"...by meeting the challenge of these transitional times, SDG&E will emerge a stronger company."

1979 Annual Report
San Diego Gas & Electric

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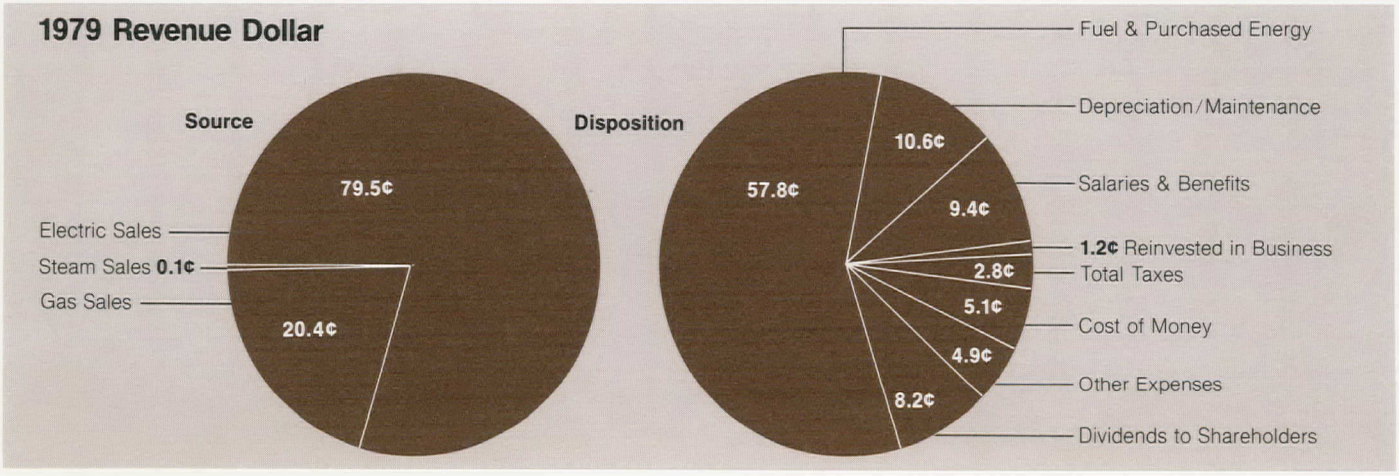
Financial Highlights of 1979

(Dollars in thousands except per share amounts)

	1979	1978	% Change
Total operating revenues	**$ 745,232**	$ 613,623	+21.4
Total operating expenses	**$ 647,999**	$ 522,214	+24.1
Net income (before preferred dividend requirements)	**$ 70,166**	$ 66,802	+ 5.0
Average common shares outstanding (thousands)	**29,230**	24,588	+18.9
Earnings per share of common stock	**$ 1.80**	$ 2.02	- 10.9
Common stock dividend rate for the year	**$ 1.48**	$ 1.40	+ 5.7
Utility plant additions and replacements	**$ 225,361**	$ 222,037	+ 1.5
Total investment in utility plant at year-end	**$1,801,225**	$1,579,657	+14.0
Number of customers at year-end			
Electric department	**750,902**	716,927	+ 4.7
Gas department	**492,584**	477,383	+ 3.2
Total energy sales			
Electric (1,000 Mwhr)	**10,034**	9,463	+ 6.0
Gas (1,000 Therms)	**530,758**	485,918	+ 9.2

Certain 1978 amounts have been reclassified for comparability.

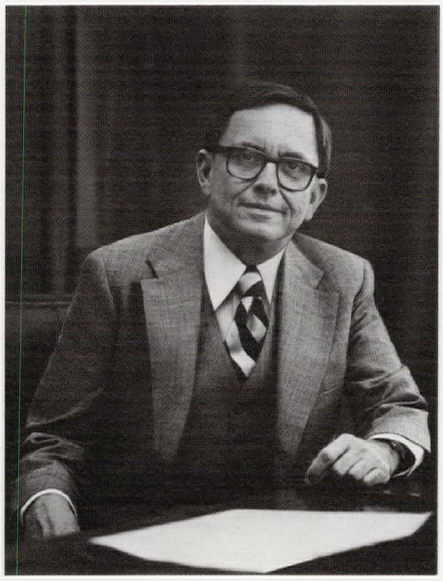


President's Message

As the 1970s ended, management was moving SDG&E toward solutions of the problems involved in meeting the expanding energy needs of customers in the decade ahead. We must determine where the required generating capacity will come from, how to finance it, and what new sources of energy can be developed to reduce the company's dependence on costly fuel oil for electric generation.

The coming era is one of uncertainty for our industry. Availability of the imported low-sulfur oil used in power plants is open to question, its cost continues to rise rapidly and its use under any circumstances is a matter of national policy. Environmental and other constraints make the siting and construction of new generating capacity in California extremely difficult. Inflation, large capital costs and conflicting governmental policies add further burdens to the industry. Despite these constraints, ways must be found to deliver energy to our customers as required, and at a price they can afford to pay.

SDG&E's rapid customer growth in recent years has made it imperative that we move ahead sooner than most utilities in working out ways of dealing with the conditions anticipated in the 1980s. But the plans pursued in the early '70s did not result in new generation being brought on line. Projects like Kaiparowits in Utah and Sundesert in Southern California never reached the stage at which construction could begin. The threat of environmental lawsuits and the realities of governmental actions precluded going forward with these proposed power plants.



Another consideration with respect to new baseload generation was the combined effect of rampant inflation on construction costs and the company's limited ability to generate internally the funds needed for new facilities. Improved earnings and strengthened financial condition are needed if the company is to raise capital at competitive costs.

This situation has led the company to adopt a hedging strategy toward future energy resources. We are attempting to develop as many varied resource options as possible, and to maintain these options until it becomes clear which path has the greatest probability of achieving success.

Two principles are at the heart of our resource plan for the 1980s: First, every effort is being directed at gaining access to generation that does *not* require oil as a fuel. The goal is to improve the company's fuel mix, so that the loss or diminished supply of any one fuel would not be crippling. Second, SDG&E is striving to purchase power wherever possible. By so doing, the need for capital investment is minimized, along with the high cost of obtaining new funds.

At the present time, the company is involved in only one large generation project, the addition of two units at San Onofre Nuclear Generating Station near San Clemente, California. SDG&E's 20 percent share of these 1,100 megawatt units will make a major contribution to our non-oil-fired sources of electricity after 1983.

The company's purchased power strategy is aimed at power acquisitions from out of state. This is an interim solution for the 1980s. During the coming decade, the company's financial condition relative to the total financial environment is expected to improve, and during that time, it is hoped that the construction of new power plants in California will not only be allowed but will be encouraged.

A proposed 500-kilovolt transmission line is central to our plans for bringing purchased power into the service area. The line will provide an interconnection with utilities to the east of us when it is completed in 1984. In addition to providing a path for the interchange of power, the line is expected to enhance the reliability of all the interconnected utilities in the Southwest.

Specifically, we have contracted for reasonably priced, baseload energy from Tucson Electric Power Company and Public Service Company of New Mexico. The contractual arrangements are for purchases from new coal-fired capacity in Arizona and New Mexico as it

comes on line in the 1980s. Besides offering access to this coal-fired generation, the proposed transmission line will provide an opportunity for the company to develop geothermal resources in the Imperial Valley of California. The eastern interconnection will provide a means of bringing geothermal power to San Diego.

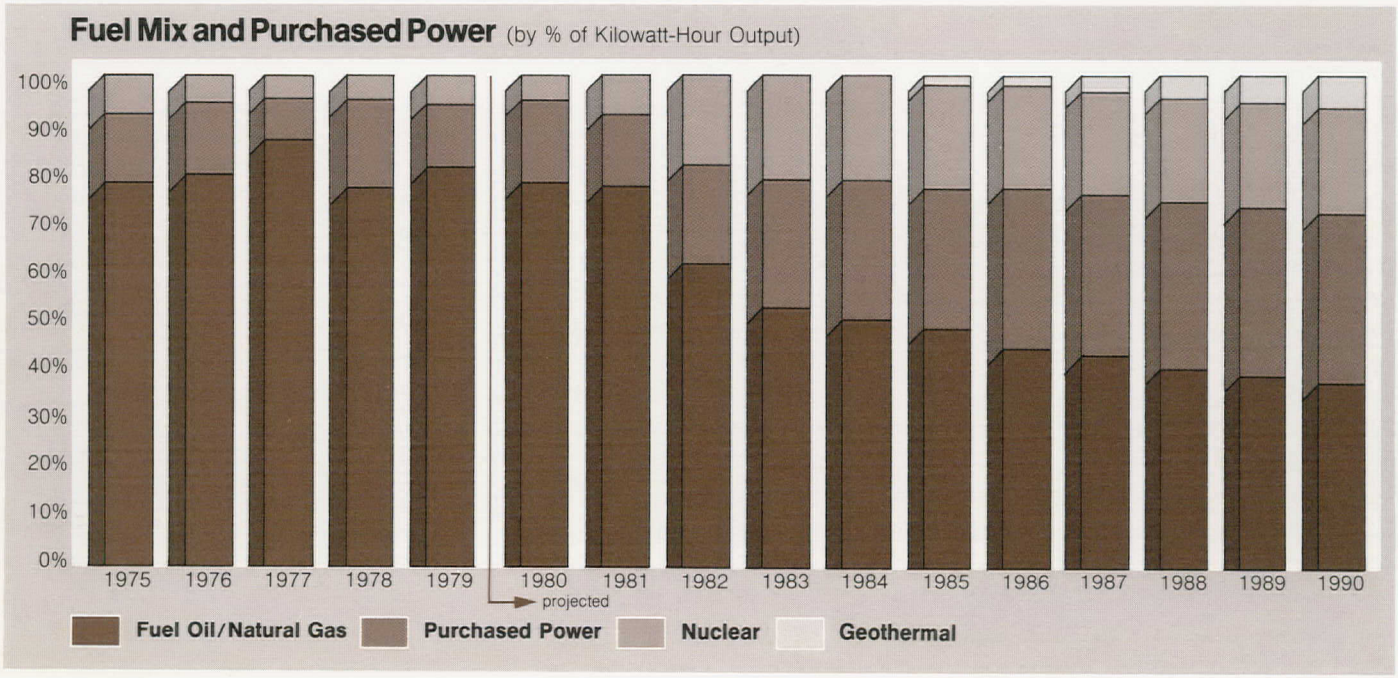
It must be stressed that power purchases are not a permanent alternative to the eventual addition of on-system generation. Aside from the increasing number of customers, there are other considerations. Older, less efficient plants on our system will need to be replaced with new plants that use less oil. And, the purchased power contracts will expire in the late 1980s and early 1990s, because Arizona and New Mexico utilities will require the electricity to serve their own customers. Therefore, SDG&E will have to replace this purchased power with generation on its own system.

SDG&E's conservation and load management programs will have an important role in meeting customer needs during the 1980s. The economics of the utility industry have changed. Rising costs of new generation and lagging rates now make it a more attractive investment to save a unit of energy rather than to generate one. By taking steps to reduce the rate of growth in energy sales—and especially by slowing the growth in peak demand—the company can accommodate customer needs while adding new capacity at a slower, more manageable rate.

The recent past has been difficult for SDG&E because of heavy capital requirements. Construction work on San Onofre Units 2 and 3 was proceeding simultaneously with work on Encina Unit 5 and the licensing costs of Sundesert. With Encina 5 completed in October 1978 and Sundesert suspended, there has been some easing in the need for funds. However, work on San Onofre and the eastern transmission line will preclude achieving large-scale reductions in capital expenditures much before 1984.

Our goal is to improve the results of operations. SDG&E experienced a poor year in 1979, with earnings per share of common stock at $1.80, down from $2.02 in 1978.

During the first two quarters, SDG&E's earnings per share lagged behind the 1978 pace. The California Public Utilities Commission (PUC) had granted partial rate relief in an interim general rate case decision in January 1979. The amount of the increase, however, was not sufficient to offset the impact inflation



was having on operating expenses. Final disposition of the case came at midyear. The company's earnings in the third and fourth quarters of the year, as a consequence, were much improved.

But, partly because of the timing of the decision, halfway through the year, the company could not earn the newly authorized rates of return in 1979: 10.59 percent on rate base and 14.5 percent ratemaking return on equity. SDG&E's actual 1979 return on equity was 10.4 percent.

There were, however, highly positive aspects to the PUC's decision. Of major importance was that it was issued slightly more than a year after our filing. This was about half the time it took to resolve our previous general rate case. The expedited schedule was made possible by the PUC's plan for reducing regulatory lag. Our case was the first to be processed under this plan.

Barron's Financial Weekly recently took note of California's "gradually improving regulatory climate that augers well for the years immediately ahead." The publication went on to comment, "That better climate, moreover, is not only one of more enlightened political attitudes, but also of improved administrative and other procedures designed to help the state's utilities accommodate more readily to inflation."

