalGas and Sempra Energy to ensure that they have complied with relevant statutes and CPUC decisions in the management, oversight and operations of their companies. The Assigned Commissioner and ALJ issued a ruling which suspends the procedural schedule until the CPUC completes an independent audit to evaluate energy-related business activities undertaken by Sempra Energy within the service territories of SDG&E and SoCalGas, relative to holding company systems and affiliate activities. The audit is to consider whether these activities pose any problems for ratepayers and whether they are consistent with the CPUC's decision, rules or orders and/or affiliate statutes. The objective of the audit is to analyze the adequacy of the Affiliate Rules. In accordance with existing CPUC requirements, the California Utilities' transactions with other Sempra Energy affiliates have been audited by an independent auditing firm each year, with results reported to the CPUC, and there have been no material adverse findings in those audits.

Cost of Service Filing

On May 22, 2003, the assigned CPUC Commissioner modified his previously adopted procedural schedule on the California Utilities' Cost of Service applications to expedite a decision by approximately one month, permitting a decision by as early as March 2004. The assigned Commissioner also provided for additional comments to be filed on the California Utilities' request for interim relief for the period from January 1, 2004 to the date of the Cost of Service decision and stated that a decision on the request would be prepared for consideration of the full Commission. On June 3, 2003, various parties filed reply comments supporting or opposing the motion for January 1, 2004 interim relief. The CPUC's Office of Ratepayer Advocates' (ORA) report on the California Utilities' filing is due on August 8, 2003.

An October 10, 2001 decision denied the California Utilities' request to continue equal sharing between ratepayers and shareholders of the estimated savings for the 1998 Enova-PE business combination that created Sempra Energy and, instead, ordered that all of the estimated 2003 merger savings go to ratepayers. This decision will adversely affect 2003 net income by \$11 million.

NEW ACCOUNTING STANDARDS

New pronouncements that have recently become effective or that are yet to be effective are SFAS 143, 148, 149 and 150, Interpretations 45 and 46, EITF 02-3, and the rescission of EITF 98-10. See discussion in Note 2 of the notes to Consolidated Financial Statements. Pronouncements that have or potentially could have a material effect on future earnings are described below.

SFAS 143, "Accounting for Asset Retirement Obligations" is the only one of the above pronouncements that is material to the company. Issued in July 2001, SFAS 143 addresses financial accounting and reporting for legal obligations associated with the retirement of tangible long-lived assets. It requires entities to record the fair value of a liability for an asset retirement obligation in the period in which it is incurred. The company adopted SFAS 143 on January 1, 2003. See further discussion in Note 2 of the notes to Consolidated Financial Statements.

ITEM 3. MARKET RISK

There have been no significant changes in the risk issues affecting the company subsequent to those discussed in the Annual Report.

As of June 30, 2003, the total Value at Risk of SDG&E's natural gas positions was not material.

ITEM 4. CONTROLS AND PROCEDURES

The company has designed and maintains disclosure controls and procedures to ensure that information required to be disclosed in the company's reports under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission and is accumulated and communicated to the company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating these controls and procedures, management recognizes that any system of controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired objectives and necessarily applies judgment in evaluating the cost-benefit relationship of other possible controls and procedures. Under the supervision and with the participation of management, including the Chief Executive Officer and the Chief Financial Officer, the company within 90 days prior to the date of this report has evaluated the effectiveness of the design and operation of the company's disclosure controls and procedures. Based on that evaluation, the company's Chief Executive Officer and Chief Financial Officer have concluded that the controls and procedures are effective.

There have been no significant changes in the internal controls or in other factors that could significantly affect the internal controls subsequent to the date the company completed its evaluation.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Except as described in Note 3 of the notes to Consolidated Financial Statements, neither the company nor its subsidiary is party to, nor is their property the subject of, any material pending legal proceedings other than routine litigation incidental to their businesses.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

Exhibit 10 - Material Contracts

10.1 2003 Executive Incentive Plan (June 30, 2003 Sempra Energy 10-Q Exhibit 10.1)

10.2 Amended 1998 Long-Term Incentive Plan (June 30, 2003 Sempra Energy 10-Q Exhibit 10.2)

Exhibit 12 - Computation of ratios

12.1 Computation of Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends.

Exhibit 31 - Section 302 Certification

31.1 Statement of Registrant's Chief Executive Officer pursuant to Rules 13a-14 and 15d-14 of the Securities Exchange Act of 1934.

31.2 Statement of Registrant's Chief Financial Officer pursuant

to Rules 13a-14 and 15d-14 of the Securities Exchange Act of 1934.

