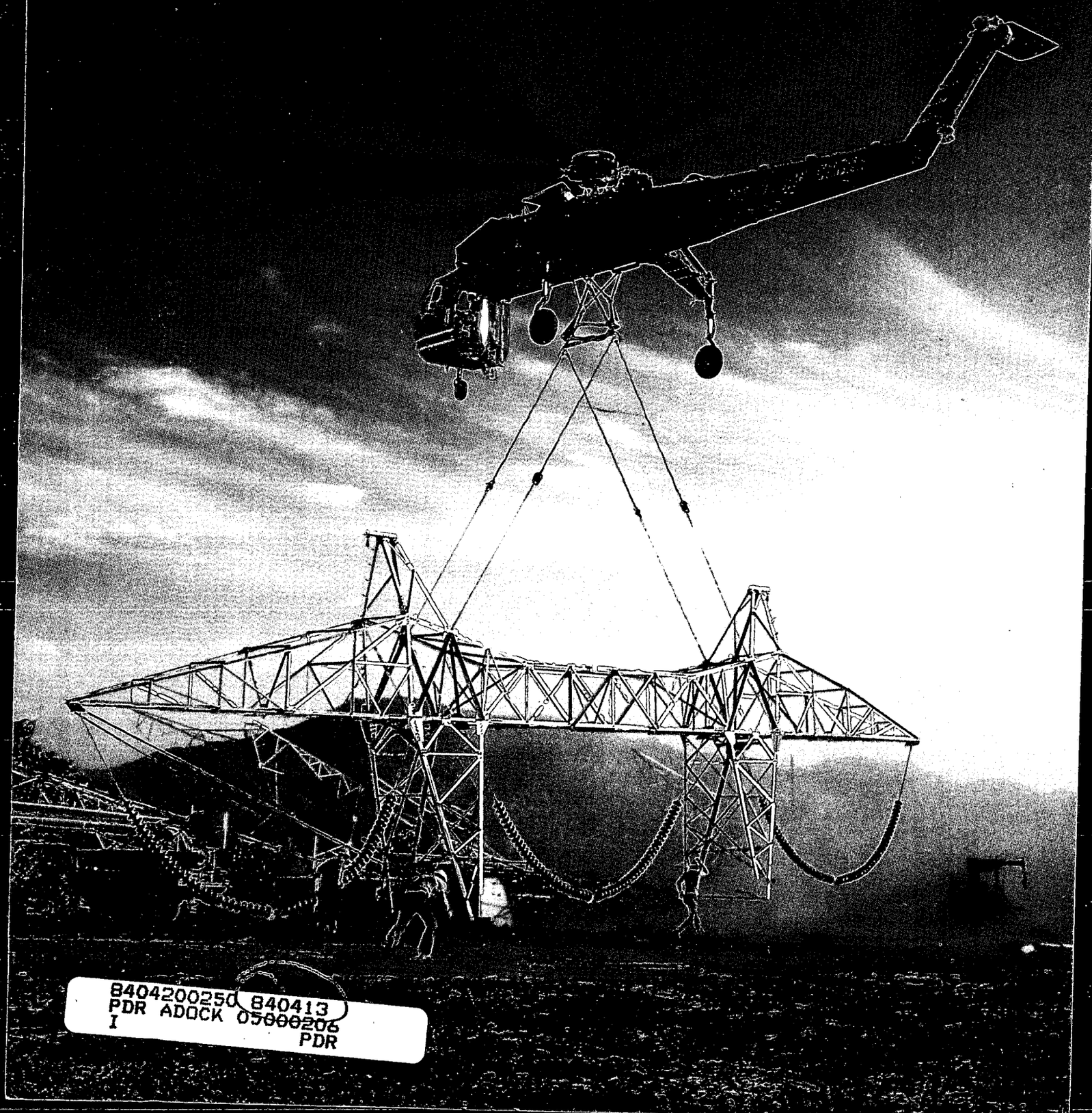
Annual Report
San Diego Gas & Electric
1983



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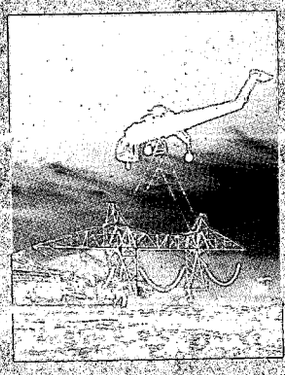


On liftoff, an 80-mile-per-hour downdraft from the rotors of a powerful Sikorsky Sky Crane whips up dust around its cargo, a 10,000-pound section of a lattice-steel tower. The section is being airlifted to a site along the Southwest Powerlink transmission line, which is being built by San Diego Gas & Electric. Lack of roads in remote areas and environmental concerns made the use of a helicopter necessary for many jobs.

Financial Highlights of 1983

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)	1983	1982	% CHANGE
Operating revenues	**$1,530,207**	$1,430,948	+ 6.9
Operating expenses	**$1,356,052**	$1,261,087	+ 7.5
Net income (before preferred dividend requirements)	**$ 187,370**	$ 157,303	+19.1
Earnings applicable to common shares	**$ 159,921**	$ 131,235	+21.9
Average common shares outstanding (thousands)	**49,994**	45,306	+10.3
Earnings per common share	**$ 3.20**	$ 2.90	+10.3
Dividends declared per common share	**$ 1.925**	$ 1.785	+ 7.8
Utility plant additions and replacements	**$ 370,109**	$ 323,729	+14.3
Total investment in utility plant at year-end	**$2,906,164**	$2,567,767	+13.2
Number of customers at year-end			
Electric department	**823,221**	804,546	+ 2.3
Gas department	**530,256**	520,136	+ 1.9
Total energy sales			
Electric (in billions of kwhrs)	**10.50**	10.53	− 0.3
Gas (in millions of therms)	**444**	478	− 7.1

San Diego Gas & Electric Company is an investor-owned utility. It generates, purchases, and distributes electricity to nearly 825,000 customers in San Diego County and the southwestern section of Orange County. It also purchases and distributes natural gas to more than 530,000 customers in San Diego County.

The company's service territory covers 4,400 square miles. It includes San Diego, now the eighth largest city in the United States. Population of the area exceeds two million.

The company headquarters is located at 101 Ash Street, San Diego, California. Its common stock is listed on the New York and Pacific stock exchanges. Its ticker symbol is SDO.

To Our Shareholders

San Diego. It's a very special area, a very attractive area, that appeals to people in many different ways. Social forecaster John Naisbitt understands this attraction and he calls San Diego a city of "great opportunity." In fact, he predicts in his book, Megatrends, that in the next couple of decades many people and companies will select San Diego as a primary relocation destination.

Forecasters here in San Diego are also predicting that there will be accelerated growth—an average increase of 42,000 people each year until the year 2000—for a 2.2 percent annual population increase. This is double the expected national growth rate.

These predictions are of great interest to me, since a high rate of growth will affect SDG&E, the provider of energy to the region.

How will this trend affect SDG&E?
We already have begun preparing to meet this growth in demand for energy and, equally important, for our services, but there's a catch in these population growth predictions. SDG&E has had to cope with a high rate of growth in population and energy use before, most recently in the late 1970s. This time, though, because energy use patterns are changing, the rate of growth in energy demand is not likely to follow an upward curve that parallels population growth.

We expect, for example, that many of the new businesses that will come to San Diego will be in the service and high-tech industries, which have low energy use. Meanwhile, we are helping established companies become more energy efficient.

Homes will use less energy in the future. I've toured some of the new homes going up in San Diego and they are designed to be extremely energy efficient. High energy costs have led our residential customers to look for ways to trim their energy use and they have succeeded in doing so. They are becoming better informed about how to use energy wisely, with the help of SDG&E's general communications programs and through our individual energy management counselling services.

So, while there will be growth in demand, the rate of increase is uncertain. We are planning our response accordingly.

In the past, we responded to population growth in the traditional way, by planning large, costly central station electric energy generating plants. This time, however, we are taking an untraditional route. We will not build any new central station generating plants. I believe the risks of building plants far exceed any potential reward to the company or its customers.

Instead, we have a flexible energy resource plan for the future. We are supplementing our own electric generating capabilities with increased purchases of energy, as necessary. We are taking advantage of excess energy that is available elsewhere and we are encouraging others to build plants and sell energy to us.

What progress has been made?
We have promised our customers that we will stabilize rates and have pledged to our shareholders that we will work to be financially strong. To fulfill our promises, we must achieve the goals that we set for ourselves several years ago: regaining our financial health, satisfying our customers' service expectations, and diversifying our electric energy resource mix. We are well on our way.

- In 1983, we achieved our major financial goal: regaining an A bond rating, which allows us to borrow funds at lower rates. The upgrading, plus our subsequent debt refunding efforts, actually decreased our cost of long-term debt, after eight years of increases, to 10.45 percent in 1983 from 10.58 percent in 1982.

The bond upgrading by all three rating agencies in the spring of 1983 was recognition, by the financial community, that we have successfully improved our financial and operations performance. Since it came earlier than we had hoped, it was also a vote of confidence by them that we will continue to reach our goals.

With the improvement in our financial condition, we will be able to pay for the expansion of our distribution and transmission system to a far greater extent from our own funds. While borrowed funds will continue to be part of the financing program, they will be less important than before. We will also seek to share construction costs with new users.

- In 1983, we continued our efforts to increase customer satisfaction. Since growth in energy sales may continue to be moderate, as in recent years, we are concentrating on finding ways to become more productive and more efficient in the delivery of energy and service to keep costs down and rates stable.
- In 1983, we were able to stabilize our natural gas prices and this year rates charged to our gas utility customers should increase below the level of the inflation rate. In 1985,

we expect to stabilize electric rates. It is our objective to limit future rate increases to the annual rate of inflation.

• In 1983, we made major strides in achieving our goal of diversifying our electric energy resource mix, which will give us greater flexibility. We completed and put into service Unit 2 at San Onofre. Unit 3 is in its final testing stages.

Our computerized Energy Management Center, completed in 1983, has given us access to the information we need to make our flexible resource plan work. Already we are locating and assessing available sources of electric power throughout the West, Southwest, and Northwest to find the most reliable and least expensive sources.

• In 1983, the company's average fuel cost declined after 10 years of increases to 5.53 cents per kilowatt hour from 5.64 cents in 1982, due to the company's aggressive search for the lowest-cost energy available for purchase as well as to a switch from fuel oil to natural gas in our own generating plants.

The result of our diversification of resources effort was an increase in purchases of electric energy in 1983 to 44 percent, primarily coal and hydroelectric. Use of fuel oil in our own generating plants dropped to 24 percent of our resource mix.

Natural gas, which declined in price and was readily available, was 30 percent. In 1984, with both Unit 2 and Unit 3 at San Onofre Nuclear Generating Station completed, the percentage of nuclear energy in our resource mix should increase considerably.

By mid-1984, the Southwest Powerlink, our 280-mile-long transmission line to Phoenix, will be completed. The powerlink will give us access to lower cost coal and geothermal energy, some of which already is under contract for delivery to us from various sources, giving us greater fuel resource flexibility. The completion of this transmission line will be a major turning point for SDG&E.

In the not-too-distant future, transmission of energy will become far more important to SDG&E and, I believe, to other utilities around the country. The Southwest Powerlink will be a part of a cooperative effort by utilities that will ultimately produce an integrated nationwide grid.

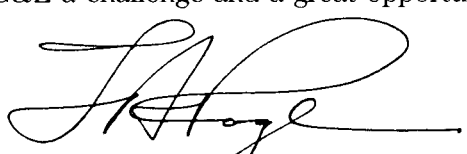
Energy will move around the country in far greater amounts than it does now. It will move from regions where there is excess generating capacity and lower-priced fuel resources to regions, such as ours, that have few fuel resources and, therefore, find it is more economical to purchase energy than to build plants, buy fuel, and generate electricity.

Where do we go from here?

Now that we are within a stone's throw of achieving all of our major goals, we recognize that we are becoming a different type of utility, really an energy management company.

It was with this changing corporate character and the developing uncertainties about the future in mind, that in 1983 your management team began to develop a fully integrated corporate strategic plan. We intend for this plan to serve as a flexible guide for us in preparing for the anticipated increase in energy and service demands by our customers, in assessing new opportunities in the energy marketplace, and in assuring that the company remains an attractive financial investment for our shareholders.

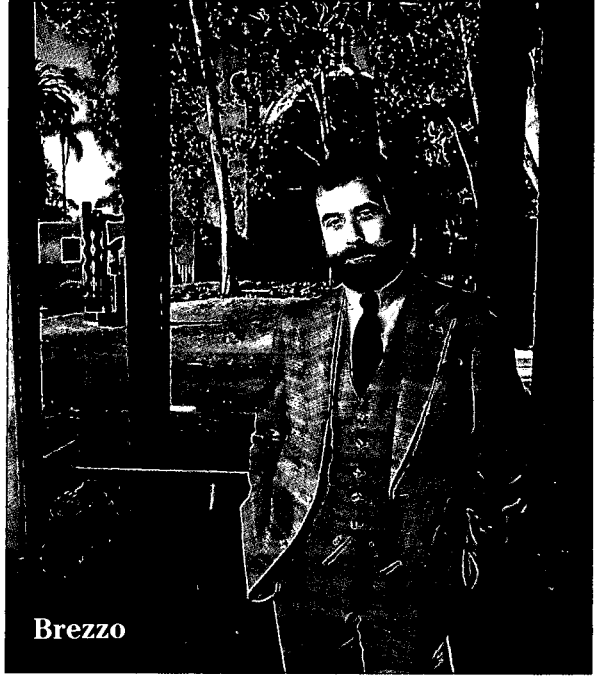
Our plan will be completed this year and we will report to you about it and about our new corporate objectives. We think the growth of San Diego, which is a "destination city" for many people around the country, provides SDG&E a challenge and a great opportunity.



Thomas A. Page
Chairman, President
and Chief Executive Officer
February 16, 1984

San Diego: Destination City

Four civic and business leaders, who came to San Diego from other places, were asked to discuss the area's future—its problems and its prospects. Their comments:


Brezzo

Steven L. Brezzo is director of the San Diego Museum of Art. He moved to San Diego from New York City in 1972 and four years later became the museum's director. The museum, founded in 1925, has one of the largest art collections on the West Coast.

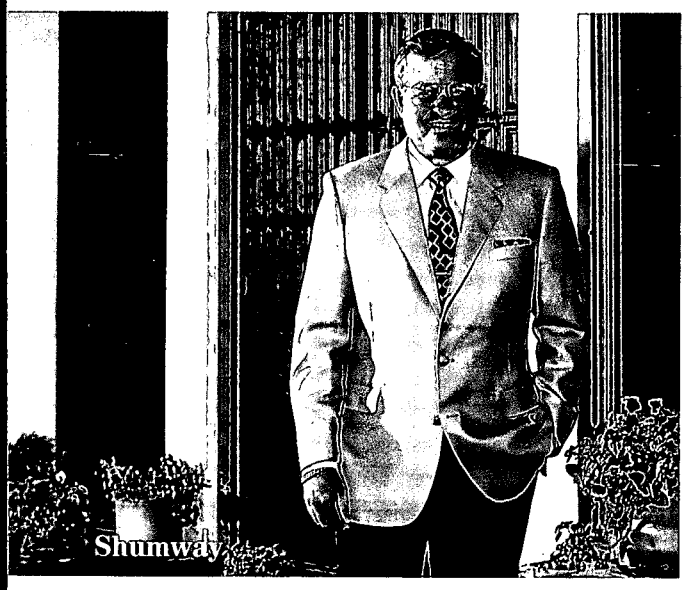
Along with discourses on redevelopment, tourism, growth management, and dynamic new leadership, the discussion of the future quality of living in San Diego must encompass an integral component: culture. It is here in the realm of the visual, performing, and literary arts that the success stories of urban regeneration have inevitably begun and have sometimes concluded. For cities across the nation have recognized that the arts express, more effectively than the bustling mall or the shining skyscraper, the diversification and richness of life in any area.

Here, in San Diego, we are the fortunate heirs of a unique aesthetic environment. But the financial support for our arts remains the lowest in the state on a per capita basis. Local government contributes less to the arts than any other comparable urban center and, concomitantly, our local endowments are perilously low.

Federal support has diminished drastically. The absence of major corporate headquarters from which the arts traditionally derive high levels of support, coupled with rising costs in our operations, threaten the continuity of a viable arts program for our community. Those who will plan our future —civic leaders, critics, and citizens— must strengthen the cultural institutions while arts leaders must provide continued inspiration and development of their audiences. The cost for San Diego's future excellence will continue to be great, but the future is San Diego's most precious asset.

Ernest W. Hahn is chairman of Ernest W. Hahn, Inc., which develops, manages, and owns regional shopping centers throughout the United States. Horton Plaza is the pivotal project in the redevelopment of downtown San Diego. It is planned to be an "urban marketplace" and will include the traditional shopping components and some non-traditional components, such as two small theaters, produce stands, and a million dollars in art and architectural embellishments. Hahn moved his company from El Segundo, California to San Diego in 1982.

In the immediate future, San Diegans have the unique opportunity to guide the vigorous growth of their county. The hindsight gained


Shumway

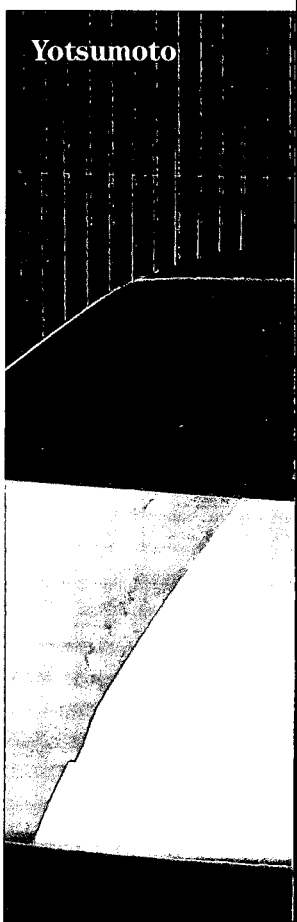
Forrest N. Shumway is chairman and chief executive officer of The Signal Companies, Inc., a high-tech and engineering group of companies that operates world-wide in the aerospace, electronics, communications, energy service, transportation, and construction industries. Signal moved its corporate headquarters to San Diego in 1980.

The residents of San Diego are fortunate to have inherited a vibrant and exciting community. Community leaders who preceded us have planned, organized and managed San Diego's community resources well, making San Diego truly a city of great opportunity.

This legacy places a real responsibility on the community leaders of today. Growth must be planned and organized to provide jobs, housing and recreation for the remainder of the century. But, growth for growth's sake is unacceptable.

What we owe our predecessors is to ensure that the existing quality of life in San Diego continues. It is essential that San Diego's environment remain economically safe and sound. We must ensure that the amenities San Diegans enjoy keep pace with the growth of the community.

We at Signal, who have recently moved to San Diego, are well aware of the quality of life and opportunities that exist here. We believe that each citizen plays a pivotal role in formulating our community's future and its opportunities.


Yotsumoto

by observing the failure of other large metro areas to modify and upgrade their planning ordinances to conform with changing economics and demographics should be invaluable in the determination of future guidelines.

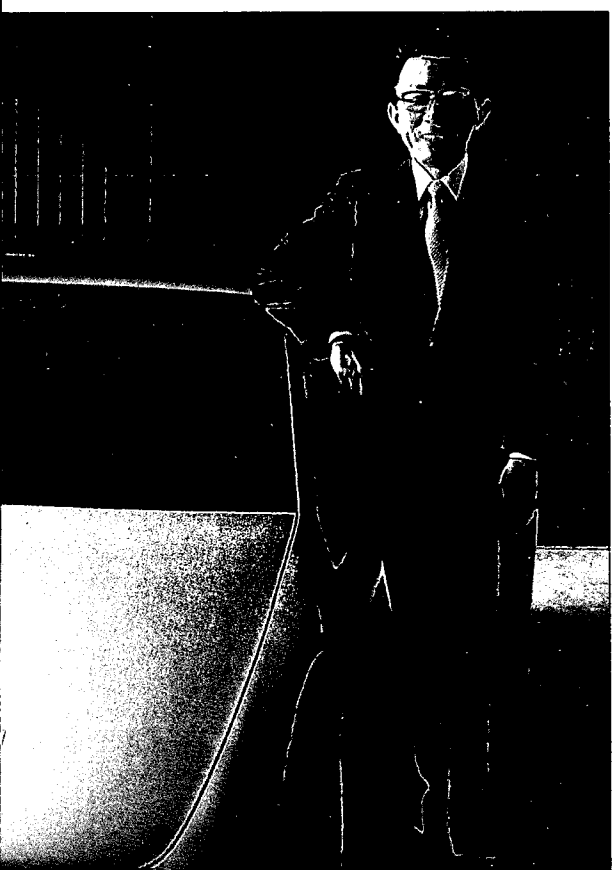
As an example, economic mass transit can only be achieved by the proper delineation of urbanized modes, allowing increased densities within their perimeters and preservation of large natural open land masses elsewhere.

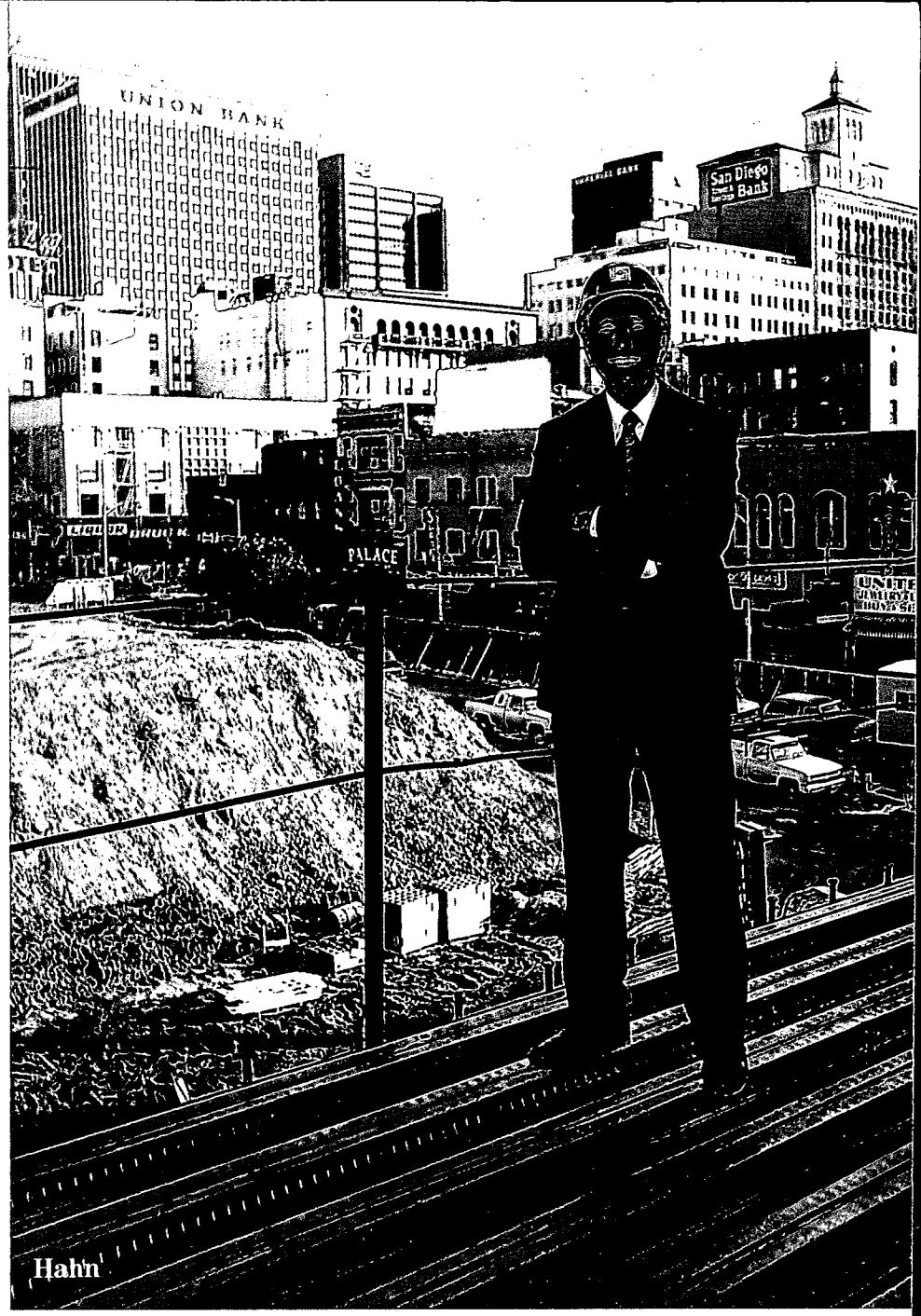
Existing resources such as roads, utilities and public infrastructure should be utilized to their fullest to help restore fiscal stability to the cities. This is particularly true of the older downtown areas.