One such procedure is the energy cost adjustment clause (ECAC). Previously, the lagging operation of this rate mechanism had been adding a burden to the company's cash flow. The commission has authorized changes (described on page 6) which mitigate this problem and should result in improved cash flow for SDG&E.

The ECAC is of great importance in recovering fuel costs. As 1979 ended, the low-sulfur oil our power plants must use was selling for about $27 a barrel, an increase of $10 during the year. The soaring price of this imported oil has forced the company to seek the largest ECAC increase in its history, $152 million. If further increases in fuel prices occur during the first half of 1980, the company will have to file for additional ECAC increases.

The sheer size of recent rate adjustments is burdensome to our customers. It is difficult for them to accept that the increases they are experiencing in their utility bills are related in large measure to rising fuel costs and do not increase SDG&E's earnings. Clearly, we will have a sizable communication task in explaining to our customers the reasons for rising energy costs in the 1980s.

At the start of a new decade, we are optimistic about improving the financial condition of the company. Rate mechanisms for responding to the major inflationary pressures are in place and a timetable has been developed for dealing with the complexities of general rate cases more expeditiously than in the past. The PUC has authorized general rate increase filings in both 1981 and 1982, which should foster a better earnings outlook for the near term future.

Our physical plants have benefited by an intensive and improved maintenance program, aimed at keeping existing units reliable and extending their service lives. Another program of plant modifications has brought about measurable improvement in the efficiency of fuel utilization by the power plants.

Finally, and very important, our resource development plans have moved the company toward a more diversified mix of fuels and energy sources for the years ahead. Both on-system electric generation and purchased power will be much more broadly based resources in the future.

This, then, is the course we have set for our company in the 1980s. It will not be an easy road. New approaches to the way in which we conduct our business have started the company on a transition from traditional modes of running a utility company.

If we deal wisely with the challenges of these transitional times and the era of uncertainty they bring, SDG&E will emerge a stronger, more resilient company. To that end, management pledges its utmost efforts.

R. E. Morris
February 22, 1980

Report on 1979

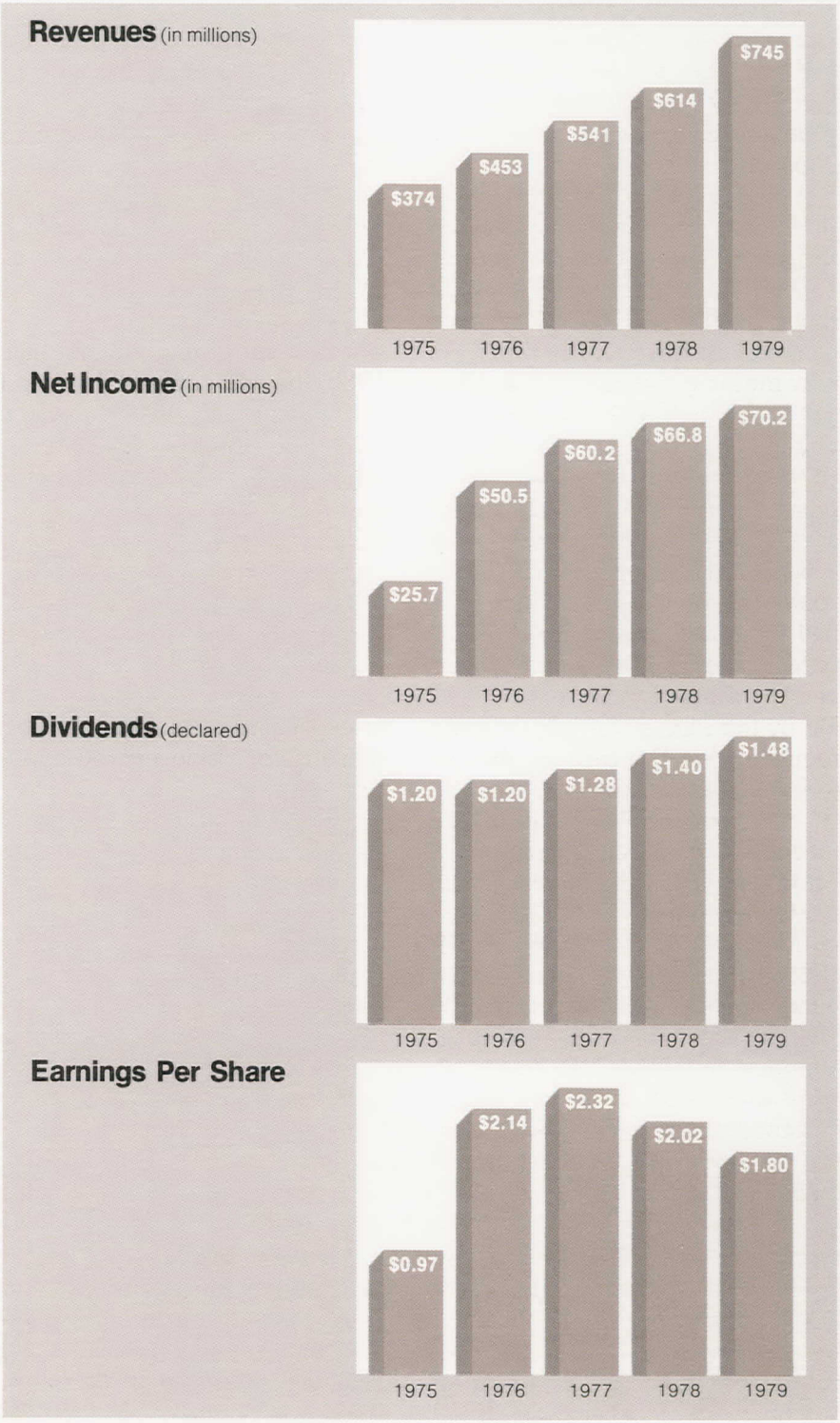
Energy Sales Continue To Show Strong Growth

Energy sales in San Diego Gas & Electric's service area continued to grow during 1979. Sales of electricity rose 6 percent to more than 10 billion kilowatt hours, while gas sales were up 9.2 percent to 531 million therms, partly because 1979 was cooler than the previous year.

Conservation, the impact of higher rates and excellent weather slowed the increase in per customer usage of energy, but the number of customers continued to increase. In all, 33,975 electric and 15,201 gas customers were added to the system, representing growth rates of 4.7 percent for electric and 3.2 percent for gas.

Total operating revenues of $745 million were 21.4 percent higher than the previous year. Revenues from electric sales totaled nearly $593 million, a 26.5 percent increase, while gas sales revenues reached $152 million, up 5.2 percent. Operating expenses were up 24.1 percent to $648 million. The company's net income, before preferred dividend requirements, was $70 million, a 5 percent gain over 1978. Earnings per share of $1.80 were down from the $2.02 earned the previous year, because the number of common shares outstanding (on a weighted average) increased 18.9 percent to 29.2 million shares.

The board of directors raised the quarterly common stock dividend rate to 38 cents per share from the previous level of 36 cents, effective with the October dividend payment. This increase marked the third consecutive year in which the dividend has been raised.



Regulatory Climate Is More Favorable

Regulation has a major effect on the company's earnings. In this respect, despite the earnings decline recorded in 1979, a number of favorable regulatory developments took place during the year.

The California Public Utilities Commission (PUC) granted San Diego Gas & Electric an interim rate increase of $33.7 million in January 1979, and an additional $37.2 million increase in June. In the final decision, the PUC authorized a return on common equity of 14.5 percent and an overall rate of return of 10.59 percent. This was the first general rate case the PUC handled under a new procedure designed to reduce regulatory lag by processing such cases within 12 months of filing. Consequently, the case was completed in about half the time SDG&E's previous rate case had required.

An important aspect of the general rate case was that the final decision authorized the company to recover most of the costs associated with the suspended Sundesert project near Blythe, California, either through rate base treatment or by amortization. (For a discussion of the expenses connected with Sundesert, see page 22.) The PUC recognized the value of the Blythe site and SDG&E is holding it for future use in energy development.

The PUC also has authorized important changes in the energy cost adjustment clause (ECAC) that should help to improve cash flow in 1980. The ECAC is a mechanism for offsetting increases or decreases in purchased power and power plant fuel costs. If actual costs differ from fuel revenues, the differences are recorded in a balancing account and do not directly affect earnings. Then, the rates are adjusted to "zero out" the amount in the balancing account.

By the end of 1979, SDG&E had an ECAC undercollection of $45.8 million, because actual costs exceeded fuel revenues. Such undercollections create cash flow shortages, which are met by increasing short-term debt. This, of course, increases interest expenses. The ECAC changes referred to in the previous paragraph raised the interest rate on the balancing account from 7 percent to a variable level tied to the cost of short-term debt. Thus, the company should be able to recover more fully the balancing account interest costs in the future.

The commission also shortened the interval for ECAC filings from six months to four months and allowed the use of forecast data rather than historical data. The PUC indicated that it would consider a shorter amortization time for under-

Recent and prospective SDG&E rate proceedings indicate the large volume of regulatory activity involving the company. Management expects that advance planning will improve the handling of rate cases.

General Rate Cases

Case	Filed	Decision	Amount
1979 Test Year	5/78	1/79	$ 33.7 Million
		6/79	$ 37.2 Million
1981 Test Year	7/80*	1/81*	Unknown
1982 Test Year	12/80*	1/82*	Unknown

Energy Cost Adjustment Clause (ECAC)

Case	Filed	Decision	Amount
1979 Spring	2/79	10/79	$ 0.5 Million
1979 Fall	8/79	12/79	$ 41.5 Million
1980 Spring	1/80	3/80*	$152.3 Million
1980 Summer	5/80*	7/80*	Unknown

Purchased Gas Adjustment/Supply Adjustment Mechanism (PGA/SAM)

Case	Filed	Decision	Amount
1979 Spring	3/79	6/79	$ 18.1 Million
1979 Fall	10/79	1/80	$ 21.8 Million
1980 Extraordinary	12/79	4/80*	$ 9.5 Million
1980 Spring	4/80*	6/80*	Unknown

Special Rate Proceedings

Case	Filed	Decision	Amount
Heber Geothermal	12/79	1/80	$ 37.6 Million**
Load Management	12/79	5/80*	$ 4.1 Million

*Tentative

**Associated with construction and demonstration phases over 6½ years.

Various types of financing, depending on market conditions, are used to obtain capital for construction of major new facilities.

1979 SDG&E Financing Program

Quantity and Issue	Date Issued	Cost to Company
$5.7 million in pollution control bonds	March 15	7.3%
$65 million, 7-year term loan from 3 European banks	April 26	Floating rate based on several pricing options; 12.2% for 1979.
3 million shares of common stock	July 24	Sold at $15 per share; company's net proceeds were $43.3 million.

Proposed 1980 Financing Program

Quantity and Issue	Date Issued	Cost to Company
Up to 2½ million shares of common stock	March	To be negotiated
Up to $65 million in first mortgage bonds	March	To be negotiated
Up to 2 million shares of common stock	October	To be negotiated
Up to $50 million in first mortgage bonds	October	To be negotiated

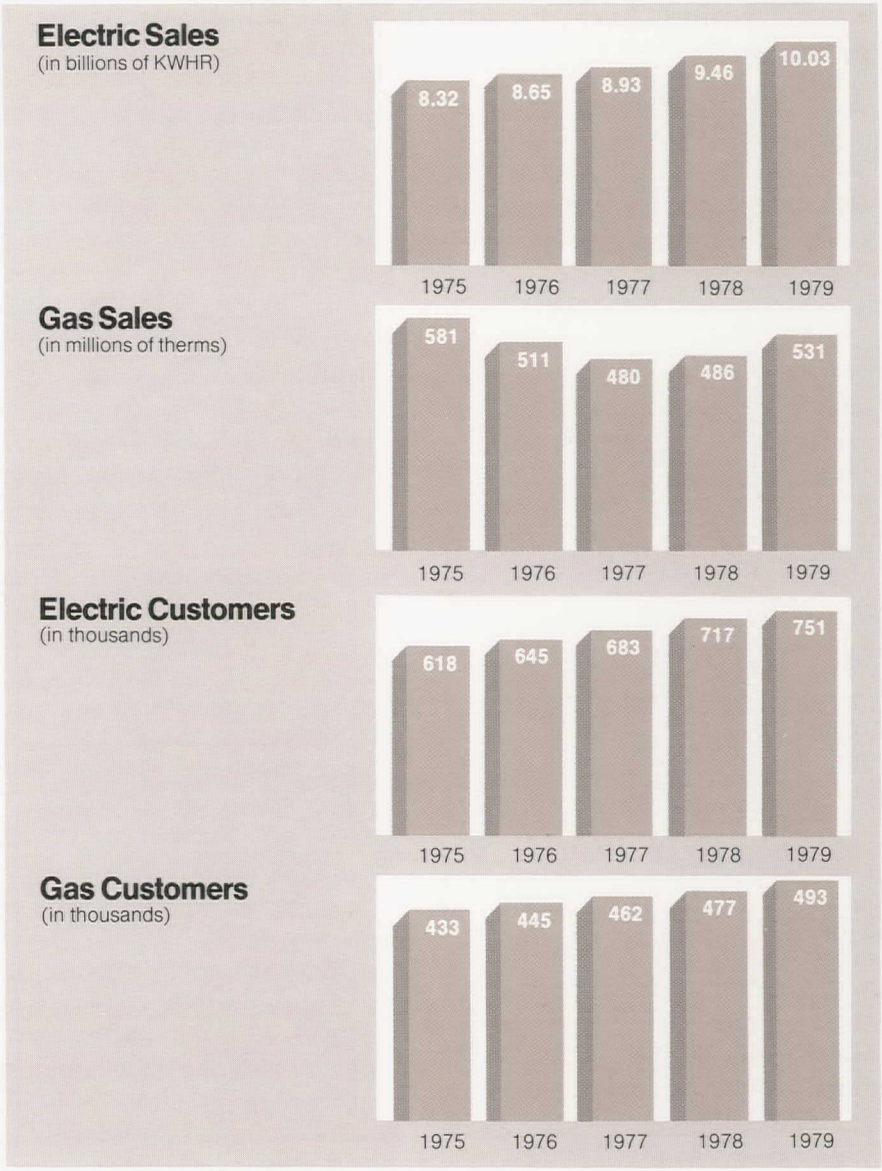
In addition, the company is authorized by the PUC to issue up to $200 million in bank loans and commercial paper. SDG&E also makes use of bankers' acceptances, with a limit of $150 million, to finance fuel oil purchases.

collections and overcollections than the one-year time frame that had been in effect. The company anticipates that the new ECAC procedure will significantly reduce current undercollections and improve cash flow.

