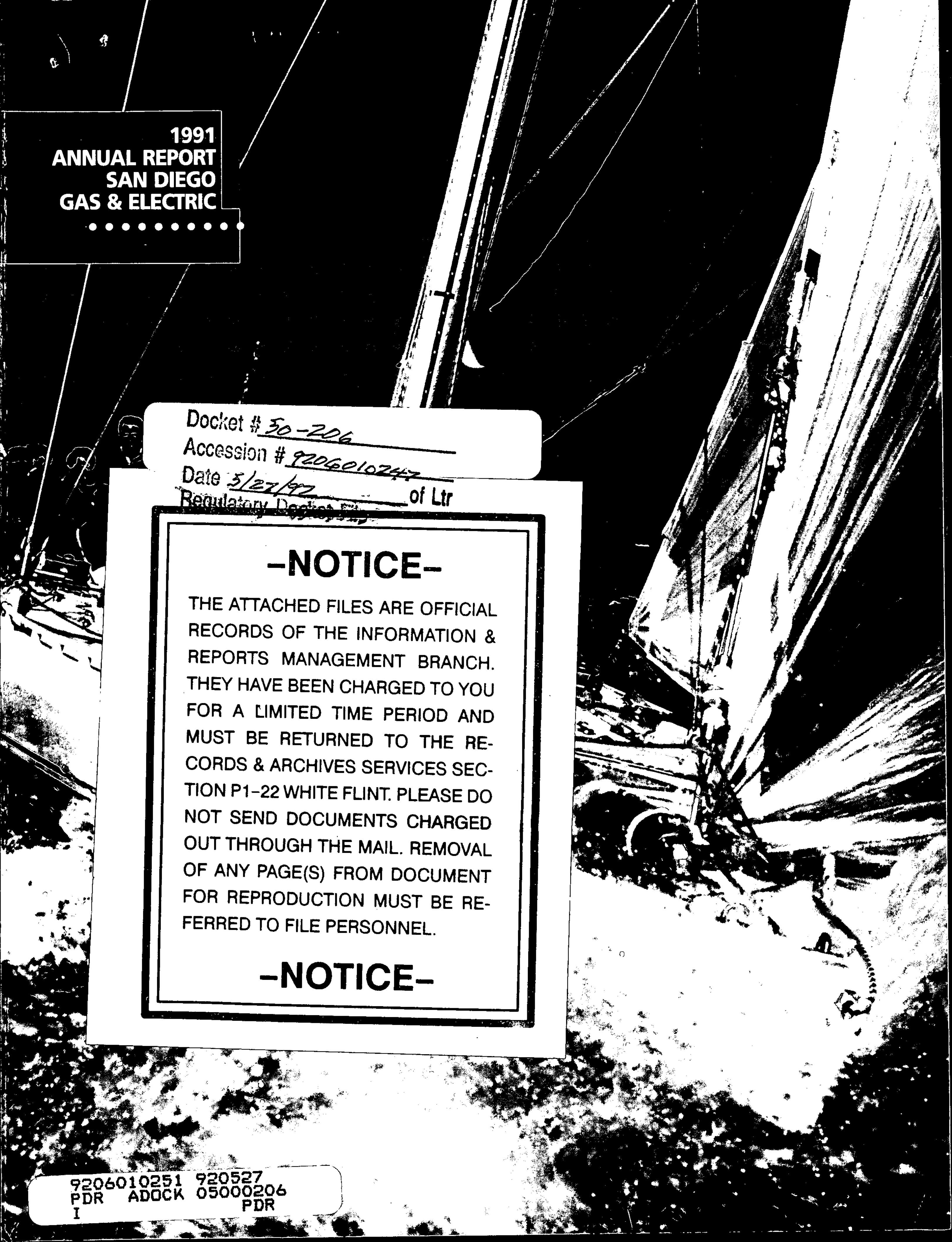


1991 ANNUAL REPORT SAN DIEGO GAS & ELECTRIC

Financial Highlights

In thousands of dollars except per share amounts	1991	1990	Change
Operating revenues	$1,789,012	$1,771,868	+ 1.0%
Operating expenses	$1,473,498	$1,457,895	+ 1.1%
Net income (before preferred dividend requirements)	$ 208,060	$ 207,841	+ 0.1%
Average common shares outstanding (thousands)	55,994	55,921	+ 0.1%
Number of common stock shareholders*	61,581	62,431	− 1.4%
Earnings per common share	$ 3.53	$ 3.52	+ 0.3%
Dividends declared per common share	$ 2.775	$ 2.70	+ 2.8%
Retail energy sales			
Electric (billions of kilowatt-hours)	14.2	14.3	− 0.7%
Gas (millions of therms)	663	613	+ 8.2%
Number of utility employees*	4,215	4,175	+ 1.0%
Return on equity	14.9%	15.4%	− 3.2%

*At December 31, 1991.

Company Description

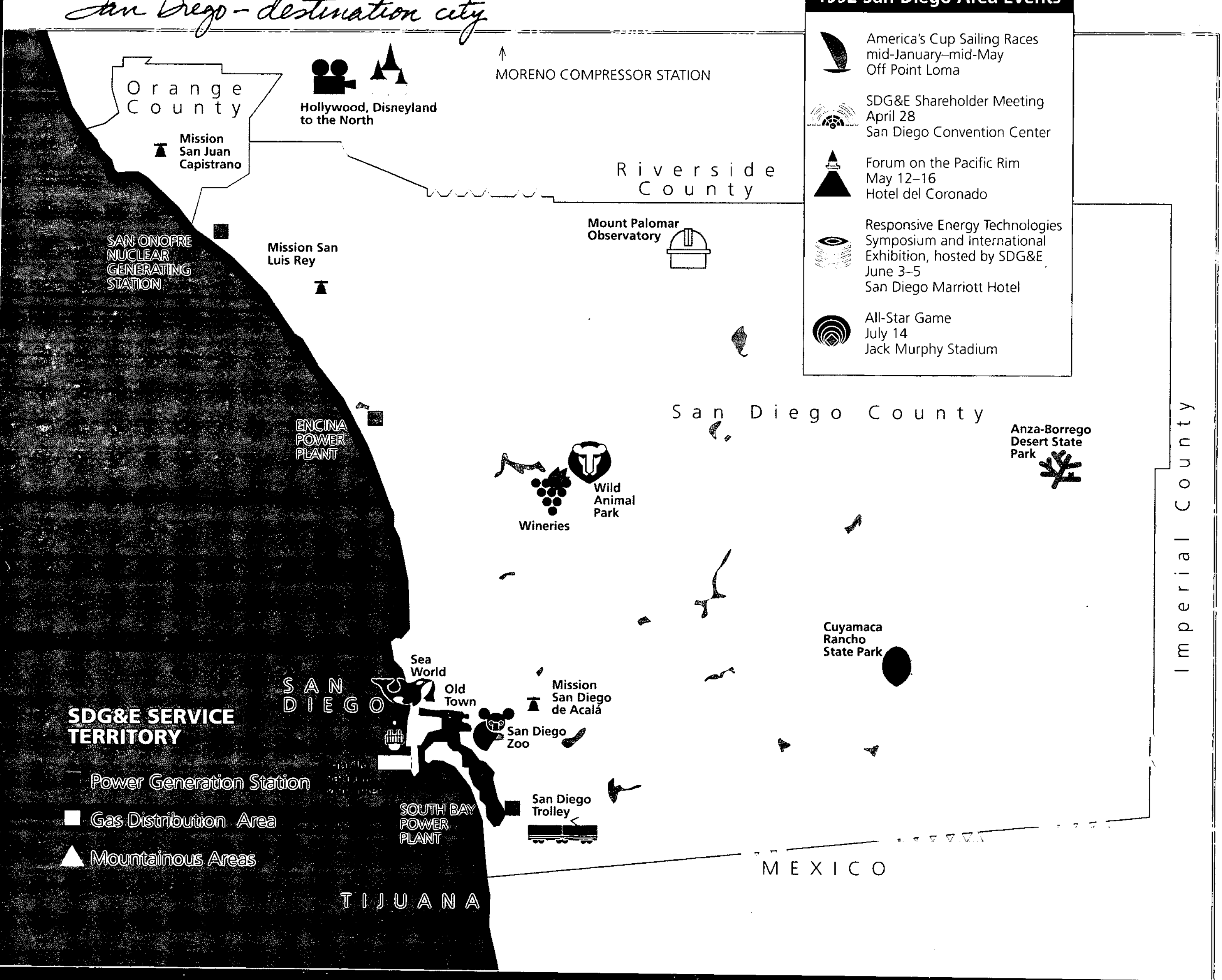
San Diego Gas & Electric is an investor-owned energy management company, founded in 1881. More than 90 percent of the company's revenues come from electric and natural gas sales. The remainder flow primarily from Wahlco Environmental Systems, a subsidiary that markets air pollution controls worldwide.

SDG&E provides electric service to 1.1 million customers in all of San Diego County and the southern portion of Orange County. Gas is provided to 680,000 customers in San Diego County.

The company's headquarters is based in San Diego, which has an international reputation as a destination city. Besides the city of San Diego, SDG&E provides utility service to 17 other cities in San Diego County and to 7 cities in Orange County.

Visitors to SDG&E's service territory enjoy the region's mild climate and its attractions, such as the world-famous San Diego Zoo and Sea World.

San Diego - destination city



1992 San Diego Area Events

America's Cup Sailing Races
mid-January–mid-May
Off Point Loma

SDG&E Shareholder Meeting
April 28
San Diego Convention Center

Forum on the Pacific Rim
May 12–16
Hotel del Coronado

Responsive Energy Technologies Symposium and International Exhibition, hosted by SDG&E
June 3–5
San Diego Marriott Hotel

All-Star Game
July 14
Jack Murphy Stadium

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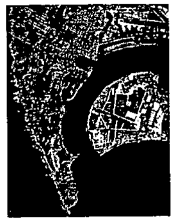
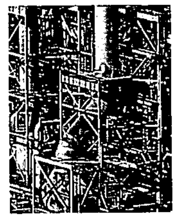
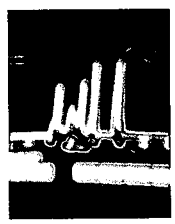


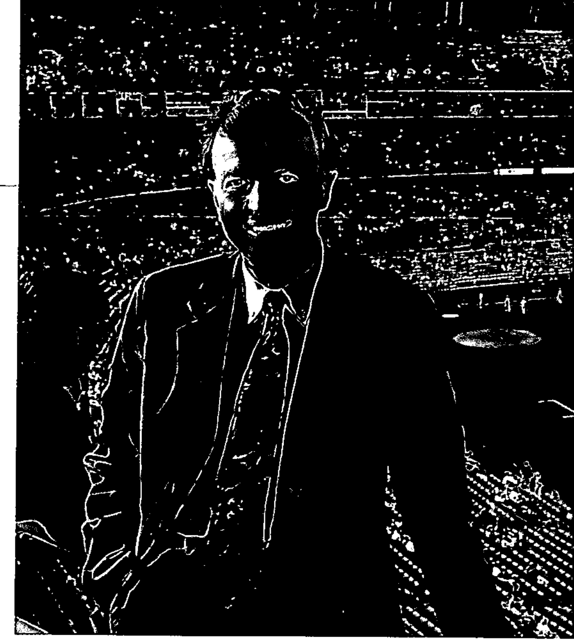




On the Cover: Skipper Dennis Conner and his crew navigate ocean waters along San Diego's coast. They are practicing for competition with crews of America^3 for the chance to defend the United States in the 1992 international America's Cup races.
(Photograph by Sally Samins.)

CHAIRMAN'S LETTER

March 2, 1992



Thomas A. Page, chairman and chief executive officer, visits San Diego's Jack Murphy Stadium, where baseball's best players will compete in the All-Star Game on July 14, 1992.

"Here's the windup," says the baseball announcer, ". . . it's a fastball hit deep to right! This could be it! Holy cow, he did it!"

Veteran sports announcer and former New York Yankee star Phil Rizzuto shouted those words into the microphone on October 1, 1961. He was describing the exciting moment when Yankee Roger Maris hit home run number 61 for that season, breaking the previous record set by the legendary Babe Ruth in 1927. Maris' impressive record still stands today.

In an instant, a home run can change the fate of a baseball game or put another entry into the record books.

Well, 1991 wasn't just an instant, but the world changed dramatically in an amazingly short span of time. So did life for SDG&E:

○ ○ ○ ***Throwing us an unexpected curve, the California Public Utilities Commission on May 8, 1991 ruled 5-0 against our proposed merger with Southern California Edison, a merger that had been in progress for nearly three years. A week later, after Edison and SDG&E decided not to appeal the CPUC decision, the merger was history.***

○ ○ ○ ***On June 5, 1991, the ground rules that California utilities must follow as they plan future additions to generating capacity changed significantly. The new rules give considerable weight to the cost to society of air emissions from generating facilities, and effectively put an end to the least-cost planning methodology that had been used for years.***

○ ○ ○ ***On June 27, 1991, SDG&E management announced a new set of strategic goals, a detailed game plan for future success in the energy business.***

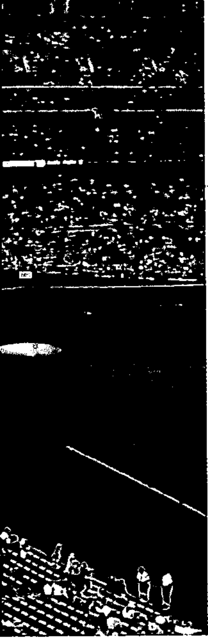
Like a talented baseball team, SDG&E was prepared to deal with the sudden changes that created a whole new ball game for us in 1991. Coached by a group of capable officers, SDG&E employees displayed excellent teamwork throughout this latest "season." They gave an all-star performance that enabled your company to set new records:

○ ○ ○ ***In 1991, we achieved record annual shareholder earnings for the second consecutive year. Earnings for 1991 were $3.53 per common share. We also increased the annual dividend to a record $2.80 per common share during 1991. In February 1992, we raised the annual dividend again, to $2.88 per share.***

○ ○ ○ ***For the third year in a row, SDG&E's electricity prices were the lowest among California's investor-owned utilities, a sharp contrast from the situation a few years ago, when our prices were among the highest not only in the state, but also in the nation.***

○ ○ ○ ***Wahlco Environmental Systems, our subsidiary company that helps solve air pollution problems worldwide, also turned in an outstanding performance for 1991. Net income was $11.6 million, up 28 percent from 1990's net income of $9.0 million.***

Like good athletes, SDG&E management and employees have honed their individual skills while displaying excellent teamwork. But



we're not hanging up our spikes or resting on the bench.

We've established new and higher goals for the future. Unlike the home run record of Roger Maris, our latest achievement records probably won't stay on the books for long.

THOMAS A. PAGE
Chairman and Chief Executive Officer

PRESIDENT'S LETTER *March 2, 1992*

In sports and in business, setting goals is a key to achieving success. As San Diegan Dennis Conner, the world's best-known sailor, said in his book The Art of Winning: "You have to make your goals central to everything you do."

That's sage advice from a skipper who led crews to capture sailing's coveted America's Cup three times. Now he's competing against another U.S. team, America^3, for the chance to represent our nation again during 1992's America's Cup races along San Diego's coast.

Like Conner, SDG&E has a tradition of creating and achieving goals. During the past dozen years, this tradition helped transform a troubled utility with high prices, poor shareholder earnings and low employee morale into a successful energy business with competitive prices, solid earnings and a productive team of employees.

○ ○ ○ ***During 1991, we reached, and in many cases exceeded, key performance goals. For example, 93 percent of customers surveyed said they were "very satisfied" with SDG&E's service, surpassing our customer satisfaction goal of 89 percent by a significant margin.***

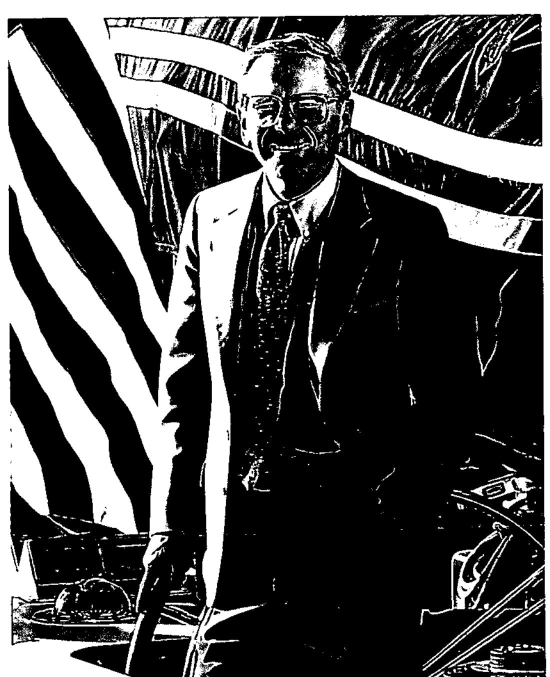
Now our focus is on a comprehensive set of new goals that involve every SDG&E employee and every facet of our business. All of our goals are important. However, the three goals foremost in my mind as I oversee the utility's day-to-day business operations are: maintaining the lowest electricity prices among California's regulated utilities, increasing shareholder value and continuing to improve customer service.