Severe loss of revenue under Proposition 13 initiated major policy changes to counteract the fiscal shortfall. Many of these changes are counterproductive in the creation of a balanced economy and a quality of growth matrix.

The social and economic benefits derived from a diverse and balanced growth are of far greater importance long term than stopgap short range solutions.

I'm heartened by the constructive approach taken by the City of San Diego in addressing the many problems facing this community. Continued emphasis on public and private partnerships will result in many opportunities that are mutually beneficial.





Kazumi Yotsumoto is president of Nissan Design International, Nissan's only auto design center outside of Japan. The center's responsibility is to develop automotive concepts and designs with international market appeal. San Diego was selected as the site for the center, in part because of its quality of life and because it is one of the centers of high technology activity in the United States. The $4.7 million center was opened in 1980.

The Nissan Design International staff is most happy to be a part of San Diego's business community.

While we and our families enjoy the city's clear sky, moderate climate, beautiful scenery, and wonderful people, I think the important point is that San Diego is not like the established cities which were based on the old values. It is a promising city which is being planned, and is developing, toward an era of new values —the 21st century.

There are many talented leaders working hard in San Diego in every walk of life—in administration, industry, business, research, education, and art. I have been in San Diego only a short while, but I am already proud of it because of these reasons. My hope is to see "America's Finest City" become renowned also for its cultural activities.

Achieving Our Goals

"It was a great day for us!"

Dick Korpan, Group Vice President—Finance

There were broad smiles, calls of congratulations, and some laudatory news stories in early June 1983 about a major achievement at San Diego Gas & Electric.

The news was that the company had regained an A bond rating, the fruition of four and one-half years of work.

This involved a company-wide effort to turn SDG&E's fortunes around, beginning with the development, by the management team, of a new corporate philosophy. As part of this effort, a financial improvement program was designed by the financial management staff under the direction of Dick Korpan, group vice president of finance. Five key financial objectives were targeted that would help the company gain a financial profile that would merit an upgraded bond rating. These objectives were announced in 1979 to shareholders and to utility analysts.

It was an unusual approach and some observers doubted the company could reach its target on time. Others said that SDG&E was going out on a limb to publicize its objectives. This concern was understandable because in 1979 things were not going well for SDG&E.

Construction costs at San Onofre Nuclear Generating Station had escalated far beyond estimates. Customers, stunned by sharply higher bills because of higher gas and oil prices, were demanding lower rates. Interest rates were soaring to record levels at the time SDG&E needed to borrow funds at record levels. The price of SDG&E stock was low and several new common stock offerings had to be made at well below book value.

Turning this situation around was a tall order.

Accomplishing the turnaround

The magic that did so was a combination of up-to-date management methods by the new management team and old-fashioned rolling-up-the-sleeves and burning-the-candle-until-midnight efforts by both management and staff.

Many things needed to be done, so cooperation was vital. To help the company meet its five financial improvement goals, several interdepartmental committees were formed to assure that activities were coordinated.

To limit capital expenses while meeting present and future service responsibilities, the company began a major maintenance program on generating, distribution, and other facilities as the least expensive means of increasing capacity and service reliability.

To cut financing costs, the company considered many alternatives, including the innovative use of lower-cost, tax-exempt industrial development bonds rather than conventional mortgage bonds to provide funds for certain construction projects.

In addition, the company successfully persuaded the California Public Utilities Commission (CPUC) that the company needed a higher rate of return, plus faster fuel cost reimbursements, in order to return to financial health and, ultimately, to stabilize its rates.

By the end of 1982, the fourth year of the financial recovery plan, three of five targeted financial objectives were reached. SDG&E had improved earnings, before income taxes and interest charges, to three times interest charges; increased the common stock portion of the company's total capitalization to 40 percent; and increased its dividend each year.

The trend of improvement was clear. The company in early 1983 increased its dividend on the common stock for the seventh consecutive year to $1.96 per share on an annual basis.

Recognizing the progress

The price of SDG&E's common stock began to rise steadily.

In March 1983, Duff & Phelps announced it was raising the bond rating; in May, Moody's made its announcement, and in June, Standard and Poor's made it unanimous when it gave an upcoming bond offering an A– rating, up from the BBB it had been giving SDG&E bonds for the past eight years.

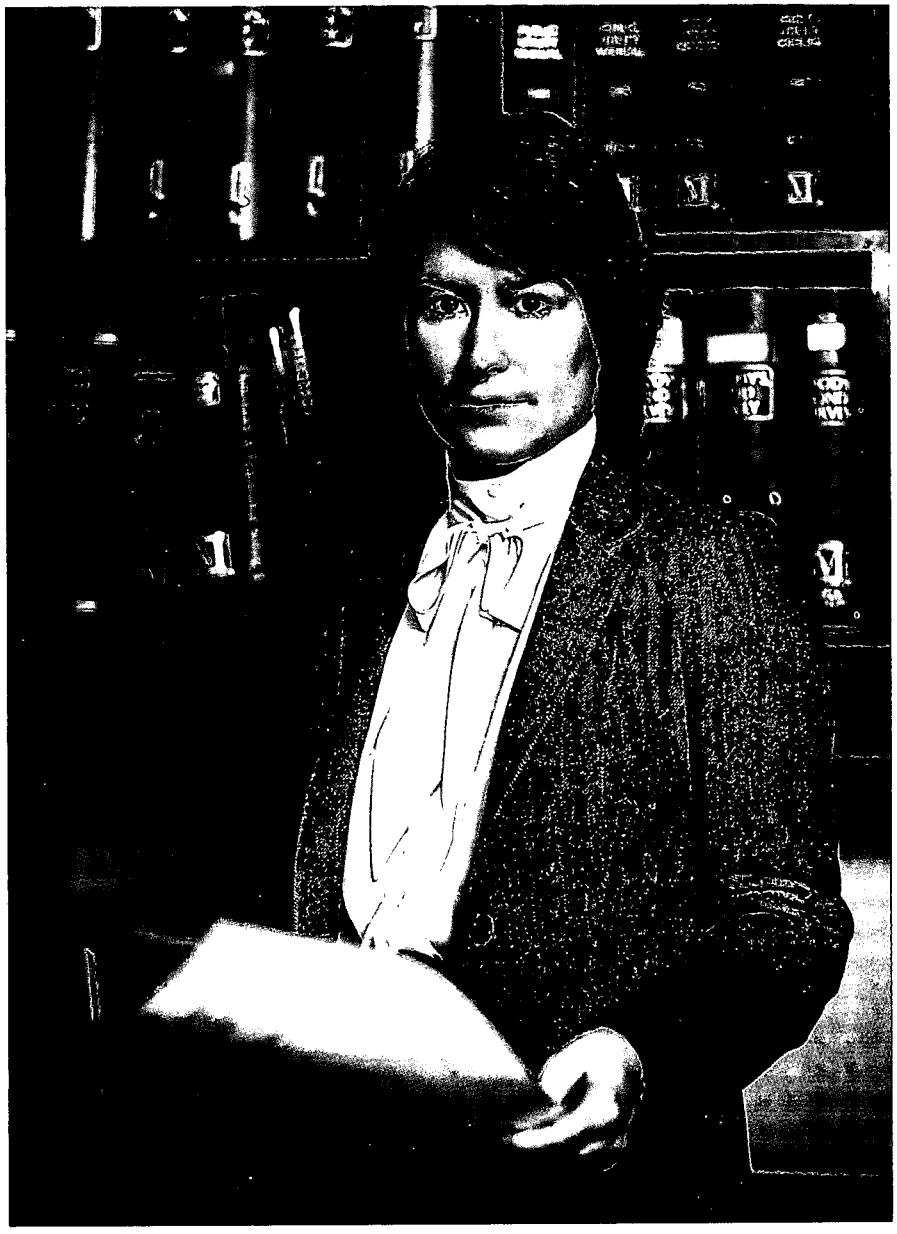
The local news media, which had been both skeptical and critical of SDG&E's efforts, also were finally convinced that things had turned around. For example, an editorial in the San Diego *Tribune* said,

> *A healthy public utility that is coping effectively with its financial problems can serve its customers with more efficiency and economy than one that is wallowing, decks awash, in a sea of fiscal troubles . . . Tom Page . . . is running a tight ship. He is weathering the storm. The benefits are beginning to show up all down the line, for owners, crew and passengers alike.*

Financial improvement continues. By year-end 1983, SDG&E achieved its fourth financial objective: to increase internal generation of its capital requirements to 40 percent, or more.

In 1984, the company expects to reach its key financial target, and the last of the original five, with the limitation of construction expenditures to 10 percent of capitalization.

Susan Abbott: Goals help us measure management.



Susan Abbott is a utilities analyst for Moody's Investors Service in New York City. She was asked for her opinion on the value of setting corporate goals.

Setting goals provides a utility's management with a positive framework for strategic planning. In addition, a well-defined set of basic objectives communicated to the investment community acts as a standard against which the investor can measure management's performance.

Goal-setting forces utility executives to focus clearly on shortcomings in the company's financial condition. Once management recognizes weaknesses and determines the level of financial strength desired, a precise program for improvement can be formulated. The result should be that management will have a better concept of what needs to be done to improve the company's fiscal conditions.

Because the difficulties encountered today in running an electric utility are far more complex than they were 15 years ago, the quality of management is considerably more important than ever before. It is unlikely that the average investor will have the opportunity to adequately gauge management's ability by any standards other than historical financial results.

Clearly communicated goals allow investors to evaluate the reasonableness of the objectives and to track progress toward success. Consequently, goals give the investor the opportunity to measure management's capabilities more fully.

Review of financial events

In 1983, earnings available for common shares increased to $159.9 million, or $3.20 a share, compared with $131.2 million, or $2.90 a share, in 1982, for a 10.3 percent increase in earnings per share.

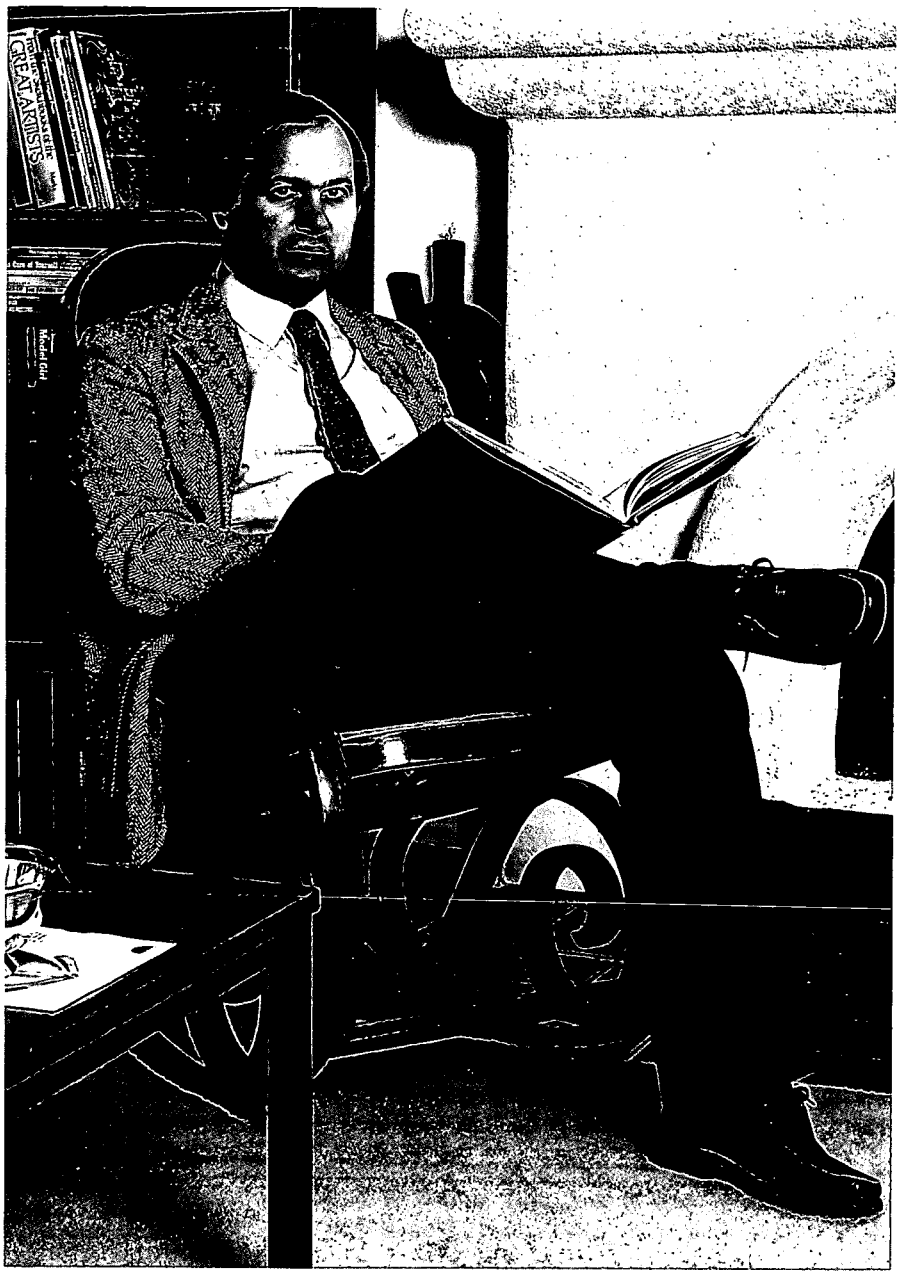
Of this increase, 29 cents per share was due to the sale of a subsidiary company, Applied Energy, Inc.

Net income before preferred dividends was up 19.1 percent to $187.4 million in 1983 compared with $157.3 million in 1982.

Operating revenues for the year were $1.53 billion, compared with $1.43 billion in 1982, which represents a 6.9 percent increase. Operating expenses increased to $1.36 billion from $1.26 billion, a 7.5 percent increase.

The company's many successful financings, plus other financial events, in 1983 have helped the company cut costs.

- In early 1983, after two years of negotiations with various governmental bodies, SDG&E's plan to issue up to $300 million in tax-exempt industrial development bonds (IDBs) received final approval. Subsequently, two $150 million IDB issues were sold, both with a low 10 percent coupon rate. The use of IDBs to finance certain construction programs is resulting in major savings to customers because the tax-free bonds have a lower interest rate compared with the traditional taxable bonds normally issued.



Frederick Nicastro: It gives the folks who pay the bills a chance to be part of the company.

SDG&E's Common Stock Investment Plan was offered to customers in mid-1983 as a convenient and economical way for customers to invest in the company. The initial cash investment can be as little as $25 or as much as $5,000. Several thousand customers were enrolled in the plan at the end of 1983, including Frederick Nicastro, who lives in a northeast suburb of San Diego. He is a consultant for Josten's, a marketer of recognition awards for employee incentive programs.

Q. Mr. Nicastro, have you ever owned SDG&E stock before?
A. I've owned other stocks, but not SDG&E's stock.

Q. Why did you join the Common Stock Investment Plan?
A. I liked the way the plan was put together. For one thing, it offered me the chance to buy stock easily, through the mail. That means I can invest without taking time to go to a broker.

Q. Did you research the company's financial performance before you decided to take advantage of the offer?
A. I read the prospectus and talked to a few people about the company. I found that it has been paying a good dividend and it seemed like a good opportunity for me. I like it, too, because it gives the folks who pay the bills a chance to become part of the company.

Q. Have you lived in the San Diego area long?
A. My wife and I moved to San Diego about two years ago after living in different cities around the country. We really like it here and we intend to stay here.

• In May, SDG&E sold 14 percent of its share of the Southwest Powerlink transmission line section between Phoenix and Imperial Valley to Imperial Irrigation District. This helped fund construction costs of the line.

• In June, SDG&E issued 1.5 million shares of common stock for $19.75 a share, more than $2 above book value. It may be the last public common stock offering for several years.

• In July, SDG&E purchased $70 million of its 16 percent and 17⅜ percent bonds, as part of its cost-trimming effort. The purchase was funded primarily through the issuance of $65 million of 12⅞ percent first mortgage bonds with a 13 percent yield.

• In October, Applied Energy, Inc., a subsidiary, was sold. As a result of a public offer made by its purchaser, Energy Factors, Inc., of San Diego, a subsidiary of SDG&E received common stock and convertible debentures equivalent to 19.9 percent of the total capitalization of the new company in addition to $35.7 million in cash. The new company intends to pursue cogeneration marketing opportunities on a nationwide basis.

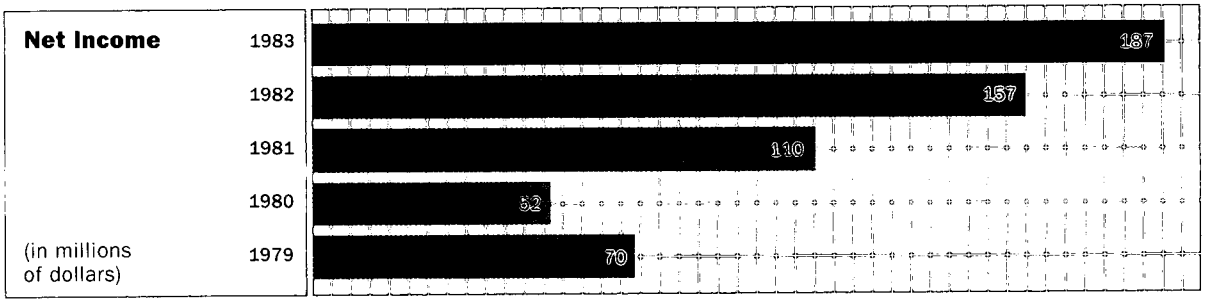
• In December, SDG&E bought back $42.5 million of its preference stock for $30 million. This included all of the shares of the $7.325 series and half of the $8.25 series. Savings to customers will be about $43 million.

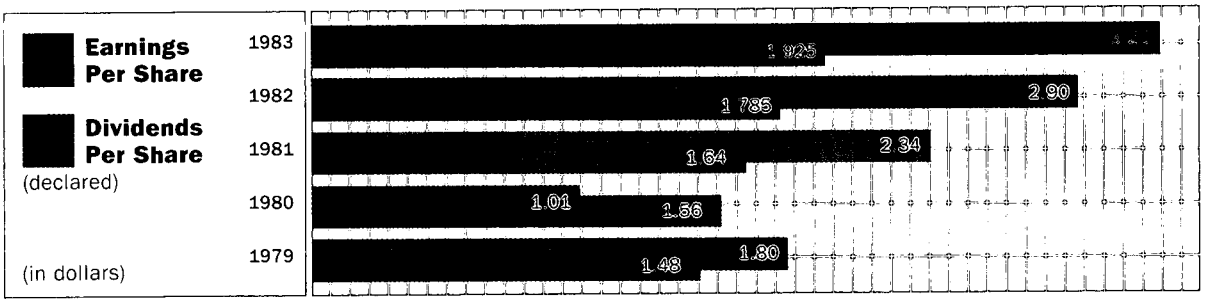
Common Stock Investment Plan

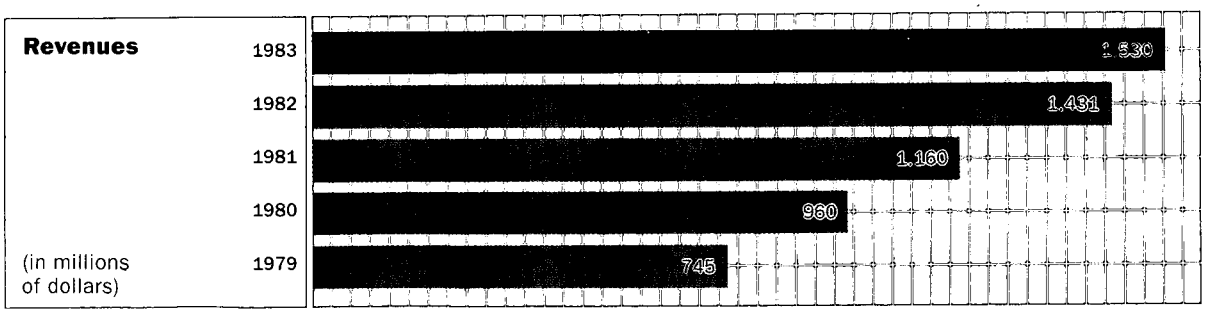
Of particular interest to common stock shareholders and customers, SDG&E in 1983 updated its dividend reinvestment plan, now called the Common Stock Investment Plan. It was offered by mail to all common stock shareholders of record and to SDG&E customers in enclosures with their bills. Benefits for the customers are the same as for common stock shareholders of record. (For details of the Common Stock Investment Plan and to request the prospectus, see page 24.)

Common stock shareholders invested more than $17.4 million during 1983 through the Common Stock Investment Plan and its predecessor plan.

In addition, over 4,800 customers purchased 229,000 shares of stock, raising $4.5 million. This exceeded company expectations and was another confirmation that opinion about SDG&E has turned around.







Net income rose 19 percent in 1983

The Ratemaking Process

The ratemaking process is subject matter that many people avoid and it's no wonder. The terminology is difficult and the process is confusing. It hasn't always been so bewildering—or so important for shareholders to understand—as it is today.

Between 1958 and 1972, for example, SDG&E didn't have a single general rate increase for electricity. Also, fuel cost increases were small. Proceedings, generally, were brief. During those years, SDG&E's appearances before the California Public Utilities Commission (CPUC) were infrequent.