Construction Budget Is $31 Million Lower

The 1979 cash construction budget was $205 million. Despite inflation, the company has managed to reduce its projected 1980 construction budget to $174 million, a decrease of $31 million. The company is trying to limit construction expenditures in order to lessen the need for capital.

Only one major generating project, San Onofre Units 2 and 3, is under construction. The company's 20 percent share of the San Onofre construction is the largest single item in the 1980 capital budget. Transmission, distribution and related facilities needed to serve new customers account for most of the balance of the construction budget. SDG&E estimates that its 440-megawatt share of the two San Onofre units will cost a total of $586 million. Through 1979, the company has spent $379 million on this project.



Outlook for Gas Supply Continues to Improve

SDG&E continued to receive a plentiful supply of natural gas during 1979, resulting in high levels of service to its customers. High priority customers with no alternate fuel supplies received uninterrupted service, and the commercial and industrial customers received minimal curtailments. The company's power plants received natural gas to provide 24 percent of total system requirements. This was the highest level of power plant gas since 1974.

Supplies of gas are expected to remain near the 1979 level for several years, primarily as a consequence of the Natural Gas Policy Act of 1978. This federal act provided for phased price deregulation of domestic gas from new sources and brought the intrastate market under the same pricing mechanism as interstate supplies. The promise of higher prices for new gas has stimulated drilling programs throughout the country, and reserve additions are at highest levels since the late 1960s. Moreover, now interstate suppliers are able to bid for gas that was previously available only to the higher priced intrastate market.

These factors have improved deliveries to Southern California from Texas, New Mexico, and Oklahoma. In addition, SDG&E's supplier, Southern California Gas Company (SoCal), is purchasing gas from Pacific Gas & Electric Company under a 3-year agreement. As an interim source since 1977, SoCal also has been receiving up to 200 million cubic feet per day of Canadian gas on an "as available" basis from Northwest Pipeline Corporation.

The company expects that throughout the 1980s gas will be in good supply to serve the requirements of the company's commercial and industrial customers, and to help meet a substantial portion of SDG&E power plant fuel requirements. The use of natural gas in electric generation is expected to help hold down fuel costs and reduce the company's dependence on fuel oil.

Electric Demand Reaches New Highs

Two heat waves in 1979, one in June and one in September, sent temperatures in SDG&E's service area soaring. Customers sought relief through air conditioning, which drove the electric system to set new production highs.

A peak demand record of 2,019 megawatts was set on September 19. The new peak was just 1.9 percent above the September 1978 peak of 1,981 megawatts, reflecting conservation, load management and the impact of higher rates.

Nuclear Power Essential To Energy Needs of '80s

San Onofre Nuclear Generating Station, located south of San Clemente, California, is a vital element in the company's resource plan for the 1980s. When completed, the station will supply SDG&E customers with over 20 percent of their electricity.

The existing 436-megawatt unit is owned 80 percent by Southern California Edison Company and 20 percent by SDG&E. Since it began operation in 1968, it has generated 32 billion kilowatt hours of electricity, which is equivalent to more than 53 million barrels of fuel oil. One significant advantage of this nuclear power is its fuel cost—about one-tenth the price of oil at the end of 1979.

During 1979, Unit 1 produced 3.3 billion kilowatt hours, as the plant operated at 88 percent of capacity. This is one of the best operating records for a nuclear plant in the nation. It is better than most coal-fired and oil-fired plants. San Onofre Unit 1 supplied SDG&E with about 6 percent of total system requirements in 1979.

Units 2 and 3 are currently under construction. At the end of 1979, Unit 2 was about 86 percent complete and Unit 3 about 64 percent. SDG&E will have a 20 percent ownership of the expanded plant. Planned operating dates for the two 1,100-megawatt generators are 1981 for Unit 2 and 1983 for Unit 3.

Other Energy Sources Sought to Replace Oil

Nearly 58 percent of the electricity SDG&E supplied in 1979 was generated from oil. The company's power plants consumed about 11 million barrels of costly fuel oil during the year, most of it imported from overseas. As a consequence, the direction of the resource development program is to move the company toward new sources of energy production and away from dependence on expensive petroleum products.

At the beginning of the 1970s, SDG&E was paying about $2 per barrel for oil. Prices surged with the Arab oil embargo of 1973, rose for the balance of the decade and soared 60 percent during 1979. By the time the year ended, a barrel of oil cost about $27.

Environmental constraints require low-sulfur residual fuel oil to be used in the power plant boilers. Most of this type of oil is imported. Consequently, interruptions in foreign oil supplies affect the availability and price of oil for SDG&E. A further complication was the lower than normal precipitation in the Pacific Northwest, which reduced the amount of hydroelectric power available for purchase by the company. The reduced supplies of oil and hydropower were offset somewhat by the receipt of higher than expected quantities of natural gas for power plant fuel, especially during the summer months.

Mexico Seen as New Source of Electricity

In its quest for new energy sources, SDG&E has turned to Mexico. Discussions that started in early 1978 led to a proposal for SDG&E and Southern California Edison Company (SCE) each to purchase energy from the Cerro Prieto geothermal fields near Mexicali, Mexico. The Comisión Federal de Electricidad (CFE), Mexico's national electric utility, has responded, and the three utilities currently are negotiating the terms of a final power purchase contract.

As contemplated, the arrangement would provide SDG&E with 150 megawatts, starting in late 1983, and SCE with 70 megawatts by early 1984. Negotiations will continue on subsequent phases and, if successful, by 1986 SDG&E and SCE would be receiving 300 megawatts each. These sales would permit CFE to accelerate development of Cerro Prieto. After a 10-year period, CFE would begin to use the energy to serve its own customers.

An agreement for a 230-kv interconnection between SDG&E and CFE is being negotiated so that the two utilities can exchange power on a mutually advantageous basis. As proposed, the line would run from a point east of Chula Vista, California, to Tijuana, Mexico. Permits for the construction are being sought from the U.S. Department of Energy and the PUC. Target date for operation of the 13-mile line is June 1982.

A contract was signed in October 1979 for CFE to sell SDG&E energy by way of an existing 69-kv interconnection between San Ysidro, California, and Tijuana. This marks the first time Mexico has agreed to sell electricity to a U.S. utility on a non-exchange basis. The power will supply the electrical needs of approximately 20,000 customers at the southern end of the company's system. By purchasing this energy instead of generating it, SDG&E will save an estimated 1,000

barrels of oil per day. The transmission line was placed in operation in February 1980.

Transmission Link Will Bring Purchased Power

The proposed 500-kilovolt transmission line connecting SDG&E and Arizona Public Service Company is a key project in the company's program to supply customers with adequate energy in the 1980s. This 280-mile line will link SDG&E with the electric systems of utilities to the east. (See map.) Currently, the Arizona grid is connected to California only with power lines through Nevada.

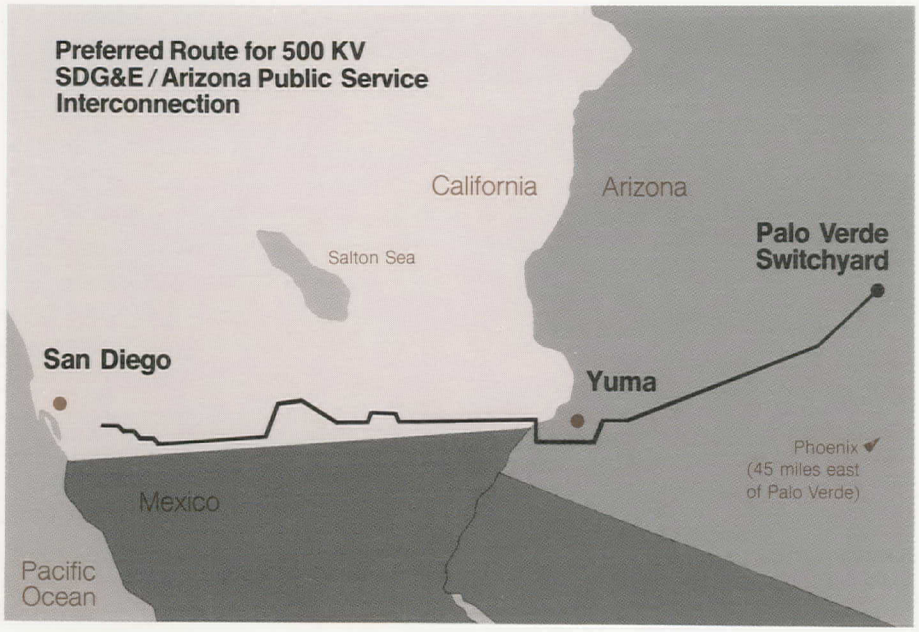
Suspension of the Sundesert nuclear project in 1978 set the company's resource planners on a search to replace the power Sundesert would have generated beginning in the mid-1980s. SDG&E has turned to out-of-state sources, purchasing surplus capacity and energy wherever it becomes available. This is an interim solution, designed to answer the needs of the 1980s, after which it is hoped that new generating facilities can be financed and constructed in California.

Specifically, the interconnection project will provide a transmission path to San Diego for geothermal power being developed in the Imperial Valley, for energy from coal-fired plants in Arizona and New Mexico, and possibly, for geothermal generation from Mexico.

The proposed transmission line offers SDG&E the opportunity to obtain increased capacity for the needs of the middle to late 1980s at competitive costs. Other benefits of the project include improved system reliability, access to a broader-based mix of resources, and a reduction in the company's reliance on expensive fuel oil.

Selection of the company's preferred route for the interconnection was based on a detailed consideration of environmental, engineering and economic factors. The environmental aspects of the route currently are under review by the PUC and the U.S. Bureau of Land Management. Following public hearings and the issuance of a final environmental statement, a decision on SDG&E's application is expected early in 1981.

Cost of the line is estimated at approximately $300 million. SDG&E will pay the construction costs between San Diego and a substation to be located near Yuma, Arizona. Between Yuma and the Palo Verde Switchyard, 45 miles west of Phoenix, SDG&E will pay for and own 89 percent of the line, with Arizona Public Service paying the remaining 11 percent. Estimated completion for the line from San Diego to the Imperial County substation is late 1983. The balance of the line through Arizona is scheduled to be completed in 1984.



Geothermal Could Be Alternative to Fuel Oil

In addition to the possible purchase of geothermal energy from Cerro Prieto, SDG&E moved ahead during 1979 with its own geothermal research and development. The goal of the program, which began in 1971, is to establish the technical and economic feasibility of generating electricity in the Imperial Valley of California. There are four liquid-dominated geothermal reservoirs in the valley. None of them, unfortunately, has the optimum combination of high temperature and low dissolved salt content, making commercial development more difficult than at Cerro Prieto.

Research at the company's geothermal loop experimental facility near Niland, California, was successfully concluded in September 1979. In 13,000 hours of operation over a 3½-year period, the facility provided the opportunity for SDG&E engineers to identify problems involved in handling geothermal fluid and to develop solutions that could be applied to an operating facility. This brings the company to the next step, the operation of a demonstration power plant. SDG&E is involved in several such facilities in the valley.

At East Mesa, construction of an 11-megawatt plant has been completed by Magma Electric, and the plant was in the start-up phase as this report went to press. Full-scale operation is expected early in 1980. This will be the first geothermal power plant in the Imperial Valley. SDG&E expects to purchase the output of this plant and to gain geothermal operating experience.