As part of our tradition of setting and working toward goals, we make them public. You will find them listed on page 16 of this annual report.

SDG&E's future direction is clear. I'm confident our employee team will meet the new challenges they face, as they have been doing for 111 years.

To quote Dennis Conner again, "Once your direction becomes clear to you and fully visible to others, all the elements of winning — attitude, performance, teamwork and competition — begin to come together."

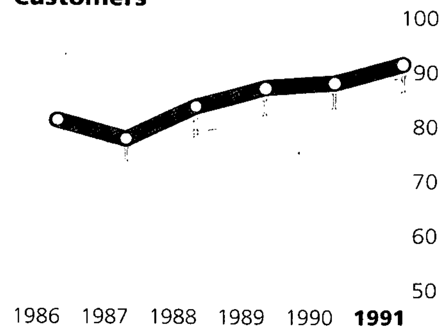
JACK E. THOMAS
President and Chief Operating Officer



Jack E. Thomas, president and chief operating officer, aboard Dennis Conner's 1986 Stars and Stripes yacht. The 1992 America's Cup races are being held in San Diego.

TEAMWORK ACHIEVES RECORD YEAR FOR CUSTOMER SATISFACTION AND SHAREHOLDER EARNINGS. WE ALSO MAINTAINED LOW ELECTRICITY PRICES

Percent of "Very Satisfied" Customers



SDG&E's team of employees set new records in 1991 for shareholder earnings and customer satisfaction, while also maintaining the company's position as the low-price provider of electricity among California's regulated utilities.

The numbers:

◦ ◦ ◦ Annual earnings reached $3.53 per common share, surpassing 1990's record of $3.52 per common share.

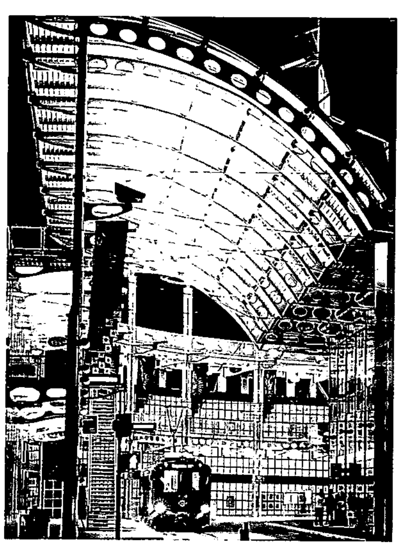
◦ ◦ ◦ Altogether 93 percent of customers surveyed during 1991 said they were "very satisfied" with SDG&E's service, up from 89 percent in 1990.

◦ ◦ ◦ The system average price for electricity was 9.3 cents per kilowatt-hour in 1991, the lowest among California's investor-owned utilities.

SDG&E's 1991 achievements are all the more impressive when you consider that from November 1988 until May 1991, an ultimately disapproved merger between SDG&E and Southern California Edison was in progress. Despite the distraction of the merger process, our team of 4,200 employees focused on the work at hand and continued efforts to minimize costs.

16,000 NEW CUSTOMERS ADDED IN 1991, 244,000 MORE EXPECTED BY THE YEAR 2000: Customer growth was low in 1991, but we expect stronger customer growth from 1992 through the year 2000. The company added 16,000 new customers for the year in our 4,100-square-mile service area, which includes the nation's sixth largest city, San Diego, all of San Diego County, and the southern portion of Orange County. The customer growth rate was 1.5 percent.

For the period from 1992 through the year 2000, SDG&E expects to add a total of 244,000 new customers. This equals an average of about 27,000 new customers per year during that time period, for an average annual growth rate of 2.2 percent.



Take a trolley from downtown to the Mexican border

SDG&E and the San Diego County Water Authority are considering a joint project that may seem like a magical answer to the region's energy and water needs. An SDG&E repowering project to increase the power output at our South Bay power plant, shown here, could be combined with a CWA desalting facility for purifying ocean water.

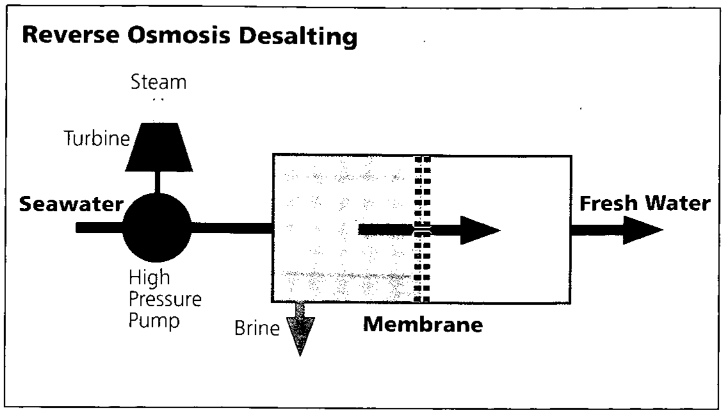
Stated simply, repowering is similar to installing a new, larger and more efficient engine in an older car. Recent advances in natural gas turbine technology make it possible to increase capacity at relatively low costs by adding new turbines to existing power plants. The new turbines have very low air emission levels, an important environmental consideration.

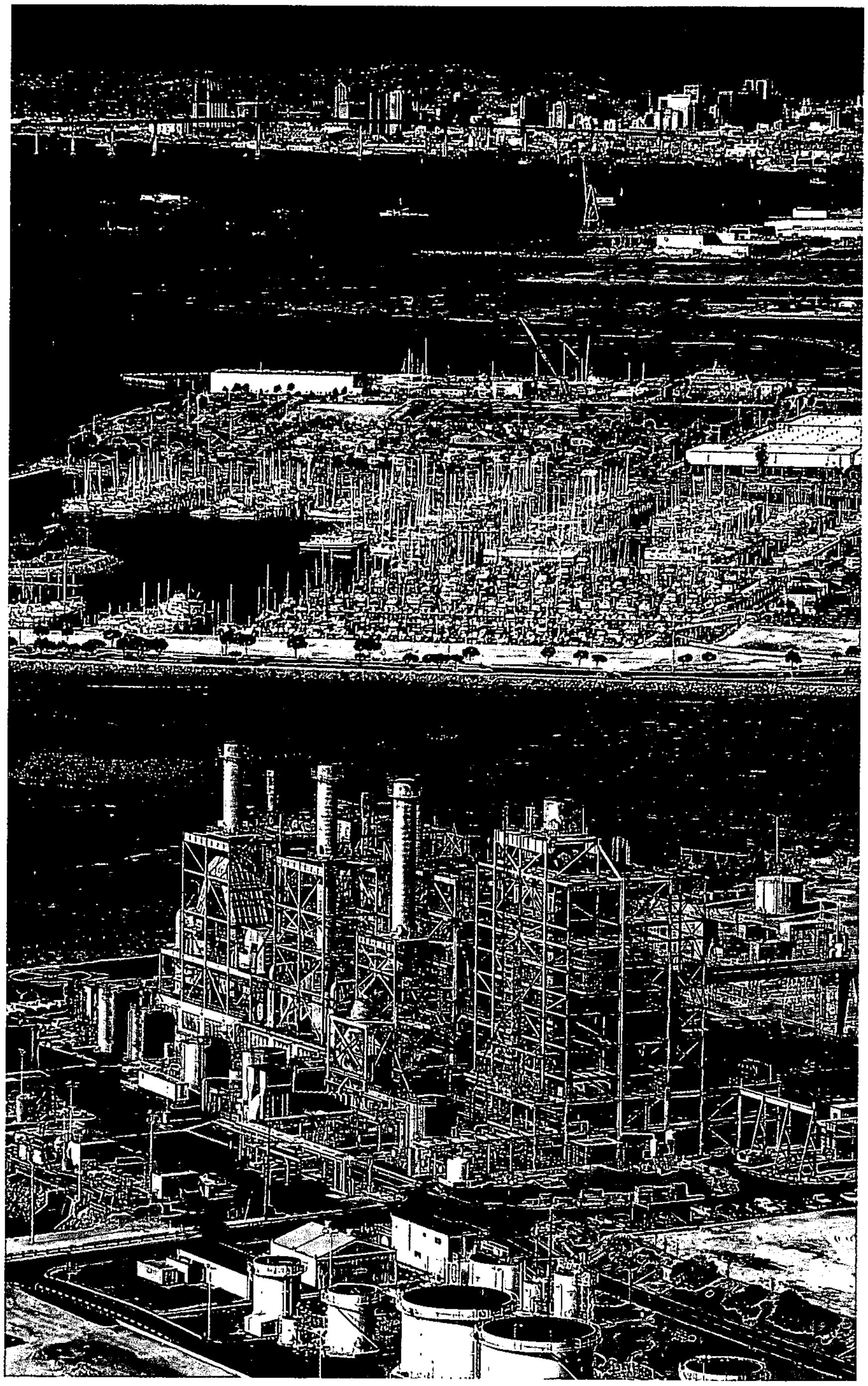
COMBINED REPOWERING AND DESALTING PROJECT MAY PROVIDE ENERGY AND WATER SUPPLIES

An SDG&E/CWA feasibility study, completed in March 1992, estimates that the facility could provide up to 30 million gallons per day of fresh water, about 4 percent of San Diego County's needs. The region lacks natural water resources and California is facing its sixth year of drought conditions.

The joint feasibility study concluded that combining an electric generation project with a desalting facility is not only feasible, but also cost-effective.

If SDG&E receives required regulatory approvals for the repowering project, and the CWA decides to go ahead with the desalting plant, the combined facility is expected to be in operation during 1997.





New Resource Plan Focuses on Repowering Existing Plants, a Low-cost Way to Increase Capacity

Within weeks after the May 1991 ending of the proposed merger with Southern California Edison, work began on plans for meeting the growing energy needs of our customers. In August 1991, SDG&E filed with the California Public Utilities Commission our preferred new resource plan for meeting future customer energy needs. We expect the commission to complete its review early this year.

The company's preferred resource plan relies on a mix of resources to provide approximately 1,600 megawatts of additional capacity by the year 2000. Under that proposed plan, repowering projects would meet about 46 percent of those needs; Demand Side Management (energy efficiency and conservation), about 25 percent; power purchases, about 23 percent; and geothermal, a renewable resource, about 6 percent.

Following are key factors we considered during the resource planning process:

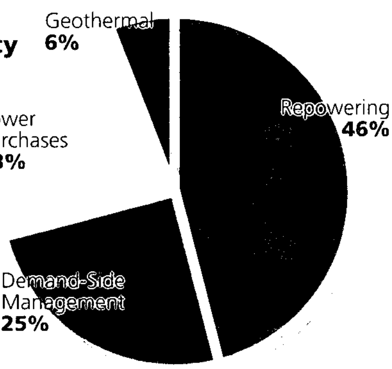
○ ○ ○ By the year 2000, SDG&E will need approximately 1,600 megawatts of new capacity to meet growing customer demands and to replace expiring power purchase contracts.

○ ○ ○ A new state law and CPUC rules adopted in 1991 require California's investor-owned utilities to give additional consideration to the environmental costs to society of residual air emissions from all energy projects, even those located outside of California. These environmental costs must be part of the decision on how best to meet future power needs.

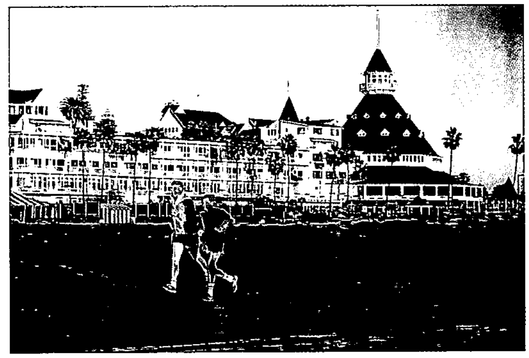
○ ○ ○ Other utilities and independent power producers have indicated they can supply a total of about 6,000 megawatts of capacity to SDG&E, based on bids solicited as part of the planning process. That's far in excess of our needs.

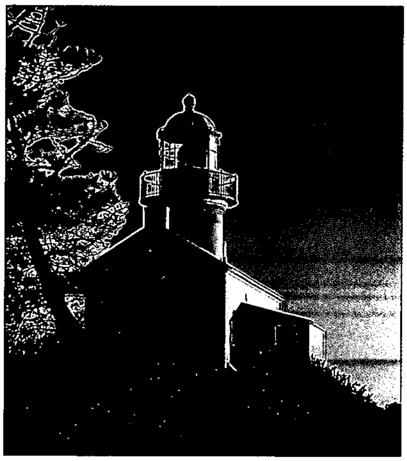
○ ○ ○ Recent advances in natural gas turbine technology make it possible to add capacity, for relatively low costs, at SDG&E's existing

New Capacity Additions 1992–2000



Stay at the Hotel del Coronado, built in 1888





Visit the Point Loma Lighthouse

power plants. Repowering existing plants with new gas turbines also makes sense from an environmental standpoint. The new turbines produce very low emission levels, resulting in more energy and less pollution from a given amount of fuel.

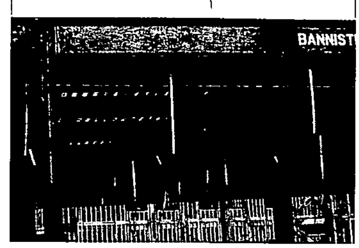
ENERGY CONSERVATION INCENTIVES PRODUCE CUSTOMER SAVINGS AND SHAREHOLDER REWARDS

Demand Side Management programs achieve demand reductions. These reductions are just as important to our resource planning efforts as adding new capacity. Conservation and energy efficiency programs that have been in place for the past five years are already saving 200 megawatts, enough to meet the needs of 200,000 homes.

The CPUC recognizes that DSM programs can benefit everyone, and help the environment at the same time, so it has established methods for rewarding shareholders if SDG&E exceeds program goals. A maximum of about $12 million can be applied toward shareholder earnings for 1991 DSM achievements. The exact amount of the 1991 reward will be determined by the CPUC late in 1992, after it reviews program results. The company expects the reward for 1991 DSM achievements to come close to the $12 million maximum allowed.

NEW CAMPUS INCLUDES ENERGY-EFFICIENT MEASURES WITH SOME HELP FROM SDG&E

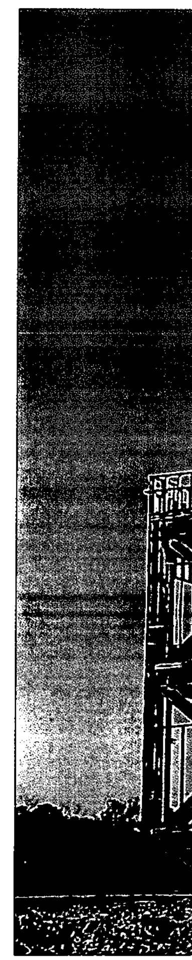
From the time property was first purchased for a new campus in northern San Diego County, SDG&E representatives began working with officials of California State University San Marcos to explore various energy options. Now the first new campus in California to be built from the ground up in 25 years will likely be one of the most energy-efficient in the



nation when its doors officially open in August 1992.

SDG&E works in partnership with customers during the design phase of new buildings, such as these campus facilities, to incorporate energy-efficient measures and the latest energy technologies.