Today, at any one time, there are likely to be several complex SDG&E rate proceedings under way and being reported upon by the media. The 1984 General Rate Case, which began with an application filing in December 1982, was decided in December 1983. It involved formal appearances by SDG&E executives, accountants, lawyers, and financial planners. And there were numerous informal working meetings with the CPUC staff.

A computer now is essential to keep track of rate proceeding developments and a small pickup truck could be filled with the written transcripts of a single year's SDG&E regulatory proceedings.

The function of the CPUC

The essential relationship between a regulatory agency and a utility remains the same as it has always been: the government agency partially takes the place of competition in the marketplace.

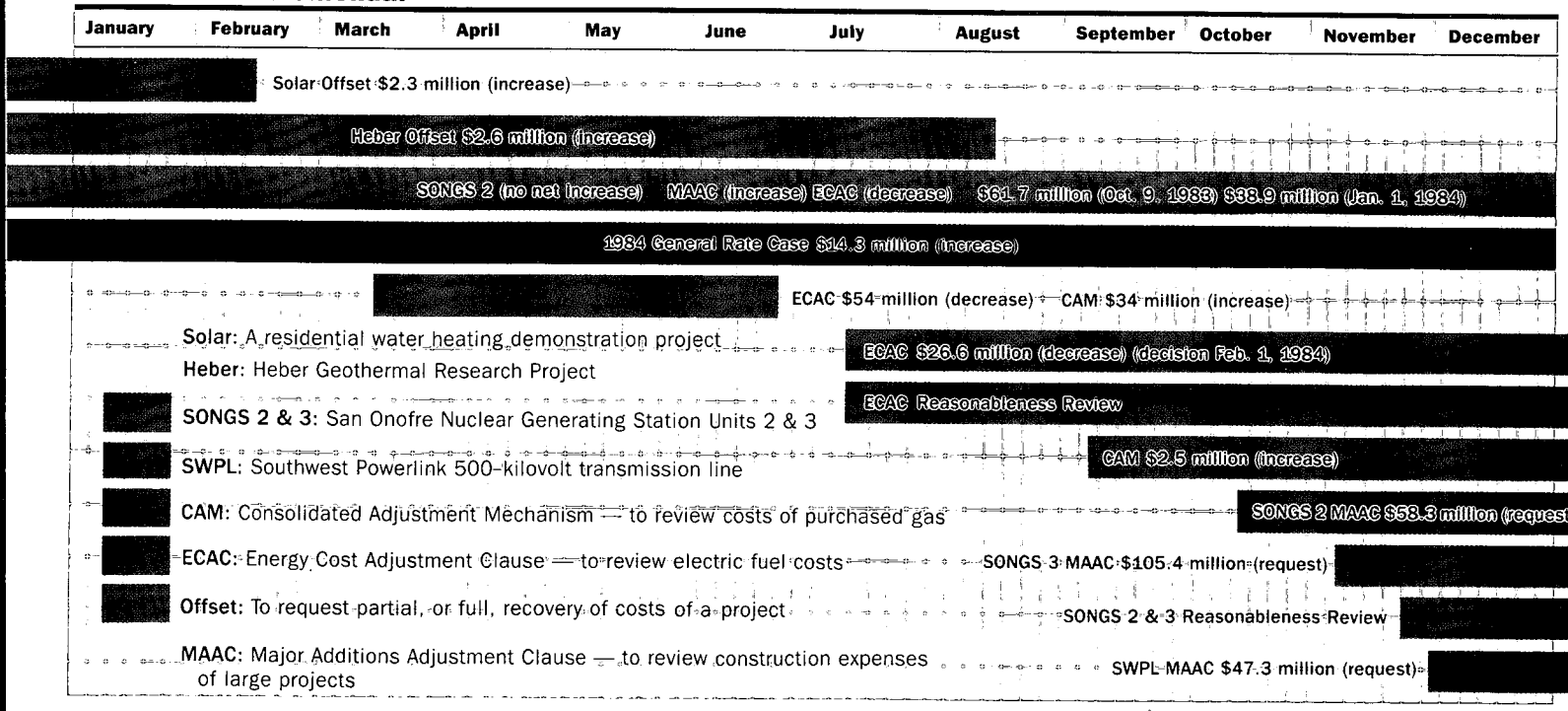
It ensures that a utility, which has the exclusive right to serve a specified geographical area, charges fair and reasonable rates for the services it provides to its customers. The agency also is charged with ensuring that the utility is able to recover its cost of doing business and is permitted to earn enough profit to attract the investment capital it needs to serve customers. How the agency interprets its responsibility can add or subtract risk.

Changes in the 1970s were caused by inflation, the effects of the Arab oil embargo and, very important, the growth of third-party involvement in the regulatory process. Special interest groups, concerned about the environment, safety, or escalating utility bills, became more active participants in the regulatory process. As a result of these changes, issues became more numerous and proceedings more involved.

New laws were enacted that require regulatory agencies, such as the Nuclear Regulatory Commission, to give greater consideration to the effects of projects. Lengthier regulatory processes meant construction projects were delayed or prolonged for years. Costs were pushed upward by an inflationary spiral, sometimes rising far above project estimates because of regulatory delays.

Furthermore, rising fuel costs, resulting from actions by OPEC in the 1970s, caused cash flow problems for many utilities. To com-

1983 Rate Case Calendar



pensate, utilities won the right to more frequent reviews of their costs.

Rate proceedings and reviews

In California, the Energy Cost Adjustment Clause, or ECAC, proceedings may be held twice a year to review the fuel costs to the company for generating electricity. One of the reviews involves the CPUC's assessment of our fuel management decisions. Rates may go up or down as a result of these proceedings. And there are two annual Consolidated Adjustment Mechanism (CAM) proceedings that allow SDG&E to recover from its customers any changes in the cost of gas purchased from its supplier.

While this frequent reassessment of costs has been extremely important to SDG&E in recent years because of the increasing prices for purchased gas and fuel oil, CAM and ECAC proceedings may be of lesser importance in the years ahead because prices are more stable.

Licensing proceedings are also extensive. The licensing for the Southwest Powerlink was a one and one-half year process and involved not only necessity and cost but an assessment of the effects on the environment along the entire route and on farming in Imperial Valley.

Offset proceedings, allowing the company to recover costs incurred by such things as construction or fuel, may last for many months.

A Major Additions Adjustment Clause (MAAC) proceeding was added to help California utilities recover construction expenses for large projects, such as San Onofre Nuclear Generating Station (SONGS), in between general rate cases.

These can be lengthy proceedings, too. The SONGS 2 application was filed in March 1982 and the commission's decision on this matter was issued in September 1983 and modified in November 1983. Since then, the company has filed an update for 1984.

Reasonableness Reviews for construction projects are another recent addition to the regulatory process. In these reviews, the CPUC assesses the prudency of decisions made by management during the construction period.

Growth of third-party involvement

The General Rate Case sets the allowed rate of return, debt service, and profit that your company is permitted to earn for the two following years, plus an attrition adjustment, which is a compensation for inflation in the second year. It also assesses expense levels for all non-fuel costs as well as interest rates.

Third-party involvement in the 1984 General Rate Case was extensive. There were 22 intervenors, as they are legally called, including the City of San Diego, a welfare rights group, an insulation contractors association, the Sierra Club, and the Association of California Utility Shareholders.

Chairman Tom Page addressed the California Public Utilities Commission in October 1983 in the final proceedings of the 1984 General Rate Case.

In 1983, yet another development in California regulatory affairs was initiated. Its effect will begin to be felt in 1984. The Utility Consumers Action Network (UCAN) was formed specifically to intervene in SDG&E ratemaking procedures and represent customer interests. The organization is allowed by the CPUC to solicit membership and discuss issues in enclosures with SDG&E bills up to four times a year during a two-year experimental period. By the end of January 1984, UCAN membership was 52,000, or 2.5 percent of the population of SDG&E's service territory.

With the considerable funds it has raised, UCAN plans to hire a permanent staff of attorneys and financial experts who may begin active involvement in SDG&E regulatory affairs in early 1984.

The ratemaking process is, indeed, complex. For SDG&E staff in 1984, and in the years ahead, there won't be a dull moment.

1984 General Rate Case

The California Public Utilities Commission in December 1983 granted SDG&E a $14.3 million general rate increase for 1984. The increase allows a rate of return of 12.82 percent, incorporating a return on equity of 16 percent. The company had requested $65.3 million.

However, the commission deferred a decision on whether it would continue to allow the company to keep in its rate base $45 million for the Blythe Site, 16,500 acres of farm lands and a licensed power plant site, in southeastern California. Hearings were held in January and a decision is expected in March.

"We have a dual challenge before us."

Jack Thomas, Group Vice President—Customer Service

San Diego will be one of the fastest-growing cities in the United States during the next two decades, with many people expected to migrate to the city as part of a general north-to-south shift in population in the United States and because of the specific attractions of the region. Meanwhile, SDG&E's present customers expect better service as a result of the higher energy bills they pay along with cost-cutting measures by SDG&E so their bills will stop going up.

Preparing the distribution system for the inevitable population growth and, at the same time, increasing present customers' satisfaction for service is a dual challenge for Customer Service, which is under the direction of Jack Thomas, group vice president.

Preparing the system for the future

SDG&E will spend hundreds of millions of dollars in the remaining years of this century to expand its distribution system to accommodate the increased demand for energy by customers. Planning for this expansion is well under way.

Customer Service's Centre City District office, for example, has been working closely with companies that are redeveloping downtown San Diego. The largest of the projects under way is Horton Plaza, a shopping center.

Although SDG&E's electric and gas meters at the plaza will not begin turning until early 1985, Centre City planning has spent many hours over the past two years studying project plans, designing a new underground cable system to run to the center, and constructing facilities to accommodate the Horton Plaza's complex energy needs.

The South Bay District office is assessing a plan that may mean a major expansion of electric and gas service to Otay Mesa in the next few years. The City of San Diego in 1984 will annex 3,000 acres in this border region and has announced it would encourage development of it as part of a proposed international commercial and business center that will be linked to Mexico by a new border crossing.

Customer Service's North Coast District office serves some of the fastest-growing communities in the service territory. In 1983, in preparation for continuing population growth and to improve service reliability to existing customers, SDG&E built a $2 million substation in Carlsbad. The substation receives its energy from the nearby Encina power plant and steps the voltage down to 12 kilovolts before distributing it to North Coast customers.

Assuring better service

Assuring the reliable delivery of energy and prompt service, plus providing information to customers, is a labor-intensive business.

Customer Service workers account for over half of SDG&E's 5,000 employees. To respond to customers' demands that the company keep its costs down while improving service, the company accelerated its preventive maintenance program for the 11,600-mile electric distribution system, improved workers' productivity in many departments, and tapped the ideas of employees for cost-saving suggestions.

The company's preventive maintenance program on its underground system began in 1979 and in 1982 on the overhead system. Today there is a formal preventive maintenance program on every piece of distribution equipment. In 1983, the company tested an infra-red detection device to help spot deteriorating connections in overhead and underground lines. The device proved it could spot problems before they are visible to the human eye and its use will be expanded this year.

Improving productivity

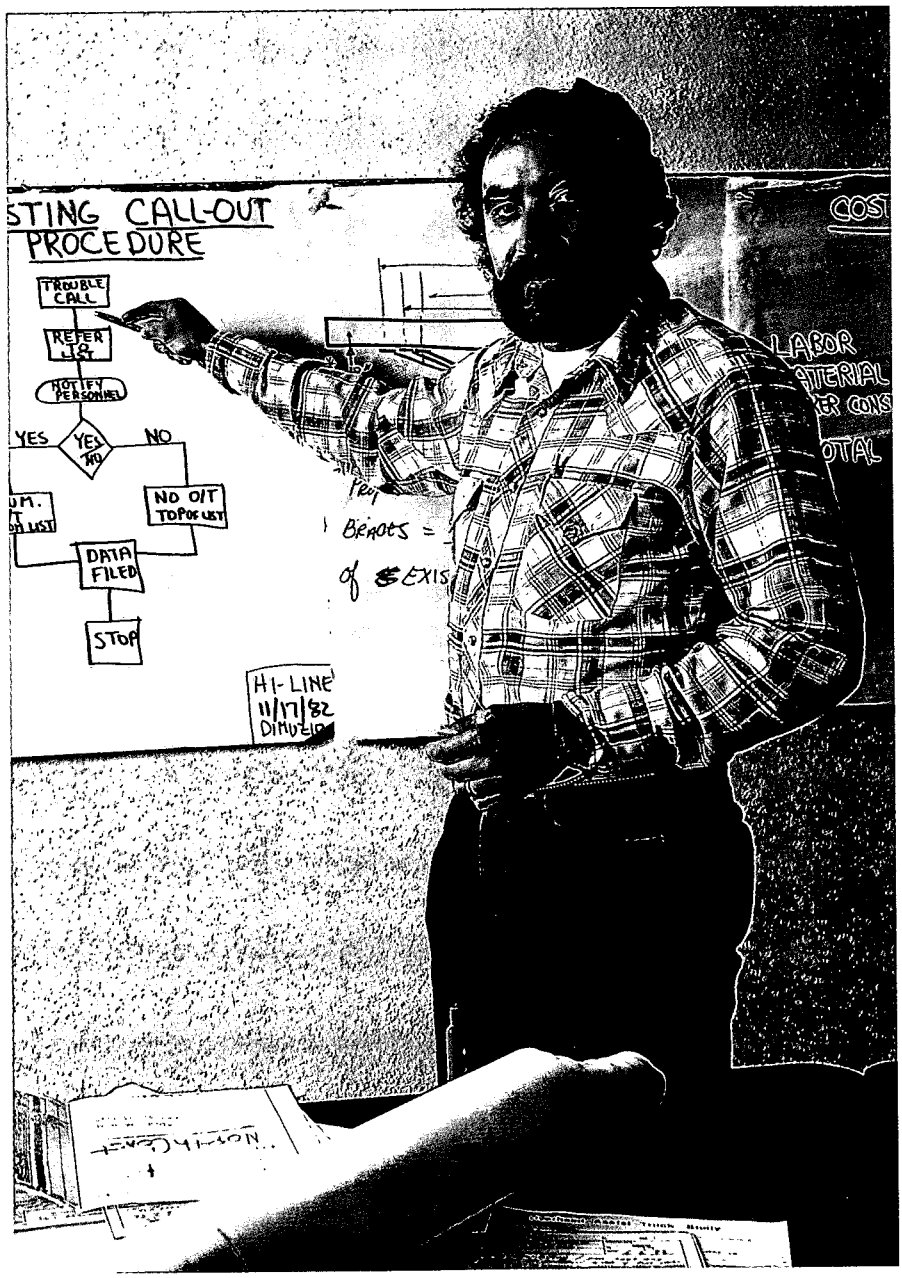
As part of the effort to improve productivity, computers are being used more widely and more effectively by Customer Service.

After several years of planning, a sophisticated computerized Distribution Facilities Information System will be completed, in stages, between 1984 and 1987. The new system will help drafters to update maps up to four times faster than by drawing them by hand, engineers to save time when preparing data for distribution system analysis, and inspectors to optimize inspection and preventive maintenance schedules.

Computers have been used by Customer Information for 10 years to provide speedy and accurate answers to customers' inquiries. In 1983, Customer Information representatives' level of skill in using computers increased and, accordingly, so did their productivity. During the year they answered 1.65 million calls, up seven percent from 1982. Each representative served about 84 customers a day, or more than 21,000 customers in 1983. That is an increase of 15 percent in two years' time.

1983 also was the first full year of extended hours service, which was begun by Customer

Joe Torres: I like the idea that management wants to hear personally about our ideas.



Joe Torres is a working foreman in overhead construction at the North Coast Operating Center. He has worked for SDG&E for 15 years. He joined the Hi-Liners, one of SDG&E's pilot teamwork groups, when it was formed a year and one-half ago. Torres explains what the group does.

Those of us who work in the field see the problems and know the answers. While there was a process for getting our ideas heard, it was indirect and slow. When I heard about the Teamwork Group program, I saw it as a chance to let management know directly about my ideas.

Our group meets once a week and we concentrate on solving problems that affect overhead construction work. We've finished three projects so far and each one takes several months to complete. Two more are under way.

Since most of our projects involve work efficiency, we make on-the-job time studies to show us just how much time can be saved.

As part of each project, we prepare a cost-benefit analysis. The analysis helps us identify potential savings compared to the one-time cost the company might have for any changes that may have to be made. In the last project alone, we identified potential savings of $100,000.

When we finish a study, we make a presentation to management on a complete plan for the project. I really like the idea that management wants to hear personally about our problems and wants our ideas on how to solve them. It's a big morale booster for us.

Overhead construction workers meet weekly at a Teamwork Group session. In 1984, there will be 14 such quality circle groups at SDG&E.

Information to give working customers improved access to the information system. This new service is very popular and in 1983 about 104,000 customers called during the extended hours time periods.

Even when computers cannot help, ways to increase productivity are being found.

- Residential energy audit methodology was streamlined in mid-1982 and it increased auditors' productivity from 2.5 to 6 audits per day. This made SDG&E's cost per audit the lowest of all the utilities under California's plan to encourage utilities to teach customers about energy conservation in their own homes.
- The Distribution Construction Group began using a fiberglass retaining wall, or "hill holder," to protect dirt-sensitive equipment. The 50-pound fiberglass wall can be installed by a single worker and is used in many locations instead of a block-type wall, which requires a crew of two or three to install.
- About two years ago, a pilot Teamwork Group, or quality circle, program was designed that is tapping employees' ideas about ways to trim costs through better work methods. More than $1 million in cost savings were identified from the six pilot groups' work so far.

As a result of the pilot program's cost-cutting success, and with many other employees eager to join the program, SDG&E will form eight more groups in 1984.

Helping customers manage energy use

Customer Energy Management is helping SDG&E customers understand energy use and trim their bills in a variety of ways.

For residential customers, incentives to conserve were offered in the form of low-cost financing of insulation projects and information on energy-efficient appliances. And 27,000 residences were audited on the request of customers by energy management auditors.

Commercial and industrial customers receive special help through audits and in the development of cogeneration and small power production planning assistance. The cost savings sometimes are substantial.

Between 1982 and 1983, the National City School District saved $26,000 as a result of suggestions by an SDG&E auditor. And Cubic Corporation, one of San Diego's largest companies, has saved an average of $250,000 a year on its utility bill since SDG&E's audit identified a number of ways to cut its usage.

The company has worked with the owners of about 150 cogeneration and small power production projects and more than 40 of these projects are in operation.

The Hotel del Coronado, one of the larger projects, is using a cogeneration plant to provide electricity for general use and steam for the laundry and kitchen. In 1983, in the plant's first year of operation, the hotel saved an estimated $538,000 in fuel costs.

Providing special programs

Low-income San Diegans received special help in several ways in 1983. The low-income weatherization program was continued, resulting in free insulation to 4,590 homes. In addition, SDG&E funded the installation of solar systems at several low-income projects, the largest of which was a $500,000 system at Villa Nueva Apartments. Villa Nueva is a 46-building complex, home to 384 families, owned by the California Province of Augustinians. These projects are part of programs mandated by the California Public Utilities Commission.

Seniors in Trouble Referral is the name of a new program to identify older customers who may have serious health problems. Many of SDG&E's employees are in the community on a regular basis, so they often are the first to notice when something is wrong with an older person.

To take advantage of this knowledge, and to assure prompt help to the seniors who may be in trouble, 400 SDG&E service workers are participating in a joint effort with the Area Agency on Aging. When alerted, the agency will arrange for help needed by the senior. This may include finding someone who can help keep track of utility and other bills for the elderly person who may be no longer able to do so for himself.

Future customers are getting attention from SDG&E, too. The company has been a leader in the development of energy education programs for children for the past eight years. In 1983, these programs were expanded to the high school level. SDG&E made an additional commitment to these future customers when it "adopted" Memorial Junior High School. Under this program, twenty-nine company volunteers tutor and counsel students on a weekly basis and arrange visits to SDG&E facilities.

Ella Tooks is convinced her energy bill is too high. So are we.

Ella lives in East San Diego. And, like many SDG&E customers, she's seen her bill go up dramatically.

Ella has a right to be upset. But we want her to know that many things are being done.

For example, SDG&E is building a special powerline to link San Diego with cheaper energy sources. So we'll be able to buy the least expensive electricity available. We're also finding new ways to maintain our power plants so they'll cost less to run.

Of course, there are no overnight solutions. But we're listening carefully to customers like Ella, and working to hold down bills. And we're asking you to conserve energy and understand it. Because these days, energy is everybody's business.

Energy. It's everybody's business. SDG&E

Ella Tooks: Communicating with customers about energy issues is vital.

Mrs. Ella Tooks, an SDG&E customer, coordinates emergency services for Neighborhood House, a multi-service social agency. In that capacity, she works with people on fixed incomes and on welfare, some of whom have occasional problems paying their utility bills. And, like Mrs. Tooks herself, they are having trouble understanding why energy costs so much more these days.

Mrs. Tooks agreed to appear in the SDG&E ad series on energy information because she believes the company needs to communicate more effectively with its customers.

I see many low income people each week who have very high utility bills and are having difficulty paying them. The staff at SDG&E has helped me with several clients by extending the time for them to pay.

I appeared in the ad hoping for a better understanding of the rate increases we have had in the past two years. SDG&E stated in the ad that they are doing several things to stabilize the cost of energy. We are all eagerly looking forward to the time when that statement is a reality.

Communicating about energy

While some programs are provided to help selected groups of individuals either to manage energy better or to understand issues, other communications efforts are designed to reach broader audiences.

The company in 1983 provided article-length features to 40 community publications that gave many energy conservation tips. And, because a number of SDG&E's older customers speak only Spanish, these features were sent in both Spanish and in English to the area's two bilingual newspapers. Many of the community publications used the articles during the year.

In 1982, the company began a corporate issues advertising program to discuss management's plans to stabilize rates. The format was altered in 1983 to feature SDG&E customers and employees talking about issues. The theme of the series, that continues this year, is "Energy. It's everybody's business." It underscores the idea that both customers and company must work together to solve the problem of high energy cost.

SDG&E has promised its customers that the cost of energy will be stabilized. In 1983, major steps toward this goal were reached with the achievement of price stabilization in the company's gas utility and of a diversified resource mix for its electric utility, the latter through generation of nuclear energy and increased purchases of energy from many sources.

When the Natural Gas Policy Act (NGPA) was passed by Congress in late 1978, the wholesale cost per therm to SDG&E began to rise, increasing from 18.3 cents to 39.4 cents in 1982. To halt these large increases, SDG&E assumed a leadership role in the gas utility industry.

SDG&E forcefully opposed efforts either to decontrol or to speed up the schedule for decontrol of the price of various categories of gas, which was set by the NGPA. The act, intended to stimulate exploration for new gas resources through gradual price decontrol, has been successful. Supplies of gas are plentiful today and are likely to continue to be so for the next decade. Price changes will parallel fuel oil price changes.