Meanwhile, the company is continuing to negotiate with geothermal resource development companies for the purchase of approximately 120 megawatts from geothermal plants proposed to be constructed in the valley.

The U.S. Department of Energy (DOE) is studying SDG&E's proposal for the DOE to participate in funding construction of an experimental binary process geothermal plant at Heber. The uncertainties associated with this project make federal participation essential. With DOE funding, the proposed 45-megawatt plant could be in operation by 1984. PUC approval for financing and operation of the plant was received in January 1980.

Geothermal energy offers an interesting alternative to oil-fired electric generation. During the late 1980s, if the cost of oil continues to rise as it has in recent years, there is a potential for geothermal energy to become more economical than oil. Geothermal energy constitutes a significant new resource option that could broaden the company's total generation mix.

Conservation Becomes A New Energy Resource

The company's management recognizes that energy frequently can be conserved at less cost than new energy can be developed. Consequently, SDG&E conducts aggressive and expanding programs of conservation and load management, aimed at helping the company deal with the energy needs of an increasing population.

By encouraging customer conservation, the company saves fuel. By taking steps to shave peak demand through load management programs, the company defers the necessity for adding new generating capacity. These measures rank high, along with other energy resources in meeting customer needs.

Energy conservation programs aimed at reducing or shifting demand are developed and put into practice by the company's marketing division. During 1979, there were 40 such programs, each intended for a specific segment of the customer market and each designed to assist in preventing demand from outstripping the available supply.

Load management has assumed increasing importance. In December 1979, the company filed a rate application, requesting $3.8 million to carry out load management programs mandated by the California Energy Commission. Hearings are scheduled on this application in March 1980.

Currently, the company is engaged in a two-year load management program designed to shift electric load off peak. The assistance of 740 volunteer SDG&E customers was enlisted, and monitoring equipment was installed to gather data on their usage. Devices also were installed, so that electric operations personnel could turn appliances off and on to regulate demand at peak times. The study is funded by SDG&E, the U.S. Department of Energy and the Electric Power Research Institute.

As a next step, the company will test radio controlled switches on approximately 7,500 residential air conditioners and electric water heaters. The test will explore alternative technologies for cycling appliances to achieve peak reduction, and will measure customer acceptance of load management.

Cogeneration Facilities Have Successful Year

The company's wholly owned subsidiary, Applied Energy, Inc. (AEI), had its most successful year since it was created in 1968. In addition, substantial savings were realized by AEI customers through the efficiencies of cogeneration and central station chilled water service.

Cogeneration is a principal focus of AEI's activities. The firm operates four cogeneration plants, three at U.S. Navy facilities in the San Diego area and one (completed in February 1979) at Rohr Industries in nearby Chula Vista. Altogether, these facilities are capable of producing nearly 61 megawatts of electric generation while furnishing 510,000 pounds of steam per hour for industrial purposes. AEI is reviewing possibilities for adding other cogeneration facilities in the SDG&E service area.

Normally, when fuel is burned to generate electricity, only about one-third of the heat value is utilized. Through the use of heat recovery equipment, AEI is able to make use of up to another one-third of the heat value of the fuel. The potential to sell heat energy that otherwise would be wasted makes cogeneration attractive in this conservation-minded era. A 1979 U.S. Department of Energy ruling recognized this by granting cogeneration facilities higher natural gas priorities, thus making additional volumes of gas available to them.

Another aspect of AEI's business is a central chiller plant it operates in downtown San Diego. The plant serves the air conditioning needs of seven major buildings with 4,800 tons of cooling capacity.

Three planned downtown redevelopment projects offer possibilities for expanding the service by as many as eight additional large office buildings.

4 Elected to Positions As Company Officers

Management changes during 1979 included the election of four new officers. Two department heads were promoted to the vice presidential level. They are Gary D. Cotton, vice president-engineering, and Ronald W. Watkins, vice president-resource planning. Robert E. Parsley, who has served as the company's controller for 13 years, also was elected an officer of the corporation. In addition, Richard Korpan, formerly with Public Service Company of Colorado, joined the company as treasurer.

Another officer, Ralph L. Meyer, became vice president of an expanded regulatory services division. The growing volume of PUC rate filings has required the company to improve its response to regulation. A regulatory programs department within the company was formed in February 1979, with the primary objective of bringing about better understanding and communication between the company and the commission.

Board of Directors Adds New Members

The company's shareholders elected three new members to the board of directors at the annual meeting April 24, 1979. Those elected were: Catherine T. Fitzgerald Wiggs, executive vice president-personnel for The Broadway Stores; Thomas A. Page, SDG&E's executive vice president; and Dr. William D. McElroy, chancellor of the University of California, San Diego. Two of the new directors filled vacancies created by the retirements from the board of Joseph F. Sinnott, former company president, and Adm. U.S. Grant Sharp, USN (Ret.). The third vacancy came about when Director Robert H. Biron did not stand for re-election because of ill health. The board conferred "director emeritus" status on Mr. Biron in recognition of his 14 years of service to SDG&E. It is with sorrow that we report his death on September 23, 1979.

Employment Program Receives U.S. Approval

The Office of Federal Contract Compliance Programs of the U.S. Department of Labor reported in November that a review of SDG&E's equal employment opportunity policies had been completed and that the company's affirmative action program had been accepted. This finding emphasizes management's commitment to the principle that every qualified person is entitled to full consideration in the hiring and promotion process.

During 1979, SDG&E continued to make substantial progress in employing and promoting minority group members and women. Considerable efforts also were directed at hiring and advancing handicapped persons, veterans of the Vietnam era and disabled veterans.

At the end of 1979, minorities represented over 25 percent of the company's work force, compared with just under 24 percent a year earlier. Women held more than 21 percent of the jobs on the SDG&E payroll, an increase of 1.2 percent for calendar year 1979. During the year, significant numbers of minorities and women were placed in professional and managerial positions with the company.

Shareholders Can Reinvest Dividends

A plan that permits the automatic reinvestment of dividends is available to the company's shareholders on request.

The plan offers common shareholders of record a convenient means of automatically reinvesting dividends in additional shares of common stock. Plan participants also can make cash payments of up to $5,000 per quarter to buy still more shares if they choose. The new limit becomes effective in March 1980, an increase from the previous limit of $3,000.

Participants incur no out-of-pocket expenses when reinvesting dividends or when purchasing additional stock with supplemental cash payments. There are no brokerage fees and the company pays bank charges and other issue costs.

The prospectus and an authorization form may be obtained from the shareholders' agent: United California Bank, Dividend Reinvestment Service, P.O. Box 60975, Los Angeles, CA 90060. Or, if you prefer, you may write to the Corporate Secretary, San Diego Gas & Electric Company, P.O. Box 1831, San Diego, CA 92112.

The dividend reinvestment plan has been in operation since October 1976. Participants now number about 9,000 shareholders.

Lines of Business

The approximate percentages of Operating Revenues and Operating Income (exclusive of taxes on income, other income credits and interest charges) attributable to each principal line of business were as follows:

Operating Revenues

	Electric	Gas
1979	79.5%	20.4%
1978	76.3%	23.5%
1977	78.1%	21.8%
1976	79.1%	20.7%
1975	76.1%	23.7%

Operating Income

	Electric	Gas
1979	88.6%	11.4%
1978	72.2%	27.8%
1977	74.1%	25.9%
1976	85.3%	14.7%
1975	74.0%	26.0%

Operating Revenues for 1978, 1977 and 1976 have been reclassified for comparability. See Note 1 of Notes to Financial Statements.

See also Schedules of Financial Information by Segments of Business for the years 1979, 1978 and 1977.

Summary of Operations

(In thousands except per share amounts)

For the Years Ended December 31	1979	1978	1977	1976	1975
Operating Revenues	**$745,232**	$613,623	$540,794	$452,744	$374,252
Operating Expenses	**647,999**	522,214	457,721	381,528	326,990
Operating Income	**97,233**	91,409	83,073	71,216	47,262
Other Income Credits	**29,158**	24,544	20,773	19,525	12,513
Interest Charges	**56,225**	49,151	43,598	40,284	34,055
Net Income (before preferred dividend requirements)	**70,166**	66,802	60,248	50,457	25,720
Preferred Dividend Requirements	**17,643**	17,230	13,761	11,863	9,751
Earnings Applicable to Common Shares	**$ 52,523**	$ 49,572	$ 46,487	$ 38,594	$ 15,969
Average Common Shares Outstanding	**29,230**	24,588	20,033	18,035	16,458
Earnings Per Common Share	**$ 1.80**	$ 2.02	$ 2.32	$ 2.14	$ 0.97
Dividends Declared Per Common Share	**$ 1.48**	$ 1.40	$ 1.28	$ 1.20	$ 1.20

The above summary of operations and the following management's discussion and analysis of the summary of operations should be read in conjunction with the financial statements, notes to financial statements and statistical data contained elsewhere in this report.

Management's Discussion and Analysis of the Summary of Operations

Operating Revenues

(Millions of Dollars)

For the Years Ended December 31	1979	1978	1977	1976	1975
Electric Revenues:					
Fuel cost rate increases	**$ 6.7**	$58.6	$ 0.6	$43.7	$28.2
Net revenues deferred:					
Energy cost adjustment clause	**38.2**	(44.3)	42.2	(8.5)	
Property taxes	**0.8**	(0.8)			
General rate increases	**39.2**	10.9	4.2	24.8	15.3
Sales volume changes	**39.2**	21.9	16.9	13.5	18.8
Net increase	**$124.1**	$46.3	$63.9	$73.5	$62.3
Gas Revenues:					
Purchased gas rate increases	**$ 13.6**	$ 6.5	$17.4	$ 5.2	$ 9.9
General rate increases	**2.8**	0.4		6.1	2.7
Net revenues deferred:					
Interdepartmental sales			3.1	(3.1)	
Purchased gas and supply adjustment clauses	**(23.9)**	12.4	(2.9)	1.1	
Property taxes	**0.5**	(0.3)			
Interdepartmental sales (net of cost)	**4.6**	5.9	13.0	2.3	
Sales volume changes	**9.9**	1.5	(6.6)	(6.7)	9.4
Net increase	**$ 7.5**	$26.4	$24.0	$ 4.9	$22.0

The table above sets forth the amount of increases in the company's electric and gas revenues, together with the approximate amounts of increases and decreases attributable to certain factors.

Operating revenues and fuel expenses for 1978, 1977 and 1976 have been reclassified from amounts previously reported to reflect balancing account reclassifications. See Note 1 of Notes to Financial Statements.

Operating Expenses

Significant increases in the cost of electric fuel have occurred in recent years primarily because of increasing prices of fuel oil, natural gas and purchased power. The company expects these costs to continue to rise, although such cost increases are expected to be offset by additional revenue through the energy cost adjustment clause.

The cost of gas purchased for resale increased primarily due to rising costs from the company's supplier. The company expects these costs to continue to rise, although such cost increases are expected to be offset by increased revenue through the purchased gas adjustment clause.

Other operating expenses increased both in 1979 and 1978 as a result of generally rising costs and an increased number of customers. Also, in 1979 and 1978, other operating expenses reflect $10.6 million and $3.2 million of the rent on Encina 5 (see Note 7 of Notes to Financial Statements) and the amortization in 1979 of $5.4 million of Sundesert project costs (see Note 8 of Notes to Financial Statements).

See Notes 1 and 4 of Notes to Financial Statements for details regarding income taxes.

Property tax expense decreased in 1979 and 1978 as a result of the passage of a tax relief initiative by California voters (Proposition 13).

Other Income Credits

Effective January 1977, the Federal Power Commission adopted certain revisions to the Uniform System of Accounts relating to allowance for funds used during construction (AFUDC). The revisions, among other things, specify a procedure for the determination of the borrowed funds and other funds components of the AFUDC rate and the maximum rate for computing AFUDC.

The AFUDC (borrowed funds component included in Interest Charges and other funds component included in Other Income Credits) increased in total for 1979 as a result of the use of a higher rate and increased construction activity, primarily related to San Onofre Units

2 and 3. This increase occurred despite the write-off of $3.1 million of AFUDC associated with the Sundesert project (see Note 8 of Notes to Financial Statements). The increase in total AFUDC for 1978 compared to 1977 was the result of increased construction activity only.

During 1979, earnings from the company's subsidiaries increased other income credits. During 1978, income tax credits allocated to other income increased due to more interest expense applicable to property not included in rate base (see Note 4 of Notes to Financial Statements).

Interest Charges

Interest charges increased in 1979 and 1978 as a result of increases in debt issued for expansion of the company's operating system and higher average interest rates on the company's borrowings. Interest charges for 1979, 1978 and 1977 include reductions of $7.2, $7.9 and $5.8 million, respectively, for allowance for borrowed funds used during construction, which are not included in interest charges for prior years.