It's an approach that helps customers exercise better control over their energy use while



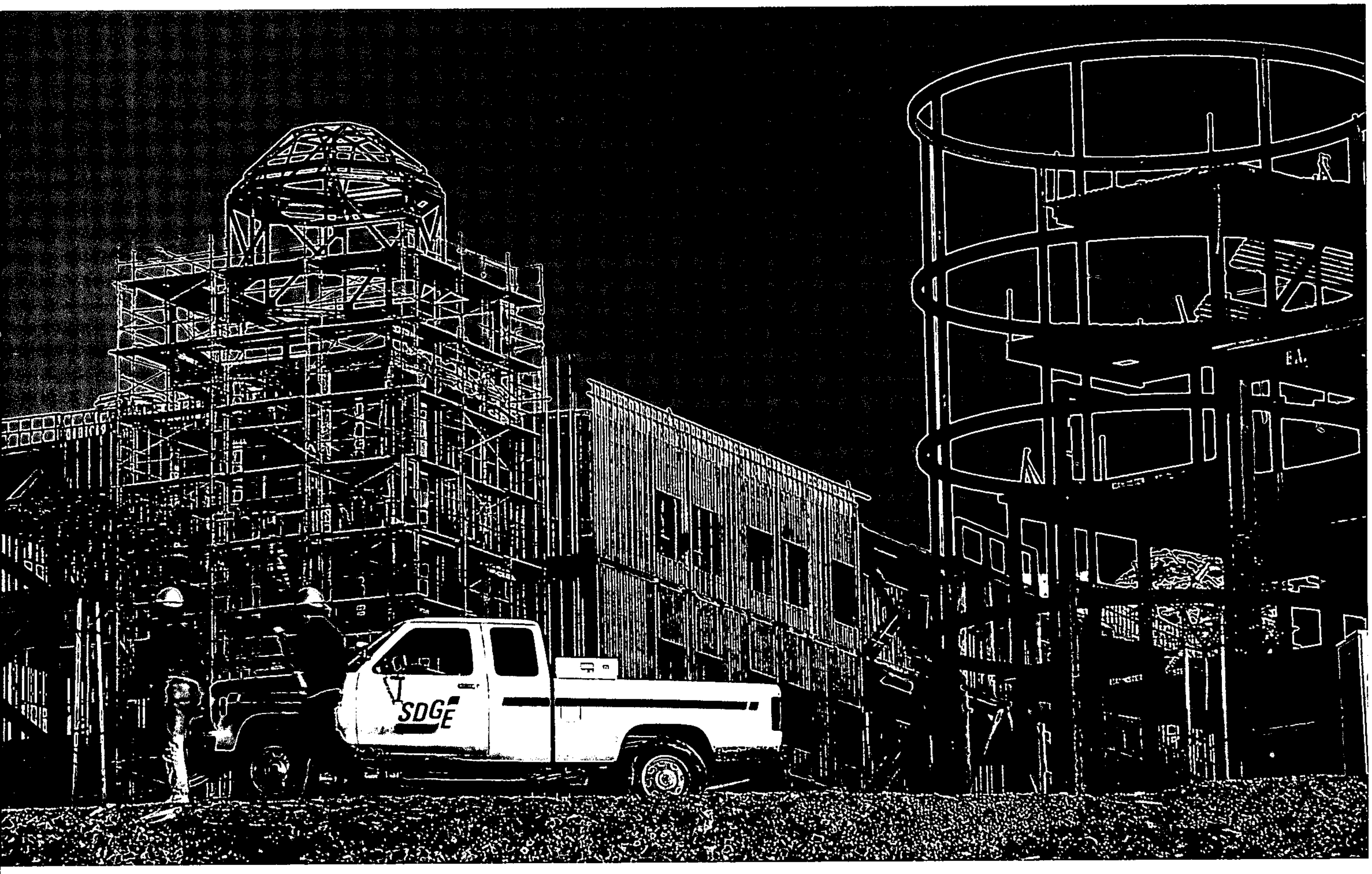
This artist's rendering shows Craven Hall, the planned administration building for the new campus.

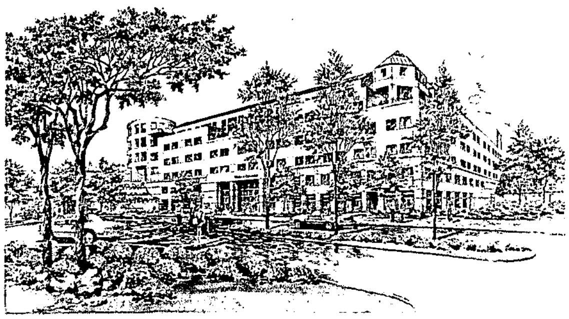
Stimulated by financial incentives offered through our DSM programs, residential and business customers conserved energy and improved energy efficiency during 1991.

Key examples of 1991 DSM achievements:

○ ○ ○ Residential customers purchased nearly 55,000 high-efficiency refrigerators. Annual savings: more than 7 million kilowatt-hours of electricity.

○ ○ ○ More than 85,000 compact fluorescent light bulbs were provided to customers for use in homes and in apartments throughout our service area. Compact fluorescent lights produce the same amount of light as conven-





reducing SDG&E's need to build new power plants. For the customer, including energy-saving features during the construction phase is also much easier and less costly than retrofit energy conservation projects.

SDG&E's review of architectural designs helped Albert Amado, assistant vice president of physical planning and campus construction, to incorporate features such as an energy-efficient chiller for the air conditioning system, variable-air-volume equipment that reduces heating and cooling expenses, and occupancy sensors that automatically turn lights on and off in building areas, depending on whether they are in use.

BIOTECHNOLOGY FIRM LEARNS ABOUT ENERGY TECHNOLOGIES FROM SDG&E

When it comes to biotechnology, combining biological research with advances in monoclonal antibody technology to create new medical diagnostic products, the people at Hybritech Incorporated are experts. They rely on SDG&E's expertise when it comes to selecting the latest energy-saving equipment.

In the photo here, Hybritech researchers monitor a pilot scale purification process for monoclonal antibodies before it is used on a large-production scale in Hybritech's manufacturing area. Monoclonal antibodies are highly specific biochemical molecules produced by cells. Doctors use monoclonal antibody-based test kits to check a patient's blood or serum sample for conditions such as cancers, cardiovascular disease and streptococcal infection.

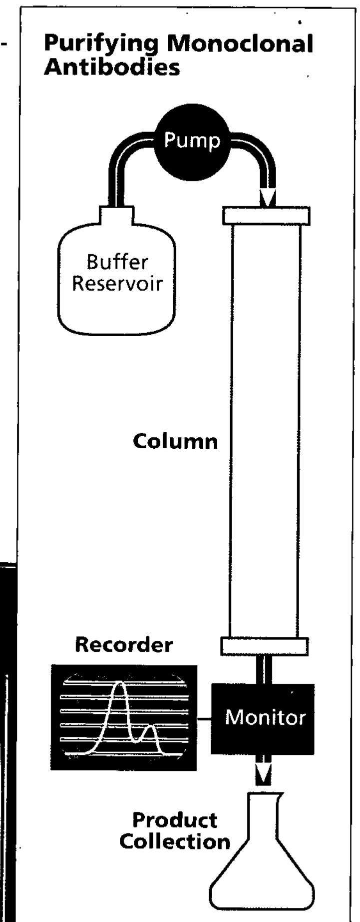
Hybritech, founded in 1978 and purchased by Eli Lilly & Company in 1986, was a pioneer and continues to be a leader in the development of medical diagnostic test kits that use monoclonal antibody technology to produce rapid and accurate patient results.

During the past year, SDG&E representatives worked as energy partners with officials of Hybritech, the largest of San Diego's 100 biotechnology and biomedical companies, to improve energy efficiency and reduce energy costs. Energy-saving projects carried out during 1991 enable Hybritech to save a total of 691,000 kilowatt-hours annually and reduce the firm's yearly energy costs by $52,000.

San Diego has the nation's fifth largest concentration of biotechnology and biomedical firms, in part because of the major scientific research institutions located here, such as the Salk Institute, the Scripps Research Institute, and the University of California, San Diego (UCSD).

The area's biotechnology industry continues to grow, thanks to efforts such as UCSD's CONNECT program, which sponsors activities that seek to link the area's high-tech entrepreneurs with venture capital firms, major health-related corporations and the university.

This process, called chromatography, purifies monoclonal antibodies from crude protein mixtures.



tional bulbs while using about one-fourth the amount of electricity. Annual savings: more than 5 million kilowatt-hours.

○ ○ ○ A total of 625 business and industrial customers participated in SDG&E's various lighting programs during 1991, resulting in the removal of more than 600,000 of the standard four-foot fluorescent tube lamps common in offices. Annual savings: more than 75 million kilowatt-hours.

See "Tiger River" at the San Diego Zoo

ELECTRIC SYSTEM MEETS CUSTOMER NEEDS WITH A MIX OF RESOURCES; GENERATION FROM OIL ONLY ABOUT 3 PERCENT

SDG&E met 1991 customer power needs with a mix of resources: SDG&E's two fossil-fuel power plants provided 23 percent of power needs, San Onofre Nuclear Generating Station provided 21 percent, power purchases from other utilities totaled 50 percent, and purchases from other power producers supplied 6 percent.

During the year, the primary fuel for our Encina and South Bay power plants was natural gas. At those power plants, oil accounted for slightly more than 3 percent of total generation. Since the early 1980s, we have decreased the use of oil in our power plants and have increased the use of natural gas. Oil supplies are more dependent on foreign sources, which are susceptible to disruption, and natural gas produces fewer air emissions than oil.

San Onofre Nuclear Generating Station, which is 20 percent owned by SDG&E, has had an excellent performance record. Unit 3 operated throughout the year without refueling and had a 1991 capacity factor of 91.9 percent. Its superior performance is expected to earn shareholders a reward of about $2 million if its 21-month fuel cycle ends on schedule in March 1992.

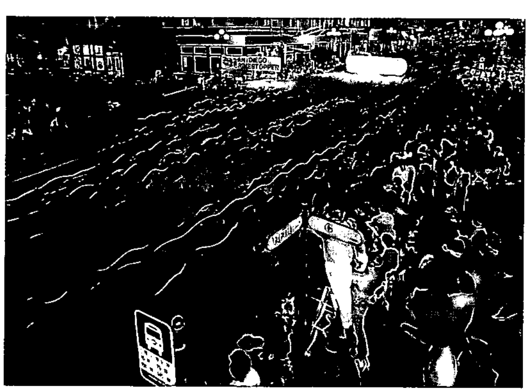
Unit 2 operated at a 73 percent capacity factor for the 23-month fuel cycle that ended on November 7, 1991. The performance of Unit 2 was within a target range established in cooperation with the CPUC, and will result in neither a shareholder reward nor a penalty.

Unit 1 operated at a 44 percent capacity factor for the 22-month fuel cycle that ended February 6, 1991. During that fuel cycle the unit was out of service for an extended period, resulting in an expected penalty of about $500,000. The unit returned to service in March 1991 and has since operated at an average capacity of about 70 percent.

Unit 1, which began operation in 1968, may be taken out of service sometime in 1993 if the CPUC approves a settlement agreement its Division of Ratepayer Advocates reached with the owners of the plant, Southern California Edison and SDG&E.

The U.S. Nuclear Regulatory Commission requires additional safety-related upgrades before Unit 1 can operate beyond 1993. Because of the high cost of these upgrades, the DRA has recommended a permanent shutdown of Unit 1. Under the proposed agreement with the DRA, both SDG&E and Edison would recover their respective investments with a fair return. In the event of a shutdown, SDG&E anticipates no difficulties in replacing the 87 megawatts of power now supplied by Unit 1.

POWER PURCHASES HELP KEEP CUSTOMER RATES LOW: While power purchases from other utilities met 50 percent of customer power needs, the purchases were made as a result of economic decisions, not out of necessity. We could have generated most of the power we needed to serve customers during 1991. However, we chose to buy available supplies of surplus power because we obtained them at prices lower than our own costs for generating power. Obtaining power supplies at the least available cost helps keep electricity prices lower for our customers.



Watch the "Light Up the Night" run

WATER CONSERVATION EFFORTS SUCCESSFUL; REPOWERING AND DESALTING FEASIBILITY STUDY COMPLETED: Southern California lacks natural water resources and faces its sixth consecutive year of drought conditions.

While SDG&E has been conserving water at its power plants since 1987, the company significantly expanded water reduction efforts during 1991. The result? We achieved about a 23 percent reduction from 1990 water use levels, for an annual savings of more than 59 million gallons. That's enough water to meet the needs of families in 460 homes in our service area for an entire year.

SDG&E also joined with the San Diego County Water Authority in 1991 to begin a feasibility study on a joint repowering and desalting project that could produce both energy and fresh water. The study, completed in March 1992, concluded the project could purify ocean water at a fairly reasonable cost, $1,000 to $1,100 per acre foot. See page 6 for more details on the project.

SDG&E ESTABLISHES ELECTRIC AND MAGNETIC FIELDS CENTER: In response to concerns expressed by some customers and employees, during 1991 the company established a center to respond to questions about electric and magnetic fields (EMF).

EMF are invisible lines of force surrounding anything that conducts electricity, from power lines to common electrical appliances, such as electric clocks, hair dryers and TV sets.

Some research results, highlighted by the media, have led to public concerns about the possibility that exposure to EMF poses

continued on page 15

WE'RE CLEARING THE AIR WITH NATURAL GAS VEHICLES

San Diego-area residents can now ride buses fueled by natural gas, and purchase natural gas for cars, trucks and vans at some local service stations. That's good news because natural gas vehicles, or NGVs, produce significantly fewer air emissions than those using gasoline, and they can help clear away clouds of vehicle exhaust from the skies of San Diego and other cities.

Vehicles fueled by natural gas produce 50 percent fewer ozone-forming pollutants and 90 percent less carbon monoxide than gasoline. Natural gas also costs about 70 cents per gallon, significantly less than gasoline, and natural gas reduces engine wear.

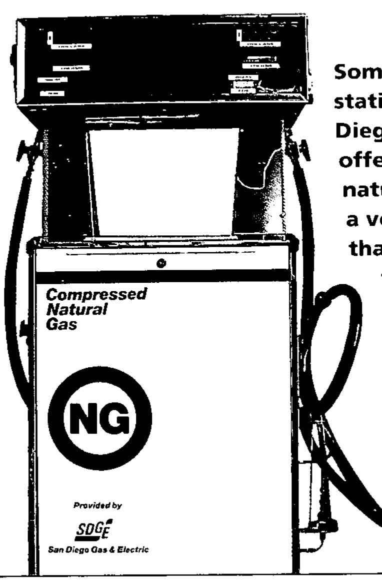
During 1991, SDG&E leased the natural gas-fueled bus shown in the above photo to the North San Diego County Transit District. The transit district, pleased with the results, will purchase five more natural gas buses for its fleet during 1992.

It now costs about $3,500 to convert a car, a van or a pickup truck so it can use natural gas. Through the company's NGV program, companies in SDG&E's service area that operate vehicle fleets can obtain incentives to defray the cost of conversions. In December 1991, SDG&E helped finance the first of 300 fleet vehicle conversions planned over the next two years.

As part of the NGV program, the company also supported the construction of six natural gas fueling stations during 1991, and 10 more are planned through 1993.

By the end of 1993, NGVs will comprise about 8 percent of the company's cars, vans and pick-up trucks. SDG&E already has converted 40 of its vehicles, and plans 100 more vehicle conversions through 1993. In 1992, the company will take delivery of 18 new NGV trucks produced by General Motors Corp.

Looking to the future, it may be common for motorists with NGVs to fill the tanks of their cars overnight, using home compressors. A home compressor links to the home's natural gas service lines, and a hose carries natural gas to the car's fuel tank. SDG&E is working with commercial customers to test this "slow fill" compressor unit at two locations.



Some service stations in San Diego County offer compressed natural gas, a vehicle fuel that can help fight smog.

NEW GAS COMPRESSOR STATION INCREASES GAS SYSTEM CAPACITY AND RELIABILITY

A major new compressor unit (see photo at right) was installed at the Moreno compressor station (see photo below) during 1991. The new "Unit 10" compressor provides increased gas transmission capacity to meet the greater needs of natural gas customers on cold winter days, our peak use periods.

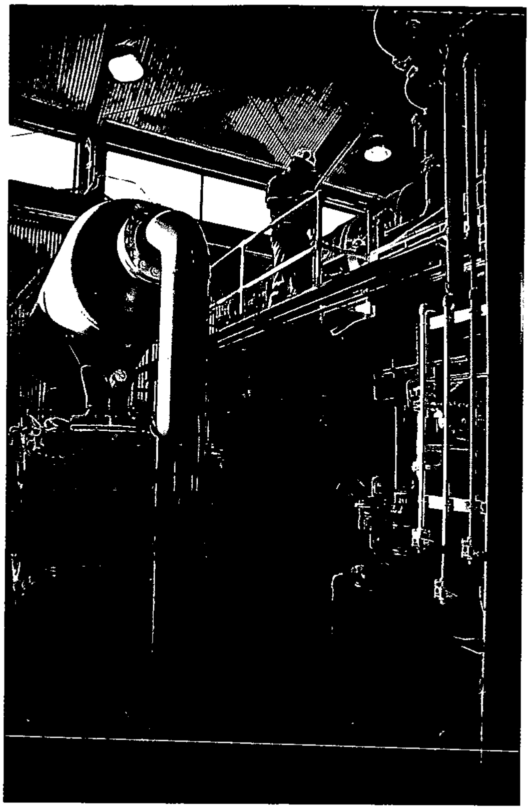
Unit 10 also enhances reliability for the entire gas system, and improves the company's ability to transport natural gas to our Encina and South Bay power plants.