The concern of the gas utility industry and its customers succeeded in getting Congress' attention. The administration's effort to accelerate the decontrol schedule, which actually would extend controls and might more accurately be characterized as a short-term recontrol bill, has been stalled in Congress.

"We achieved our goal of diversifying energy resources — a year ahead of schedule."

Al Davis,
Group Vice President—Operations

Continuing efforts in 1984 to keep gas prices stable

SDG&E is continuing in 1984 to work to keep gas prices from rising.

The company made its concerns on decontrol/recontrol known to congressional representatives. It is also looking for an additional short-term supplier in order to have greater supply flexibility and lower prices. It is participating actively in all utility proceedings involving gas rates before the California Public Utilities Commission and the Federal Energy Regulatory Commission. And it is providing legislators with position papers that will help them understand the issues and how changes in gas supplies and prices will affect their constituents' energy bills.

In the 1984 General Rate Case decision, announced in December by the CPUC, the company's gas rate design was changed. This meant that beginning in January 1984 residential customers' rates increased 2.5 percent, small commercial customers' rates increased 2.2 percent, and industrial and agricultural customers' rates stayed about the same as 1983 rates. The increases are below the expected rate of inflation for 1984, which is the company's target.

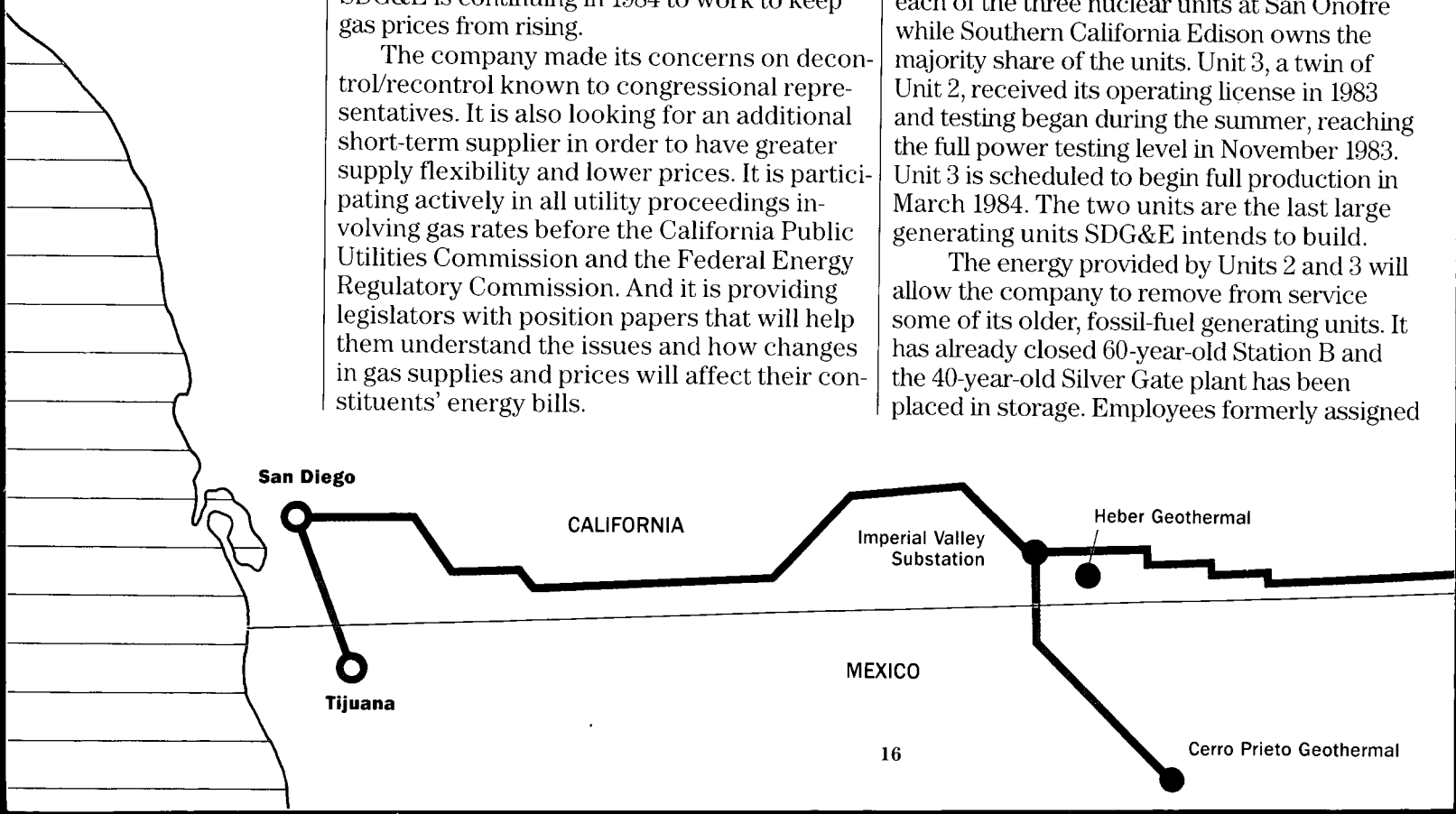
Diversifying energy resources: another primary goal achieved

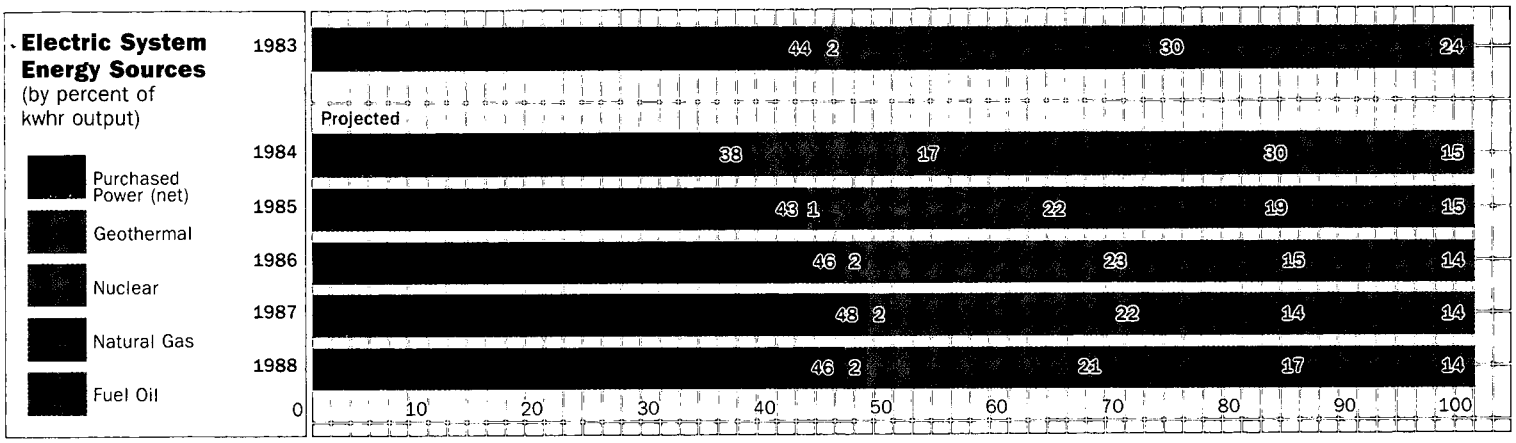
Through the efforts of the operations and engineering departments, which are headed by Al Davis, Group Vice President—Operations, the company achieved its goal of diversifying its electric energy resource mix in 1983. This will help the company stabilize its electric rates throughout the years ahead even though specific fuels may become more expensive or certain sources of purchased energy may become unavailable.

With the computerized assistance of its new Energy Management Center, completed in 1983, SDG&E has the capability to determine whether it is cheaper to generate or to purchase its energy needs and to select between various available sources. Spot purchases are made on daily and hourly bases to supplement the company's long-term contracts for purchased energy.

San Onofre Unit 2 began supplying 220 megawatts of electricity to SDG&E's system in August 1983. The company owns 20 percent of each of the three nuclear units at San Onofre while Southern California Edison owns the majority share of the units. Unit 3, a twin of Unit 2, received its operating license in 1983 and testing began during the summer, reaching the full power testing level in November 1983. Unit 3 is scheduled to begin full production in March 1984. The two units are the last large generating units SDG&E intends to build.

The energy provided by Units 2 and 3 will allow the company to remove from service some of its older, fossil-fuel generating units. It has already closed 60-year-old Station B and the 40-year-old Silver Gate plant has been placed in storage. Employees formerly assigned





to the closed plants have been reassigned and the operations staff has been reduced through retirements and normal employee attrition.

Unit 1 at San Onofre has been out of service since February 1982 while awaiting resolution of regulatory requirements concerning the unit's ability to resist earthquakes. In October 1983, the CPUC began investigating whether Unit 1 should be removed from the company's rate base, because of uncertainty about the timing of the unit's return to power and about the possible cost of plant modifications required by the Nuclear Regulatory Commission.

In 1980 and 1981, the unit was removed from service for 14 months to repair corrosion damage to its steam generators. The loss of use of Unit 1 plus the cost of repairs are the subjects of lawsuits filed during 1983 against Westinghouse Electric Corporation by Southern California Edison and SDG&E. Both suits charge negligence and breach of contract in the design and manufacture of steam generators and related equipment in Unit 1. SDG&E's suit asks for damages of $65 million plus presently unknown amounts for future losses of generating capacity.

Moving closer to electric rate stabilization

Rate stabilization in the company's electric division is expected to be achieved in 1985 following the completion of all the company's major construction projects in 1984.

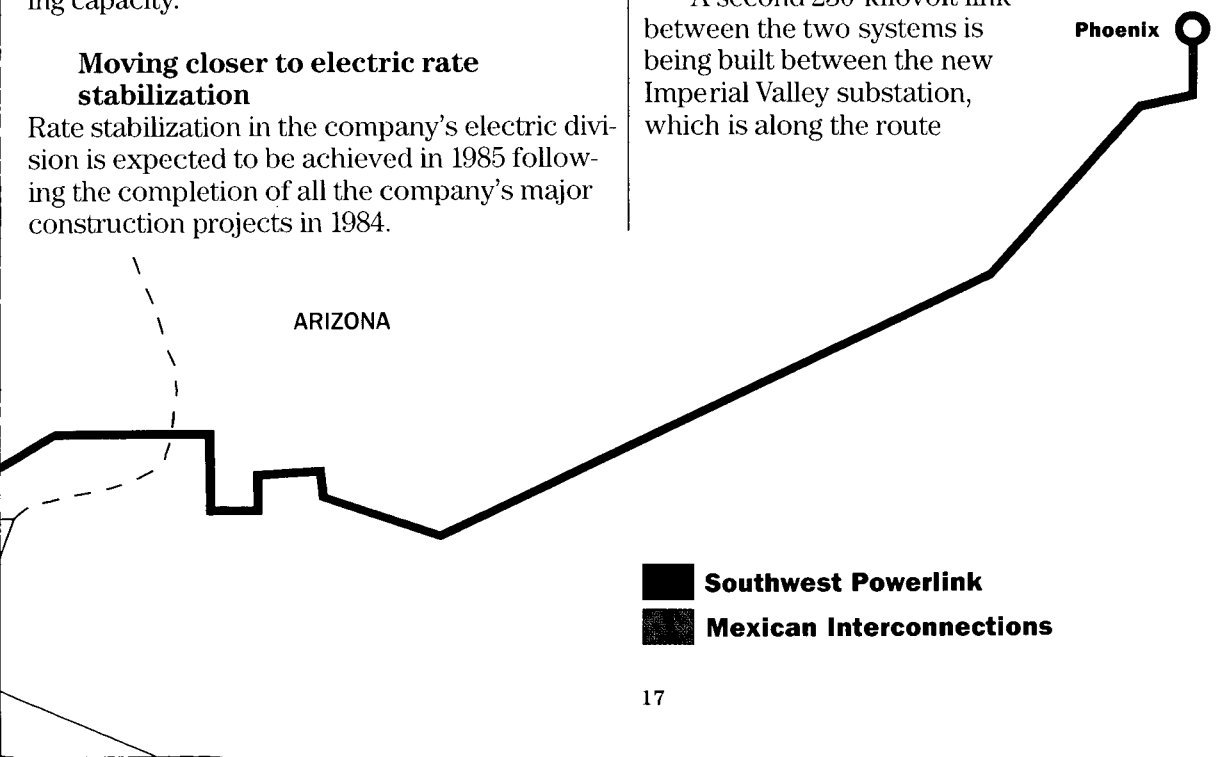
Prior to achieving stabilization, however, construction costs of San Onofre Nuclear Generating Station's Units 2 and 3 and the Southwest Powerlink transmission line are scheduled to be added to the company's rate base.

SDG&E is trying to shield its customers from a large increase in rates in 1984 by requesting the CPUC to adopt a rate policy that would match increases in general rates with decreases in fuel-related rates. The company hopes that this matching policy will allow a gradual rate adjustment over a two-year period while reimbursing the company promptly for its investment.

Adding energy links to Mexico

Early in 1983, a 13-mile-long 230-kilovolt transmission line was completed, connecting SDG&E's system to that of Comisión Federal de Electricidad (CFE), Mexico's national utility. The San Diego-to-Tijuana line is being used to make spot purchases of economy energy from CFE and to sell energy to CFE during system emergencies.

A second 230-kilovolt link between the two systems is being built between the new Imperial Valley substation, which is along the route



of the Southwest Powerlink, and Mexicali, a large city on the border in Mexico. This line was approved by the California Public Utilities Commission in 1983 and will be in service in 1984. Initially it will transmit 110 megawatts of geothermal-fueled energy from Mexico's Cerro Prieto plant to San Diego. In 1985, this will increase to 220 megawatts. Of this total amount, SDG&E has a contract to purchase 150 megawatts and will transmit the other 70 megawatts to Southern California Edison's system.

SDG&E has had a long and cooperative relationship with CFE, which is a world leader in the development of geothermal energy. The completion of the line linking the company's system with Cerro Prieto will provide the first continuous export of electricity from Mexico to the United States.

Geothermal research project in the desert

Construction on the Heber project, a geothermal research plant, began in June 1983 in California's Imperial Valley. When completed in early 1985, Heber will be the first commercial, large-scale plant of its kind. It will produce enough electricity to serve the needs of about 45,000 residential customers.

SDG&E has been a leader in planning the Heber project and will own more than 80 percent of it. It will cost approximately $188 million. Of this amount, $61 million will be contributed by the U.S. Department of Energy, $11 million by the Electric Power Research Institute, and the remainder by SDG&E and several cosponsors. SDG&E's share of the energy from Heber will be delivered by the Southwest Powerlink transmission line to SDG&E's system.

SDG&E is seeking cost-effective alternative energy sources

During 1983, SDG&E agreed to purchase energy from a new alternative energy producer, developed a new energy resource of its own, and made plans to put in place two fuel cells.

- Solar collectors that follow the sun will be used by LaJet Energy Company to provide steam to generate electricity. SDG&E has a long-term contract to purchase up to three megawatts of electricity from the LaJet plant beginning in 1984.
- Natural gas pressure reduction in the transmission pipeline that serves the company is used to power an innovative turboexpander power plant in place of a pressure-reducing valve.

SDG&E engineers discovered a method to use a turboexpander to use this pressure reduction. The turboexpander is located parallel to a gas regulator valve that lowers the pressure of the transported gas. This reduction in pressure and flow turns the turbine that drives a generator.

The turboexpander began operating unattended in April 1983. It is the first energy conversion project of its type to be put in operation by a utility in the United States.

- The company will begin testing two fuel cell plants in its service territory in 1984. Fuel cells work like batteries, generating direct current electricity by an electrochemical process. Since no combustion occurs, a fuel cell power plant has minimal environmental impact.

One fuel cell plant will produce enough electricity to meet the needs of 20 households and produce enough waste heat to provide hot water for 40 families.

The test will last several years and will determine whether fuel cells are practical and reliable as well as what the cost of operating them will be.

Southwest Powerlink: Constructing a link to the future

The 280-mile-long Southwest Powerlink transmission line is expected to cost $215 million, substantially less than the $326 million estimated, and to be in service in June 1984, two months ahead of schedule.

The lower cost is due primarily to good project management, economic factors that trimmed costs, and the sale of a portion of the line to Imperial Irrigation District.

Construction on the 160-mile California segment began in December 1982 and was 75 percent complete by the end of 1983. Nearly all of the 623 towers and steel poles are now erected and more than half of the cable has been strung. As of early 1984, the 120-mile segment built for SDG&E by Arizona Public Service Company, a partner in the Arizona segment, has been completed.

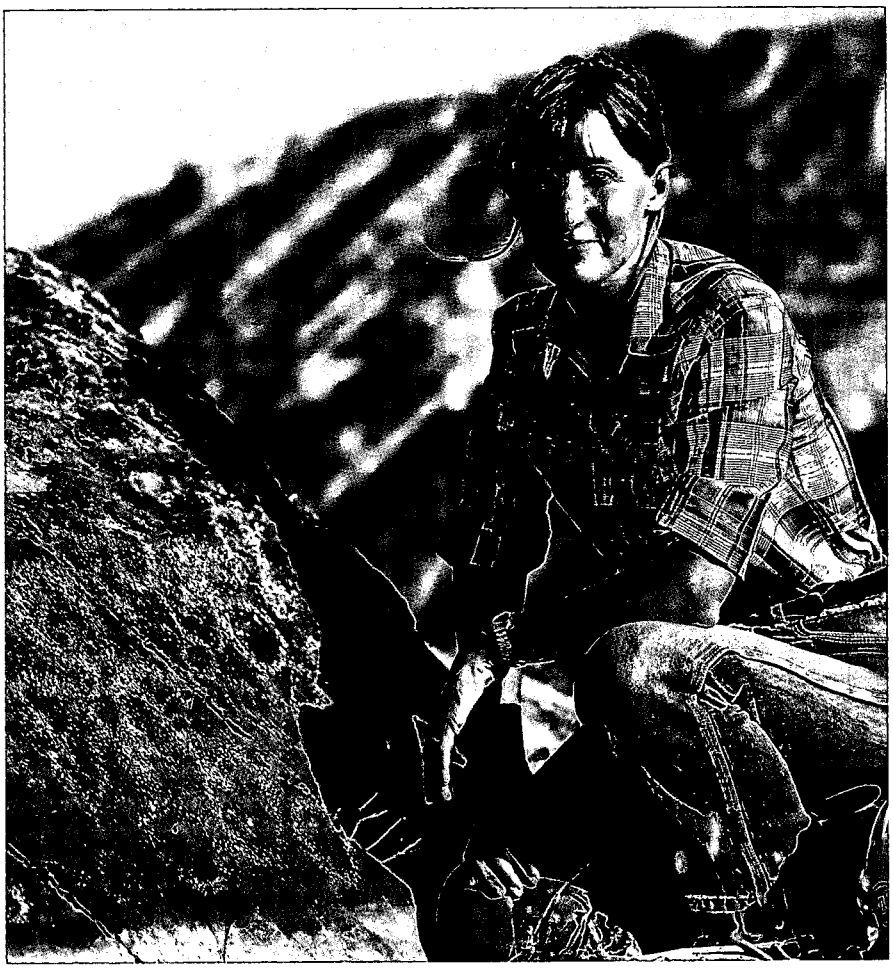
The logistics of construction for SDG&E in the California segment have been complex. Helicopters were used in many operations where tower sites were in remote locations or where special access roads might have harmed the environment. Construction techniques varied depending upon whether the tower location was in populated foothills, rugged mountains, productive agricultural lands, or sandy desert.

Some examples.

While drilling rigs and dynamiting could be used in some mountain locations for digging foundation holes, others had to be dug manually by workers who were transported by helicopter to the location.

In the desert, where the temperature often

Susan Vergne: Golden eagles, bighorn sheep, and desert tortoises are among the animals SDG&E is protecting.



Biologist Susan Vergne is in charge of SDG&E's environmental protection program along the construction route for the Southwest Powerlink. The description of her work, below, provides a behind-the-scenes look at the project.

Susan Vergne helps to assure that rare and endangered plants and animals and their habitats, and archeological, Native American, and historic sites will be safe as work is carried on. "My job," says Vergne, "is to see that the impact of the Southwest Powerlink on the environment is insignificant."

Her environmental work began well in advance of construction. Environmental surveys were conducted of the proposed route and its access roads and tower sites by the archeologists and biologists who assist Susan Vergne as consultants to SDG&E. Those surveys were to locate rare and endangered species such as the Andrews scarab beetle and the desert tortoise and to prevent damaging their habitat.

Washes, creeks, and riparian areas along waterways were given special attention. These areas provide important habitat for plants and animals and frequently contain such cultural resources as rock art, stone tools, and ceramics because Native Americans lived near water sources.

As a result of the surveys' findings, proposed access roads and tower sites were adjusted, when possible, to avoid disturbing the rare and endangered plants and animals or historically and prehistorically important sites. Helicopters transported workers and materials in certain areas to minimize the impact on the environment.

Vergne also conducted surveys for bighorn sheep, and nesting birds of prey like golden eagles and prairie falcons, along the proposed transmission line's route. These surveys assured that breeding seasons of protected wildlife would not be disturbed by construction work.

Bighorn sheep

She prepared a conservation booklet for the construction crews and, before construction begins in an area, she indicates sensitive sites to avoid with wooden stakes with bright yellow flags. As construction moves from site to site, she monitors the workers to make sure they are following SDG&E's environmental protection requirements.

rises to 110 degrees, a special method had to be devised to ensure the concrete met construction standards.

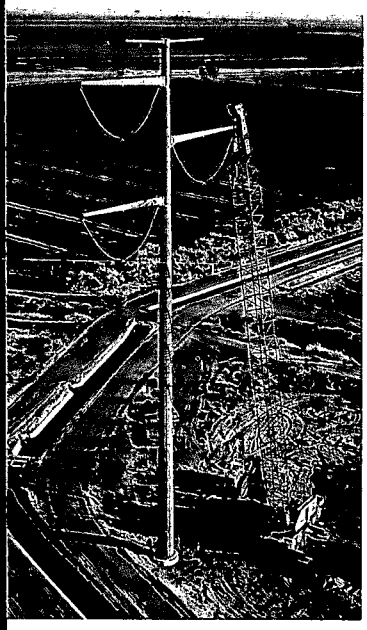
In agricultural areas of Imperial Valley, landowners' concerns about the amount of land that would be taken from production led to the use of single shaft steel poles, rather than four-legged lattice-steel towers, so different assembly methods were needed. Although these 99 single-pole structures cost substantially more, only one acre of agricultural land was displaced by all the tower bases.

The Southwest Powerlink is the largest construction project ever managed by SDG&E. Completing it ahead of time and under budget reflects the years of careful planning as well as close supervision of every phase of construction. For more on the project, turn the page.

Southwest Powerlink

A Sikorsky Sky Crane carries a lattice-steel tower section to its site for final assembly.