Net Income

Net income increased in 1979 as compared to 1978 due to the general rate decisions which increased revenues by $42.0 million. This increase was partially offset by higher expenses (other than fuel costs), the write-off of $3.6 million of certain Sundesert expenditures (see Note 8 of Notes to Financial Statements), the write-off of approximately $3.2 million of the purchased gas adjustment clause regulatory balancing account (see Note 1 of Notes to Financial Statements) and elimination through the gas supply adjustment mechanism procedure of $24.5 million in revenues from interdepartmental gas sales (net of cost). The increase in average common shares outstanding during 1979 diluted earnings $0.34 per share.

Net income in 1978 increased as compared to 1977 primarily due to a $5.9 million increase in revenues from interdepartmental gas sales (net of cost). In addition, general rate increases raised revenues by $11.3 million, which were partially offset by increased expenses (other than fuel costs).

Auditors' Opinion

Deloitte Haskins & Sells
Certified Public Accountants
1010 Second Avenue
San Diego, California 92101

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

We have examined the financial statements and schedules of San Diego Gas & Electric Company (pages 14 to 25) for the years ended December 31, 1979 and 1978. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our report dated February 9, 1979, our opinion on the 1978 financial statements was qualified as being subject to the resolution of the Company's request for rate relief from the California Public Utilities Commission (CPUC) to the extent that expenditures and commitments (aggregating approximately $90 million) on its suspended Sundesert nuclear project were not otherwise recoverable. As explained in Note 8, the CPUC has authorized new electric rates which permit the Company to realize $39.2 million of non-site costs over a five-year period and to include substantially all site-related costs in rate base; the unrecoverable portion ($3.6 million) of remaining costs was charged to operations in May 1979 as required by generally accepted accounting principles. Accordingly, our present opinion on the 1978 financial statements, as presented herein, is no longer qualified.

In our opinion, such financial statements and schedules present fairly the financial position of the Company at December 31, 1979 and 1978, and the results of its operations and changes in its financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

DELOITTE HASKINS & SELLS

February 8, 1980

Statements of Income

(In thousands except per share amounts)

For the Years Ended December 31	1979	1978
OPERATING REVENUES (Note 1):		
Electric	**$592,549**	$468,400
Gas	**151,700**	144,210
Steam	**983**	1,013
Total Operating Revenues	**745,232**	613,623
OPERATING EXPENSES (Note 1):		
Fuel and Purchased Energy:		
Electric	**331,499**	262,012
Gas	**98,847**	78,643
Transmission, Distribution and Storage	**20,575**	17,158
Other Operating	**75,968**	58,437
Maintenance	**31,218**	23,839
Franchise Payments	**13,953**	11,936
Depreciation and Amortization	**47,592**	37,980
Taxes:		
Property	**13,159**	16,551
Federal Income (Note 4)	**9,304**	10,134
State Franchise (Note 4)	**2,857**	3,176
Other	**3,027**	2,348
Total Operating Expenses	**647,999**	522,214
OPERATING INCOME	**97,233**	91,409
OTHER INCOME CREDITS:		
Allowance for Other Funds Used During Construction	**18,033**	13,900
Other—Net	**11,125**	10,644
Total Other Income Credits	**29,158**	24,544
INCOME BEFORE INTEREST CHARGES	**126,391**	115,953
INTEREST CHARGES:		
Long-Term Debt	**54,657**	47,390
Short-Term Debt and Other	**8,770**	9,624
Allowance for Borrowed Funds Used During Construction	**(7,202)**	(7,863)
Total Interest Charges	**56,225**	49,151
NET INCOME (before preferred dividend requirements)	**70,166**	66,802
PREFERRED DIVIDEND REQUIREMENTS	**17,643**	17,230
EARNINGS APPLICABLE TO COMMON SHARES	**$ 52,523**	$ 49,572
AVERAGE COMMON SHARES OUTSTANDING	**29,230**	24,588
EARNINGS PER COMMON SHARE	**$ 1.80**	$ 2.02
DIVIDENDS DECLARED PER COMMON SHARE	**$ 1.48**	$ 1.40

See notes to financial statements.

Certain 1978 amounts have been reclassified for comparability.

Balance Sheets

(In thousands of dollars)

Balance at December 31	1979	1978
ASSETS		
UTILITY PLANT—At Original Cost:		
In Service:		
Electric	**$1,035,667**	$ 955,937
Gas	**227,097**	211,804
Common and Steam	**24,980**	23,113
Total Plant in Service	**1,287,744**	1,190,854
Plant Held for Future Use (Note 8)	**65,600**	63,573
Construction in Progress	**447,881**	325,230
Total Utility Plant	**1,801,225**	1,579,657
Less Accumulated Depreciation	**381,437**	344,945
Net Utility Plant (Notes 1 and 3)	**1,419,788**	1,234,712
NON-UTILITY PLANT—At Cost (Less Accumulated Depreciation: 1979, $79; 1978, $77)	**5,196**	5,529
INVESTMENTS IN AND ADVANCES TO SUBSIDIARIES (Note 1)	**25,835**	25,975
CURRENT ASSETS:		
Cash (Including U.S. Treasury Notes: 1979, $14,500; 1978, $3,500)	**15,819**	4,268
Receivables (Less Allowance for Doubtful Accounts: 1979, $486; 1978, $370):		
Customer (Note 3)	**56,645**	49,731
Other (Note 9)	**8,656**	32,728
Materials and Supplies—At Average Cost:		
Plant Materials and Operating Supplies	**22,222**	22,555
Fuel Inventory (Note 2)	**72,577**	44,638
Regulatory Balancing Accounts—Undercollected (Note 1)	**67,909**	25,898
Other	**1,144**	957
Total Current Assets	**244,972**	180,775
DEFERRED CHARGES AND OTHER ASSETS (Notes 1, 8 and 9)	**86,774**	93,522
TOTAL	**$1,782,565**	$1,540,513
CAPITALIZATION AND LIABILITIES		
CAPITALIZATION (See Statements of Capital Stock and Long-Term Debt):		
Common Equity	**$ 541,225**	$ 480,454
Preferred Stock (Note 5):		
Not Subject to Mandatory Redemption	**128,500**	128,500
Subject to Mandatory Redemption	**85,000**	85,000
Long-Term Debt (Note 3)	**640,078**	573,065
Total Capitalization	**1,394,803**	1,267,019
CURRENT LIABILITIES:		
Commercial Paper (Note 2)	**95,420**	21,295
Bankers' Acceptances (Note 2)	**60,000**	23,600
Accounts Payable	**73,817**	55,252
Dividends Payable	**16,261**	14,344
Taxes Accrued (Note 4)	**19,472**	12,311
Interest Accrued	**14,510**	13,808
Regulatory Balancing Accounts—Overcollected (Note 1)	**26,853**	1,225
Current Portion of Long-Term Debt	**3,058**	53,037
Other	**22,041**	22,099
Total Current Liabilities	**331,432**	216,971
CUSTOMER ADVANCES FOR CONSTRUCTION	**24,577**	21,291
RESERVES AND DEFERRED CREDITS (Note 7)	**31,753**	35,232
COMMITMENTS AND CONTINGENCIES (Note 6)		
TOTAL	**$1,782,565**	$1,540,513

See notes to financial statements.

Certain 1978 amounts have been reclassified for comparability.

Statements of Changes in Financial Position

(In thousands of dollars)

For the Years Ended December 31	1979	1978
FUNDS PROVIDED:		
OPERATIONS:		
Net Income (before preferred dividend requirements)	**$ 70,166**	$ 66,802
Charges (Credits) to Income Not Affecting Funds:		
Depreciation and Amortization	**47,592**	37,980
Allowance for Funds Used During Construction	**(25,235)**	(21,763)
Regulatory Revenue Adjustments—Net	**(16,383)**	(185)
Other—Net	**(2,595)**	2,193
Funds Provided From Operations	**73,545**	85,027
LONG-TERM FINANCING:		
Proceeds From:		
Sale of Common Stock	**51,891**	71,829
Sale of Preference Stock	**—**	26,359
Sale of First Mortgage Bonds	**—**	49,377
Sale of Encina 5	**—**	131,620
Other Long-Term Debt	**69,617**	4,741
Retirement of Long-Term Debt	**(53,026)**	(13,033)
Funds Provided From Long-Term Financing	**68,482**	270,893
OTHER SOURCES:		
Customer Advances for Construction	**3,286**	2,085
Decrease in Working Capital	**116,626**	—
Decrease (Increase) in Advances to Subsidiaries—Net	**1,085**	(3,135)
Other	**2,348**	388
Funds Provided From Other Sources	**123,345**	(662)
Total	**$ 265,372**	$ 355,258
FUNDS APPLIED:		
Additions to Utility Plant (Excluding Allowance for Funds Used During Construction)	**$ 200,126**	$ 200,274
Net Increase in Deferred Charges and Other Assets	**3,960**	44,093*
Dividends on Preferred Stock	**17,643**	17,230
Dividends on Common Stock	**43,643**	35,457
Increase in Working Capital	**—**	58,204
Total	**$ 265,372**	$ 355,258

WORKING CAPITAL CHANGES

(Other Than Current Portion of Long-Term Debt and Regulatory Revenue Adjustments):		
Receivables	**$ (17,158)**	$ 30,301
Plant Materials and Operating Supplies	**(333)**	2,218
Fuel Inventory	**27,939**	(25,715)
Short-Term Debt	**(110,525)**	68,065
Accounts Payable	**(18,565)**	(940)
Taxes, Interest Accrued and Other	**2,016**	(15,725)
Increase (Decrease) in Working Capital	**$(116,626)**	$ 58,204

*Excludes prior years' expenditures on Sundesert project transferred from Construction Work in Progress to Deferred Charges.

See notes to financial statements.

Certain 1978 amounts have been reclassified for comparability.

Statements of Changes in Capital Stock and Retained Earnings

(In thousands of dollars)

For the Years Ended December 31, 1978 and 1979	Preferred Stock Not Subject to Mandatory Redemption	Preferred Stock Subject to Mandatory Redemption	Common Stock	Premium (Less Expense)	Retained Earnings
Balance, January 1, 1978	$103,500	$85,000	$113,245	$136,093	$143,813
Net Income—for year					66,802
Preference Stock Sold (1,000,000 Shares)	25,000			1,359	
Common Stock Sold (4,943,817 Shares)			24,719	47,110	
Dividends Declared:					
Preferred Stock					(17,230)
Common Stock					(35,457)
Balance, December 31, 1978	128,500	85,000	137,964	184,562	157,928
Net Income—for year					70,166
Common Stock Sold (3,595,428 Shares)			17,977	33,914	
Dividends Declared:					
Preferred Stock					(17,643)
Common Stock					(43,643)
Balance, December 31, 1979	$128,500	$85,000	$155,941	$218,476	$166,808

Statements of Capital Stock

(In thousands of dollars)

Balance at December 31	1979	1978
COMMON EQUITY:		
Common Stock, $5 Par Value, Authorized 40,000,000 Shares, Outstanding: 1979, 31,188,237 Shares; 1978, 27,592,809 Shares	**$155,941**	$137,964
Premium on Capital Stock (Less Expense)	**218,476**	184,562
Retained Earnings	**166,808**	157,928
Total Common Equity	**$541,225**	$480,454
PREFERRED STOCK (NOTE 5):		
NOT SUBJECT TO MANDATORY REDEMPTION:		
CUMULATIVE PREFERRED STOCK, $20 PAR VALUE, AUTHORIZED 1,375,000 SHARES:		
5% Series, 375,000 Shares Outstanding	**$ 7,500**	$ 7,500
4½% Series, 300,000 Shares Outstanding	**6,000**	6,000
4.40% Series, 325,000 Shares Outstanding	**6,500**	6,500
4.60% Series, 375,000 Shares Outstanding	**7,500**	7,500
PREFERENCE STOCK (CUMULATIVE) WITHOUT PAR VALUE:*		
$9.84 Series, 160,000 Shares Outstanding	**16,000**	16,000
$7.80 Series, 200,000 Shares Outstanding	**20,000**	20,000
$7.20 Series, 150,000 Shares Outstanding	**15,000**	15,000
$2.68 Series, 1,000,000 Shares Outstanding	**25,000**	25,000
$2.475 Series, 1,000,000 Shares Outstanding	**25,000**	25,000
Total Not Subject to Mandatory Redemption	**$128,500**	$128,500
SUBJECT TO MANDATORY REDEMPTION:		
PREFERENCE STOCK (CUMULATIVE) WITHOUT PAR VALUE:*		
$7.325 Series, 300,000 Shares Outstanding	**$ 30,000**	$ 30,000
$8.25 Series, 250,000 Shares Outstanding	**25,000**	25,000
$9.125 Series, 300,000 Shares Outstanding	**30,000**	30,000
Total Subject to Mandatory Redemption	**$ 85,000**	$ 85,000

*Authorized 5,000,000 shares total (both subject to and not subject to mandatory redemption).

See notes to financial statements.