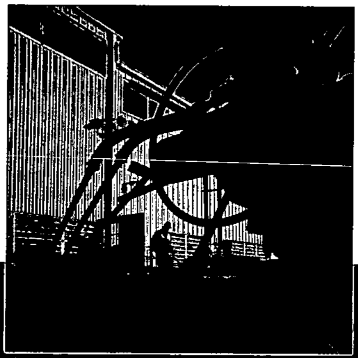
SDG&E's Moreno compressor station is located near Riverside, California, north of the company's service territory. It is adjacent to a major east-west highway of gas transmission pipelines that bring natural gas supplies to the Southern California region.

The compressor station boosts pressure to the level needed to transport gas supplies to San Diego County.

Moreno lies within the jurisdiction of the South Coast Air Quality Management District, the same agency which sets air quality rules for the Los Angeles area, where air pollution is a major problem. Therefore, Moreno's compressors must meet the nation's most stringent air quality standards.

To meet these standards, SDG&E installed emission control technology that is the first of its kind used anywhere in the world. The 3,200-horsepower Unit 10 features a highly effective emissions control system that combines a catalytic converter, clean burn technology and computer controls.





health risk. Most scientists, however, agree there is no sound scientific basis for concluding there is a cause-and-effect relationship between exposure to EMF and human health.

Representatives at SDG&E's EMF Center talk to customers and to employees about EMF research results and health issues. The representatives also provide written information and, on request, measure magnetic field levels in and near customers' homes. Although there is no scientific basis for interpreting these measurements, most customers who have requested the service have expressed appreciation for it.

SDG&E contributes to, participates in, and monitors the results of EMF research.

PLENTIFUL NATURAL GAS SUPPLIES AND LOW PRICES EXPECTED FOR THE LONG TERM; COMPANY NEGOTIATES CANADIAN CONTRACTS

On the natural gas side of our business, we expect long-term gas supplies to be plentiful and prices to remain relatively low. Changes in state and federal regulations in recent years have led to increased competitiveness among suppliers, and we anticipate no difficulties in meeting future customer demands.

We expect to obtain about 15 percent of our future natural gas supplies from Canada. During 1991, we negotiated long-term gas supply contracts ranging up to 12 years with four Canadian suppliers at prices competitive with those of alternative suppliers in the Southwestern U.S. These Canadian supplies are contingent on the successful completion of a pipeline expansion project planned by Pacific Gas and Electric Company of San Francisco and one of its subsidiaries, Pacific Gas Transmission.

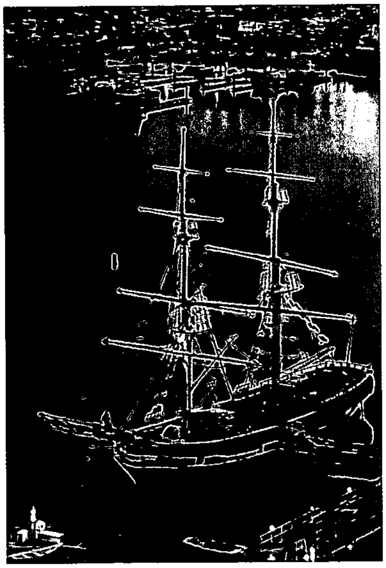
The PG&E/PGT project received needed approvals from state and from federal agencies in 1991, and additional approvals are pending before Canadian governmental agencies. Construction has begun on the U.S. portion of the pipeline project. The PG&E/PGT pipeline is expected to be in operation in November 1993.

SDG&E signed its first contract for firm capacity on an interstate transmission pipeline in 1991. The agreement with El Paso Natural Gas provides SDG&E with 10 million cubic feet per day of capacity.

NEW PROGRAM ENCOURAGES USE OF NATURAL GAS VEHICLES: The company gained regulatory approval in July 1991 for a natural gas vehicle (NGV) program to stimulate the use of natural gas as a vehicle fuel.

Since reducing air emissions will benefit everyone, the CPUC approved a two-year $6.7 million NGV program and authorized a less than 1 percent increase in customer gas prices to pay for it. (See page 13 for more details about NGVs.)

Sail at Dana Point harbor, in Orange County



Creating a Bright Future: Through Teamwork, Management and Employees Expect to Achieve New Strategic Goals

SDG&E management developed a new set of strategic goals in 1991 to guide the company's future direction.

Management is committed to providing employees with the resources necessary to achieve our new goals and is confident that, through teamwork, we can attain them.

Our strategic goals are to:

○ ○ ○ ***Remain the Lowest-Cost Energy Supplier*** Work to maintain our position as the state's lowest-priced major regulated supplier of energy. Continue to work to control costs and become more efficient in all areas.

○ ○ ○ ***Improve Service to Customers*** Continue to improve quality service to all customer classes. Exceed expectations in the areas of service customers value most highly. Maintain a 93 percent "very satisfied" rating from customers, as measured by our Customer Service Monitoring System, through 1995.

Enjoy a Fiesta in "Old Town" San Diego

○ ○ ○ ***Increase Shareholder Value*** Continue to increase shareholder value by improving earnings per share. This will be accomplished by meeting or beating our annual budgets and earning our authorized return on equity.

○ ○ ○ ***Improve Electric Reliability and Reduce Outages*** By 1995, reduce the average system outage duration per customer to 60 minutes per year. Work to reduce both the number of outages and the length of time they occur. Place a high priority on meeting the needs of specific customer classes. Continue to improve our ability to communicate with customers when an outage occurs.

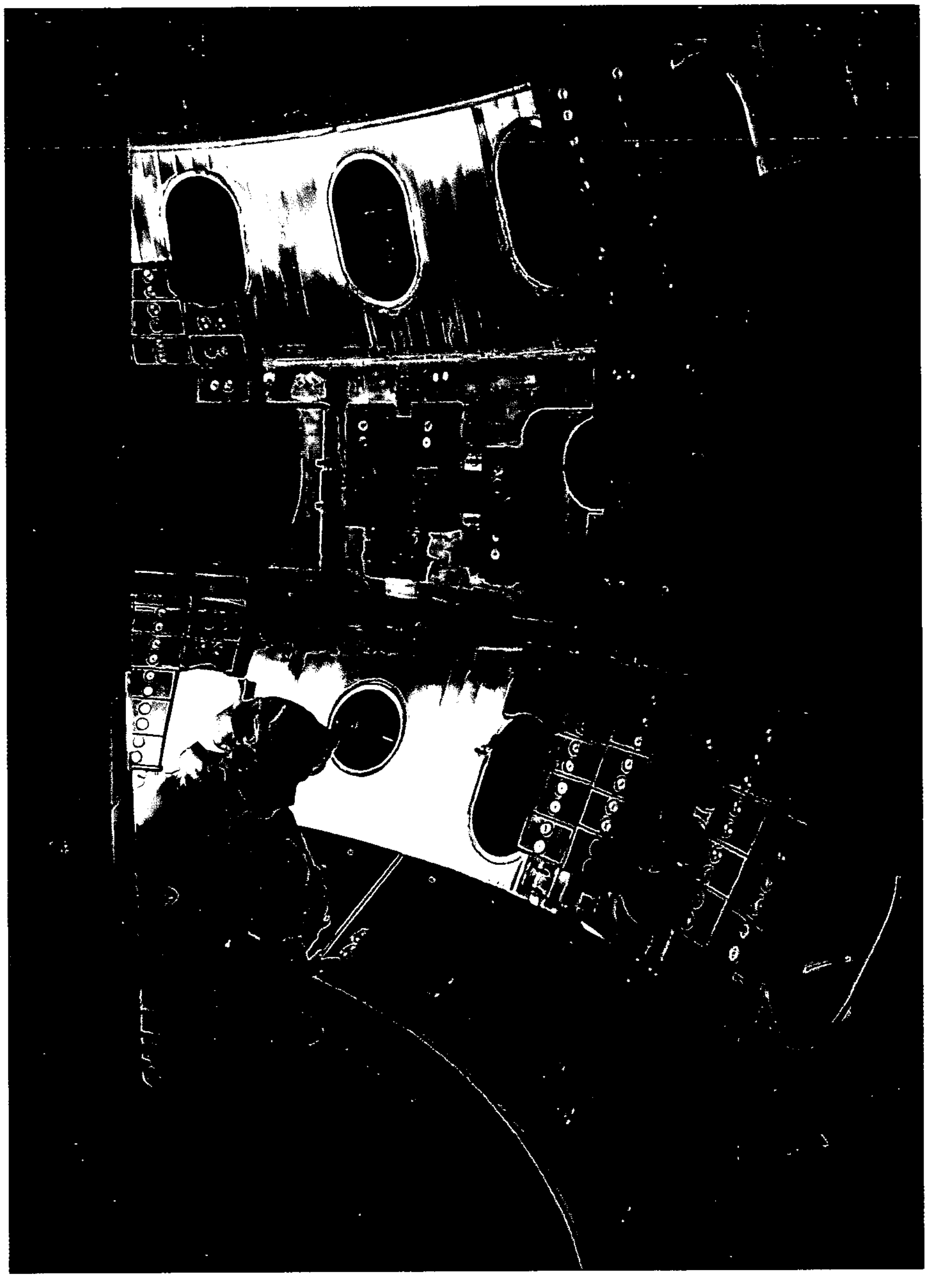
○ ○ ○ ***Ensure Gas System Reliability and Flexibility*** Continue to provide high quality natural gas supply, transportation and storage services for our customers. Design and operate a system with the reliability and flexibility to meet our customers' needs.

○ ○ ○ ***Build Relationships with Constituencies*** Build alliances with all of our constituencies on issues of mutual interest. Provide pro-active leadership dealing with these issues while being responsive to the needs and desires of others.

○ ○ ○ ***Environmental, Health and Safety Guidelines*** We are committed to responsible leadership and stewardship in the protection and enhancement of the environment. We strive to conduct our business in a manner that protects the health and the safety of our fellow employees and of our community, and preserves the quality of life that we enjoy in our service territory.

○ ○ ○ ***Improve Service to Fellow Employees*** In order to continue to improve service to all customers, we must continue to improve internal customer service. Achieve a 93 percent rating on our Quality of Internal Customer Service survey by 1995.

INTERNATIONAL FUSION ENERGY RESEARCH PROJECT MAY HOLD KEY TO FUTURE POWER SUPPLIES



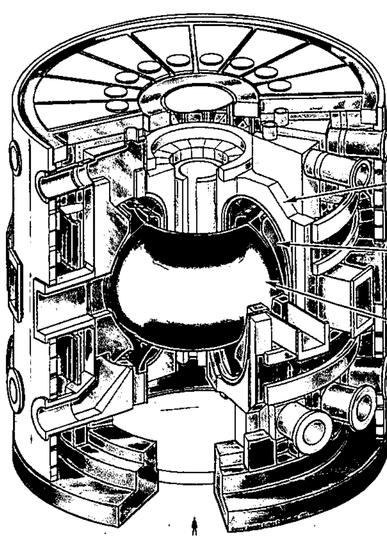
The fusion reactor shown here at General Atomics Corp., San Diego, shares a similar design with a much larger one planned as part of an international research effort. Fusion reactors hold promise for producing abundant electricity supplies to meet the world's future energy needs.

A communitywide effort spearheaded by General Atomics and supported by the city of San Diego, civic leaders—and by companies like SDG&E—helped convince the project's leaders to base the headquarters of the International Thermonuclear Experimental Reactor—Engineering Design Activity (ITER-EDA) project in San Diego.

ITER-EDA is a $1.2 billion collaborative effort among scientists throughout the world to study fusion's potential for producing electricity and to design the next generation fusion reactor. In addition to the fusion research center planned for San Diego, satellite research facilities will be established in Japan and in Germany.

Fusion is the process that occurs when hydrogen atoms fuse to make helium, similar to the natural process the sun uses to produce energy. Commercial development of fusion energy could occur in about 25 years if planned research efforts prove successful.

Fusion is considered a safe and clean energy resource. Deuterium, a plentiful and inexpensive form of hydrogen present in ordinary water, fuels the fusion process. While fusion produces some radioactive waste, the amount could be less than 1 percent of that produced by the fission process used at nuclear power plants.



Environmental Subsidiary Improves Its Ability to Solve International Air Pollution Problems

Wahlco Environmental Systems strengthened its international manufacturing, sales and marketing operations in 1991, expanding the ability of this SDG&E subsidiary to provide effective solutions to the global problem of air pollution. The company also markets products that improve power efficiency.

Wahlco Environmental has earned recognition as a leading supplier of air pollution control products for utilities and for industrial companies throughout the United States. Domestic sales revenues continue to grow, in part because the company offers a relatively low-cost solution for utilities to comply with the Clean Air Act Amendments of 1990, which requires significant emissions reductions over the next 10 years.

1991 sales showed results of an increased focus on the international market. Non-U.S. revenues represented 60 percent of the total annual revenues for this SDG&E subsidiary.

PDC Contributes 10 Cents per Share to 1991 SDG&E Earnings; Wahlco Environmental Seeks to Increase Its Contributions to Earnings Growth

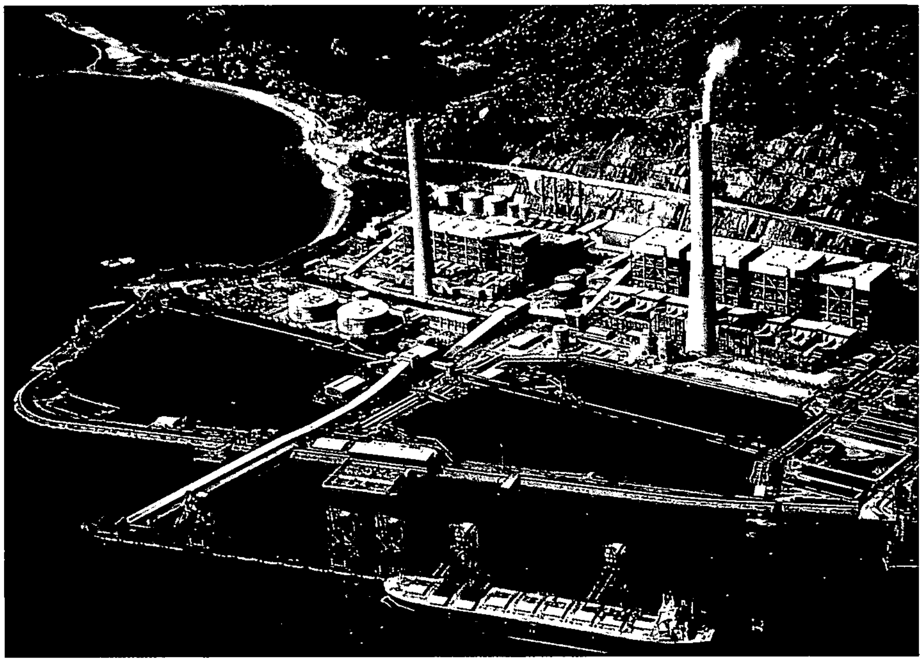
By far the largest of SDG&E's unregulated subsidiary businesses, Wahlco Environmental operates under the umbrella of Pacific Diversified Capital, SDG&E's wholly-owned subsidiary. During 1991, Wahlco Environmental's revenues reached $89 million, a 53 percent increase over 1990 revenues of $58 million. Net income for 1991 was $11.6 million, up from $9.0 million in 1990.

Financial achievements by our environmental subsidiary were partially offset at PDC by losses suffered in our real estate business operations during the recessionary market of 1991. Nevertheless, PDC's 1991 consolidated net income of $6 million, or 10 cents in earnings per share for SDG&E common stock shareholders, represented a significant increase over 1990 net income from operations of $4.5 million, or 8 cents per share. Total net income in 1990 was $12 million, or 22 cents per share, boosted by Wahlco Environmental's initial public offering.