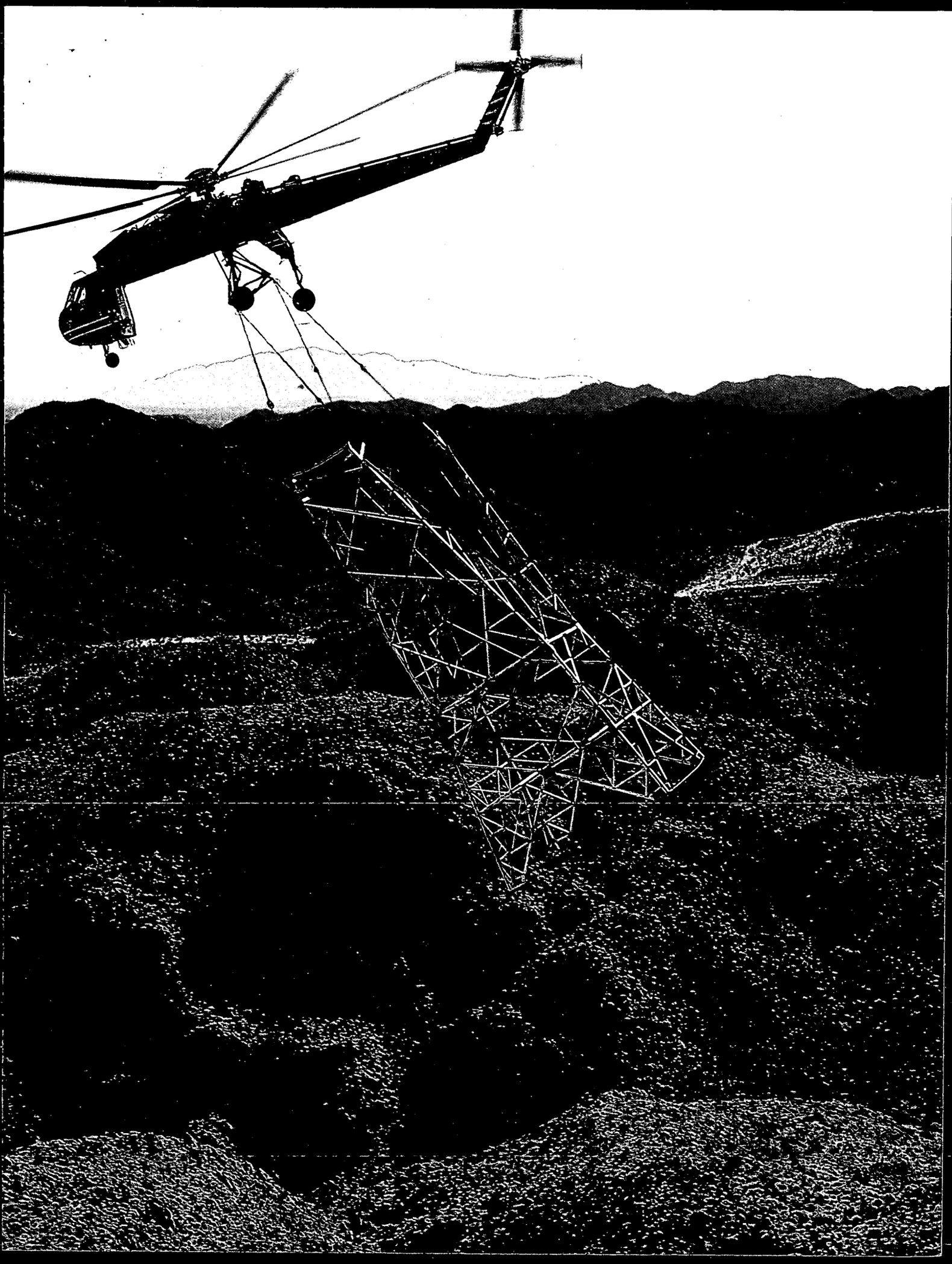
Single-shaft steel poles were placed in agricultural areas.



Construction logistics for the Southwest Powerlink 500-kilovolt transmission line are complex. The route crosses a desert, agricultural land, the Colorado River, and rugged mountains, often far from roads.

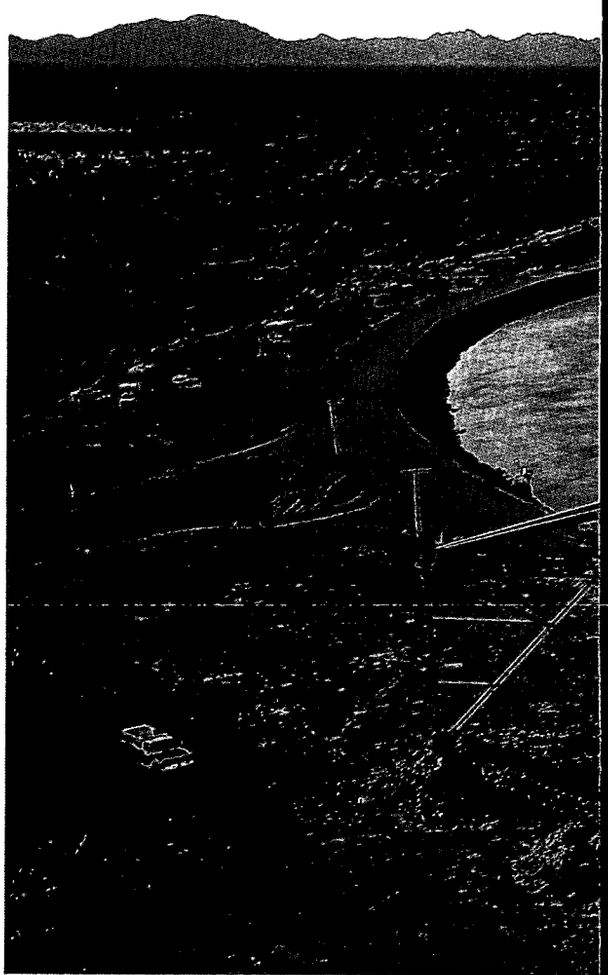
Wind squalls, snow, desert heat, and spring flooding were encountered as construction progressed.

Nonetheless, the project is expected to be finished in mid-1984, on time and under budget.

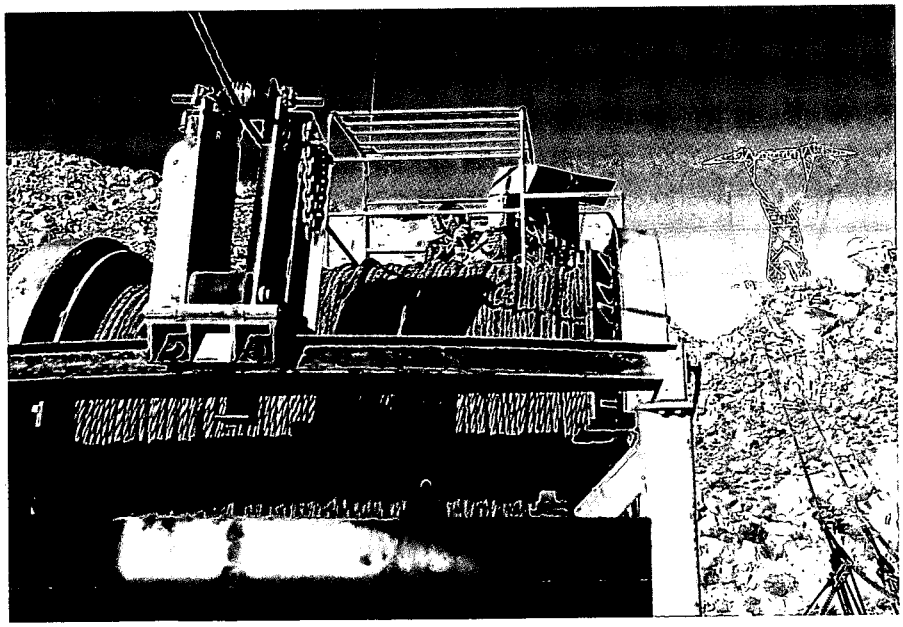


Southwest Powerlink

Tower assembly begins on the ground in strategically-located staging areas.



Concrete bases are ready for a four-legged lattice-steel tower.



Looking toward the California side of the Colorado River. SDG&E's easternmost tower is ready for hookup with the Arizona segment of the transmission line.

A wire puller installs one and three-quarter-inch diameter cable through the towers.

Shareholder Reference Guide

Executive offices

San Diego Gas & Electric Company
101 Ash Street
Post Office Box 1831
San Diego, California 92112
(619) 232-4252

Annual meeting for 1984

The annual meeting will be held at 11 a.m. April 24, 1984 in the auditorium of the company's principal office, 101 Ash Street, San Diego, California.

Proxies are important

Although you may attend the annual meeting and vote your shares in person, proxies are used to allow you to vote without attending. If you cannot attend the annual meeting, it is important that you mail in your proxy because it is needed to achieve the required amount of participation for proposals to be passed or defeated. Apathy by the shareholders of companies has been increasing generally and so has the expense to companies of "getting out the vote." Returning your proxy will help SDG&E to keep proxy solicitation costs down.

To find SDG&E stock listing

SDG&E stock trades under the ticker symbol of SDO. The common stock is listed on the New York and Pacific stock exchanges. Preferred and preference stocks are traded on the American and Pacific stock exchanges (except the 4.60% preferred series and the $8.25, $9.125 and $15.44 preference series, which are not listed).

If certificates are lost or stolen

If a stock certificate is lost or stolen, write immediately to the appropriate transfer agent for the stock. The agent will need to know the exact name(s) in which the stock certificate was issued, the certificate number, the number of shares, and the date the certificate was issued. To avoid loss or theft, keep certificates in a safe place, such as a safe deposit box. Shareholders should also keep in a separate place a record of the above information for each certificate.

Transfer agents and registrars

The transfer agents for the company's common stock are California First Bank, 8155 Mercury Court, P.O. Box 2529, San Diego, California 92112 and First Interstate Bank of California, % Schroder Trust Company, One State Street, New York, New York 10015. First Interstate Bank of California is also the registrar for the common stock.

The transfer agent and registrar for all preferred stocks is California First Bank.

The transfer agent and registrar for the preference stock (except the $8.25 and $9.125 series) is First Interstate Bank of California.

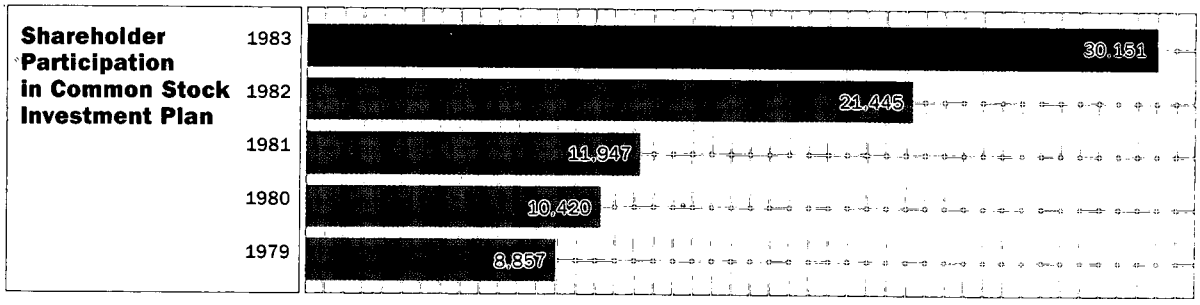
The transfer agent's role

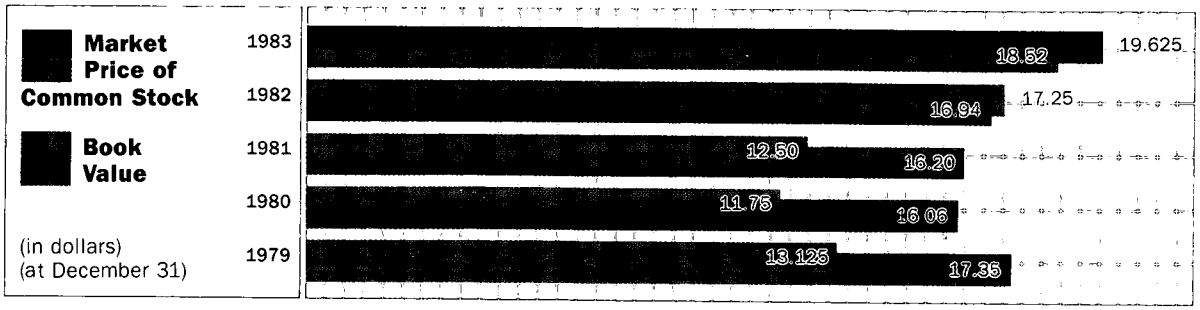
The transfer agent has primary responsibility for stock transfers and the cancellation and issuance of stock certificates.

Common Stock Investment Plan

SDG&E offers its common stock shareholders and customers a Common Stock Investment Plan that allows them to invest automatically all or a portion of their quarterly dividends to purchase additional shares without paying brokerage fees. This plan formerly was called the Dividend Reinvestment Plan.

More than 30,000 SDG&E shareholders and almost 5,000 customers have found dividend





☐ I am a common stock shareholder of record and/or customer of the company. I would like a prospectus for the Common Stock Investment Plan.

☐ I received more than one annual report. Remove from your mailing list the name(s) noted to the right.

☐ Enroll me as a member of The Share Forum.

☐ Send me the 36" X 20" poster of the Southwest Powerlink with illustrations of the birds, animals, and fauna of the area.

(If your annual report has a peel-off label on the back cover, it may be used, or print clearly)
Name(s) (as registered, if shareholder)

Street Address

City State Zip Code

Phone Number

I have a question:*

*We will answer as many questions as possible in shareholder publications or by letter.

Do you want to request information about SDG&E or have a comment or question? Please fill out the attached card.

Classes and Location of Shareholders of Record

AS OF DECEMBER 31, 1983	Common	Preferred
Total Shareholders	88,969	14,009
Class of Investor		
Women	26,891	4,365
Men	19,024	2,520
Joint accounts	32,674	4,979
Fiduciaries	9,096	1,418
Securities dealers	40	41
Nominees	275	165
Other domestic	758	495
Foreign	211	26
Amounts Owned		
1 to 99 shares	14,797	3,886
100-300 shares	51,672	7,868
301-500 shares	11,560	1,296
501-1000 shares	7,743	621
Over 1000 shares	3,197	338
Location		
Service area	15,479	3,151
Others in California	27,055	4,633
Other states and foreign countries	46,435	6,225

reinvestment to be a simple and economical way to build their shareholdings. Any SDG&E common stock shareholder of record or customer is eligible to join the plan. Customers who are not shareholders may enroll by making an initial investment of as little as $25 up to a maximum of $5,000.

Major features include:

• Three percent discount: All reinvested dividends will be used to purchase additional shares of SDG&E common stock at a three percent discount from the market price at the time of purchase.

• Partial dividend reinvestment: All or a portion of dividends paid on shares registered in a shareholder's name outside the plan account may be reinvested. All dividends on shares in the plan account will be reinvested automatically.

• No brokerage fees: Participants do not pay a brokerage commission or service charge for shares purchased through the plan.

• Optional cash investment: After enrollment in the plan, additional investments from as little as $25 per payment up to a maximum of $5,000 may be made each calendar quarter.

• Tax benefits: Eligible participants can elect to exclude up to $750 of their reinvested dividends (or up to $1,500 for individuals filing a joint return) from taxable income through 1985.

• Recordkeeping and security: Simplified recordkeeping is provided through a regular statement of an account. Stock certificates are held in safekeeping by the plan agent, First Interstate Bank of California.

Enrollment in the plan is entirely voluntary. Shareholders or customers may join or withdraw from the plan at any time.

The Share Forum

The Share Forum is a new organization whose membership consists of shareholders of San Diego Gas & Electric. The Share Forum will offer its members opportunities to know their company better and learn about issues that may affect their investment. There are no dues.

Members of The Share Forum will receive information about SDG&E in periodic mailings, be invited to attend special tours of SDG&E plants and facilities, and have the opportunity to talk with members of SDG&E management at meetings to be held in the service territory.

To join The Share Forum, please fill out the attached card and check the appropriate box.

Additional information about SDG&E

Interim reports are sent to shareholders in May, August, and November providing updated financial information and news of the company. In addition, *News for Shareholders* is issued with quarterly dividend checks.

A Statistical Report and Financial Forecast and Form 10-K, the annual report to the Securities and Exchange Commission, are available free of charge by writing to:

Office of the Secretary
San Diego Gas & Electric Company
Post Office Box 1831
San Diego, California 92112
or by calling (619) 232-4252

Selected Financial Data

(IN THOUSANDS EXCEPT PER SHARE AMOUNTS) FOR THE YEARS ENDED DECEMBER 31	**1983**	1982	1981	1980	1979
Operating revenues	**$1,530,207**	$1,430,948	$1,159,662	$ 960,444	$ 745,232
Operating income	**174,155**	169,861	142,123	100,336	97,233
Net income (before preferred dividend requirements)	**187,370**	157,303	110,156	52,046	70,166
Earnings per common share	**3.20**	2.90	2.34	1.01	1.80
Dividends declared per common share	**1.925**	1.785	1.64	1.56	1.48
Funds provided by operations	**267,429**	196,084	135,131	90,268	93,352
Funds provided by long-term financing	**284,265**	141,173	138,455	155,621	68,482
Additions to utility plant (excluding allowance for funds used during construction)	**291,999**	252,790	209,729	178,141	200,126
AT DECEMBER 31					
Total assets	**2,840,195**	2,411,676	2,165,951	1,969,563	1,756,921
Long-term debt and preferred stock subject to mandatory redemption (excludes current portion)	**1,099,903**	893,043	812,238	817,321	725,078

The above selected financial data and management's discussion and analysis of financial condition and results 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 Financial Condition and Results of Operations

Liquidity and capital resources

The degree of the company's liquidity is a function of its ability to internally generate cash from operations, to avail itself of short-term debt credit facilities, and to access long-term financing in sufficient amounts to meet its current requirements for construction and retirements of long-term financing.

The company continues to expand its facilities both to meet the increased demand on its system and to reduce its reliance on oil-fueled generation. The 1983 construction program was the largest ever undertaken by the company. This program is expected to decrease in 1984 as current major construction projects are completed and, as a result, the company's long-term liquidity is expected to improve if the California Public Utilities Commission (CPUC) provides adequate and timely rate relief.

During 1983, a significant portion of construction expenditures were paid for by the drawdown of construction funds held by a trustee. The construction funds were made available to the company as a loan from the proceeds of industrial development revenue bonds issued by the city of San Diego in June and September 1983. At December 31, 1983, a total of $154.8 million was still on deposit with the trustee and will be disbursed through 1984 as qualified construction expenditures are made.

The estimated cash requirements for the construction program and retirements of long-term financing are approximately $305 million for 1984 and $1.1 billion for the period 1985–1988. Assuming adequate rate relief reflecting the inclusion of the Southwest Powerlink transmission system and the San Onofre Nuclear Generating Station (SONGS) units in rate base, the company estimates that internally generated funds will provide more than 70% of its capital needs during 1984 through 1988. The company's capital structure is shown on page 46 and the effect of off-balance sheet financing is discussed in Note 6.

To provide funds in excess of the amount held by the trustee and those internally generated, and also to assist in satisfying short-term liquidity needs, the company maintains unsecured lines of credit which aggregate $150 million (see Note 3). These lines of credit are available to support commercial paper that the company issues. In addition, to finance the purchase of any fuel, including natural gas and other goods or commodities, the company may borrow up to $150 million through bankers' acceptances. The company also maintains a nuclear fuel lease arrangement to finance up to $150 million of nuclear fuel. As of December 31, 1983, the company had a total of $193.6 million outstanding under its short-term debt lines and the nuclear fuel lease.

The company continually reviews its financing program and evaluates the possibilities for potential savings through the replacement of debt and equity

securities. During 1983, $65 million in first mortgage bonds were issued at 12⅞% to purchase portions of previously issued 16% Series S and 17⅜% Series V bonds. In addition, the company purchased from a private investor and retired all of the $7.325 Series and one-half of the $8.25 Series preference stock, which resulted in an increase in premium on capital stock of $12.5 million. The company expects, in the second quarter of 1984, to avail itself of approximately $45 million in pollution control revenue bond financing and has no plans to issue any of its preferred stock in 1984. The company has no current plans for issues of common stock other than through the Savings Plan, Common Stock Investment Plan and Tax Reduction Employee Stock Ownership Plan.

The company's ability to internally generate funds from operations continues to be dependent upon obtaining timely and adequate rate relief from the CPUC. Under the rate case processing plan adopted by the CPUC, general rate relief is granted in two-year intervals and adjusted in the interim by an attrition mechanism. This plan is also supplemented by various regulatory balancing accounts. The company experiences fluctuations in cash flows as a result of CPUC actions and the regulatory balancing accounts.

The 1984 General Rate Case (GRC) decision, effective January 1, 1984, increased annual revenues by $14.3 million and authorized a 12.82% return on rate base and a 16.00% return on common equity. This decision also provides for an attrition allowance, effective January 1, 1985, to increase rates to offset expected increases in inflation and authorizes a 12.93% return on rate base. In 1983, the company's ratemaking return on common equity using the CPUC method was 15.90% (authorized 16.25%) and its return on rate base was 12.70% (authorized 13.25%). The 1984 GRC decision is expected to help the company increase funds provided by operations.

However, as described in the following paragraphs, there are several major uncertainties related to CPUC decisions which are currently pending.

As more fully described in Note 7, the CPUC approved increased rates, effective January 1, 1983, to recover certain underlift costs incurred to suspend a contract for the purchase of fuel oil. These higher rates are being collected subject to refund, pending further review by the CPUC of the reasonableness of the negotiated price for the underlift charge. On February 1, 1984, the CPUC found the company unreasonable in entering into the 1979 restated contract, which was the basis of the suspension agreement, and has scheduled further hearings for March 1984 to determine an amount of disallowance.

The company believes that its actions have been reasonable and that there is no justification for reevaluating circumstances in the distant past. The company intends to contest both the basis for the disallowance and the amount which is expected to be ordered. The company, however, cannot predict the ultimate amount of the disallowance and the effect on its future results of operations.

The nuclear industry, and the company, are facing major uncertainties concerning the future of nuclear power in this country. The level of regulation has increased substantially in recent years and the costs of compliance with these new regulations have been substantial. There are several issues to be resolved by the CPUC relating to the SONGS units (see Note 6) and the Southwest Powerlink that may impact the company's liquidity.

SONGS Unit 1 is currently shut down in connection with Nuclear Regulatory Commission required inspections and plant modifications. Effective January 1, 1984, all costs for the support of Unit 1 facilities are subject to refund pending the outcome of the CPUC's investigation to consider when, if ever, Unit 1 will resume normal commercial operation. The 1984 estimated annual revenue requirement for the unit approximates $36 million. In addition, if required plant modifications are determined not to be cost effective, it may be necessary to write off plant and fuel costs of $89.4 million and to accrue estimated dismantling expenses of $16.5 million. A recent CPUC staff motion, if adopted by the commission, could result in the loss of the return component which would negatively impact the company's liquidity.