Statements of Long-Term Debt

(In thousands of dollars)

Balance at December 31	1979	1978
FIRST MORTGAGE BONDS:		
3¼% Series D, Due April 1, 1982	**$ 12,000**	$ 12,000
2⅞% Series E, Due April 1, 1984	**17,000**	17,000
3¼% Series F, Due October 1, 1985	**18,000**	18,000
4⅞% Series G, Due October 1, 1987	**12,000**	12,000
4⅝% Series H, Due October 1, 1990	**30,000**	30,000
5½% Series I, Due March 1, 1997	**25,000**	25,000
7% Series J, Due December 1, 1998	**35,000**	35,000
8¾% Series K, Due February 1, 2000	**40,000**	40,000
8% Series L, Due September 1, 2001	**45,000**	45,000
8⅜% Series M, Due January 15, 2004	**75,000**	75,000
9.30% Series N, Due December 15, 1979	**—**	50,000
10.7% Series O, Due May 1, 1982	**40,000**	40,000
10% Series P, Due July 15, 2006	**45,000**	45,000
8¾% Series Q, Due March 15, 2007	**50,000**	50,000
9¾% Series R, Due May 1, 2008	**50,000**	50,000
Total	**494,000**	544,000
SINKING FUND DEBENTURES:		
4⅝%, Due January 15, 1984	**9,000**	9,375
4½%, Due September 1, 1994	**15,600**	16,000
Total	**24,600**	25,375
OTHER LONG-TERM DEBT:		
Foreign Term Loans, Variable Rates (14.8% at December 31, 1979), Due October 25, 1983—April 26, 1986	**65,000**	—
Term Loan, 8¾%, Due May 1, 1983—1985	**40,000**	40,000
Pollution Control Bonds, 6⅜% 1977 Series A, Due April 1, 2007	**9,575**	9,575
Pollution Control Bonds, 7.20% 1979 Series A, Due April 1, 2009	**4,692**	—
Other	**8,555**	10,560
Total	**127,822**	60,135
UNAMORTIZED DISCOUNT ON LONG-TERM DEBT	**(3,286)**	(3,408)
CURRENT PORTION OF LONG-TERM DEBT	**(3,058)**	(53,037)
TOTAL	**$640,078**	$573,065

See Note 3 of Notes to Financial Statements.

Schedules of Financial Information by Segments of Business

(In thousands of dollars)

The company is an operating public utility company engaged in the generation, purchase, distribution and sale of electric and steam energy and the purchase, distribution and sale of natural gas. Income taxes and corporate expenses are allocated to departments in accordance with regulatory accounting requirements.

For the Year Ended December 31, 1979	Electric Operations	Gas Operations	Other Operations	Adjustments and Eliminations	Total
Operating Revenues:					
Unaffiliated Customers	$592,549	$122,772	$ 983		$ 716,304
Intersegment Sales		85,516		$(56,588)	28,928*
Total Operating Revenues	592,549	208,288	983	(56,588)	745,232
Operating Income	89,305	7,912	16		97,233
Depreciation and Amortization	40,018	7,539	35		47,592
Capital Expenditures	186,021	15,743	3,277		205,041
Identifiable Assets:					
Net Utility Plant	1,259,382	143,564	16,842		1,419,788
Plant Materials and Operating Supplies	18,161	1,666	2,395		22,222
Fuel Inventory	69,268	3,309			72,577
Other Corporate Assets					267,978
Total Assets					$1,782,565
For the Year Ended December 31, 1978					
Operating Revenues:					
Unaffiliated Customers**	$468,400	$119,892	$1,013		$ 589,305
Intersegment Sales		55,688		$(31,370)	24,318*
Total Operating Revenues	468,400	175,580	1,013	(31,370)	613,623
Operating Income	68,026	23,412	(29)		91,409
Depreciation and Amortization	30,923	7,023	34		37,980
Capital Expenditures	192,929	12,898	1,587		207,414
Identifiable Assets:					
Net Utility Plant	1,084,669	135,169	14,874		1,234,712
Plant Materials and Operating Supplies	19,386	1,739	1,430		22,555
Fuel Inventory	41,981	2,657			44,638
Other Corporate Assets					238,608
Total Assets					$1,540,513
For the Year Ended December 31, 1977					
Operating Revenues:					
Unaffiliated Customers**	$422,099	$ 99,395	$ 923		$ 522,417
Intersegment Sales		41,678		$(23,301)	18,377*
Total Operating Revenues	422,099	141,073	923	(23,301)	540,794
Operating Income	67,778	15,328	(33)		83,073
Depreciation and Amortization	27,116	6,593	31		33,740
Capital Expenditures	185,160	12,402	1,326		198,888
Identifiable Assets:					
Net Utility Plant	1,046,576	129,187	13,417		1,189,180
Plant Materials and Operating Supplies	17,483	1,556	1,298		20,337
Fuel Inventory	67,765	2,523	65		70,353
Other Corporate Assets					133,299
Total Assets					$1,413,169

*Revenue from interdepartmental sales of gas allowed by the CPUC in tariff rates. See Note 1 of Notes to Financial Statements and Management's Discussion and Analysis of the Summary of Operations.

**See Note 1 of Notes to Financial Statements for explanation of reclassification affecting these amounts. Certain other 1978 and 1977 amounts have been reclassified for comparability.

Notes to Financial Statements

December 31, 1979 and 1978

1. SUMMARY OF ACCOUNTING POLICIES

System of Accounts

The accounting records of the company are maintained in accordance with the Uniform System of Accounts prescribed by the Federal Energy Regulatory Commission (FERC) and adopted by the California Public Utilities Commission (CPUC).

Utility Plant

The cost of additions to utility plant and of replacements of retirement units of property is capitalized. The cost of utility plant includes labor, material and similar items as well as indirect charges for engineering, supervision, transportation and other related items. The company capitalizes an allowance for funds used during construction (AFUDC) based on the cost of capital devoted to plant under construction. Costs of depreciable units of plant retired are eliminated from utility plant accounts and such costs, plus removal expenses less salvage value, are charged to accumulated depreciation.

Research, Development and Demonstration

Research, development and demonstration costs related to specific construction projects and a portion of general engineering research costs are capitalized. Other such costs are either charged to expense as incurred or deferred and amortized in accordance with requirements of the CPUC. The company incurred research, development and demonstration costs of approximately $4.8 million and $6.0 million during 1979 and 1978, of which amounts approximately $1.7 million and $2.8 million were deferred as of the end of the respective years.

Depreciation

Provisions for depreciation of property, plant and equipment for financial statement purposes are generally based on the estimated service lives of the respective properties using the straight-line remaining life method of computation. The provisions for depreciation for 1979 and 1978 were 3.32% and 3.27%, respectively, of the related aggregate depreciable asset balances for these periods.

For federal income tax purposes, the company computes depreciation using the most liberal methods and lives permitted by the Treasury Department. Service lives for federal income tax purposes are generally shorter than the service lives used for financial statement purposes.

Income Taxes

The company, in accordance with requirements of the CPUC, includes in net income the current tax reductions that result from timing differences and certain investment tax credits, summarized in Note 4 below. No provision is made for deferred taxes relating to these timing differences, except for deferred energy costs and certain plant sales and abandonments. In addition, the company files consolidated federal and state tax returns with its subsidiaries in which certain items (a portion of which are capitalized in the accounts of the subsidiaries) are deducted for tax purposes. The resultant tax reductions are applied to benefit the parent company's income.

The company elected to amortize the additional investment tax credits, made available to the company under the Tax Reduction Act of 1975, to income ratably over the book lives of the respective properties.

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

Pension and Savings Plans

The company provides a noncontributory pension plan and a savings plan for substantially all employees. The savings plan provides for a company contribution equal to 50% of the amount a participant elects to set aside. The company's contribution cannot, within specified limits, exceed 3% of the participant's basic compensation. The company's contributions to the plans charged to expense and utility plant for the years 1979 and 1978 were $10.4 million and $9.2 million, respectively. It is the policy of the company to fund pension costs accrued; the company is fully funded for past and prior services.

Subsidiaries

The company accounts for investments in subsidiaries by the equity method. The assets and revenues of the subsidiaries are not significant in relation to those of the company.

Revenues

Revenues are recognized on the basis of cycle billings rendered monthly. The company does not record unbilled revenues. As required by the CPUC, the company has been instructed to defer any over or undercollections as a result of (1) total fuel costs experienced differing from those used to set rates and (2) total gas revenues experienced differing from the gas margin allowed in the last general rate case.

Net overcollections were previously recorded as deferred fuel revenues; net undercollections were previously recorded as deferred energy costs. Beginning January 1, 1979, net overcollections were recorded as deferred revenues; net undercollections were recorded as accrued revenues. Prior years' statements of income were revised to reflect this reclassification, which had no effect on operating income. The company expects to be able to recover the net undercollections, which totaled $41.1 million at December 31, 1979, through rate adjustments.

In January 1980, the CPUC indicated that a portion of the April 1978 general rate decision should have been classified as a purchased gas adjustment decision. This decision required the write-off in 1979 of $3.2 million ($2.2 million net of taxes) which had been recognized in 1978. The previous recognition and subsequent write-off had the effect of decreasing earnings per share for 1979 by $0.07 and increasing earnings per share for 1978 by $0.09.

Other

The company has deferred original costs of approximately $48.7 million relating to cancellation charges and other costs incurred in connection with the cancellation of certain power projects. The CPUC authorized electric rates which permit the company to realize these deferred charges over five-year periods. See Note 6 regarding accounting for leases.

2. SHORT-TERM BORROWINGS

The company maintains lines of credit with various banks in addition to issuing commercial paper. Borrowings under the lines of credit bear interest up to 108% of the prevailing prime rate and a commitment fee of ½ of 1% per annum is payable on the entire line of credit. There are no requirements for compensating balances. Commercial paper is issued at various discount rates and usually matures within 7 to 125 days. Effective December 1979, the company had lines of credit of $100 million, all of which are available to support commercial paper.

During 1979, the company renewed its credit agreement for the use of up to $60 million of bankers' acceptances to finance the purchase of fuel inventory. The bankers' acceptances are issued at the prevailing acceptance rate plus a placement fee and usually mature within 30 to 125 days. Warehouse receipts for fuel inventory are pledged as collateral for this credit.

The maximum amounts of aggregate short-term borrowings outstanding at any month-end during the years 1979 and 1978 were $155.4 million and $161.1 million, respectively. During the years 1979 and 1978, the weighted daily average interest rates for short-term borrowings were 13.5% and 9.1%, respectively, and the daily average short-term borrowings outstanding were $52.5 million and $99.0 million, respectively. As of December 31, 1979 and 1978, there were $95.4 million and $21.3 million of commercial paper outstanding at weighted average interest rates of 15.1% and 11.2%, respectively. Additionally, at December 31, 1979 and 1978 there were $60.0 million and $23.6 million of bankers' acceptances outstanding at weighted average interest rates of 15.3% and 12.2%, respectively.

During January of 1980, the company increased both its authorized bank lines and bankers' acceptances limit to $150 million each. The additional $50 million of bank lines was utilized for a 360-day credit agreement bearing interest at various short-term rate options.

3. LONG-TERM DEBT

Additional first mortgage bonds may be issued under the terms of the bond indenture upon compliance with the provisions thereof and subject to the provisions of the indentures for sinking fund debentures. Substantially all utility plant is subject to the lien of the bond indenture.

The company has $3.1 million of promissory notes, payable in pounds sterling, with an English lending syndicate which are collateralized by substantially all of the company's customer accounts receivable. Pursuant to a CPUC decision in July 1978, construction work in progress was credited for a $2.8 million foreign exchange gain realized on such notes.

The mandatory payments to retire the company's long-term debt during the next five years are $3.1 million for 1980, $2.9 million for 1981, $54.3 million for 1982, $20.1 million for 1983 and $55.0 million for 1984.

4. INCOME TAXES

Total income tax expense was less than the amount computed by applying the federal and state statutory rates to income before income tax. The reasons for this difference are as follows:

	(Thousands of Dollars)	
For the Years Ended December 31	**1979**	1978
Tax expense at statutory rates	**$38,089**	$37,636
Reductions in taxes resulting from:		
Excess of tax over book depreciation	**12,454**	11,099
Regulatory revenue adjustments	**7,440**	7,439
Allowance for funds used during construction	**12,835**	11,465
Gain on sale of Encina Unit 5	**469**	(22,407)
Sundesert suspension	**(2,732)**	19,925
Other—net	**5,930**	10,751
Total tax reductions	**36,396**	38,272
Current tax expense (credit)	**1,693**	(636)
Deferred taxes	**3,030**	5,276
Total income tax expense	**$ 4,723**	$ 4,640
Allocation of income tax expense:		
Operating expenses—federal and state	**$12,161**	$13,310
Other income credits—other—net	**(7,438)**	(8,670)
Total income tax expense	**$ 4,723**	$ 4,640

As of December 31, 1979, the company's unused investment tax credit, which may be carried forward and applied against future years' federal income taxes, is estimated at $39.7 million (expiring 1980 through 1986). Also, the company has an operating loss carryforward of approximately $14.7 million which expires in 1984. The federal tax effect of the operating loss and $7.1 million of the investment tax credit carryforwards has been reflected in the accompanying financial statements as a reduction of deferred taxes.