PDC will continue in 1992 to increase its emphasis on environmental products and services and to decrease its activity in real estate. PDC's Wahlco Environmental subsidiary anticipates playing a significant role in achieving SDG&E's corporate goal of increasing earnings per share.

Because PDC owns 80 percent of Wahlco Environmental, SDG&E shareholders will benefit from its future sales of products and services in both the U.S. and international markets.

Henry N. Huta
President and Chief Executive Officer of Pacific Diversified Capital and of Wahlco Environmental Systems



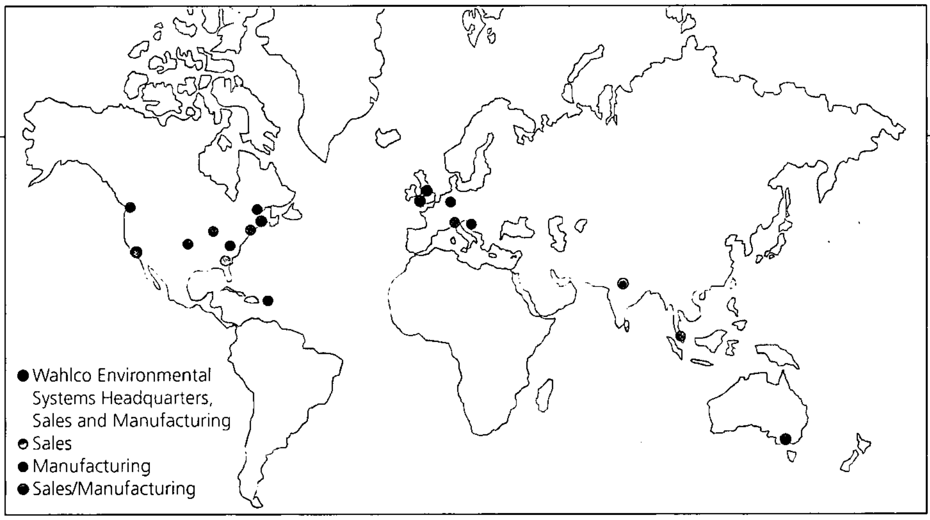
Wahlco Environmental flue gas conditioning (FGC) systems were purchased by China Light & Power for its Castle Peak coal-fired power plant, located near Hong Kong. The two chimneys in this photograph each contain four boiler exhaust stacks. When the photograph was taken, the last of eight FGC systems was not yet operating, and emissions of that un-conditioned boiler are seen rising from the chimney on the right.

AIR EMISSIONS REDUCED AT HONG KONG POWER PLANT

Wahlco Environmental's FGC systems reduce air pollution from coal-fired boilers by modifying the character of the ash to minimize the power station's particulate emissions.

The SDG&E subsidiary's FGC systems have been used for years by utilities and industrial firms in the United States, and in recent years Wahlco Environmental has increased sales in other parts of the world. In 1991, the company expanded marketing efforts in Western and Eastern Europe and opened a new sales office in Kuala Lumpur, Malaysia. During 1992, an office will be established to serve markets in the Middle East.

Wahlco Environmental has facilities located throughout the world.



WAHLCO ENVIRONMENTAL PLANS TO INCREASE WORLDWIDE MARKETING EFFORTS

Wahlco Environmental completed three European acquisitions in 1991: Metro-Flex Companies of Baar, Switzerland, Pentney Engineering, Ltd. of Chesterfield, England and Teddington Bellows, Ltd. of Swansea, Wales. All three companies market products used in utility power plants and industrial facilities. These acquisitions increase Wahlco Environmental's overseas marketing abilities. Altogether 75 percent of its manufacturing capacity and 65 percent of its employees are located outside of the U.S., where there are greater future opportunities for sales of air pollution control equipment

Growing energy needs throughout the world are expected to result in the construction of new energy facilities. This, coupled with increased international concern for the environment, creates new opportunities for Wahlco Environmental and other companies that can provide air pollution control technologies and services.

Wahlco Environmental continues research and development projects aimed at creating new products that offer technological solutions to control air pollution emissions, in particular for products that can minimize nitrogen oxide, sulfur oxide and other toxic emissions.

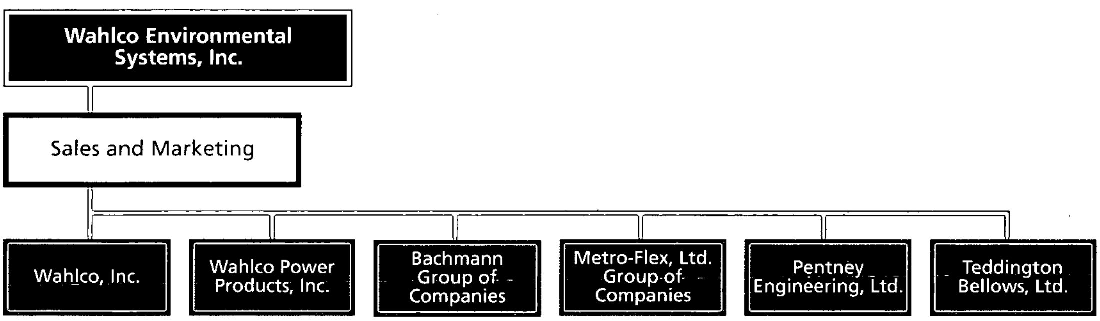
WAHLCO ENVIRONMENTAL ACHIEVED SIGNIFICANT GROWTH FROM 1988 TO 1991

Although Wahlco Environmental was first established as a corporation with stock publicly traded on the New York Stock Exchange in 1990, the company has been providing environmental products, mainly for coal-fired power plants, since 1972.

That solid experience enabled Wahlco Environmental, acquired by SDG&E's PDC subsidiary in 1987, to respond effectively in recent years to the increasing worldwide demand for air pollution control and energy saving equipment and services. The result has been tremendous growth for the company.

Listed below are year-end comparative figures for 1988 and 1991:

	1988	1991
Manufacturing facilities:	60,000 sq. ft.	500,000 sq. ft.
Number of employees:	137	787
Annual revenues:	$18 million	$89 million
International sales as a % of total sales:	10%	60%
Annual after-tax profits:	$4 million	$12 million
Total assets:	$68 million	$145 million
Number of products:	6	50



Officers
Wahlco Environmental Systems, Inc.

Henry N. Huta
President and Chief Executive Officer

Charles F. Wilson
Senior Vice President and Chief Financial Officer

W. Clay Matthews
Senior Vice President, Operations

Barry S. Southam
Senior Vice President, International Sales and Marketing

James Ferrigan
Senior Vice President, North American Sales and Marketing

Lawrence E. Logue
Vice President, General Counsel and Secretary

Henry Krigmont
Vice President, Technologies and Research

A. Noel DeWinter
Vice President, Corporate Planning and Analysis

Frederick Johnson
Vice President, Financial Accounting and Tax

Michael J. Lowell
Treasurer

KEY WAHLCO PRODUCTS

Air heater components include baskets, rotors, plates, seals and other components used in a boiler's air preheater. Air preheaters warm the air returning to the boiler.

Dampers restrict the flow of gases in ductwork in after-boiler systems. By closing completely, dampers isolate ductwork passages.

Expansion joints allow for the expansion and contraction of ductwork or tubing, which occur when gases change temperature.

Flue gas conditioning (FGC) systems condition the gases in utility boiler systems by introducing trace amounts of sulfur trioxide, which causes a beneficial chemical change in the flue gas.

Gas flow diverters are used with gas turbines in combined-cycle cogeneration plants.

Six-Year Summary

In millions of dollars except per share amounts For the years ended December 31	**1991**	**1990**	**1989**	**1988**	**1987**	**1986**
Operating revenues	**$1,789.0**	$1,771.9	$1,669.5	$1,620.5	$1,562.2	$1,634.2
Operating income	**315.5**	314.0	284.8	274.6	261.1	282.4
Net income (before preferred dividend requirements)	**208.1**	207.8	187.1	189.4	196.8*	167.3
Earnings per common share	**3.53**	3.52	3.15	3.18	3.28**	2.59
Dividends declared per common share	**2.775**	2.70	2.70	2.60	2.50	2.345
At December 31						
Total assets	**3,747.6**	3,656.6	3,546.5	3,532.7	3,551.5	3,409.2
Long-term debt and preferred stock subject to mandatory redemption (excludes current portion)	**1,331.2**	1,337.1	1,287.2	1,357.0	1,388.4	1,333.2

*Includes $17.7 million from the cumulative effect of change in accounting principle.

**Includes $0.32 for cumulative effect of change in accounting principle.

The Six-Year Summary should be read in conjunction with the consolidated financial statements, notes to consolidated financial statements and statistical data contained elsewhere in this report.

Quarterly Financial Data (Unaudited)

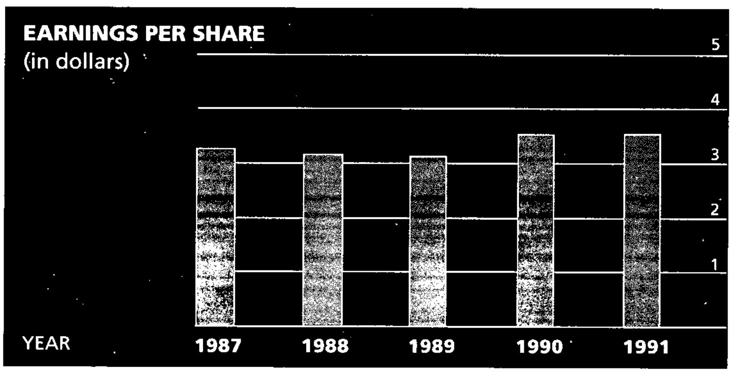
In thousands of dollars except per share amounts Quarter ended	**March 31**	**June 30**	**September 30**	**December 31**
1990				
Operating revenues	$445,749	$403,285	$452,127	$470,707
Operating expenses	366,643	337,477	373,407	380,368
Operating income	79,106	65,808	78,720	90,339
Other income (expense)	2,345	11,122	3,382	(14,239)
Net interest charges	25,310	27,942	27,429	28,061
Net income (before preferred dividend requirements)	56,141	48,988	54,673	48,039
Preferred dividend requirements	2,774	2,743	2,673	2,673
Earnings applicable to common shares	$ 53,367	$ 46,245	$ 52,000	$ 45,366
Average common shares outstanding	55,919	55,918	55,918	55,929
Earnings per common share	$ 0.95	$ 0.83	$ 0.93	$ 0.81
1991				
Operating revenues	$447,995	$406,829	$451,715	$482,473
Operating expenses	367,160	342,109	374,114	390,115
Operating income	80,835	64,720	77,601	92,358
Other income (expense)	(906)	15,418	2,458	(18,111)
Net interest charges	26,579	26,507	26,587	26,640
Net income (before preferred dividend requirements)	53,350	53,631	53,472	47,607
Preferred dividend requirements	2,673	2,648	2,607	2,607
Earnings applicable to common shares	$ 50,677	$ 50,983	$ 50,865	$ 45,000
Average common shares outstanding	55,944	55,942	55,942	56,149
Earnings per common share	$ 0.91	$ 0.91	$ 0.91	$ 0.80

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

RESULTS OF OPERATIONS

Earnings In 1991, earnings per common share were $3.53 compared to earnings of $3.52 in 1990. The 1-cent increase was due to several large, offsetting factors. Among the factors that increased earnings were the $15 million merger termination fee paid to SDG&E by Southern California Edison Company in the second quarter of 1991, and the resultant income tax deductibility of the merger expenses SDG&E incurred in prior years. The effect of those positive factors on the year-to-year comparison was partly offset by the favorable impact from the public offering of 20 percent of Wahlco Environmental Systems, Inc. in 1990.

Earnings for 1990 increased 37 cents over 1989 to $3.52 per share. The increase was primarily due to the gain from the public offering of 20 percent of Wahlco Environmental, previously a wholly-owned subsidiary, and the California Public Utilities Commission's 1989 Southwest Powerlink disallowance, partly offset by expenses related to the proposed merger with Edison.



Subsidiary Operations and Activities In 1991, the company's nonutility subsidiaries contributed approximately 10 cents per SDG&E common share to consolidated earnings, compared with 22 cents per share in 1990. The decrease in earnings is primarily due to the Wahlco Environmental public offering in 1990. The gain on the public offering was partly offset in 1990 by losses on the sale of Mock Resources, Inc. and by the real estate investment activities of Phase One Development, Inc.

In 1989 the subsidiaries achieved a consolidated net income of approximately seven cents per SDG&E common share. The 15-cent increase in 1990 earnings, compared to 1989, was primarily due to the above transactions.

The total after-tax gain to SDG&E from the Wahlco Environmental offering was approximately 24 cents per SDG&E common share. There are no plans for further offerings of Wahlco Environmental stock. The Mock Resources sale resulted in an after-tax loss of approximately 5 cents per SDG&E common share.

In 1991, Wahlco Environmental continued to expand its environment-related businesses. In August 1991, Wahlco Environmental acquired the businesses of the European Metro-Flex and Pentney groups. The two new subsidiaries design, manufacture and market gas flow diverters and dampers for electric utility and industrial power plants principally in Europe, Southeast Asia and the Far East.

Also in August 1991, Wahlco Environmental acquired all the outstanding stock of Teddington Bellows, Ltd., located in the United Kingdom. Teddington Bellows manufactures specialized high-performance metallic expansion joints for the electric utility, petrochemical and steel industries.

Purchased Power As discussed in Note 7 of the notes to consolidated financial statements, the CPUC issued a 1989 decision that disallowed certain costs of power transported over the Southwest Powerlink transmission line. The principal accounting effects of the disallowance were recorded in the first quarter of 1989, reducing pretax income by approximately $25 million, or 28 cents per share after tax. This was partially offset in the third quarter of 1989 when the company filed for a credit of $5 million, which was approved in 1990.

In 1989, the CPUC Division of Ratepayer Advocates issued a report on the reasonableness of the company's entering into its 75-megawatt long-term purchased power contract with Portland General Electric. The DRA identified potential disallowances having a net present value of $28 million, based on the DRA's assertions regarding the value of the benefits of the contract to SDG&E's customers during the contract's first 10 years.

In November 1991, the CPUC found that the company's 75-megawatt contract with PGE was reasonable. The decision stated that the PGE contract would likely produce substantial benefits to SDG&E's customers over its 25-year life.

Resource Planning In June 1991, the CPUC made several landmark changes to the required Biennial Resource Plan Update proceeding. The BRPU proceeding is intended as a blueprint to help state regulators better plan for California's energy needs over the next decade. The biggest change is that California's investor-owned utilities must now consider the cost to society of air emissions caused by generating facilities after existing environmental requirements have been met. These costs are in addition to fuel expenses and construction costs. The CPUC is looking at the environment in a global sense, and assessing the impact wherever the source of the generation is located, including locations not in California.

In August 1991, SDG&E filed its testimony and resource plans for the BRPU proceeding with the CPUC. The company's preferred plan would increase the company's generating capacity by upgrading and repowering existing generating units. In addition, qualified independent power producers that cogenerate or use renewable energy technologies would be encouraged to bid on supplying additional power beginning in mid-1992. The company's planned resource mix also includes continued use of cost-effective purchased power from other utilities and reliance on natural gas and nuclear power. Customer rates are anticipated to be lower than under other resource options, due to the expected fuel savings from the use of cleaner, more energy-efficient repowered generating units, and due to savings realized by reducing the need for building new power plants.

The plan also must comply with proposed San Diego Air Pollution Control District regulations requiring existing plants to reduce emissions to meet current air quality standards. Further reductions of emissions are required to offset increased emissions that would result from the proposed additions to existing plant generating capacity. Reductions may be achieved by reducing emissions from other sources. Allowances from the pollution control district also may be available for repowering projects.

A series of public hearings was held in October 1991. The CPUC is expected to give final approval of the company's future energy resource plan in 1992.

Power Plant Construction SDG&E suspended work on two power plant projects because Southern California Edison, with which the company was proposing to merge, had a surplus of power. SDG&E signed two options for firm purchased power with Edison to ensure the availability of future additional power that would be needed because of the suspension. Although the merger agreement was terminated, SDG&E no longer is pursuing these projects and has canceled the two options with Edison. Recent advances in combustion turbine technology have allowed SDG&E to consider more efficient and cost-effective alternatives that could be developed on a much larger scale.

The company and the San Diego County Water Authority are investigating a joint power generation and desalting project at the South Bay power plant. The project would involve a repowering of an existing steam unit to add approximately 455 megawatts of power to SDG&E's system generation. In addition, the desalting plant would produce 10 to 30 million gallons of fresh water per day.