In 1983, SONGS Unit 2 was released for commercial operation and completion of all precommercial testing for Unit 3 is currently expected in early 1984. The initial CPUC decision on Unit 2 was issued, authorizing a Major Additions Adjustment Clause (MAAC) and providing an increase in rates to recover the costs of constructing, owning, operating and maintaining the company's share of SONGS Unit 2 with an equal and offsetting Energy Cost Adjustment Clause (ECAC) rate decrease. The initial rate relief was limited to $61.7 million, an amount equal to the estimated fuel savings. The unrecovered investment-related costs for Unit 2 were deferred to an interest-bearing balancing account pending the final outcome of Phase 2 of the MAAC proceedings.

The CPUC issued another decision, effective January 1, 1984, which modified the previous decision by allowing an additional $38.9 million in rate relief with offsetting ECAC rate decreases. The CPUC also ordered a performance incentive plan for Unit 2 which set a target capacity factor range of 55 to 80 percent of maximum potential utilization for the unit. If the unit operates below the range, the decision states that a penalty will be assessed. Further hearings on implementing the target capacity factor are scheduled. In addition, the CPUC ordered analysis and testimony, during 1984, on the issue of alter-

native ratemaking treatments which, if adopted, may defer recovery of costs and produce lower cash flows in the early years of operation and require higher cash flows in later years.

In Phase 2 of the MAAC proceedings, hearings will be held on the reasonableness of the construction costs incurred for Units 2 and 3. The company's current estimate of its share of total construction costs for Units 2 and 3 is approximately $865 million. A CPUC consultant's preliminary report has identified certain items totaling about $200 million requiring further investigation. The final decision on the reasonableness of the costs is expected in 1985.

As with Unit 2, the company filed an application to recover the additional costs of constructing, owning, operating and maintaining its share of Unit 3 through 1984. The total amount of rate relief requested (net of expected annual fuel savings of $42 million) is $105.4 million, if rates become effective December 31, 1984. The effective date of rate relief will follow achievement of the CPUC's commercial operating criteria.

The Southwest Powerlink, which will also be subject to MAAC proceedings and is scheduled for completion in 1984, will provide access to lower-cost purchased energy from New Mexico, Arizona and Mexico. The company has filed an application to recover the costs of constructing, owning, operating and maintaining the transmission system through 1984. The total amount of rate relief requested is $47.3 million, if rates become effective June 1, 1984.

Management is unable to predict the final outcome of the CPUC's actions concerning Unit 1 and the MAAC proceedings. Although the outcome may negatively affect the company's liquidity, management does not expect that the ultimate impact resulting from the CPUC's actions will have a material effect on the company's financial position.

Results of operations

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

(IN MILLIONS OF DOLLARS) FOR THE YEARS ENDED DECEMBER 31	**1983**	1982	1981
Electric Revenues			
Fuel cost rate changes	**$ 27.8**	$ (33.8)	$ 91.3
General rate changes	**76.5**	139.2	77.5
Regulatory balancing account adjustments:			
Fuel cost	**(49.1)**	77.8	(2.6)
Electric revenue adjustment mechanism and other	**(16.9)**	10.5	(1.6)
Sales volume and other changes	**30.9**	(4.5)	13.2
Net increases	**$ 69.2**	$189.2	$177.8
Gas Revenues			
Rate increases	**$ 57.6**	$ 49.8	$ 32.2
Regulatory balancing account adjustments:			
Consolidated adjustment mechanism	**(15.4)**	24.2	(20.6)
Other	**4.0**	(3.2)	(0.4)
Interdepartmental sales (net of cost)	**0.4**	(4.8)	20.4
Sales volume and other changes	**(16.5)**	16.1	(10.2)
Net increases	**$ 30.1**	$ 82.1	$ 21.4

The cost of electric fuel and purchased energy decreased in 1983. Less expensive purchased energy now accounts for 44% of the company's total energy sources compared to 35% in 1982. When the Southwest Powerlink is completed in June 1984, it is expected that purchased power will become a larger portion of the company's energy sources. The increased cost of gas reflects rising costs from the company's supplier. However, such increases are expected to be offset by additional revenues through the CPUC balancing accounts.

The rise in non-fuel operating expenses reflects increased costs related to the company's energy conservation programs and Heber Binary Project, increased depreciation expense, the need to maintain the reliability and efficiency of the company's operating facilities, increased franchise payments due to higher revenues, and the impact of inflation and customer growth. Income tax expenses increased as a result of higher taxable operating income.

The allowance for funds used during construction (AFUDC), which is not an item of current cash income, has increased for the past three years as a result of the larger investment in construction work in progress, primarily the Southwest Powerlink and SONGS Units 2 and 3. When the remainder of these projects is placed into commercial operation in 1984, the amount of AFUDC will decrease.

Other income-net increased in 1983 largely as a result of recording an after tax gain of $14.5 million on the sale of a subsidiary.

The additional long-term debt issued in 1983 to finance the company's construction program increased long-term debt interest expense by $9.4 million. The reduction of $9.6 million in short-term interest expense was due to a decrease in short-term borrowings and lower interest rates.

It is expected that inflation will continue to impact the company's operations. Successful achievement of the company's goals relating to its construction program and its overall financial stability is based, in part, upon receipt of timely and adequate rate relief which reflects this impact. The company has prepared information on the effects of inflation and changing prices in accordance with the Financial Accounting Standards Board's Statement No. 33. Such information is contained on pages 44 and 45.

Responsibility Report for the Financial Statements

The company is responsible for the financial statements and other data in this annual report. To meet its responsibility for the reliability of the financial statements, the company has developed a system of internal accounting controls and engages a firm of independent public accountants. The board of directors of the company carries out its responsibility for the financial statements through its audit committee, composed of directors who are not officers or employees of the company.

Management maintains the system of internal accounting controls which it believes is adequate to provide reasonable, but not absolute, assurance that its assets are safeguarded, transactions are executed in accordance with its objectives, and the financial records and reports are reliable for preparing the financial statements in accordance with generally accepted accounting principles. The concept of reasonable assurance recognizes that the cost of a system of internal accounting controls should not exceed the benefits derived and that management makes estimates and judgments of these cost/benefit factors. The system of internal accounting controls is supported by an extensive program of internal audits, selection and training of qualified personnel, and written policies and procedures.

The company's independent public accountants, Deloitte Haskins & Sells, are engaged to examine the company's financial statements in accordance with generally accepted auditing standards for the purpose of expressing their opinion as to whether the company's financial statements are presented fairly in accordance with generally accepted accounting principles applied on a consistent basis.

The audit committee of the board of directors meets periodically with management, the independent public accountants and the internal auditors to ensure that each is carrying out its responsibilities, and to discuss auditing, financial reporting and internal control matters. The independent public accountants and the internal auditors have full and free access to the audit committee throughout the year.

The management of the company has prepared the financial statements and other data in this annual report. In the opinion of the company, the financial statements, which include amounts based on estimates and judgments of management, have been prepared in conformity with generally accepted accounting principles.

Auditors' Opinion

Deloitte Haskins & Sells
Certified Public Accountants
701 "B" Street
San Diego, California 92101

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

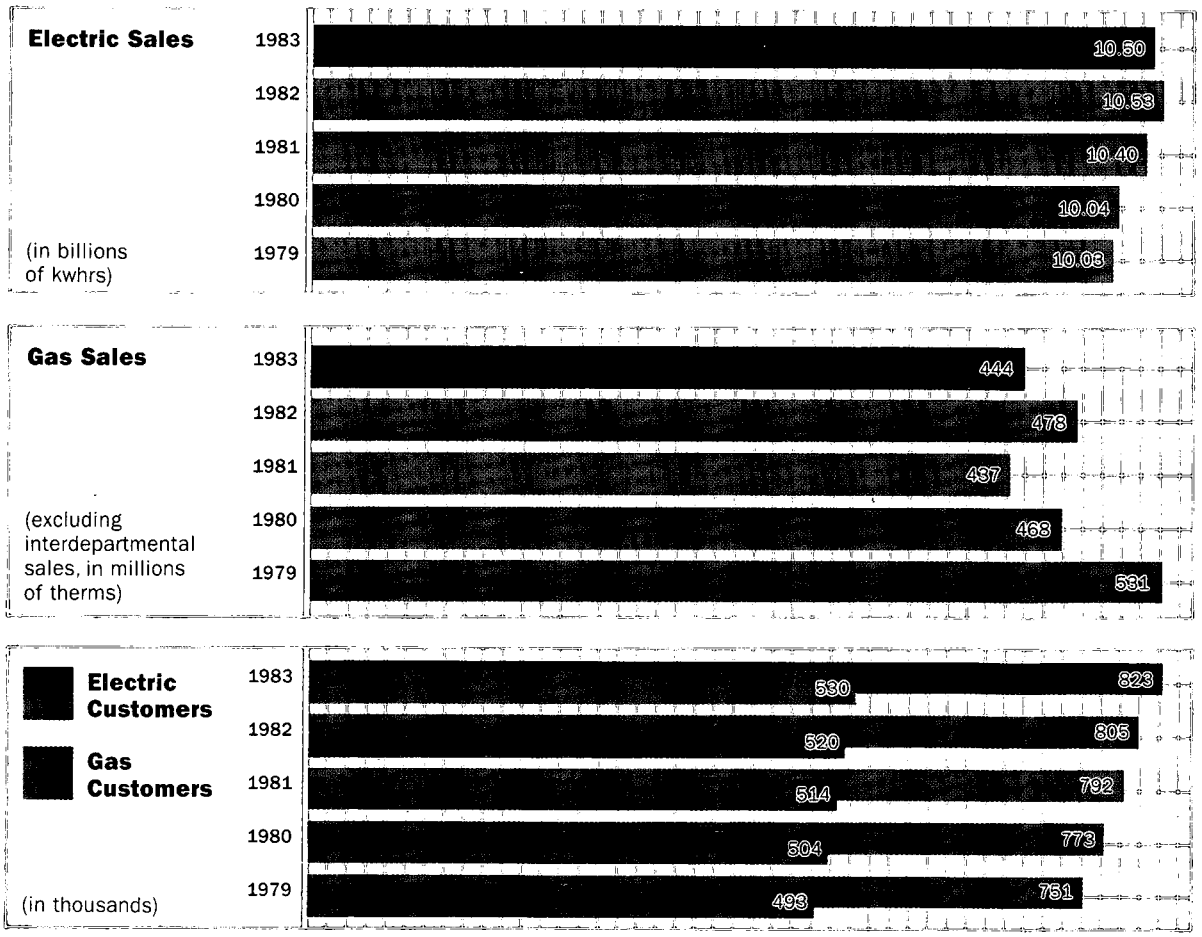
We have examined the financial statements and schedules of San Diego Gas & Electric Company (pages 31 to 45) for the years ended December 31, 1983, 1982 and 1981. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As discussed in Note 7 to the financial statements, certain fuel costs and revenues subject to refund are pending further review by the California Public Utilities Commission (CPUC). The ultimate outcome of the CPUC actions cannot presently be determined, however, a disallowance of fuel costs or refund of revenues could result in an adjustment of subsequent financial statements.

In our opinion, subject to the effects on the 1983 financial statements of such adjustments, if any, as might have been required had the outcome of the uncertainty referred to in the preceding paragraph been known, such financial statements and schedules present fairly the financial position of the company at December 31, 1983 and 1982 and the results of its operations and its sources of funds for construction for each of the three years in the period ended December 31, 1983, in conformity with generally accepted accounting principles applied on a consistent basis.

February 10, 1984

Financial Statements and Data

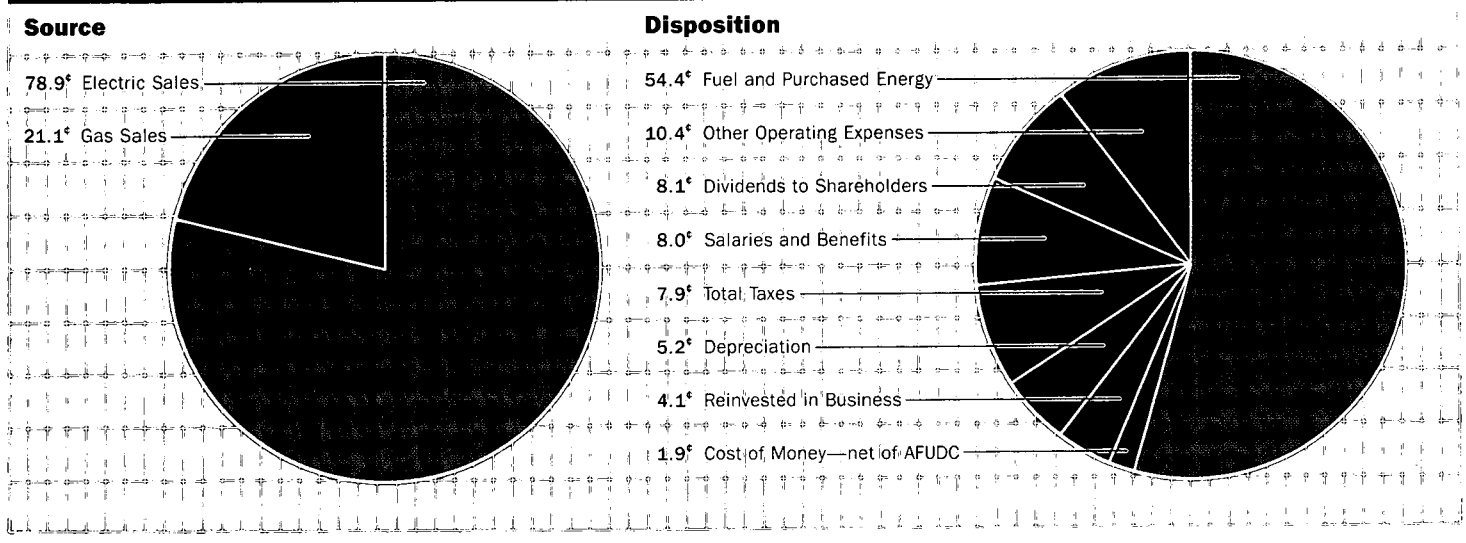


Statements of Income

(IN THOUSANDS EXCEPT PER SHARE AMOUNTS) FOR THE YEARS ENDED DECEMBER 31	1983	1982	1981
Operating Revenues			
Electric	**$1,207,078**	$1,137,896	$ 948,677
Gas	**323,129**	293,052	210,985
Total operating revenues	**1,530,207**	1,430,948	1,159,662
Operating Expenses			
Electric fuel and purchased energy	**622,422**	635,033	580,743
Gas purchased for resale	**209,912**	197,383	135,455
Transmission, distribution and storage	**43,658**	36,807	24,806
Franchise payments	**30,586**	26,337	23,189
Other operating	**164,714**	136,412	107,630
Maintenance	**59,595**	50,535	38,368
Depreciation and amortization	**79,280**	70,915	58,751
Property and other taxes	**21,420**	18,502	16,331
Income taxes (Note 4)	**124,465**	89,163	32,266
Total operating expenses	**1,356,052**	1,261,087	1,017,539
Operating Income	**174,155**	169,861	142,123
Other Income and (Deductions)			
Allowance for other funds used during construction	**55,904**	51,204	30,926
Taxes on non-operating income (Note 4)	**25,137**	28,142	24,406
Other—net	**17,755**	(3,655)	5,784
Total other income	**98,796**	75,691	61,116
Income Before Interest Charges	**272,951**	245,552	203,239
Interest Charges			
Long-term debt	**86,268**	76,898	72,659
Short-term debt and other	**21,519**	31,086	39,200
Allowance for borrowed funds used during construction	**(22,206)**	(19,735)	(18,776)
Net interest charges	**85,581**	88,249	93,083
Net Income (before preferred dividend requirements)	**187,370**	157,303	110,156
Preferred Dividend Requirements	**27,449**	26,068	18,718
Earnings Applicable to Common Shares	**$ 159,921**	$ 131,235	$ 91,438
Average Common Shares Outstanding	**49,994**	45,306	39,091
Earnings Per Common Share	**$ 3.20**	$ 2.90	$ 2.34
Dividends Declared Per Common Share	**$ 1.925**	$ 1.785	$ 1.64

See notes to financial statements.

1983 Revenue Dollar



Balance Sheets

(IN THOUSANDS OF DOLLARS) BALANCE AT DECEMBER 31	1983	1982
Assets		
Utility plant—at original cost		
In service		
Electric	**$1,918,177**	$1,343,416
Gas	**295,552**	278,464
Common	**38,172**	31,673
Total plant in service	**2,251,901**	1,653,553
Plant held for future use (Note 6)	**48,747**	49,389
Construction work in progress	**605,516**	864,825
Total utility plant	**2,906,164**	2,567,767
Accumulated depreciation	**(577,933)**	(513,704)
Utility plant—net (Note 2)	**2,328,231**	2,054,063
Investments and other property	**45,822**	31,897
Construction funds held by trustee (Note 6)	**154,780**	—
Current assets		
Cash and temporary investments	**4,877**	1,490
Receivables (less allowance for doubtful accounts: 1983, $1,453; 1982, $1,180)		
Customer	**119,393**	103,036
Other	**13,954**	19,861
Materials and supplies—at average cost	**30,154**	30,856
Fuel inventory—at average cost (Note 3)	**76,088**	111,939
Regulatory balancing accounts undercollected—net	**21,322**	31,649
Other	**1,468**	5,031
Total current assets	**267,256**	303,862
Deferred charges and other assets	**44,106**	21,854
Total	**$2,840,195**	$2,411,676
Capitalization and Liabilities		
Capitalization (see Statements of Capital Stock and Long-Term Debt)		
Common equity	**$ 957,607**	$ 817,441
Preferred stock (Note 5)		
Not subject to mandatory redemption	**161,000**	161,000
Subject to mandatory redemption	**63,500**	108,000
Long-term debt (Note 2)	**1,036,403**	785,043
Total capitalization	**2,218,510**	1,871,484
Current liabilities		
Short-term borrowings (Note 3)	**85,000**	176,000
Current portion of long-term debt (Note 2)	**42,297**	17,395
Accounts payable	**159,631**	126,020
Dividends payable	**32,168**	28,846
Taxes accrued	**34,147**	23,013
Interest accrued	**32,876**	27,173
Other	**40,329**	42,082
Total current liabilities	**426,448**	440,529
Customer advances for construction	**35,797**	30,335
Accumulated deferred income taxes—net (Note 4)	**46,112**	13,564
Accumulated deferred investment tax credits (Note 4)	**78,568**	25,388
Reserves and deferred credits	**34,760**	30,376
Contingencies and commitments (Notes 6 and 7)	**—**	—
Total	**$2,840,195**	$2,411,676

See notes to financial statements.

Statements of Sources of Funds for Construction

(IN THOUSANDS OF DOLLARS) FOR THE YEARS ENDED DECEMBER 31	**1983**	1982	1981
Funds Provided by Operations			
Net income	**$187,370**	$157,303	$110,156
Non-cash items in net income			
Depreciation and amortization	**79,280**	70,915	58,751
Deferred income taxes and investment tax credits—net	**85,728**	33,116	9,526
Allowance for funds used during construction	**(78,110)**	(70,939)	(49,702)
Gain on sale of subsidiary	**(14,533)**	—	—
Other—net	**7,694**	5,689	6,400
Funds provided by operations	**267,429**	196,084	135,131
Dividends	**(124,542)**	(108,119)	(83,712)
Funds reinvested	**142,887**	87,965	51,419
Funds Provided by Long-Term Financing			
Sale of common stock	**64,789**	96,276	58,559
Sale of preference stock	**—**	24,602	34,090
Sale of first mortgage bonds	**288,177**	74,603	48,688
Retirement of long-term financing	**(17,124)**	(54,308)	(2,882)
Retirement of preference stock	**(29,963)**	—	—
Refunding of long-term financing			
Issued	**63,262**	—	—
Refunded	**(70,023)**	—	—
Call premium	**(14,853)**	—	—
Funds provided by long-term financing	**284,265**	141,173	138,455
Other Funds Provided (Used)			
Regulatory balancing accounts—net	**10,327**	(54,562)	49,968
Construction funds held by trustee	**(154,780)**	—	—
Receivables	**(10,450)**	(21,216)	5,669
Fuel inventory	**35,851**	49,387	(25,576)
Accounts payable	**33,611**	28,436	7,463
Taxes accrued	**11,134**	5,577	2,068
Short-term borrowings	**(91,000)**	(2,500)	(6,500)
Investments and other property	**1,067**	(645)	(9,441)
Other—net	**29,087**	19,175	(3,796)
Other funds provided (used)	**(135,153)**	23,652	19,855
Total additions to utility plant (excluding allowance for funds used during construction)	**$291,999**	$252,790	$209,729

See notes to financial statements.

Statements of Changes in Capital Stock and Retained Earnings

(IN THOUSANDS OF DOLLARS) FOR THE YEARS ENDED DECEMBER 31, 1981, 1982 AND 1983	Preferred Stock Not Subject to Mandatory Redemption	Preferred Stock Subject to Mandatory Redemption	Common Stock	Premium (Less Expense)	Retained Earnings
Balance, December 31, 1980	$128,500	$ 85,000	$182,347	$256,183	$147,256
Net income—for year					110,156
Common stock sold (5,029,551 shares)			25,148	33,411	
Preference stock sold (1,300,000 shares)	32,500			1,590	
Dividends declared					
Preferred stock					(18,718)
Common stock					(64,994)
Balance, December 31, 1981	161,000	85,000	207,495	291,184	173,700
Net income—for year					157,303
Common stock sold (6,767,110 shares)			33,836	62,440	
Preference stock sold (250,000 shares)		25,000		(398)	
Current sinking fund requirement		(2,000)			
Dividends declared					
Preferred stock					(26,229)
Common stock					(81,890)
Balance, December 31, 1982	161,000	108,000	241,331	353,226	222,884
Net income—for year					187,370
Common stock sold (3,427,518 shares)			17,137	47,652	
Preference stock retired (425,000 shares)		(42,500)		12,537	
Current sinking fund requirement		(2,000)		12	
Dividends declared					
Preferred stock					(27,441)
Common stock					(97,101)
Balance, December 31, 1983	**$161,000**	**$ 63,500**	**$258,468**	**$413,427**	**$285,712**

See notes to financial statements.