5. PREFERRED STOCK

General

The company, at its option, may redeem the whole or any part of its cumulative preferred stock outstanding upon payment of the redemption price together with accrued dividends. At December 31, 1979, the redemption premiums per share ranged up to $4, depending upon the series and the dates for redemption.

The company's preference stock (cumulative) may be redeemed at the option of the company upon payment of the redemption price together with accrued dividends, provided that prior to certain specified dates through June 15, 1984, no redemption may be made through refunding at an effective cost of money to the company per annum at less than the respective dividend rates. Depending upon the series and the dates for redemption, the redemption prices range from $113.50 to $100 per share for the $9.84, $7.80, $7.20, $7.325, $8.25 and $9.125 series, and from $30 to $27.75 for the $2.68 and $2.475 series.

Subject to Mandatory Redemption

The company is required to set aside annually in sinking funds $2.0 million beginning in the year 1983, an additional $1.2 million beginning in 1984 and an additional $1.0 million beginning in 1985 for the repurchase of its $7.325, $8.25 and $9.125 series preference stock (cumulative).

6. COMMITMENTS AND CONTINGENCIES

The company is engaged in a construction program under which expenditures of $174 million are planned for 1980, excluding AFUDC and other non-cash items.

The company is committed under certain leases which are accounted for as operating leases in accordance with the Addendum to Accounting Principles Board Opinion No. 2 but which meet the criteria of Statement of Financial Accounting Standards No. 13 for capital leases. The amounts of assets and liabilities that would have been included in the accompanying balance sheets for such capital leases (including the lease discussed in Note 7) approximated $191 million and $196 million, respectively, at December 31, 1979; and $174 million for each category at December 31, 1978. The effect on expenses, had such leases been capitalized, would not be material.

At December 31, 1979, the minimum rental payments of the company under all noncancellable leases are $18.6 million, $18.3 million, $20.1 million, $21.5 million and $20.9 million for the years 1980 through 1984, respectively. The aggregate amount of noncancellable rental commitments at December 31, 1979 is $348.0 million. The company has no material subleases. The amount of rents charged to operating expenses for the years ended December 31, 1979 and 1978 was $16.8 million and $8.7 million, respectively.

The company has entered into contracts with suppliers for the purchase of a minimum of 37.8 million barrels of low-sulfur residual and diesel fuel oil through December of 1982. The company estimates that commitments under these contracts aggregate $1.0 billion at current contract prices determined by a formula, which is based upon the suppliers' crude oil costs. In addition, the company has contracted to purchase 11.7 million barrels of residual and diesel fuel oil from January 1983 through June 1984 at prices to be negotiated in the future.

7. SALE AND LEASEBACK

In August 1978, the company consummated a sale and leaseback of Unit 5 of its Encina generating facility at Carlsbad, California. Terms of the lease provide for minimum annual rentals of $10.2 million for a period of 25 years commencing January 1, 1979, and include renewal options of up to 15 years at fair market value rentals to be determined at the time of renewal. The company will pay all normal operating, maintenance and property tax expenses. The gain on the sale of approximately $23.0 million has been deferred and is being amortized as a reduction of rental expense over the term of the lease.

8. SUSPENSION OF SUNDESERT

On May 3, 1978, the company suspended its proposed Sundesert nuclear project and terminated certain contracts relating thereto as a result of regulatory and legislative developments. In a June 5, 1979 rate decision, the CPUC authorized new electric rates which permit the company to realize $39.2 million of non-site costs, included in deferred charges, over a five-year period and to include $45.3 million of site-related costs in rate base. Unrecovered site and non-site costs of $3.6 million ($0.12 per share) were charged to operations in May 1979. All site-related costs, including $2.0 million excluded from rate base by the CPUC until the completion of construction of a plant on the Sundesert site, will remain in plant held for future use.

9. FUEL OIL EXCHANGES

At December 31, 1979 and 1978, the company had placed on exchange approximately 2.11 million barrels of fuel oil (cost, $34.4 million) and 3.50 million barrels (cost, $56.3 million), respectively. Oil to be received by the company within one year is recorded in accounts receivable ($5.4 million and $30.5 million at December 31, 1979 and 1978, respectively) while oil due after one year is included in deferred charges and other assets ($29.0 million and $25.8 million at December 31, 1979 and 1978, respectively). No gain or loss is recognized on these nonmonetary exchanges.

Of the total on exchange at December 31, 1979, 2.09 million barrels (cost, $33.9 million) is due from a closely-held distributor not previously used by the company. The original 1978 exchange agreement required the distributor

to return all the oil during 1979 and 1980. During 1979, 308,000 barrels of oil were returned to the company. In December 1979, the company extended the return period to 1985 in exchange for the distributor absorbing any fluctuations in oil prices under an amended agreement which also provides an option to pay cash at $16.50 per barrel. The barrels of oil are now scheduled to be returned in minimum annual quantities of 300,000 barrels per year during 1980 through 1982 and 400,000 barrels per year during 1983 through 1985.

The magnitude of this transaction relative to the size of the distributor caused the company to obtain the right to certain assets which partially collateralize its receivable. Repayment of the company's receivable depends on the ability of the distributor to achieve profitable operations, or realization of the assets pledged as collateral. In the opinion of management, as of December 31, 1979 no provision for loss is necessary.

10. QUARTERLY FINANCIAL DATA (UNAUDITED)

	Thousands of Dollars			Earnings Per Common Share*
	Operating Revenues	Operating Income	Net Income	
Quarter Ended:				
1978				
March 31	$149,322	$24,244	$17,964	$0.61
June 30	141,381	21,227	16,142	0.49
September 30	153,762	25,508	20,390	0.63
December 31	169,158	20,430	12,306	0.30
1979				
March 31	177,229	20,872	15,763	0.41
June 30	161,838	19,179	9,264	0.17
September 30	193,580	31,284	25,918	0.71
December 31	212,585	25,898	19,221	0.48

These amounts are unaudited but in the opinion of the company reflect all adjustments necessary for a fair presentation. Such adjustments comprise only normal recurring accruals except for the write-off of costs related to Sundesert (see Note 8), which reduced net income for the quarter ended June 30, 1979 by $3.6 million ($0.13 per share*) and the write-off of previously recognized revenues (see Note 1 under "Revenues"), which reduced net income for the quarter ended December 31, 1979 by $2.2 million ($0.07 per share*).

*Based on average common shares outstanding during the quarter.

Supplementary Information to Disclose The Effects of Changing Prices (Unaudited)

The following supplementary information is supplied in accordance with the requirements of Statement of Financial Accounting Standards No. 33 for the purpose of providing certain information about the effects of changing prices. It should be viewed as an estimate of the approximate effect of inflation, rather than as a precise measure.

Statement of Income from Operations Adjusted for Changing Prices

(In thousands of dollars)

For the Year Ended December 31, 1979	Conventional Historical Cost	Constant Dollar Average 1979 Dollars	Current Cost Average 1979 Dollars
Operating Revenues	$ 745,232	$ 745,232	$ 745,232
Electric Fuel and Purchased Energy	331,499	331,499	331,499
Gas Fuel	98,847	98,847	98,847
Other Operating	110,496	110,496	110,496
Maintenance	31,218	31,218	31,218
Depreciation and Amortization	47,592	81,786	95,838
Taxes	28,347	28,347	28,347
Interest Charges	63,427	63,427	63,427
Other Income and Deductions—Net	(36,360)	(36,356)	(36,355)
	675,066	709,264	723,317
Income from Operations (Excluding Reduction to Net Recoverable Cost)	$ 70,166	$ 35,968[1]	$ 21,915
Increase in Specific Prices (Current Cost) of Property, Plant and Equipment Held During the Year[2]			$ 237,917
Reduction to Net Recoverable Cost		$(134,225)	(60,865)
Effect of Increase in General Price Level			(297,224)
Excess of Increase in General Price Level Over Increase in Specific Prices After Reduction to Net Recoverable Cost			(120,172)
Gain From Decline in Purchasing Power of Net Amounts Owed		86,551	86,551
Difference		$ (47,674)	$ (33,621)

(1) Including the reduction to net recoverable cost, the income (loss) from operations on a constant dollar basis would have been $(98,257) for 1979.

(2) At December 31, 1979, current cost of property, plant and equipment, net of accumulated depreciation, was $2,611,092, while historical cost or net recoverable cost was $1,424,984.

Five-Year Comparison of Selected Supplementary Financial Data Adjusted for Effect of Changing Prices

(In thousands, except per share amounts, of Average 1979 Dollars)

For the Years Ended December 31	1979	1978	1977	1976	1975
Operating revenues	**$ 745,232**	$682,711	$647,761	$577,282	$504,729
Historical cost information adjusted for general inflation (constant dollar)					
Income from operations (excluding reduction to net recoverable cost)	**$ 35,968**				
Income per common share (after preferred dividend requirements and excluding reduction to net recoverable cost)	**$ 0.63**				
Net assets at year-end at net recoverable cost	**$ 634,139**				
Current cost information					
Income from operations (excluding reduction to net recoverable cost)	**$ 21,915**				
Income per common share (after preferred dividend requirements and excluding reduction to net recoverable cost)	**$ 0.15**				
Excess of increase in general price level over increase in specific prices after reduction to net recoverable cost	**$(120,172)**				
Net assets at year-end at net recoverable cost	**$ 634,139**				
General information					
Gain from decline in purchasing power of net amounts owed	**$ 86,551**				
Cash dividends declared per common share	**$ 1.48**	$ 1.56	$ 1.53	$ 1.53	$ 1.62
Market price per common share at year-end	**$ 12.43**	$ 15.80	$ 18.11	$ 18.09	$ 14.38
Average Consumer Price Index	**217.4***	195.4	181.5	170.5	161.2

*1979 average Consumer Price Index estimated

Constant dollar amounts represent historical costs stated in terms of dollars of equal purchasing power, as measured by the Consumer Price Index for All Urban Consumers (CPI-U). Current cost amounts reflect the changes in specific prices of plant from the date the plant was acquired to the present, and differ from constant dollar amounts to the extent that specific prices have increased more or less rapidly than prices in general.

The current cost of property, plant and equipment, which includes land, land rights, intangible plant, plant held for future use and construction work in progress, represents the estimated cost of replacing existing plant assets and was determined primarily by indexing surviving plant by the Handy-Whitman Index of Public Utility Construction Costs. The current year's provision for depreciation on the constant dollar and current cost amounts of property, plant and equipment was determined by applying the company's depreciation rates to the indexed plant amounts.

Fuel inventories, the cost of fuel used in generation and gas purchased for resale have not been restated from their historical cost in nominal dollars. Regulation limits the recovery of fuel and purchased gas costs through the operation of adjustment clauses or adjustments in basic rate schedules to actual costs. For this reason, fuel inventories are effectively monetary assets.

As prescribed in Statement of Financial Accounting Standards No. 33, income taxes were not adjusted.

Under the rate-making prescribed by the CPUC, only the historical cost of plant is recoverable in revenues as depreciation. Therefore, the excess of the cost of plant stated in terms of constant dollars or current cost that exceeds the historical cost of plant is not presently recoverable in rates as depreciation, and is reflected as a reduction to net recoverable cost. While the rate-making process gives no recognition to the current cost of replacing property, plant and equipment, based on past practices the company believes it will be allowed to earn on the increased cost of its net investment when replacement of facilities actually occurs.

To properly reflect the economics of rate regulation in the Statement of Income from Operations, the reduction of net property, plant and equipment should be offset by the gain from the decline in purchasing power of net amounts owed. During a period of inflation, holders of monetary assets suffer a loss of general purchasing power while holders of monetary liabilities experience a gain. The gain from the decline in purchasing power of net amounts owed is primarily attributable to the substantial amount of debt which has been used to finance property, plant and equipment. Since the depreciation on this plant is limited to the recovery of historical costs, the company does not have the opportunity to realize a holding gain on debt and is limited to recovery only of the embedded cost of debt capital.