Revenues The CPUC controls the company's prices and, by that, its revenues, generally by two mechanisms: base prices and balancing accounts.

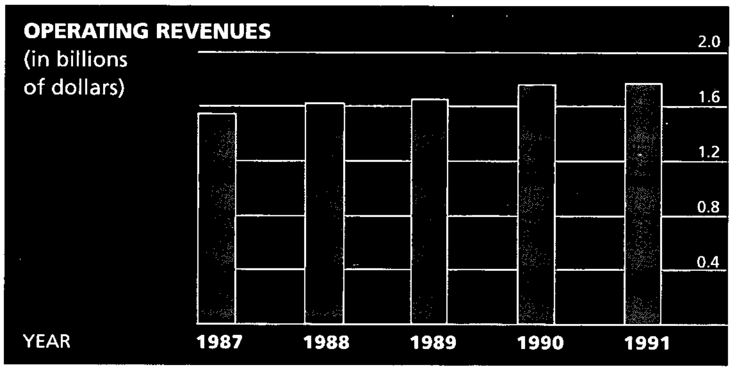
Base prices provide a return on capital and compensate the company for operating and maintenance costs, taxes and depreciation. Base prices are normally set in a general rate case every three years. Between rate cases, the commission makes annual adjustments for inflation, system growth and rate of return. The next three-year cycle starts January 1, 1993.

The company uses balancing accounts for both electric and gas fuel costs. The commission sets balancing account rates based on estimated costs. Differences between actual and estimated costs are accumulated in the balancing accounts. Periodically, the company adjusts prices to blend the balances into future prices. The company also uses balancing accounts to compensate for the differences between actual and estimated sales volumes.

In August 1990, the CPUC issued an order suspending the incentive mechanism that otherwise rewards or penalizes the utilities to the extent of eight percent of the actual cost of their electric fuel compared to the forecasted cost. The suspension was ordered in anticipation of higher fuel costs due to the war in the Middle East. The incentive mechanism was adopted by the CPUC in 1980 to encourage the utilities to manage effectively their electric fuel and purchased power expenses. The suspension has not had any significant effect on the company's earnings. The CPUC plans to investigate the effectiveness of this incentive mechanism and will consider alternative incentive systems.

Electric revenue increased less than one percent in 1991 and two percent in 1990. The slight increase in 1991 was due to higher authorized costs, partially offset by decreased volume. The 1990 increase was due to increased volume, the

1989 Southwest Powerlink regulatory disallowance and slightly higher authorized costs, partially offset by decreases in prices for electric fuel and purchased power. Gas revenue decreased five percent in 1991 and was up 18 percent in 1990. The decrease in 1991 was due to lower authorized costs, partially offset by increased sales to cogenerators. The 1990 increase was due to increases in total authorized costs and in sales to cogenerators.



Revenues in 1990 also increased due to an increase in the company's authorized return. The increase was due to the CPUC's increasing the company's common equity component from 48 percent to 49.5 percent. The change in the equity ratio was partially offset by the decrease in the authorized return on equity from 13 percent in 1989 to 12.9 percent in 1990. The net effect of the changes in rate of return and in the equity component was that the overall authorized return to common shareholders for 1990 exceeded that for 1989 by 0.2 percent of equity.

Most of the revenues from diversified operations arise from Wahlco Environmental, which had increased revenues in 1991 and in 1990. Wahlco Environmental's 1991 increase was primarily due to higher sales of flue gas conditioning and desulfurization ("scrubber") systems resulting from the enactment of the Clean Air Act Amendments of 1990. Wahlco Environmental's revenues increased in 1990 due to the sales of Wahlco Power Products, Inc., formed in September 1989, and of Bachmann Companies, Inc., acquired in March 1990.

Costs The total cost of electric fuel and purchased power decreased in 1991 and in 1990. The decreases were primarily due to lower costs for natural gas and purchased power. The 1990 decrease was offset partially by increases in volume.

Other operating expenses increased in 1991 and in 1990 primarily because of the increase in the company's cost of new regulatory requirements and the nonutility subsidiaries' costs of sales. The increased costs of sales for the nonutility subsidiaries is due to higher sales by Wahlco Environmental.

LIQUIDITY AND CAPITAL RESOURCES

Utility operations are a major source of liquidity for the company. In addition, a wide range of external capital resources continues to be available. In December 1991 the company issued $14.4 million of 24-year first mortgage bonds at 6.8 percent interest through the California Pollution Control Authority. The tax-exempt bonds were issued to finance part of the construction of pollution and solid waste disposal facilities. In 1990, the company issued $100 million of taxable 30-year first mortgage bonds to pay off short-term borrowings. The company also plans to issue approximately $100 million in long-term debt during 1992.

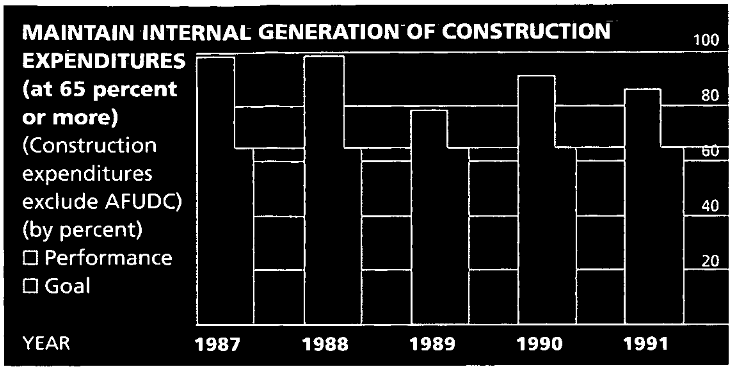
In October 1991 the company began issuing common stock to fund its employee savings and dividend investment plans. This replaced the company's policy of purchasing outstanding shares on the open market. The company issued approximately $12 million of common stock in 1991 and plans to issue about $35 million of common stock during 1992 in connection with these plans.

The company conducts a continuing review of its construction and financing programs in response to changes in system growth, inflation, rate relief, environmental and regulatory requirements, and availability and cost of capital.

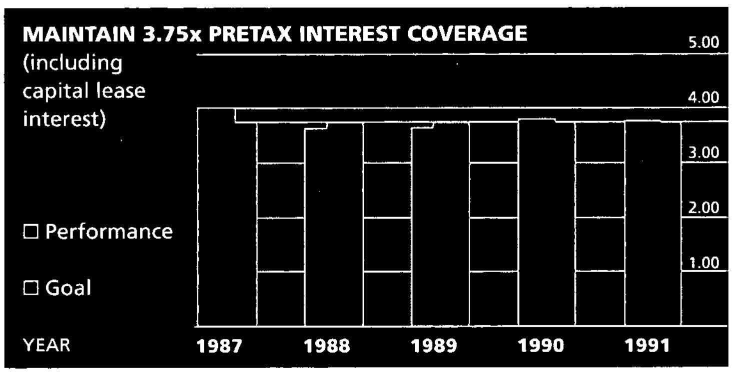
The utility's capital structure is one factor that has enabled it to obtain long-term financing at attractive rates. The following table shows the percentages of capital represented by the various components.

	1987	1988	1989	1990	1991	Goal
Common equity	44%	46%	45%	45%	47%	45-48%
Preferred stock	6	6	6	6	5	5-7
Debt and leases	50	48	49	49	48	46-49
Total	100%	100%	100%	100%	100%	100%

The percentage of funds for construction that the company can generate internally is another good measure of liquidity provided by operations. The company's goal is to exceed 65 percent. The following chart shows the company's success in achieving that goal.



Another measure of the company's ability to obtain financing is pretax interest coverage. The company's goal is to exceed 3.75. The chart shows the company's results.



The major changes in operational cash flows in 1991 compared to 1990 have been related to inventories, regulatory balancing accounts and income taxes. The change in cash flow related to inventories was due primarily to the absence of fuel oil purchases in 1991, and to a decrease in the cost of natural gas. The 1990 regulatory balancing accounts were a use of cash, as previous overcollections were returned to customers by means of prices lower than the related costs. In 1991, the regulatory balancing accounts were a source of cash, as the amounts collected in prices temporarily exceeded the related costs, primarily because of the decrease in the cost of gas. The major cause of the 1991 change in the cash flow effect of income taxes was the timing of tax deductions arising from balancing account activity.

The major changes in operational cash flows in 1990 compared to 1989 have been related to inventories and accounts payable and other liabilities. The change in cash flow related to inventories was due primarily to increased purchases and reduced usage of fuel oil and the increased natural gas storage capability. The 1990 increase in accounts payable and other current liabilities was due primarily to the December 1990 receipt of a $25 million supplier refund. The $25 million is being refunded to the company's customers, although a portion may be returned to the company at a later date.

Significant changes in cash flows from financing activities in 1991 compared to 1990 are discussed below in connection with 1990's financing activities.

In financing activities, the cash flow related to issuances of long-term debt was higher in 1990 due to the issuance of $100 million of 30-year first mortgage bonds. The repayment of long-term debt increased in 1990 due primarily to the retirement of $30 million of 30-year first mortgage bonds. The high level of short-term borrowings in 1989 was due primarily to the issuance of short-term debt to fund capital expenditures, pending the $100 million bond issue.

Additions to utility plant, excluding nuclear fuel and the allowance for funds used during construction, were $252 million in 1991 and are estimated to total $2.4 billion for the next five years. Included in the 1992 to 1996 additions to plant is $390 million for new generating facilities and $240 million for installation of pollution control equipment at existing generating facilities. The additions are expected to be funded from internal generation and issuances of stock and debt. Management believes ample external sources of long-term and short-term financing will continue to be available.

THE FUTURE

Several trends and factors are expected to affect future operating results and liquidity.

- Public and regulatory concern regarding environmental, health and safety issues is increasing.
- The cost to society of air emissions caused by generating facilities is now a mandatory part of resource planning.
- The company's nonutility operations are expanding.
- San Diego's population growth is slowing, and energy sales have decreased slightly; but peak demand continues to grow.
- New energy-efficiency and conservation programs will affect rates, system requirements and future earnings.
- Partial deregulation and competition are continuing.
- San Onofre Nuclear Generating Station Unit 1 may be shut down.

A short description of each of these follows.

Environmental, Health and Safety Issues There is increasing public concern over a variety of environmental issues that are related to the company's operations. These issues include hazardous wastes, air quality, water quality and the possibility that electric and magnetic fields cause adverse health effects.

The company has made a commitment to responsible leadership and stewardship in the protection and enhancement of the environment. The company strives to conduct its business in a way that protects the health and safety of its employees and those within the community, and that preserves the quality of life that those within the company's service territory enjoy.

Compliance programs necessary to meet current and future environmental laws and regulations may increase the cost of electric and gas service by requiring changes to the company's operations or facilities.

Although research conducted to date has found no conclusive evidence that electric and magnetic fields affect health, a few studies have suggested a possible connection with cancer. The company and the utility industry are funding additional studies. The ultimate impact of this issue on the company and the utility industry is impossible to predict.

Resource Planning Balancing the costs of residual emissions with the costs of capital improvements and the costs of energy production is now a mandatory part of resource planning for investor-owned utilities in California. To do this, the CPUC has assigned environmental cost factors to air emissions. The CPUC has asked the utilities to calculate these environmental costs using two different approaches, and will decide which approach to adopt in 1992. The more likely method is to evaluate the emissions from each new resource, despite its physical location, as though the energy was generated in the Los Angeles air basin, which has among the most restrictive environmental standards in the nation. The other method would evaluate the cost of emissions from each new resource based on environmental values that have been adopted by local jurisdictions in the area where the resource is located.

The CPUC's environmental emphasis in the Biennial Resource Plan Update currently focuses solely on air pollution, although it is possible that regulators may include other environmental concerns in the future.

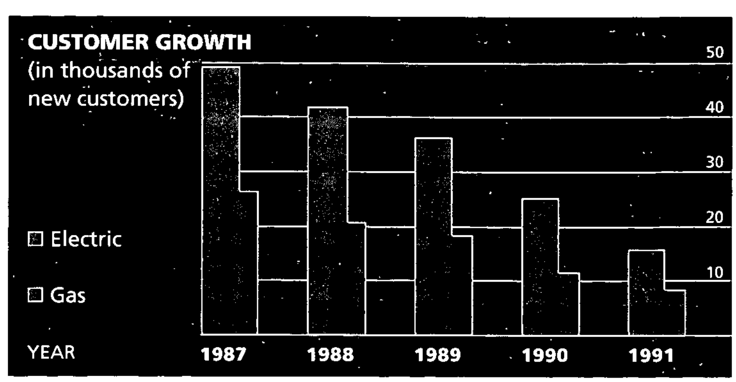
While all California investor-owned utilities eventually will be affected by these changes, it is believed that SDG&E will be affected the most of any utility since it has the earliest need for new electric resources.

Nonutility Operations In 1991, the company's principal nonutility subsidiary, Wahlco Environmental, continued to expand into environment-related businesses. Wahlco Environmental acquired three European businesses in 1991 and its annual revenues were $89 million, up 53 percent from 1990's revenues of $58 million.

Wahlco Environmental now has manufacturing facilities in the continental United States, Puerto Rico, Canada, the United Kingdom, Australia and India. In 1991, Wahlco Environmental opened an engineering and sales subsidiary in Germany and a sales office in Malaysia.

Wahlco Environmental's expansion and diversification plans for the 1990s include additional acquisitions and product development. This could include joint ventures, licensing agreements and strategic alliances in foreign countries. The company plans to continue its focus of diversification in environment-related businesses.

System Growth The company's new customer additions continues to slow, primarily due to the economic recession. In 1990 the customer growth rate was two percent for both electric and gas customers. For 1991, the rate of growth was about one percent for both electric and gas customers. By comparison, in 1988 and 1989 the rate was about four percent for electric and three to four percent for gas. 1991 electric sales volume decreased one percent due to a mild summer, and gas sales volume increased eight percent due to higher cogeneration sales. 1990 electric and gas sales volumes increased seven and five percent, respectively. In 1991, the company's system peak demand increased by less than one percent over the 1990 record system peak.



Energy Efficiency and Conservation The company received approval from the CPUC for a $50 million package of energy efficiency and conservation (Demand-Side Management) programs for 1992. These programs continue the expansion of DSM activities which took place in 1990 and 1991 as a result of a statewide effort that re-evaluated the status of DSM programs in California.

Customers who participate in these programs benefit by realizing energy savings and reducing their bills. And all customers benefit because the energy savings resulting from the programs allow the company to delay or avoid more costly new energy supplies. In 1992, the company has the opportunity to earn a 13.5 percent share of the dollar benefits of certain programs, if specific goals are met, up to a maximum of $9 million. However, the company faces a financial penalty if program goals are not met.

Partial Deregulation and Competition The electric and natural gas utility industries are experiencing competition and partial deregulation. Deregulation could result in increased volatility in electric and gas prices. Proposals are now being considered at the state and federal levels that will require utilities to open up their electric transmission systems to independent power producers and independent buyers. The proposals may cause the company to lose some planning and operational use of the transmission system for its own customers to third parties.

As of January 1, 1992, the company's electricity prices averaged 9.7 cents per kilowatt-hour, but probably will decrease slightly in May 1992 due to a recent settlement agreement with the DRA. While still higher than many other utilities, the company's average electricity prices have decreased from their peak of 12.7 cents in 1985 and for the fourth year will be lower than those of the other major, investor-owned California utilities. The lower prices have made the company more competitive with the alternative sources of electricity available to its customers and reduced the amount of bypass of the company's electric system.

The company continues to pursue methods to lower prices. However, the company has been required to increase its rates in both 1990 and 1991. The increases were due to inflation, higher taxes, and the fact that previous overcollections have now been completely refunded. Price competition in the western market is expected to remain intense due to the availability of surplus energy from other utilities, projected low prices for natural gas and the existence of cogenerators, independent power producers and self-generators as competing energy sources.

Due to the economic recession and lower customer growth rates in the Southwest, the availability of surplus energy probably will continue into at least the mid-1990s. Still, the company believes that due to increasing energy requirements, the supply of surplus energy in the Southwest will diminish, resulting in upward pressure on long-term wholesale power prices. Also, the impact of considering the cost to society of air emissions caused by generating facilities, is still unknown. Therefore, despite cost-reduction efforts, power prices are expected to increase.