Statements of Capital Stock

(IN THOUSANDS OF DOLLARS) BALANCE AT DECEMBER 31	1983	1982
Common Equity		
Common stock, $5 par value, authorized 80,000,000 shares, outstanding: 1983, 51,693,662 shares; 1982, 48,266,144 shares	**$258,468**	$241,331
Premium on capital stock (less expense)	**413,427**	353,226
Retained earnings	**285,712**	222,884
Total common equity	**$957,607**	$817,441
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
$4.65 Series, 1,300,000 shares outstanding	**32,500**	32,500
Total not subject to mandatory redemption	**$161,000**	$161,000
Subject to mandatory redemption		
Preference stock (cumulative) without par value*		
$7.325 Series, 300,000 shares outstanding	**$ —**	$ 30,000
$8.25 Series, 1983, 125,000 shares; 1982, 250,000 shares outstanding	**12,500**	25,000
$9.125 Series, 1983, 280,000 shares; 1982, 300,000 shares outstanding	**28,000**	30,000
$15.44 Series, 250,000 shares outstanding	**25,000**	25,000
Current sinking fund requirement	**(2,000)**	(2,000)
Total subject to mandatory redemption	**$ 63,500**	$108,000

*Authorized 10,000,000 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*	1983	1982
First mortgage bonds (Note 2)		
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
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
16% Series S, due March 15, 2010	13,163	50,000
13⅝% Series T, due August 1, 2010	75,000	75,000
5⅝% Series U-1, due January 15, 1984	6,192	6,567
5½% Series U-2, due September 1, 1994	12,468	12,868
17⅜% Series V, due July 15, 2011	16,814	50,000
16.70% Series W, due November 3, 1987 and 1988	40,000	40,000
16.65% Series X, due September 1, 1986 and 1987	20,000	20,000
16.65% Series Y, due September 1, 1986 and 1987	15,000	15,000
12⅞% Series Z, due July 15, 2013	65,000	—
10% Series AA, due June 1, 2018	150,000	—
10% Series BB, due September 1, 2018	150,000	—
Total	1,005,637	711,435
Sinking fund debentures		
4⅝%, due January 15, 1984	1,275	1,308
4½%, due September 1, 1994	1,471	1,501
Total	2,746	2,809
Other long-term debt		
Foreign term loans, variable rates (10.9% to 11.1% at December 31, 1983; 10.3% to 11.2% at December 31, 1982), due April 25, 1984—April 26, 1986	35,000	35,000
Term loan, 8¾%, due May 1, 1983—1985	26,667	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	5,700	5,700
Other	7,844	2,663
Total	84,786	92,938
Unamortized discount on long-term debt	(14,469)	(4,744)
Current portion of long-term debt (Note 2)	(42,297)	(17,395)
Total	$1,036,403	$785,043

See notes to financial statements.

Schedules of Financial Information by Segments of Business

The company is an operating public utility engaged principally in the generation, purchase, distribution and sale of electric 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.

(IN THOUSANDS OF DOLLARS) *FOR THE YEAR ENDED DECEMBER 31, 1983*	Electric Operations	Gas Operations	Adjustments and Eliminations	Total
Operating revenues				
Unaffiliated customers	$1,207,078	$283,553		$1,490,631
Intersegment sales		204,673	$(165,097)	39,576*
Total operating revenues	$1,207,078	$488,226	$(165,097)	$1,530,207
Operating income	$ 149,082	$ 25,073		$ 174,155
Depreciation and amortization	$ 68,377	$ 10,903		$ 79,280
Utility plant additions**	$ 273,436	$ 18,563		$ 291,999
Identifiable assets				
Utility plant—net	$2,142,303	$185,928		$2,328,231
Materials and supplies	27,017	3,137		30,154
Fuel inventory	74,027	2,061		76,088
Other assets				405,722
Total assets				$2,840,195
FOR THE YEAR ENDED DECEMBER 31, 1982				
Operating revenues				
Unaffiliated customers	$1,137,896	$253,877		$1,391,773
Intersegment sales		182,575	$(143,400)	39,175*
Total operating revenues	$1,137,896	$436,452	$(143,400)	$1,430,948
Operating income	$ 147,565	$ 22,296		$ 169,861
Depreciation and amortization	$ 60,715	$ 10,200		$ 70,915
Utility plant additions**	$ 233,050	$ 19,740		$ 252,790
Identifiable assets				
Utility plant—net	$1,877,231	$176,832		$2,054,063
Materials and supplies	27,617	3,239		30,856
Fuel inventory	108,582	3,357		111,939
Other assets				214,818
Total assets				$2,411,676
FOR THE YEAR ENDED DECEMBER 31, 1981				
Operating revenues				
Unaffiliated customers	$ 948,677	$167,052		$1,115,729
Intersegment sales		167,188	$(123,255)	43,933*
Total operating revenues	$ 948,677	$334,240	$(123,255)	$1,159,662
Operating income	$ 124,365	$ 17,758		$ 142,123
Depreciation and amortization	$ 50,075	$ 8,676		$ 58,751
Utility plant additions**	$ 192,847	$ 16,882		$ 209,729
Identifiable assets				
Utility plant—net	$1,625,806	$167,857		$1,793,663
Materials and supplies	27,337	3,058		30,395
Fuel inventory	158,910	2,416		161,326
Other assets				180,567
Total assets				$2,165,951

*Revenue from interdepartmental sales of gas allowed by the CPUC in tariff rates.
**Excluding allowance for funds used during construction.
See notes to financial statements.

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 and adopted by the California Public Utilities Commission (CPUC).

Subsidiaries

The company accounts for the investments in its operating subsidiaries by the equity method. The assets and revenues of the subsidiaries are not significant in relation to those of the company. The accounts of the company's non-operating subsidiaries are consolidated in the accompanying financial statements.

In October 1983, a subsidiary, Applied Energy, Incorporated, was sold for $45.0 million to Energy Factors, Incorporated (EFI), which resulted in an after tax gain of $14.5 million. Cash proceeds of $35.7 million were received and the balance of the payment was made with common stock and debentures of EFI. The cost method of accounting is used for the investment in EFI.

Utility plant and depreciation

The cost of additions to utility plant and 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 net 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.

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 1983, 1982 and 1981 were 3.97%, 3.98% and 3.32%, respectively, of the related aggregate depreciable asset balances.

The company has joint ownership interests in the San Onofre Nuclear Generating Station (SONGS) units and the Southwest Powerlink transmission system. Each participant in the jointly-owned projects must provide its own financing. The company's share of operating expenses is included in the results of operations.

The company estimates its share of future dismantling and decontamination costs for SONGS Units 1 and 2 to approximate $16.5 million and $22.7 million, respectively. It is expected that these estimates will be revised upward, and that these costs will be recovered in rates over the estimated life of the plant, under procedures to be implemented by the CPUC.

(IN THOUSANDS OF DOLLARS)	December 31, 1983			
Projects	Ownership Interest	Utility Plant in Service	Accumulated Depreciation	Construction Work in Progress
Southwest Powerlink	90.1%*	$ 12,736	$ —	$148,547
SONGS–Unit 1	20.0	60,759	20,003	29,008
SONGS–Unit 2	20.0	480,102	6,984	—
SONGS–Unit 3	20.0	—	—	377,575
SONGS common facilities	20.0	5,086	835	14,226
Total		$558,683	$27,822	$569,356

*Represents a composite rate.

Research, development and demonstration

Research, development and demonstration costs are 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 $12.4 million, $9.2 million and $6.4 million during 1983, 1982 and 1981, respectively.

Revenues

Revenues as recorded in the financial statements include billings to customers and changes in regulatory balancing accounts. Billings to customers are based on meters read on a cycle basis throughout each month. As required by the CPUC, the company maintains regulatory balancing accounts. These balancing accounts are used to record the undercollection of revenue for SONGS Unit 2 investment-related costs and the overcollections or undercollections of revenue resulting from changes in sales volumes and costs of electric energy, gas purchases, conservation programs and certain research, development and demonstration projects.

Employee benefit plans

The company provides a non-contributory funded pension plan for substantially all employees and makes annual contributions to this plan equal to its pension expense. It also maintains an unfunded non-contributory pension plan for certain officers. A comparison of accumulated benefits and net assets for these plans as of the latest valuation date is presented below:

(IN MILLIONS OF DOLLARS)	July 1 **1983**	1982
Actuarial present value of accumulated plan benefits		
Vested	**$109.3**	$ 92.1
Non-vested	**5.0**	4.7
Total	**$114.3**	$ 96.8
Net assets available for benefits	**$174.9**	$117.7

The rate of return used in determining the actuarial present value of accumulated pension plan benefits was 8.0% in 1983 and 1982.

Under the company's savings plan, eligible employees may make a contribution from 1% to 11% of their base pay depending upon their age. The company's contribution cannot, within specified limits, exceed 3% of the participant's basic compensation. All amounts contributed to the plan are paid to a trustee who invests company contributions in common stock of the company and employee contributions in United States Treasury Obligations, common stock or a combination of the two as the participant directs.

The company's contributions to these plans charged to expense and utility plant for the years 1983, 1982 and 1981 were $16.6 million, $15.5 million and $14.3 million, respectively.

The company also maintains a Tax Reduction Employee Stock Ownership Plan. Eligible employees automatically acquire shares of the company's common stock purchased as a result of additional federal income tax credits not otherwise available to the company. The company incurs only minor administrative costs associated with the plan.

Other

Certain prior year amounts have been reclassified for comparability.

See Note 4 regarding accounting for income taxes and Note 6 regarding accounting for leases.

2. Long-Term Debt

The mandatory payments to retire the company's long-term debt during the next five years are $42.3 million for 1984, $49.9 million for 1985, $31.0 million for 1986, $50.0 million for 1987 and $20.5 million for 1988.

Debt premium or discount and related expenses are amortized over the lives of the issues to which they pertain. As required by the CPUC, the gain or loss on reacquisition of first mortgage bonds is amortized to future periods.

Additional first mortgage bonds may be issued upon compliance with the provisions of the bond indenture. Substantially all utility plant is subject to the lien of the bond indenture.

3. Short-Term Borrowings

The company issues commercial paper at various discount rates and the paper usually matures within 1 to 45 days. As of December 31, 1983, the company had various bank lines aggregating $150 million, all of which are available to support commercial paper. Borrowings under these bank lines of credit bear interest at various short-term rate options. A commitment fee of up to a maximum of 0.375% is paid on the unused portion of the lines. There are no requirements for compensating balances.

The company may also borrow up to $150 million through bankers' acceptances to finance the purchase of any fuel, including natural gas and other goods or commodities. The bankers' acceptances are issued at the prevailing acceptance rate plus a placement fee and usually mature within 30 to 180 days. Warehouse receipts for the fuel in inventory are pledged as collateral for this credit.

At December 31, the short-term borrowings and weighted-average interest rates for the balances outstanding were as follows:

(IN MILLIONS OF DOLLARS)	**1983**		1982	
	Debt	**Rate**	Debt	Rate
Bank loans	**$ 78.0**	**10.5%**	$ 79.0	11.1%
Commercial paper	**–**	**–**	3.0	9.3
Bankers' acceptances	**7.0**	**10.2**	94.0	9.2
Short-term borrowings	**$ 85.0**		$176.0	

4. Income Taxes

The CPUC requires the company to include the current tax reductions of certain timing differences in net income. Therefore, no provision has been made for deferred taxes relating to these timing differences. The company provides deferred taxes for all other differences.

The company's accounting for taxes has changed over the years to reflect the revisions in the law. In 1975, the company elected to provide deferred taxes on the additional available investment tax credits. In 1982, the company began to record deferred taxes on both the excess of tax over book depreciation for new property and for substantially all investment tax credits. The company amortizes deferred investment tax credits to income ratably over the book lives of the property. As of December 31, 1983, the unused investment tax credits that may be carried forward and applied against future years' taxes are estimated at $50.3 million, expiring in 1997 and 1998.

Components of income tax expense

(IN THOUSANDS OF DOLLARS)	**1983**	1982	1981
Current federal income tax	**$23,126**	$ 2,135	$12,334
Current state franchise tax	**19,314**	6,760	8,334
Total current taxes	**42,440**	8,895	20,668
Total taxes allocated to subsidiaries	**(16,362)**	(5,948)	(6,881)
Deferred—federal and state taxes			
Regulatory balancing accounts—net	**(6,615)**	25,000	(15,453)
Sundesert suspension	**(2,685)**	(4,351)	(2,335)
Encina East sale	**—**	—	1,682
Tax over book depreciation	**33,071**	14,835	—
Nuclear fuel financing	**5,927**	12,343	—
Capitalized nuclear revenue	**(23,090)**	(1,379)	—
Call premium on refunded debt	**8,775**	—	—
Capitalized operating and maintenance	**7,720**	—	—
State franchise tax	**(7,623)**	—	—
Other—net	**27**	(2,209)	41
Total deferred taxes	**15,507**	44,239	(16,065)
Deferred investment tax credits—net	**57,743**	13,835	10,138
Total income tax expense	**$99,328**	$61,021	$ 7,860

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

The following table reconciles the differences between the statutory federal income tax rate and the company's effective federal income tax rate:

(IN THOUSANDS OF DOLLARS)	**1983**	1982	1981
Income before federal income taxes	**$272,220**	$207,020	$115,636
Statutory federal income tax rate	**46.0%**	46.0%	46.0%
Excess tax over book depreciation	**—**	0.2	(5.0)
Regulatory balancing accounts—net	**(0.3)**	(2.5)	10.7
AFUDC	**(13.2)**	(15.8)	(19.8)
Construction costs capitalized	**(4.0)**	(4.4)	(8.0)
Nuclear fuel financing	**(0.3)**	2.1	(3.9)
Fuel—moving average to FIFO	**—**	1.0	(3.0)
Investment tax credits	**(1.2)**	(3.8)	(15.4)
Other—net	**4.2**	1.2	3.1
Effective federal income tax rate	**31.2%**	24.0%	4.7%

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, 1983, the redemption premiums per share ranged up to $4, depending upon the series and the dates for redemption. If unpaid dividends on the outstanding preferred stock equal or exceed eight full quarterly dividends, then until all dividends in default have been paid, the holders of the preferred stock are entitled to elect a majority of the board of directors.

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 1, 1987, no redemption may be made 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 $100.00 to $115.44 per share for the $9.84, $7.80, $7.20, $8.25, $9.125 and $15.44 Series, and from $27.75 to $32.15 for the $2.68, $2.475 and $4.65 Series.

Subject to mandatory redemption

The company is required to set aside $2.0 million in sinking funds each year to be used for the annual redemption of the $9.125 Series preference stock (cumulative) subject to mandatory redemption. In 1985 and 1987, additional sinking funds will be required in the amounts of $1.0 million and $1.25 million for the $8.25 and $15.44 Series, respectively.

6. Contingencies and Commitments

San Onofre Nuclear Generating Station Unit 1

San Onofre Nuclear Generating Station Unit 1 has been out of service since February 1982 for inspection and plant modifications required by the Nuclear Regulatory Commission (NRC). The return to service date of Unit 1 is currently under evaluation and is chiefly contingent upon reaching an agreement with the NRC on specific seismic modifications to prove earthquake resistance and other long-range NRC requirements.

In October 1983, the CPUC stated that it believes that there is considerable uncertainty with respect to when, if ever, Unit 1 will resume normal commercial operation because modifications may not be cost effective. Hearings to consider this issue have been scheduled. In connection with these hearings, the CPUC staff is recommending removal of the return component for Unit 1 from customer rates.

If required modifications are determined not to be cost effective, the plant may be placed in storage and ultimately dismantled. Such an eventuality may dictate the write-off of the undepreciated cost of the plant and unrecovered fuel costs, totaling $89.4 mil-

lion as of December 31, 1983. In addition, the company's estimated share of the future dismantling and decontamination costs for Unit 1 is approximately $16.5 million.

Effective January 1, 1984, all costs for the support of Unit 1 facilities are subject to refund pending the outcome of the CPUC's investigation. The 1984 estimated annual revenue requirement for the unit included in the 1984 General Rate Case decision approximates $36 million.

In another matter relating to Unit 1, the company incurred $14.8 million for resleeving expenses plus related costs for replacement power. Recovery of the resleeving expenses is also subject to refund pending the outcome of CPUC investigations and the company's litigation against the contractor allegedly responsible for the construction defects. The results of this litigation for damages, claiming the resleeving expenses and more than $50 million in replacement power costs, may be subject to CPUC review.

The ultimate effect on the company's financial position as a result of CPUC investigations into these matters is not presently determinable; however, management does not expect that the ultimate impact resulting from CPUC actions will have a material effect on the company's financial position.

San Onofre Nuclear Generating Station Units 2 and 3

In a rate decision during 1983, the CPUC granted partial recovery, effective October 9, 1983, of the addition of Unit 2 to rate base and approved a balancing account for the unrecovered investment-related costs. The revenues associated with this decision totaled $25.0 million through December 31, 1983, of which $9.9 million has been recovered in rates subject to refund. The ultimate recoverability of the $25.0 million in revenues depends upon Phase 2 of this decision, which will be issued after a review by the CPUC of the reasonableness of the construction costs incurred for Units 2 and 3. The company's current estimate of its share of total construction costs for Units 2 and 3 is approximately $865 million. The final decision on the reasonableness of the costs is expected in 1985.

Pending hearings on the reasonableness issue which are now expected to commence in late 1984, the CPUC has commissioned a consultant to identify items where investigation may be required and to provide estimates as to the range of amounts involved. A second-stage preliminary report has now been issued by the consultant. In the report, 30 issues have been identified. With respect to 13 of the issues, the consultant indicated a range of dollar amounts. With respect to the remaining issues, the consultant indicated an inability to estimate the amounts involved. The company's share of amounts identified by the consultant for further investigation is about $200 million. The consultant has indicated, however, that its investigation has not advanced to the point where affirmative recommendations as to unreasonableness or imprudence can be made.

The 1983 decision also ordered a performance incentive plan for Unit 2 which set a target capacity factor range of 55 to 80 percent of maximum potential utilization of the unit. If the unit operates below the range, the decision states that a penalty will be assessed. Further hearings on implementing the target capacity factor are scheduled. In addition, the CPUC has ordered analysis and testimony, during 1984, on the issue of alternative ratemaking treatments which, if adopted, may defer recovery of costs.

The ultimate outcome as a result of the CPUC's review of the reasonableness of the construction costs for the units, the adoption of the target capacity factor, and consideration of other deferred capital recovery mechanisms is not presently determinable. Management is unable to predict the final outcome of these matters, but does not expect that the ultimate impact resulting from CPUC actions will have a material effect on the company's financial position.

Plant held for future use

Plant held for future use includes $45 million of site-related costs for the suspended Sundesert Nuclear Project near Blythe, California. The CPUC is permitting these costs to remain in rate base pending its review of the company's plans for the proposed use or disposition of the property. In the 1984 General Rate Case hearings, the CPUC reviewed this matter, but postponed a decision until after further hearings. The realization of the value of this asset depends upon the rate decision expected in March 1984. It is management's opinion that the ultimate decision will not have a material effect on the financial position of the company.

Legal matters

The company has commenced litigation in federal courts in an effort to collect a $31.2 million claim relating to a prior fuel oil exchange. The corporate defendants and related entities have filed Chapter 11 bankruptcy cases, and the company has filed an involuntary bankruptcy petition against the defendants' principal officer.

Various defendants have filed counterclaims against the company and four officers for damages. The counterclaims in their present form seek damages in excess of $85 million. The company will vigorously oppose these counterclaims and, in any case, believes that the ultimate outcome will not have a material effect on its financial position.

Nuclear insurance

The Price-Anderson Act currently limits the public liability claims that could arise from a nuclear inci-

dent to a maximum amount of $580 million for each licensed nuclear facility. The company and the co-owners of the SONGS units have purchased primary insurance for this exposure in the maximum available amount, presently $160 million, with the balance to be provided by secondary financial protection required by the NRC. Under the agreement with the NRC, the company could be assessed a retrospective premium adjustment, of up to $6 million, in the event of a nuclear incident involving any licensed reactor in the United States, if the amount of the loss exceeds $160 million.

Property damage coverage is provided for losses up to $500 million at SONGS. The company has also purchased decontamination liability and property damage insurance in excess of the primary $500 million layer. Insurance to cover a portion of the additional expense of replacement power resulting from an accident-related outage of a nuclear unit is also provided. A maximum weekly indemnity in the amount of $2.5 million for a single unit for 52 weeks commences after the first 26 weeks. An additional $1.25 million per week is provided for the next 52 weeks. These policies are primarily provided through mutual insurance companies owned by the utilities with nuclear facilities. If losses at any nuclear facility covered by the risk-sharing arrangement were to exceed the accumulated funds available for these insurance programs, the company could be assessed a retrospective premium adjustment of up to $23 million.

Nuclear Waste Policy Act

Pursuant to the Nuclear Waste Policy Act of 1982 (Act), Southern California Edison Company, acting as agent for the SONGS participants, entered into a contract in June 1983 with the U.S. Department of Energy for disposal of spent nuclear fuel for Units 1, 2 and 3. The Act provides for a one-time fee equivalent to an average charge of 1.0 mil per kilowatt hour of nuclear generation prior to April 7, 1983. Additionally, for nuclear generation subsequent to April 6, 1983, the Act imposes a similar fee, which will be payable quarterly. The company estimates that its portion of the total amount of this fee would be approximately $86.0 million over the estimated lives of the nuclear generating units. The company's portion of this fee that was charged to income for the twelve months ended December 31, 1983 was $0.3 million. Recovery of these expenses, and $6.1 million for generation prior to April 7, 1983, has been requested from the CPUC.

Construction

The company is engaged in a construction program under which estimated expenditures of $248 million are planned for 1984, excluding AFUDC and other non-cash items. The construction funds held by a trustee at year end, of $154.8 million, are available for qualified expenditures.

Leases

The nuclear fuel lease and certain other leased property would meet the criteria requiring capitalization under an accounting standard issued by the Financial Accounting Standards Board. However, since these leases are treated as operating leases for rate-making purposes, they have been accounted for in the same manner. The amounts of assets and liabilities that would have been included in the accompanying balance sheets for such capital leases approximated $270 million and $240 million, at December 31, 1983 and 1982, respectively. Had such leases been capitalized, there would have been no effect on expenses as recorded.

At December 31, 1983, the minimum rental payments of the company under all noncancellable leases were $48.1 million, $42.4 million, $40.3 million, $36.6 million and $29.7 million for the years 1984 through 1988, respectively. The aggregate amount of noncancellable rental commitments at December 31, 1983 was $417.5 million.

In 1978, in connection with the sale and leaseback of a generating facility, with minimum annual rentals of $10.2 million, a gain of $23.4 million was deferred and is being amortized as a reduction of rental expense over the initial term of the lease. The company has the option to extend the term of the lease for 15 years beyond 2003 at fair market rates.

The company has no material subleases. The amount of rents charged to operating expenses for the years ended December 31, 1983, 1982 and 1981 was $22.0 million, $22.1 million and $20.2 million, respectively.

Purchased power contracts

The company is committed under long-term contracts for the purchase of electric power with an estimated total minimum commitment of $1.2 billion at current prices over the lives of the contracts (expiring 1988 to 1994).

At December 31, 1983, the minimum payments under the contracts were $64.0 million, $166.9 million, $232.3 million, $224.9 million and $191.6 million for the years 1984 through 1988, respectively. The company is required to pay additional amounts for actual deliveries of electric power under the contracts.

The company's total payments, including electric power deliveries, under these contracts for the years ended December 31, 1983, 1982 and 1981 were $100.7 million, $87.6 million and $25.8 million, respectively.

Fuel oil contracts

At December 31, 1983, there were approximately 7.3 million barrels of fuel oil, scheduled to be delivered,

that are covered by contract. The company estimates that commitments under this contract aggregate $281.8 million through June 1986 at current contract prices determined by a formula which is based on the supplier's crude oil costs. In addition, the company has contracted to purchase 9.9 million barrels of fuel oil from July 1986 through December 1990 at prices to be determined in the future.