Financial Data

(In millions except per share amounts)

	1979	1978	1977	1976	1975	1974	1969
COMMON STOCK							
Market to Book Ratio*	**75.6%**	84.7%	89.3%	86.7%	68.0%	59.6%	155.1%
Book Value Per Share*	**$ 17.35**	$ 17.41	$ 17.36	$ 16.72	$ 16.17	$ 16.99	$ 14.67
Earnings Per Weighted Average Share	**$ 1.80**	$ 2.02	$ 2.32	$ 2.14	$ 0.97	$ 2.09	$ 1.85
Dividends Per Share:							
Paid	**$ 1.46**	$ 1.38	$ 1.24	$ 1.20	$ 1.20	$ 1.20	$ 0.99
Declared	**$ 1.48**	$ 1.40	$ 1.28	$ 1.20	$ 1.20	$ 1.20	$ 1.02
Payout Ratio	**83.1%**	71.5%	55.9%	56.5%	124.9%	58.7%	55.1%
Dividend Yield	**11.3%**	9.5%	8.3%	8.3%	10.9%	11.9%	4.5%
Price/Earnings Ratio*	**7.3**	7.3	6.7	6.8	11.3	4.8	12.3
CAPITALIZATION							
Common Equity	**$ 541.2**	$ 480.4	$ 393.2	$ 322.5	$ 274.8	$ 263.4	$ 146.7
Preferred Stock:							
Not Subject to Mandatory Redemption	**128.5**	128.5	103.5	103.5	78.5	78.5	27.5
Subject to Mandatory Redemption	**85.0**	85.0	85.0	55.0	55.0	55.0	–
Long-Term Debt:							
First Mortgage Bonds	**491.2**	490.9	491.1	451.8	407.1	367.3	158.8
Debentures	**23.7**	24.5	25.3	26.0	26.8	27.6	31.4
Other Long-Term Debt	**125.2**	57.7	56.2	11.8	6.6	3.7	–
Total Long-Term Debt	**640.1**	573.1	572.6	489.6	440.5	398.6	190.2
Total Capitalization	**$1,394.8**	$1,267.0	$1,154.3	$ 970.6	$ 848.8	$ 795.5	$ 364.4
Capitalization Ratios:							
Common Equity	**38.8%**	37.9%	34.1%	33.2%	32.4%	33.1%	40.3%
Preferred Stock:							
Not Subject to Mandatory Redemption	**9.2**	10.2	9.0	10.7	9.2	9.9	7.5
Subject to Mandatory Redemption	**6.1**	6.7	7.3	5.7	6.5	6.9	–
Long-Term Debt:							
First Mortgage Bonds	**35.2**	38.7	42.5	46.5	48.0	46.2	43.6
Debentures	**1.7**	1.9	2.2	2.7	3.2	3.5	8.6
Other Long-Term Debt	**9.0**	4.6	4.9	1.2	0.7	0.4	–
Total Long-Term Debt	**45.9**	45.2	49.6	50.4	51.9	50.1	52.2
Total Capitalization	**100.0%**	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Times Earned:							
Interest on Debt Before Income Taxes	**2.18**	2.25	2.20	2.38	1.66	2.51	4.18
Interest and Preferred Dividends After Income Taxes	**1.65**	1.67	1.74	1.74	1.37	1.76	2.64
UTILITY PLANT							
Electric	**$1,547.4**	$1,343.3	$1,281.7	$1,076.9	$ 918.0	$ 803.3	$ 409.2
Gas	**228.0**	212.9	201.2	188.3	179.7	169.8	114.4
Common and Steam	**25.8**	23.4	21.9	26.2	27.0	40.3	32.4
Total	**1,801.2**	1,579.6	1,504.8	1,291.4	1,124.7	1,013.4	556.0
Accumulated Depreciation	**381.4**	344.9	315.6	283.8	257.0	235.3	144.6
Net Utility Plant	**$1,419.8**	$1,234.7	$1,189.2	$1,007.6	$ 867.7	$ 778.1	$ 411.4

*At December 31

Stock Prices 1978-1979

1978 Qtrs.	Common High	Common Low	4.40% Preferred High	4.40% Preferred Low	4½% Preferred High	4½% Preferred Low	5% Preferred High	5% Preferred Low	$9.84 Preference High	$9.84 Preference Low	$7.80 Preference High	$7.80 Preference Low	$7.20 Preference High	$7.20 Preference Low	$2.68 Preference High	$2.68 Preference Low	$2.475 Preference High	$2.475 Preference Low
1st	16⅜	14⅞	10⅜	9⅝	10½	9¾	11½	10¾	107	101	89	81½	84½	76	29½	27¾	—	—
2nd	15¾	14¾	10¾	9½	10¼	9¾	12¼	11	106	97	85	74	80	73	28⅝	26¼	26	24
3rd	16	14⅞	10½	9¼	10¾	9½	11⅞	10¼	105	97	86	75	81	71½	29¼	26⅜	26⅞	24¼
4th	15¾	14¼	9¾	8½	10½	8¾	11⅛	9⅝	103	91¾	82	71	80	67	27½	25	25½	22

1979 Qtrs.	Common High	Common Low	4.40% Preferred High	4.40% Preferred Low	4½% Preferred High	4½% Preferred Low	5% Preferred High	5% Preferred Low	$9.84 Preference High	$9.84 Preference Low	$7.80 Preference High	$7.80 Preference Low	$7.20 Preference High	$7.20 Preference Low	$2.68 Preference High	$2.68 Preference Low	$2.475 Preference High	$2.475 Preference Low
1st	15⅞	14¾	9¾	8½	10	8⅜	11	9½	97	90	79	71¼	73	65	26¾	24¾	25¼	22¼
2nd	15⅞	14	9¾	8	9⅜	8¼	10½	8⅞	95	90	77¼	70¼	70	64½	25½	23¾	23¾	22⅛
3rd	15⅝	14	9⅞	8⅛	9⅞	8⅝	10¾	9⅛	94⅝	88	77	70	72	64½	26	23	24	21
4th	14⅞	12¾	9⅛	6⅜	9⅛	6¼	9¾	7¼	90	72½	70	56	67½	54½	23⅛	18⅞	21½	17½

Quarterly Dividends Paid in 1978-1979

(Publicly sold issues only)

Common	4.40% Preferred	4½% Preferred	5% Preferred	$9.84 Preference	$7.80 Preference	$7.20 Preference	$2.68 Preference	$2.475 Preference
38¢*	22¢	22½¢	25¢	$2.46	$1.95	$1.80	67¢	61⅞¢

*Rate paid since October 15, 1979. Prior rates were 34¢, paid from October 15, 1977, and 36¢, paid from October 15, 1978.
The company has paid dividends on its common stock in each year since 1909.

4th Quarter Results
Statements of Income

(In thousands except per share amounts)

	Three Months Ended December 31		Years Ended December 31	
	1979	1978	**1979**	1978
Operating Revenues	**$212,585**	$169,158	**$745,232**	$613,623
Operating Expenses	**186,687**	148,728	**647,999**	522,214
Operating Income	**25,898**	20,430	**97,233**	91,409
Other Income Credits	**8,983**	3,920	**29,158**	24,544
Interest Charges	**15,660**	12,044	**56,225**	49,151
Net Income (before preferred dividend requirements)	**19,221**	12,306	**70,166**	66,802
Preferred Dividend Requirements	**4,411**	4,410	**17,643**	17,230
Earnings Applicable to Common Shares	**$ 14,810**	$ 7,896	**$ 52,523**	$ 49,572
Average Common Shares Outstanding	**31,132**	26,137	**29,230**	24,588
Earnings Per Common Share	**$ 0.48**	$ 0.30	**$ 1.80**	$ 2.02
Dividends Declared Per Common Share	**$ 0.38**	$ 0.36	**$ 1.48**	$ 1.40

See Management's Discussion and Analysis of the Summary of Operations and Note 10 of Notes to Financial Statements.

Officers

Robert E. Morris
President and Chief Executive Officer

Thomas A. Page
Executive Vice President and Chief Operating Officer

J. Robert Belt
Vice President—Administrative Services

Gary D. Cotton
Vice President—Engineering

Alton T. Davis
Vice President—Gas

Frank W. DeVore
Vice President—Governmental Affairs

David W. Gilman
Vice President—Power Supply

John E. Hamrick
Vice President—Marketing

James J. Holley
Vice President—Personnel

William J. Karnes
Secretary

Philip M. Klauber
Vice President—Consultant

Richard Korpan
Treasurer

Ralph L. Meyer
Vice President—Regulatory Services

Robert E. Parsley
Controller

Gordon Pearce
Vice President and General Counsel

R. Denis Richter
Vice President—Public Relations

Jack E. Thomas
Vice President—Customer and Operations Services

Ronald W. Watkins
Vice President—Resource Planning

John H. Woy
Vice President—Regulatory Consultant

Board of Directors

Robert E. Morris*
President and Chief Executive Officer of the Company; Chairman of the Executive Committee

Malin Burnham*
President of John Burnham & Company (a mortgage loan, real estate, and insurance firm)

Catherine T. Fitzgerald Wiggs
Executive Vice President—Personnel and a member of the Management Executive Committee of The Broadway Stores, Inc., Division of Carter Hawley Hale Stores, Inc. (retail department stores)

Bruce R. Hazard
President of R. E. Hazard Contracting Company (an engineering contracting firm)

William D. McElroy
Chancellor of the University of California at San Diego

Thomas A. Page
Executive Vice President and Chief Operating Officer of the Company

Gordon Pearce
Vice President and General Counsel of the Company

Leland D. Pratt*
Retired, former President of Kelco Company (a manufacturer of kelp products and biochemical colloids)

Burt F. Raynes
President of Raynes Engineering Corporation (a mechanical engineering and product development firm)

O. Morris Sievert*
President of Solar Turbines International, an Operating Group of International Harvester (a manufacturer of industrial gas turbine machinery)

Fred C. Stalder*
President of Central Federal Savings and Loan Association

**Member of the Executive Committee*

San Diego Gas & Electric District Offices

Coronado
Shirlee R. Smith, District Manager
110 B Avenue
Coronado, CA 92118

Eastern
Robert H. Nelson, District Manager
104 North Johnson Avenue
El Cajon, CA 92020

Mountain Empire
B. L. Caylor, Jr., District Manager
31115 Highway 94
Campo, CA 92006

Northeast
R. Keith Hutchens, District Manager
203 East 2nd Avenue
Escondido, CA 92025

North Coast
Alvin A. Sugg, District Manager
620 Mission Avenue
Oceanside, CA 92054

Orange County
William S. Webb, District Manager
101 West El Portal
San Clemente, CA 92672

San Diego
Alan J. McCutcheon, Jr., District Manager
101 Ash Street
San Diego, CA 92101

South Bay
P. J. Oberhaus, District Manager
436 H Street
Chula Vista, CA 92010

San Diego Gas & Electric Company
(Incorporated in California)
P.O. Address: Box 1831, San Diego, California 92112
Principal Office: 101 Ash Street, San Diego, California 92101
Telephone (714) 232-4252

Annual Meeting of Shareholders
In accordance with the bylaws of the company, the annual meeting of shareholders is held on the fourth Tuesday in April at 11 a.m. at the principal office of the company.

Listing of Stock
The common stock is listed on the New York and Pacific Stock Exchanges (Symbol: SDO)
The preferred stocks (except 4.60% series and $7.325, $8.25 and $9.125 preference series) are listed on the American and Pacific Stock Exchanges (Symbol: SDO)

Stock Transfer Agents and Registrars
California First Bank
8155 Mercury Court
P.O. Box 2529
San Diego, California 92112
Transfer agent for common
Transfer agent and registrar for all preferred

United California Bank
c/o Schroder Trust Company
One State Street
New York, New York 10015
Transfer agent and registrar for common
Transfer agent and registrar for preference only (except $7.325, $8.25 and $9.125 preference)

Shareholders' Agent for Dividend Reinvestment Plan
United California Bank
Dividend Reinvestment Service
P.O. Box 60975
Los Angeles, California 90060

A statistical supplement to the annual report is available. Requests for it should be directed to the Corporate Secretary, San Diego Gas & Electric, Post Office Box 1831, San Diego, CA 92112.

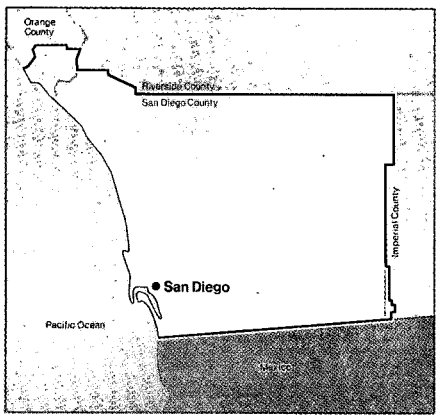
Distribution of Shareholders

As of December 31, 1979

	Preferred	Common
Total Shareholders	13,907	76,447
Class of Investor		
Women	4,353	23,622
Men	2,537	16,932
Joint Accounts	4,866	27,126
Fiduciaries	1,201	7,282
Securities Dealers	79	37
Nominees	352	546
Other Domestic	491	732
Foreign	28	170
Amounts Owned		
1 to 99 shares	4,552	13,194
100-300 shares	7,521	45,295
301-500 shares	1,038	9,268
501-1000 shares	499	6,210
Over 1000 shares	297	2,480
Location		
Service Area	4,040	15,904
Rest of California	4,743	23,932
Other States & Foreign	5,124	36,611

SDG&E Service Area

San Diego Gas & Electric Company serves 90 communities in San Diego County, an adjoining part of Orange County to the north and a small section of Imperial County to the east.



San Diego Gas & Electric
P.O. Box 1831, San Diego, California 92112

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