The company believes that gas prices will remain low due to the abundant supplies. The company has signed agreements with four Canadian natural gas suppliers to purchase a total of about 50 million cubic feet of gas per day, and has signed a 30-year agreement for firm interstate capacity for the transmission of this supply. This amount represents more than a sixth of the company's anticipated natural gas needs for a typical day in the mid-1990s. The agreements are contingent on U.S. and Canadian regulatory approvals, and completion of planned pipeline expansion projects.

San Onofre Nuclear Generating Station Unit 1 The Nuclear Regulatory Commission's operating license for Unit 1 is subject to the NRC's requirement for additional safety upgrades. SDG&E's share of the upgrades through 2007 would cost $79 million. The company (20 percent owner of Unit 1) and Southern California Edison Company (operator and majority owner of Unit 1) have requested future rate recovery of the expenditures required for the upgrades.

In September 1991, the DRA issued a report recommending three alternative proposals for Unit 1. In order of DRA preference, Unit 1 would be removed from service and decommissioned on the basis that the proposed capital expenditures are not cost-effective, qualified independent power producers would be allowed to bid on replacing Unit 1 capacity as a lower-cost alternative to upgrading the plant, or rate recovery of the proposed expenditures would be subject to performance guidelines to be developed for Unit 1.

In February 1992, the company and Edison reached an agreement with the DRA to shut down Unit 1 at the end of the current fuel cycle, estimated to occur between late-1992 and mid-1993. The agreement, which requires CPUC approval, would not result in any write-off of SDG&E's investment in the unit. The agreement would allow the utilities to recover through rates the remaining net investment in the unit, approximately $100 million for SDG&E, over a four-year amortization period.

In addition, the utilities would earn a return on the investment, equal to the currently authorized rates of return while the unit is operating, and equal to the utilities' embedded costs of debt for the remainder of the four-year period. SDG&E's authorized rate of return is 10.75 percent, and the current embedded cost of debt is approximately 9.1 percent.

RESPONSIBILITY REPORT FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The company is responsible for the consolidated financial statements and other data in this annual report. To meet its responsibility for the reliability of the consolidated financial statements, the company has developed a system of internal accounting controls and engages a firm of independent auditors. The board of directors of the company carries out its responsibility for the consolidated 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 consolidated financial statements in accordance with generally accepted accounting principles.

The concept of reasonable assurance recognizes that the cost of a system of internal accounting controls should not exceed the benefits derived and that management makes estimates and judgments of these cost/benefit factors. The system of internal accounting controls is supported by an extensive program of internal audits, selection and training of qualified personnel, and written policies and procedures.

The company's independent auditors, Deloitte & Touche, are engaged to audit the company's consolidated financial statements in accordance with generally accepted auditing standards for the purpose of expressing their opinion as to whether the company's consolidated financial statements are presented fairly, in all material respects, in accordance with generally accepted accounting principles.

The audit committee discusses with the company's internal auditors and the independent auditors the overall scope and specific plans for their respective audits. The committee also discusses the company's consolidated financial statements and the adequacy of the company's internal controls. The committee met twice during the fiscal year with the internal auditors and the independent auditors without management present, to discuss the results of their examinations, their evaluations of the company's internal controls, and the overall quality of the company's financial reporting. The internal auditors and the independent auditors have full and free access to the committee throughout the year.

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

FRANK H. AULT
Controller

Statements of Consolidated Income

In thousands except per share amounts For the years ended December 31		1991	1990	1989
Operating Revenues				
Electric	a	**$1,357,554**	$1,356,448	$1,324,891
Gas	b	**338,161**	355,069	300,397
Diversified operations	c	**93,297**	60,351	44,183
Total operating revenues		**1,789,012**	1,771,868	1,669,471
Operating Expenses				
Electric fuel and purchased power		**455,845**	483,019	509,720
Gas purchased for resale		**183,274**	199,040	155,400
Maintenance		**68,134**	62,868	67,645
Depreciation and decommissioning		**195,360**	185,901	175,867
Property and other taxes		**44,795**	42,827	40,440
Other	c	**395,449**	337,811	299,891
Income taxes		**130,641**	146,429	135,744
Total operating expenses		**1,473,498**	1,457,895	1,384,707
Operating Income		**315,514**	313,973	284,764
Other Income and (Deductions)				
Allowance for equity funds used during construction		**6,083**	5,098	7,386
Gain on subsidiary sale of stock	d	**—**	22,559	—
Taxes on nonoperating income		**(473)**	(10,488)	822
Other—net	e	**(6,751)**	(14,559)	(4,393)
Total other income and (deductions)		**(1,141)**	2,610	3,815
Income Before Interest Charges		**314,373**	316,583	288,579
Interest Charges				
Long-term debt		**98,802**	97,894	87,962
Short-term debt and other		**10,705**	14,766	16,404
Allowance for borrowed funds used during construction		**(3,194)**	(3,918)	(2,913)
Net interest charges		**106,313**	108,742	101,453
Net Income (before preferred dividend requirements)		**208,060**	207,841	187,126
Preferred Dividend Requirements		**10,535**	10,863	11,202
Earnings Applicable to Common Shares		**$ 197,525**	$ 196,978	$ 175,924
Average Common Shares Outstanding		**55,994**	55,921	55,895
Earnings Per Common Share		**$ 3.53**	$ 3.52	$ 3.15
Dividends Declared Per Common Share		**$ 2.775**	$ 2.70	$ 2.70

Excerpts from the Financial Review

a. 1989 revenues and earnings were reduced by the Southwest Powerlink regulatory disallowance.

b. Gas revenue fluctuations result from increasing sales to cogenerators and changes in authorized costs (an increase in 1990; a decrease in 1991).

c. Sales and costs of diversified operations increased in 1990 and in 1991 due to acquisitions by Wahlco Environmental Systems, Inc. and Wahlco's increasing sales, resulting partly from1990's Clean Air legislation.

d. 1990 earnings included the gain from a public offering of 20 percent of Wahlco Environmental Systems, Inc.

e. 1991 earnings included the merger termination fee; 1990 included merger costs.

See notes to consolidated financial statements.

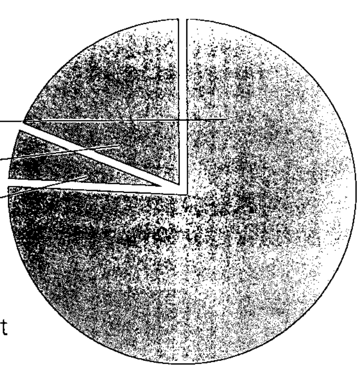
1991 REVENUE DOLLAR

Source

75.9¢ Electric Sales

18.9¢ Gas Sales

5.2¢ Diversified Operations



Diversified operations consist primarily of sales by Wahlco Environmental Systems, Inc.

Disposition

35.7¢ Fuel and Purchased Energy

17.6¢ Other Operating Expenses

10.9¢ Depreciation/Decommissioning

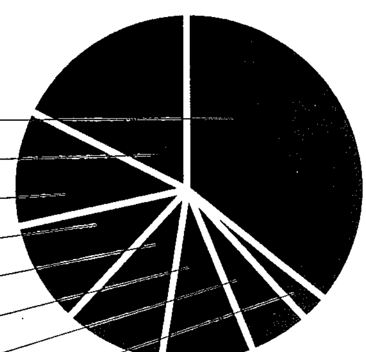
9.8¢ Total Taxes

9.3¢ Dividends to Shareholders

8.7¢ Salaries and Benefits

5.6¢ Cost of Money—net of AFUDC

2.4¢ Reinvested in Business



In thousands of dollars Balance at December 31		1991	1990
Assets			
Utility plant — at original cost		**$4,823,190**	$4,594,253
Accumulated depreciation and decommissioning		**(1,791,391)**	(1,606,438)
Utility plant — net	a	**3,031,799**	2,987,815
Investments and other property	b	**226,296**	188,284
Current assets			
Cash and temporary investments		**16,916**	11,529
Receivables		**197,077**	166,067
Inventories		**94,215**	101,164
Regulatory balancing accounts undercollected — net		**—**	40,765
Other		**16,941**	15,969
Total current assets		**325,149**	335,494
Goodwill	c	**58,777**	47,979
Deferred charges and other assets		**105,535**	97,065
Total		**$3,747,556**	$3,656,637
Capitalization and Liabilities			
Capitalization (see Statements of Consolidated Capital Stock and Long-Term Debt)			
Common equity	d	**$1,357,678**	$1,303,307
Preferred stock		**139,493**	142,493
Long-term debt		**1,164,224**	1,167,089
Total capitalization	e	**2,661,395**	2,612,889
Current liabilities			
Short-term borrowings		**43,907**	63,729
Long-term debt redeemable within one year		**115,000**	115,000
Current portion of long-term debt		**21,597**	18,064
Accounts payable		**139,462**	131,594
Dividends payable		**41,963**	40,439
Taxes accrued		**53,319**	56,993
Interest accrued		**26,460**	26,650
Regulatory balancing accounts overcollected — net		**18,021**	—
Other		**102,412**	83,067
Total current liabilities		**562,141**	535,536
Customer advances for construction		**60,069**	67,088
Accumulated deferred income taxes — net		**251,086**	226,676
Accumulated deferred investment tax credits		**124,403**	129,367
Deferred credits and other liabilities		**88,462**	85,081
Contingencies and commitments (Notes 7 and 8)		**—**	—
Total		**$3,747,556**	$3,656,637

See notes to consolidated financial statements.

Excerpts from the Financial Review

a. Unit 1 at San Onofre may be shut down in about one year and the investment recovered within the next four years.

b. Nuclear decommissioning trust funds had a balance of $117 million at December 31, 1991.

c. Goodwill arose from acquisitions by Pacific Diversified Capital and is being amortized over 40 years.

d. In October 1991, issuances of common stock to fund the employee savings and dividend reinvestment plans replaced open-market purchases.

e. The company's capital structure continues to meet its goal and to comply with regulatory parameters.

In thousands of dollars For the years ended December 31		1991	1990	1989
Cash Flows from Operating Activities				
Net Income		**$208,060**	$207,841	$187,126
Adjustments to reconcile net income to net cash provided by operating activities				
Depreciation and decommissioning		**195,360**	185,901	175,867
Amortization of deferred charges and other assets		**1,402**	1,554	1,251
Allowance for funds used during construction		**(9,277)**	(9,016)	(10,299)
Deferred income taxes and investment tax credits		**(11,377)**	26,773	24,471
Deferred merger costs		**—**	11,083	(3,709)
Gain on subsidiary sale of stock		**—**	(22,559)	—
Other — net		**764**	7,788	4,793
Changes in working capital components net of effects from purchases and sale of subsidiaries				
Receivables		**(25,340)**	(8,259)	11,380
Regulatory balancing accounts	a	**58,786**	(49,158)	(62,891)
Inventories	b	**9,857**	(24,631)	673
Other current assets		**681**	6,903	(1,603)
Accrued interest and taxes		**26,959**	15,758	5,289
Accounts payable and other current liabilities		**17,984**	21,334	(13,104)
Net cash provided by operating activities		**473,859**	371,312	319,244
Cash Flows from Financing Activities				
Dividends paid		**(164,436)**	(161,874)	(160,777)
Short-term borrowings — net		**(22,138)**	(8,745)	72,474
Issuances of long-term debt	c	**38,792**	107,185	1,615
Sale of common stock		**11,712**	137	116
Repayment of long-term debt		**(20,595)**	(66,064)	(10,337)
Proceeds from subsidiary sale of stock		**—**	38,120	—
Redemption of preferred stock		**(3,000)**	(4,500)	(3,000)
Net cash used by financing activities		**(159,665)**	(95,741)	(99,909)
Cash Flows from Investing Activities				
Utility construction expenditures	d	**(251,759)**	(235,356)	(236,738)
Contributions to decommissioning funds		**(22,038)**	(22,038)	(22,038)
Purchase of assets and subsidiaries		**(16,115)**	(18,644)	(20,054)
Sale of assets and subsidiary		**—**	(2,151)	2,269
Other — net		**(18,895)**	(5,886)	2,906
Net cash used by investing activities		**(308,807)**	(284,075)	(273,655)
Net increase (decrease)		**5,387**	(8,504)	(54,320)
Cash and temporary investments, beginning of period		**11,529**	20,033	74,353
Cash and temporary investments, end of period		**$ 16,916**	$ 11,529	$ 20,033
Supplemental Schedule of Noncash Investing and Financing Activities				
Acquisition of subsidiaries				
Assets acquired		**$ 23,747**	$ —	$ —
Cash paid		**(6,917)**	—	—
Liabilities assumed		**$ 16,830**	$ —	$ —
Noncash real estate transactions				
Real estate disposed		**$ —**	$ —	$ 24,624
Debt discharged		**—**	—	(21,300)
Noncash proceeds		**$ —**	$ —	$ 3,324

See notes to consolidated financial statements.

Excerpts from the Financial Review

a. Balancing accounts were a source of cash in 1991 as collections exceeded costs due to declining natural gas prices.

b. Cash flow changes related to inventory resulted from increased storage of fuel oil and natural gas in 1990 and the partial depletion thereof in 1991.

c. In 1990 the company issued $100 million of bonds to repay short-term debt and plans to issue approximately $100 million of bonds in 1992.

d. Utility construction expenditures are expected to total $339 million in 1992 and $2.4 billion over the 1992–1996 period.

In thousands of dollars For the years ended December 31, 1989, 1990, 1991	Preferred Stock Not Subject to Mandatory Redemption	Preferred Stock Subject to Mandatory Redemption	Common Stock	Premium on Capital Stock	Retained Earnings
Balance, December 31, 1988	$87,493	$62,500	$279,492	$467,610	$482,835
Net Income					187,126
Common stock sold (23,163 shares)			116		
Vesting of previously restricted shares				1,071	
Current sinking fund requirement		(3,000)			
Dividends declared					
Preferred stock					(11,192)
Common stock					(150,945)
Balance, December 31, 1989	87,493	59,500	279,608	468,681	507,824
Net Income					207,841
Common stock sold (27,417 shares)			137		
Vesting of previously restricted shares				1,062	
Preferred stock retired (15,000 shares)		(1,500)			
Current sinking fund requirement		(3,000)			
Dividends declared					
Preferred stock					(10,847)
Common stock					(150,999)
Balance, December 31, 1990	87,493	55,000	279,745	469,743	553,819
Net Income					208,060
Common stock sold (299,116 shares)			1,495	10,217	
Vesting of previously restricted shares				559	
Current sinking fund requirement		(3,000)			
Dividends declared					
Preferred stock					(10,524)
Common stock					(155,436)
Balance, December 31, 1991	$87,493	$52,000	$281,240	$480,519	$595,919

See notes to consolidated financial statements.

Statements of Consolidated Capital Stock

In thousands of dollars except voluntary redemption price Balance at December 31		1991	1990
Common Equity			
Common stock, without par value, authorized 170,000,000 shares, outstanding: 1991, 56,248,038 shares; 1990, 55,948,922 shares		**$ 281,240**	$ 279,745
Premium on capital stock		**480,519**	469,743
Retained earnings		**595,919**	553,819
Total common equity		**$1,357,678**	$1,303,307
Preferred Stock	**Voluntary Redemption Price**		
Not subject to mandatory redemption			
$20 par value, authorized 1,375,000 shares			
5% Series, 375,000 shares outstanding	$ 24.00	**$ 7,500**	$ 7,500
4½% Series, 300,000 shares outstanding	21.20	**6,000**	6,000
4.40% Series, 325,000 shares outstanding	21.00	**6,500**	6,500
4.60% Series, 374,650 shares outstanding	20.25	**7,493**	7,493
Without par value*			
$7.80 Series, 200,000 shares outstanding	101.00	**20,000**	20,000
$7.20 Series, 150,000 shares outstanding	101.00	**15,000**	15,000
$2.475 Series, 1,000,000 shares outstanding	28.35	**25,000**	25,000
Total not subject to mandatory redemption		**$87,493**	$87,493
Subject to mandatory redemption			
Without par value*			
$8.25 Series, outstanding: 1991, 55,000 shares; 1990, 65,000 shares	$103.58	**$ 5,500**	$ 6,500
$9.125 Series, outstanding: 1991, 45,000 shares; 1990, 65,000 shares	103.20	**4,500**	6,500
$7.05 Series, 450,000 shares outstanding	104.70	**45,000**	45,000
Current sinking fund requirement**		**(3,000)**	(3,000)
Total subject to mandatory redemption		**$52,000**	$55,000

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

**Future sinking fund requirements include $4.8 million in 1993, $3.3 million in 1994, $2.8 million in 1995 and $2.8 million in 1996.