Exhibit 32 - Section 906 Certification

32.1 Statement of Registrant's Chief Executive Officer pursuant to 18 U.S.C. Sec. 1350.

32.2 Statement of Registrant's Chief Financial Officer pursuant to 18 U.S.C. Sec. 1350.

(b) Reports on Form 8-K

The following report on Form 8-K was filed after March 31, 2003:

Current Report on Form 8-K filed May 1, 2003, filing as an exhibit Sempra Energy's press release of May 1, 2003, giving the financial results for the three months ended March 31, 2003.

Current Report on Form 8-K filed August 7, 2003, filing as an exhibit Sempra Energy's press release of August 7, 2003, giving the financial results for the three months ended June 30, 2003.

SIGNATURE

Pursuant to the requirement 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
(Registrant)

Date: August 7, 2003

By: /s/ D.L. Reed

D.L. Reed
President and
Chief Financial Officer

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

For the six
 month ended
 June 30,
 1999 2000
 2001 2002
 2003 -----

----- Fixed
 Charges and
 Preferred
 Stock
 Dividends:
 Interest
~~\$131 \$110 \$~~
~~96 \$ 83 \$~~
 37 Interest
 portion of
 annual
 rentals 5 3
 3 4 1

 Total Fixed
 Charges 136
~~122 99 87~~
 38
 Preferred
 Stock
 Dividends(1)
~~10 13 11 9~~
 5

----- Combined
 Fixed
 Charges and
 Preferred
 Stock
 Dividends
 For Purpose
 of Ratio
~~\$146 \$135~~
~~\$110 \$ 96 \$~~
 43 =====
 =====
 =====
 =====

Earnings:
 Pretax
 income from
 continuing
 operations
~~\$325 \$295~~
~~\$324 \$300~~
~~\$162 Total~~
 Fixed
 Charges
 (from
 above) 136
~~122 99 87~~
 38 Less:
 Interest
 capitalized
~~1 3 1 1 0~~

Total

~~Earnings
for Purpose
of Ratio
\$460 \$414
\$422 \$386
\$200
=====
=====
=====
=====
=====~~

~~Ratio of
Earnings to
Combined
Fixed
Charges and
Preferred
Stock
Dividends
3.15 3.07
3.84 4.02
4.65
=====
=====
=====
=====
=====~~

~~(1) In
computing
this ratio,
"Preferred
dividends"
represents
the before-
tax
earnings
necessary
to pay such
dividends,
computed at
the
effective
tax rates
for the
applicable
periods.~~

CERTIFICATION

I, Edwin A. Guiles, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of San Diego Gas & Electric Company;

2. Based on my knowledge, this Quarterly Report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this Quarterly Report;

3. Based on my knowledge, the financial statements and other financial information included in this Quarterly Report fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this Quarterly Report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and we have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this Quarterly Report is being prepared;

b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this Quarterly Report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this Quarterly Report, based on such evaluation; and

c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting;

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) All significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

August 7, 2003

/S/ EDWIN A. GUILLES
Edwin A. Guiles
Chief Executive Officer

CERTIFICATION

I, Debra L. Reed, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of San Diego Gas & Electric Company;

2. Based on my knowledge, this Quarterly Report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this Quarterly Report;

3. Based on my knowledge, the financial statements and other financial information included in this Quarterly Report fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this Quarterly Report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and we have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this Quarterly Report is being prepared;

b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this Quarterly Report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this Quarterly Report, based on such evaluation; and

c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting;

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) All significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

August 7, 2003

/S/ DEBRA L. REED
Debra L. Reed
Chief Financial Officer

Statement of Chief Executive Officer

Pursuant to 18 U.S.C. Sec 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned Chief Executive Officer of San Diego Gas & Electric (the "Company") certifies that:

(i) the Quarterly Report on Form 10-Q of the Company filed with the Securities and Exchange Commission for the quarterly period ended June 30, 2003 (the "Quarterly Report") fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and

(ii) the information contained in the Quarterly Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

August 7, 2003

/S/ EDWIN A. GUILLES

Edwin A. Guiles
Chief Executive Officer

Statement of Chief Financial Officer

Pursuant to 18 U.S.C. Sec 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned Chief Financial Officer of San Diego Gas & Electric (the "Company") certifies that:

(i) the Quarterly Report on Form 10-Q of the Company filed with the Securities and Exchange Commission for the quarterly period ended June 30, 2003 (the "Quarterly Report") fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and

(ii) the information contained in the Quarterly Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

August 7, 2003

/S/ DEBRA L. REED

Debra L. Reed
Chief Financial Officer