7. Disallowance of Fuel Oil Costs

In the 1970s, when future shortages of fuel oil were expected, the company entered into long-term contracts for the purchase of minimum amounts of fuel oil under take-or-pay contracts. In 1979, in an effort to reduce a short-term oversupply of fuel oil, the company renegotiated a contract to reduce the 1979 and 1980 minimum annual commitments and increase the total commitment for later years when the additional fuel oil was expected to be needed. In 1982, due to the unpredicted availability of less expensive natural gas, which under revised forecasts was expected to continue through the expiration of the 1979 restated contract, the company entered into an agreement to suspend the 1979 restated contract. Terms of the suspension agreement included underlift payments of $46.8 million to the supplier and fuel oil transporter not to deliver 6.9 million barrels of fuel oil. The CPUC initially acknowledged a ratepayer benefit from the suspension of purchases under this contract and authorized the company to adjust rates, effective January 1, 1983, to recover these costs over two years. These revenues, however, were made subject to refund pending further review by the CPUC as to the reasonableness of the negotiated price for the underlift charge. Through December 31, 1983, $27.0 million of these revenues had been recovered in rates.

In November 1983, the CPUC held hearings to address the reasonableness of the underlift charge. In the course of the hearings, arguments were presented that the underlift charges were unreasonable in light of the circumstances prevailing in 1982. Further, for the first time, arguments were introduced that the underlift charges were unreasonable because, in the absence of changes made in 1979, the underlift would not have been required. Based on these new arguments, on February 1, 1984, the CPUC ruled that the company had been unreasonable in entering into the 1979 restated contract. Because of its finding, the CPUC did not address the reasonableness of the actions in 1982, but instead found that issue to be moot.

The CPUC has scheduled hearings for March 1984 to determine an amount of disallowance associated with the 1979 restated contract. For consideration at these hearings, the CPUC directed the company to submit information concerning the amount of difference between actual costs for fuel, including underlift payments, under the 1979 restated contract and estimated costs of fuel using the most beneficial economic fuel resources from 1979 to 1983. The company has prepared a preliminary estimate which totaled $97 million. This estimate, and other estimates to be presented at the hearings, involve numerous speculative assumptions. The company does not in any event believe an assumption of the use of most beneficial fuel resources is justified.

In February 1984, the administrative law judge, who may preside over the hearings, made public statements reported by San Diego newspapers indicating that the disallowance would be $45 million or more. In light of these public statements and the February 1984 CPUC order, the company expects a recommendation by the administrative law judge to the CPUC of a substantial disallowance. The company continues to believe that its actions have been reasonable and that there is no justification for reevaluating circumstances in the distant past. The company intends to contest both the basis for the disallowance and the amount which is expected to be ordered. The company, however, cannot predict the ultimate amount of the disallowance and the effect on its results of operations.

8. Quarterly Financial Data (Unaudited)

The amounts below 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 recognition, in the quarter ended March 31, 1982, of a $5.9 million ($0.06 per share, net of taxes*) provision for a class action lawsuit, the effect, on the quarter ended December 31, 1982, of reductions in revenues of $14.5 million ($0.14 per share, net of taxes*) as a result of CPUC hearings on the balancing accounts, and the recognition, in the quarter ended December 31, 1983, of an after tax gain of $14.5 million ($0.29 per share*) from the sale of a subsidiary.

(IN THOUSANDS EXCEPT PER SHARE AMOUNTS)	Operating Revenues	Operating Income	Net Income	Earnings per Common Share**
Quarter Ended				
1982				
March 31	$355,751	$47,639	$45,040	$0.89
June 30	332,512	39,795	38,574	0.72
September 30	360,093	44,616	39,497	0.72
December 31	382,592	37,811	34,192	0.58
1983				
March 31	396,137	46,796	48,012	0.85
June 30	357,041	39,561	40,603	0.69
September 30	370,922	42,551	42,673	0.71
December 31	406,107	45,247	56,082	0.96

*Based on average common shares outstanding.
**Because these earnings are based on average common shares outstanding during the quarter, the sum of quarterly earnings per share may not equal earnings per share for the year.

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, 1983	As Reported in the Financial Statements (Historical)	Adjusted for General Inflation[1] (Constant Dollars)	Adjusted for Changes in Specific Prices[1] (Current Cost)
Operating revenues	$1,530,207	$1,530,207	$1,530,207
Electric fuel and purchased energy	622,422	622,422	622,422
Gas purchased for resale	209,912	209,912	209,912
Other operating	238,958	238,958	238,958
Maintenance	59,595	59,595	59,595
Depreciation and amortization	79,280	151,525	175,776
Taxes	145,885	145,885	145,885
Net interest charges	85,581	85,581	85,581
Other income—net	(98,796)	(98,794)	(98,794)
	1,342,837	1,415,084	1,439,335
Income from operations (excluding adjustment to net recoverable cost)	$ 187,370	$ 115,123[2]	$ 90,872
Increase in specific prices (current cost) of property, plant and equipment held during the year[3]			$ 276,844
Adjustment to net recoverable cost		$ (24,987)	(120,586)
Effect of increase in general price level			(156,994)
Excess of increase in general price level over increase in specific prices after adjustment to net recoverable cost			(736)
Gain from decline in purchasing power of net amounts owed		46,504	46,504
Net		$ 21,517	$ 45,768

[1]At average 1983 price levels.
[2]Including the adjustment to net recoverable cost, the income from operations on a constant dollar basis would have been $90,136.
[3]At December 31, 1983, current cost of property, plant and equipment, net of accumulated depreciation, was $4,222,837, while historical cost or net recoverable cost was $2,332,848.

Constant dollar amounts represent historical costs stated in terms of dollars of the same general purchasing power, as measured by the Consumer Price Index for All Urban Consumers. Current cost amounts reflect the changes in specific prices of plant from the date the plant was acquired to the present. 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 difference between these two methods of measuring the effects of inflation results from current costs of utility plant assets having increased at a rate different from the rate of general inflation.

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 book 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. In addition, since only historical costs are deductible for income tax purposes, no adjustments have been made to tax expense.

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

(IN THOUSANDS EXCEPT PER SHARE AMOUNTS)[1] *FOR THE YEARS ENDED DECEMBER 31*	1983	1982	1981	1980	1979
Operating Revenues	**$ 1,530,207**	$ 1,477,475	$ 1,270,775	$ 1,161,639	$ 1,023,237
Historical Cost Information Adjusted for General Inflation (Constant Dollar)					
Income from operations (excluding adjustment to net recoverable cost)	**$ 115,123**	$ 112,408	$ 63,173	$ 9,927	$ 49,419
Income (loss) per common share (after preferred dividend requirements and excluding adjustment to net recoverable cost)	**$ 1.75**	$ 1.89	$ 1.08	$ (0.34)	$ 0.86
Net assets at year-end at net recoverable cost	**$ 1,098,009**	$ 992,754	$ 882,752	$ 825,385	$ 871,304
Historical Cost Information Adjusted for Changes in Specific Prices (Current Cost)					
Income (loss) from operations (excluding adjustment to net recoverable cost)	**$ 90,872**	$ 93,028	$ 47,179	$ (5,014)	$ 30,112
Income (loss) per common share (after preferred dividend requirements and excluding adjustment to net recoverable cost)	**$ 1.27**	$ 1.46	$ 0.68	$ (0.77)	$ 0.21
Excess of increase in general price level over increase in specific prices after adjustment to net recoverable cost	**$ (736)**	$ (22,930)	$ (91,572)	$ (149,874)	$ (165,116)
Net assets at year-end at net recoverable cost	**$ 1,098,009**	$ 992,754	$ 882,752	$ 825,385	$ 871,304
General Information					
Gain from decline in purchasing power of net amounts owed[2]	**$ 46,504**	$ 48,446	$ 90,255	$ 117,351	$ 118,921
Cash dividends declared per common share	**$ 1.925**	$ 1.84	$ 1.80	$ 1.89	$ 2.03
Market price per common share at year-end[2]	**$ 19.26**	$ 17.61	$ 13.25	$ 13.57	$ 17.04
Average Consumer Price Index	**298.5**[3]	289.1	272.4	246.8	217.4

[1]Average 1983 dollars
[2]In constant dollars
[3]1983 Average Consumer Price Index estimated.

Under the ratemaking prescribed by the CPUC, only the historical cost of plant is recoverable in revenues as depreciation. Therefore, the cost of plant stated in terms of constant dollars or current cost differing from the historical cost of plant is not presently recoverable in rates as depreciation, and is reflected as an adjustment to net recoverable cost. While the ratemaking 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.

During a period of inflation, holders of monetary assets suffer a loss of general purchasing power while holders of monetary liabilities experience a gain. To properly reflect the economics of rate regulation in the Statement of Income from Operations, the adjustment to net property, plant and equipment should be offset by or combined with, as appropriate, the gain from the decline in purchasing power of net amounts owed. 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 of 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 OF DOLLARS EXCEPT PER SHARE AMOUNTS) FOR THE YEARS ENDED DECEMBER 31	**1983**	1982	1981	1980	1979	1978	1973
Common Stock							
Financial return on equity	**18.2%**	17.5%	14.5%	6.0%	10.4%	11.4%	10.1%
Market to book ratio*	**106.0%**	101.8%	77.2%	73.2%	75.6%	84.7%	85.8%
Book value per share*	**$ 18.52**	$ 16.94	$ 16.20	$ 16.06	$ 17.35	$ 17.41	$ 17.05
Earnings per common share	**$ 3.20**	$ 2.90	$ 2.34	$ 1.01	$ 1.80	$ 2.02	$ 1.78
Dividends per share							
Paid	**$ 1.89**	$ 1.75	$ 1.62	$ 1.54	$ 1.46	$ 1.38	$ 1.20
Declared	**$ 1.925**	$ 1.785	$ 1.64	$ 1.56	$ 1.48	$ 1.40	$ 1.20
Dividend payout ratio (declared)	**60.7%**	62.4%	71.1%	156.8%	83.1%	71.5%	69.6%
Dividend yield (declared)	**9.8%**	10.3%	13.1%	13.3%	11.3%	9.5%	8.2%
Price/Earnings ratio*	**6.1**	5.9	5.3	11.6	7.3	7.3	8.2
Capitalization*							
Common equity	**$ 957.6**	$ 817.4	$ 672.4	$ 585.8	$ 541.2	$ 480.4	$ 230.3
Preferred stock							
Not subject to mandatory redemption	**161.0**	161.0	161.0	128.5	128.5	128.5	78.5
Subject to mandatory redemption	**63.5**	108.0	85.0	85.0	85.0	85.0	30.0
Long-term debt							
First mortgage bonds	**967.9**	706.3	612.4	615.2	491.2	490.9	243.5
Debentures	**1.4**	2.7	22.2	23.0	23.7	24.5	28.4
Other	**67.1**	76.1	92.6	94.1	125.2	57.7	56.8
Total long-term debt	**1,036.4**	785.1	727.2	732.3	640.1	573.1	328.7
Total capitalization	**$2,218.5**	$1,871.5	$1,645.6	$1,531.6	$1,394.8	$1,267.0	$ 667.5
Capitalization ratios(%)							
Common equity	**43.2**	43.7	40.9	38.2	38.8	37.9	34.5
Preferred stock							
Not subject to mandatory redemption	**7.3**	8.6	9.8	8.4	9.2	10.2	11.8
Subject to mandatory redemption	**2.9**	5.8	5.2	5.6	6.1	6.7	4.5
Long-term debt							
First mortgage bonds	**43.6**	37.7	37.2	40.2	35.2	38.7	36.5
Debentures	**—**	0.1	1.3	1.5	1.7	1.9	4.2
Other	**3.0**	4.1	5.6	6.1	9.0	4.6	8.5
Total long-term debt	**46.6**	41.9	44.1	47.8	45.9	45.2	49.2
Total capitalization	**100.0**	100.0	100.0	100.0	100.0	100.0	100.0
Times Earned							
Interest on debt before income taxes	**3.66**	3.02	2.06	1.47	2.18	2.25	2.09
Interest and preferred dividends after income taxes	**2.18**	1.98	1.70	1.31	1.65	1.67	1.67
Utility Plant*							
Electric	**$2,566.1**	$2,253.6	$1,960.5	$1,735.9	$1,547.4	$1,343.3	$ 695.9
Gas	**298.4**	281.0	262.2	246.1	228.0	212.9	158.3
Common	**41.6**	33.2	29.0	27.4	25.8	23.4	39.0
Total	**2,906.1**	2,567.8	2,251.7	2,009.4	1,801.2	1,579.6	893.2
Accumulated depreciation	**(577.9)**	(513.7)	(458.0)	(418.6)	(381.4)	(344.9)	(212.7)
Utility plant—net	**$2,328.2**	$2,054.1	$1,793.7	$1,590.8	$1,419.8	$1,234.7	$ 680.5

*At December 31

Stock Prices

1983 QUARTERS	First High	First Low	Second High	Second Low	Third High	Third Low	Fourth High	Fourth Low
Common	19⅜	17	19⅞	17½	20¼	17¼	22	19¼
4.40% Preferred	7¾	6¾	7⅝	7	7⅜	6½	7½	6½
4½% Preferred	8¼	6⅞	8⅛	7	7⅞	7	7⅝	6½
5% Preferred	8⅞	7½	8¾	7¾	8¾	7⅞	8½	7⅝
$9.84 Preference	81	71¼	80¼	74	79	71	78¼	73½
$7.80 Preference	62¾	57	65	59	63	58¼	64¾	57
$7.20 Preference	57½	52	59	54½	58½	54	58	52
$2.68 Preference	22¾	20¼	24	20⅞	22¼	19⅞	22½	20
$2.475 Preference	21	18¾	21	19⅛	21	18⅞	20¾	19⅛
$4.65 Preference	37	34⅛	37⅜	34¾	37¾	34	37⅝	34¼

1982 QUARTERS	First High	First Low	Second High	Second Low	Third High	Third Low	Fourth High	Fourth Low
Common	14¼	11¾	15¼	13¼	16¾	14⅝	17⅞	15⅝
4.40% Preferred	6¼	5⅜	6⅜	5½	6⅞	5⅝	7⅜	6½
4½% Preferred	6⅜	5⅝	6⅜	5⅝	7¼	5¾	7½	6½
5% Preferred	7⅛	6⅜	7	6¼	7¾	6⅜	8⅜	7
$9.84 Preference	63	50	67	60	69¾	59¾	76	69
$7.80 Preference	51	46	51¾	47½	55½	48¼	62	54
$7.20 Preference	47½	43	48	44	50	44	56¾	49
$2.68 Preference	18	15½	18⅛	16¼	19⅞	16⅝	21¾	18
$2.475 Preference	16⅞	15	17½	15⅛	18½	15¼	20	17⅛
$4.65 Preference	30¼	27½	31⅜	28¼	34	29	36¼	31¾

Quarterly Dividends Paid in 1982—1983

(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	$4.65 Preference	$15.44 Preference
49¢*	22¢	22½¢	25¢	$2.46	$1.95	$1.80	67¢	61⅞¢	$1.1625	$3.86

*Rate paid since July 15, 1983. Prior rates were 45.5¢, paid from July 15, 1982, and 42¢, paid from October 15, 1981.
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 1983	Three Months Ended December 31 1982	Years Ended December 31 1983	Years Ended December 31 1982
Operating revenues	**$ 406,107**	$ 382,592	**$1,530,207**	$1,430,948
Operating expenses	**360,860**	344,781	**1,356,052**	1,261,087
Operating income	**45,247**	37,811	**174,155**	169,861
Other income	**34,044**	17,763	**98,796**	75,691
Net interest charges	**23,209**	21,382	**85,581**	88,249
Net income (before preferred dividend requirements)	**56,082**	34,192	**187,370**	157,303
Preferred dividend requirements	**6,841**	6,887	**27,449**	26,068
Earnings applicable to common shares	**$ 49,241**	$ 27,305	**$ 159,921**	$ 131,235
Average common shares outstanding	**51,505**	47,074	**49,994**	45,306
Earnings per common share	**$ 0.96**	$ 0.58	**$ 3.20**	$ 2.90
Dividends declared per common share	**$ 0.49**	$ 0.455	**$ 1.925**	$ 1.785

See management's discussion and analysis of financial condition and results of operations and Note 8 of notes to financial statements.

Corporate Information

Six new vice presidents elected in 1983

Six new vice presidents were elected in 1983 and the consolidation of four of the company's divisions into two divisions resulted in new assignments for two vice presidents.

Donald E. Felsinger, 36, was elected in April to vice president—gas division from division manager. Later in the year, as part of the consolidation of divisions and as a result of the retirement of A. J. McCutcheon, Felsinger moved to the post of vice president—customer service administration. He joined the company in 1972.

Ronald K. Fuller, 46, was elected vice president—regulatory services, from director of regulatory affairs, a post he assumed earlier in the year. Between 1975 and 1983, Fuller was manager of the company's governmental relations operations in Washington, D.C.

R. Lee Haney, 44, treasurer of SDG&E, was elected a vice president. Haney joined SDG&E in 1972 and was manager of financial services and assistant treasurer prior to his promotion to the post of treasurer in 1981.

James C. Holcombe, 38, was promoted to vice president—power supply from division manager, the position to which he had been appointed in 1982. Earlier, he was manager of the company's electric operations for seven years. Holcombe joined the company in 1967.

Harold A. Monsor, 62, joined the company as vice president—consultant to the president, from H. & J. Monsor & Associates, his own general business consulting firm that specialized in helping companies realize their growth potential. Prior to forming his own company in 1981, he was a senior vice president of Amcord and a group vice president and board member of Chemetron Corporation. He has been on the board of directors of several other domestic and international companies.

Ronald W. Watkins, 42, assumed the additional responsibility for gas operations, engineering, and planning in the consolidation effort, becoming vice president—gas and resource management. Watkins has been a company vice president since 1979. He joined the company in 1964.

George A. F. Weida, 47, joined the company as a vice president in the personnel division after leaving Xerox and Loral Corporations, where he was vice president of human resources. Earlier, he was corporate director of employee relations at AM International, Inc. (formerly Addressograph-Multigraph Corporation), and vice president of industrial relations for Republic Corporation.

Board of Directors

Thomas A. Page*
Chairman, President, and Chief Executive Officer of SDG&E

Clair W. Burgener
President of Burgener Properties, Inc. (a real estate investment and property development firm)

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

David M. DeMotte
President of Rough Country, Inc. (manufacturer and distributor of specialty equipment for the automotive aftermarket)

Daniel W. Derbes
President of Signal Advanced Technology Group and Executive Vice President and a director of The Signal Companies, Inc.

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

William D. McElroy
Professor of Biology at University of California at San Diego

Ralph R. Ocampo
San Diego physician and surgeon

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

Charles R. Scott
President and Chief Executive Officer of Intermark, Inc. (a La Jolla-based operating and holding company)

O. Morris Sievert*
Private investor; former president of Oil Field Manufacturing Service and Supply Division of Nucorp Energy, Inc. (an oil and gas exploration and oil field manufacturing, service, and supply company)

Fred C. Stalder*
President, Chairman, and Chief Executive Officer of Central Savings and Loan Association

Catherine T. 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)

*Member of the Executive Committee

Officers

Thomas A. Page
President, Chief Executive Officer, and Chairman of the Board

Alton T. Davis
Group Vice President—Operations

Richard Korpan
Group Vice President—Finance

Jack E. Thomas
Group Vice President—Customer Service

Gary D. Cotton
Vice President—Engineering

Frank W. DeVore
Vice President—Governmental Affairs

Donald E. Felsinger
Vice President—Customer Service Administration

Ronald K. Fuller
Vice President—Regulatory Services

John E. Hamrick
Vice President—Customer Service

R. Lee Haney
Vice President and Treasurer

Chris Harlow
Vice President—Information Services

James C. Holcombe
Vice President—Power Supply

James J. Holley
Vice President—Personnel

William J. Karnes
Secretary

Richard L. Manning
Vice President—Public Relations

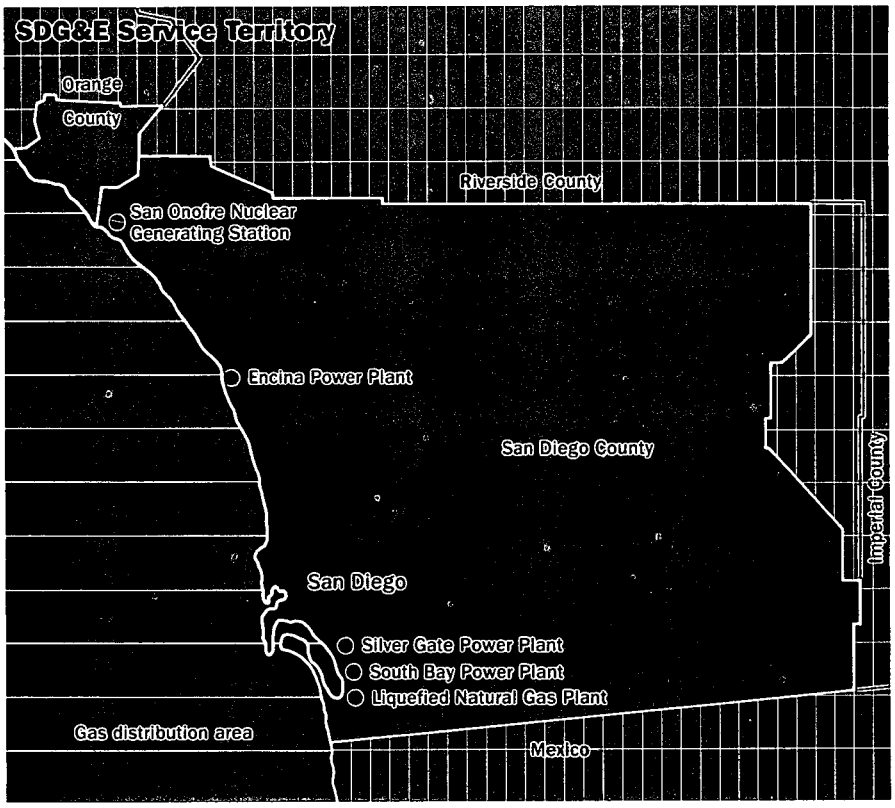
Harold A. Monsor
Vice President—Consultant to the President

Robert E. Parsley
Controller

Gordon Pearce
Vice President and General Counsel

Ronald W. Watkins
Vice President—Gas and Resource Management

George A. F. Weida
Vice President



Customer Service Centers

Beach Cities
Lawrence T. Imrie, Director
4901 Morena Boulevard, Suite 210
San Diego, CA 92117

Centre City
L. Clark Siebrand, Director
701 33rd Street
San Diego, CA 92102

Eastern
Paul J. Oberhaus, Director
104 North Johnson Avenue
El Cajon, CA 92020

North Coast
R. Bruce Liska, Director
5315 Avenida Encinas
Carlsbad, CA 92008

Northeast
R. Keith Hutchens, Director
750 North Citracado Parkway
Escondido, CA 92025

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

South Bay
H. John Van der Linde, Director
436 "H" Street
Chula Vista, CA 92010