See notes to consolidated financial statements.

Statements of Consolidated Long-Term Debt

In thousands of dollars Balance at December 31	1991	1990
First mortgage bonds		
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
8¾% Series Q, due March 15, 2007	**50,000**	50,000
9¾% Series R, due May 1, 2008	**50,000**	50,000
5½% Series U-2, due September 1, 1994	**9,268**	9,668
10% Series AA, due June 1, 2018	**150,000**	150,000
10% Series BB, due September 1, 2018	**150,000**	150,000
4.9% Series CC, due May 1, 2008	**53,000**	53,000
4.7% Series DD, due December 1, 2008	**27,000**	27,000
9¼% Series EE, due September 1, 2020	**100,000**	100,000
5.2% Series FF, due December 1, 2007	**35,000**	35,000
7⅝% Series GG, due July 1, 2021	**44,250**	44,250
7⅜% Series HH, due December 1, 2021	**81,350**	81,350
8¾% Series II, due March 1, 2023	**25,000**	25,000
9⅝% Series JJ, due April 15, 2020	**100,000**	100,000
6.8% Series KK, due June 1, 2015	**14,400**	—
Total	**1,109,268**	1,095,268
Capitalized leases		
Nuclear fuel	**44,283**	56,085
Generating facility	**84,805**	89,390
Other	**18,420**	21,168
Total	**147,508**	166,643
Other long-term debt	**59,662**	54,410
Unamortized discount on long-term debt	**(15,617)**	(16,168)
Long-term debt redeemable within one year	**(115,000)**	(115,000)
Current portion of long-term debt	**(21,597)**	(18,064)
Total	**$1,164,224**	$1,167,089

See notes to consolidated financial statements.

In thousands of dollars At December 31 or for the years then ended	1991	1990	1989
Operating revenues*	**$1,789,012**	$1,771,868	$1,669,471
Operating Income			
Electric operations	**$ 266,402**	$ 268,460	$ 242,064
Gas operations	**37,405**	37,371	36,093
Diversified operations	**11,707**	8,142	6,607
Total	**$ 315,514**	$ 313,973	$ 284,764
Depreciation and Decommissioning			
Electric operations	**$ 164,194**	$ 156,606	$ 149,400
Gas operations	**25,536**	25,183	23,188
Diversified operations	**5,630**	4,112	3,279
Total	**$ 195,360**	$ 185,901	$ 175,867
Utility Plant Additions**			
Electric operations	**$ 208,265**	$ 190,794	$ 194,637
Gas operations	**43,494**	44,562	42,101
Total	**$ 251,759**	$ 235,356	$ 236,738
Identifiable Assets			
Utility plant — net			
Electric operations	**$2,692,492**	$2,667,923	$2,652,349
Gas operations	**339,307**	319,892	297,631
Total	**3,031,799**	2,987,815	2,949,980
Inventories			
Electric operations	**65,358**	68,416	58,554
Gas operations	**19,508**	22,229	17,979
Diversified operations	**9,349**	10,519	—
Total	**94,215**	101,164	76,533
Other identifiable assets			
Electric operations	**303,333**	282,333	209,037
Gas operations	**41,211**	52,802	36,641
Diversified operations	**188,712**	146,873	161,621
Total	**533,256**	482,008	407,299
Other Assets	**88,286**	85,650	112,684
Total Assets	**$3,747,556**	$3,656,637	$3,546,496

*The detail to operating revenues is provided in the Statements of Consolidated Income. The gas operating revenues shown therein include $10 million in 1991, $6 million in 1990 and $5 million in 1989, representing the gross margin on sales to the electric segment. These margins arose from interdepartmental transfers of $116 million in 1991, $112 million in 1990 and $150 million in 1989, based on transfer pricing allowed by the California Public Utilities Commission in tariff rates.

**Excluding allowance for funds used during construction.

See notes to consolidated financial statements.

The company is an operating public utility engaged principally in the generation, purchase, distribution and sale of electrical 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. Diversified operations consists primarily of environment-related businesses serving power generation and other industries.

1 SUMMARY OF ACCOUNTING POLICIES

Consolidation The consolidated financial statements include the accounts of San Diego Gas & Electric and its subsidiary, Pacific Diversified Capital Company, the holding company for the nonutility subsidiaries. The nonutility subsidiaries are Wahlco Environmental Systems, Inc. (80 percent owned) and Phase One Development, Inc. (wholly owned).

Utility Plant and Depreciation Utility plant represents the buildings, equipment and other facilities used to provide electric and gas service. The cost of utility plant includes labor, material, contract services and other related items and an allowance for funds used during construction. The cost of depreciable retired utility plant, plus removal expenses minus salvage value is charged to accumulated depreciation.

Depreciation expense reflects the straight-line remaining useful life method. The provisions for depreciation approximated 3.98 percent of average depreciable utility plant in 1991, 3.97 percent in 1990, and 3.96 percent in 1989.

Inventories At December 31, 1991, inventories include $55 million of materials and supplies ($54 million in 1990), and $39 million of fuel oil and natural gas ($47 million in 1990). Materials and supplies are valued at average cost, and fuel oil and natural gas are valued by the last-in first-out, or LIFO, method.

Allowance for Funds Used During Construction The allowance represents the cost of funds used to finance the construction of utility plant and is added to the cost of utility plant. AFUDC also increases income, partly as an offset to financing costs shown in the Statements of Consolidated Income, although it is not a current source of cash.

Revenues and Regulatory Balancing Accounts Revenues from utility customers consist of deliveries to customers and the changes in regulatory balancing accounts. Earnings fluctuations from changes in the costs of fuel oil, purchased energy and gas, and consumption levels for electricity and the majority of gas are eliminated by balancing accounts authorized by the California Public Utilities Commission. The balances of these accounts represent amounts that will be recovered from, or repaid to, customers by adjustments to future prices. The CPUC reviews the reasonableness of the amounts in these accounts.

Goodwill Goodwill arose from the acquisition of certain businesses by Pacific Diversified Capital. It is being amortized on a straight-line basis over 40 years. The accumulated amortization at December 31, 1991 was $4.5 million ($3.1 million in 1990).

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

Other Certain prior year amounts have been reclassified for comparability.

2 LONG-TERM DEBT

Due dates of long-term debt are shown on the Statements of Consolidated Long-Term Debt. Excluding capital leases, which are described in Note 8, combined aggregate maturities and sinking fund requirements of long-term debt are $11 million for 1992, $7 million for 1993, $12 million for 1994, $1 million for 1995, and $18 million for 1996.

First mortgage bonds are secured by a lien on substantially all utility plant. Additional first mortgage bonds may be issued upon compliance with the provisions of the bond indenture.

Certain first mortgage bonds have variable interest rate provisions. Bondholders may elect to redeem their bonds at the interest adjustment dates of August 1 for Series FF and September 1 for Series CC and DD.

Interest payments, including those applicable to short-term borrowings, amounted to $110 million in 1991, $114 million in 1990, and $102 million in 1989.

The company issued $100 million of first mortgage bonds in April 1990 and $14.4 million of first mortgage bonds in December 1991. The company has CPUC authorization to issue an additional $85.6 million in debt by December 31, 1993.

3 SHORT-TERM BORROWINGS

At December 31, 1991 and 1990, short-term borrowings and weighted average interest rates for the balances outstanding were:

In millions of dollars	1991		1990	
	Balance	Interest Rate	Balance	Interest Rate
Commercial paper	$37.3	5.6%	$53.0	8.1%
Subsidiaries' bank credit line	6.6	6.5%	10.7	10.0%
Total	$43.9		$63.7	

As of December 31, 1991, SDG&E had various bank lines aggregating $100 million, available to support commercial paper. SDG&E's subsidiaries had a bank credit line that provided for borrowings up to $14 million at the prime rate. A commitment fee is paid on the unused portion of the lines. There were no requirements for compensating balances.

4 FACILITIES UNDER JOINT OWNERSHIP

The Southwest Powerlink transmission line and the San Onofre nuclear power plant are jointly owned with other utilities. The company's interests at December 31, 1991 were:

In millions of dollars

Project	Southwest Powerlink	San Onofre
Ownership interest (%)	89	20
Utility plant in service	$209	$1,210
Accumulated depreciation	$ 52	$ 328
Construction work in progress	$ —	$ 15

Each participant in the projects must provide its own financing.

The company's share of operating expenses is included in its Statements of Consolidated Income.

The company's share of future dismantling and decontamination costs for the San Onofre units is estimated to be $200 million. These costs are considered in setting rates and are expected to be fully recovered in rates over the estimated lives of the plants. In December 1987, the company began placing in externally managed trust funds the amounts collected in rates. At December 31, 1991, the trust funds had a balance of $117 million, which is included in "Investments and Other Property" on the Consolidated Balance Sheets. Additional information regarding San Onofre Unit 1 is included in Note 7.

5 EMPLOYEE BENEFIT PLANS

The company has a defined benefit pension plan which covers substantially all utility employees. Benefits are related to the employees' compensation. Plan assets consist primarily of common stocks and bonds.

The company funds the plan based on the aggregate cost actuarial method, subject to full-funding limitations. Net pension cost consists of the following:

In thousands of dollars	1991	1990	1989
Cost related to current service	$17,054	$14,221	$13,370
Interest on projected benefit obligation	24,725	21,589	18,670
(Return) loss on plan assets	(71,388)	12,342	(50,703)
Other	35,199	(45,362)	20,008
Net Cost	$ 5,590	$ 2,790	$ 1,345

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

In thousands of dollars	1991	1990
Accumulated benefit obligation:		
Vested	$231,951	$203,422
Nonvested	5,814	5,441
Total	$237,765	$208,863
Plan assets at fair value	$385,197	$319,865
Projected benefit obligation	353,794	315,580
Excess of plan assets over projected benefit obligation	31,403	4,285
Unrecognized effect of accounting change	(2,293)	(2,522)
Unrecognized prior service cost	9,183	—
Unrecognized actuarial gains	(38,293)	(1,763)
Amount recognized as an asset	$ —	$ —

The projected benefit obligation assumes an 8 percent actuarial discount rate and a 6 percent average annual salary increase. The expected long-term rate of return on plan assets is 8.5 percent.

Eligible employees may make a contribution of 1 to 11 percent of their base pay to the company's savings plan for investment in mutual funds or in common stock of the company. The company contributes up to three percent of a participant's base compensation for investment in the company's common stock. Accrued contributions to the pension and savings plans were approximately $9 million in 1991, $6 million in 1990, and $4 million in 1989.

The company has a long-term incentive stock compensation plan that provides for aggregate awards of up to 1,350,000 shares of common stock over a 10-year period ending in 1996. In each of the last six years the company issued approximately 25,000 to 31,000 shares of stock to officers for $5 per share. These shares were issued subject to buy-back if certain corporate goals are not met.

The company provides certain health and life insurance benefits to retired utility employees. The annual benefits paid and expensed amounted to $3 million in 1991, 1990 and 1989. In December 1990, the Financial Accounting Standards Board issued a rule that would require a major change in the way retiree benefits other than pensions will be accounted for beginning in 1993.

The company's current expense for retiree health and life insurance premiums represents premiums paid during the year for existing retirees. The new rule will require an accrual of health and life insurance premiums for each employee. This projected benefit will be expensed over each employee's years of service, up to the year of benefit eligibility. The present value of these projected premiums is expected to be about $60 million. This accounting change is not expected to affect company profit or net worth significantly because most employee benefits have been consistently recovered in rates.

6 INCOME TAXES

Deferred income taxes arise from including income or deductions in the company's income tax returns in a year different from the year they are reported in the financial statements. However, deferred taxes are not provided for those timing differences that are reflected in customer rates. At December 31, 1991, the cumulative net amounts of timing differences for which deferred taxes have not been provided were approximately $290 million for federal purposes and $720 million for state purposes. In addition, tax reductions that arose from investment tax credits had been deferred and are recognized over the useful lives of the related property.

The Financial Accounting Standards Board recently issued a rule that will require a major change in the way tax expense will be computed in future years. Implementation of the new rule will be required in 1993.

This new rule is not expected to affect the company's profits or net worth significantly because most tax increases or reductions are reflected in rates. However, deferred taxes on the balance sheet will increase by a substantial, but not yet quantified amount and a new regulatory asset will be reported for the estimated amount collectible from customers.

Income tax payments totaled $115 million in 1991, $104 million in 1990, and $108 million in 1989.

Components of Income Tax Expense

In thousands of dollars	1991	1990	1989
Current federal income tax	**$107,959**	$102,683	$ 86,017
Current state franchise tax	**34,532**	27,461	24,434
Total current taxes	**142,491**	130,144	110,451
Deferred federal and state taxes			
Tax over book depreciation	**29,778**	24,189	32,247
Regulatory balancing accounts	**(16,869)**	15,992	27,334
Construction projects	**(8,059)**	(15,765)	(8,929)
Unbilled revenue	**(4,251)**	(7,487)	(10,267)
State franchise tax	**1,055**	5,247	—
Gain on subsidiary sale of stock	—	9,024	—
Other—net	**(8,067)**	794	(3,154)
Total deferred taxes	**(6,413)**	31,994	37,231
Deferred investment tax credits—net	**(4,964)**	(5,221)	(12,760)
Total income tax expense	**$131,114**	$156,917	$134,922

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

Reconciliation of Statutory Federal Income Tax Rate to Effective Rate

In thousands of dollars	1991	1990	1989
Income before federal income taxes	**$312,161**	$331,739	$295,394
Statutory federal income tax rate	**34.0%**	34.0%	34.0%
Depreciation	**3.9**	1.9	4.6
Deferred investment tax credits—net	**(2.1)**	(1.8)	(4.3)
Other—net	**(2.5)**	3.2	2.2
Effective federal income tax rate	**33.3%**	37.3%	36.5%

7 REGULATORY PROCEEDINGS AND LITIGATION

Southwest Powerlink In February 1989, the California Public Utilities Commission issued a decision ordering a disallowance of approximately $25 million of costs associated with long-term purchased power contracts using the Southwest Powerlink. This decision had the effect of reducing pre-tax income for the first quarter of 1989 by $25 million, or $0.28 per share after tax. The decision also provided for a possible reduction of the disallowance through an energy credit based on cost savings from energy purchased under these contracts. In September 1989, SDG&E filed for this credit, increasing pre-tax income for the third quarter by $5 million, or $0.05 per share after tax. In 1990, the CPUC approved the credit.

In March 1989, seeking to reduce the disallowance, the company filed an application for rehearing with the CPUC. The application challenged the CPUC's authority to disallow expenses resulting from paying rates approved by the Federal Energy Regulatory Commission. The application also challenged various premises supporting the CPUC's decision. In September 1989, the CPUC denied the application for rehearing. Also in September 1989, the company challenged the CPUC's rejection of its application in U.S. District Court in San Francisco. The company requested an injunction from the court reversing the CPUC's action.

Management cannot predict the ultimate outcome of this matter or when a decision will be reached.

Portland General Electric In July 1989, the CPUC Division of Ratepayer Advocates issued a report on the reasonableness of the company's entering into its 75-megawatt long-term purchased power contract with Portland General Electric. The potential disallowances identified by the DRA had an estimated net present value of $28 million.

In 1989 and 1990, the company participated with PGE in negotiating new coal and rail contracts related to the company's contract with PGE. As a result, energy costs from PGE have been reduced.

In November 1991, the CPUC found that the company's purchased power contract with PGE was reasonable and that no disallowances were appropriate.

San Onofre Unit 1 In February 1992, SDG&E and Southern California Edison reached an agreement with the CPUC's Division of Ratepayer Advocates to shut down Unit 1 of the San Onofre Nuclear Generating Station. Edison owns 80 percent of SONGS 1 and operates the unit; SDG&E owns the remaining 20 percent. The agreement would lead to closure of the unit at the end of the current fuel cycle, estimated to occur between late-1992 and mid-1993. The agreement, which requires CPUC approval, would not result in any write-off of SDG&E's investment in the unit. The agreement would allow the utilities to recover through rates the remaining net investment in the unit, approximately $100 million for SDG&E, over a four-year amortization period.

In addition, the agreement would allow the utilities to earn a return on the investment, equal to the currently authorized rates of return while the unit is in operation, and equal to the utilities' embedded costs of debt for the remainder of the four-year period. SDG&E's currently authorized rate of return is 10.75 percent and the current embedded cost of debt is approximately 9.1 percent.

Springerville Litigation In December 1990, Philip Morris Capital Corporation filed a lawsuit against SDG&E, Century Power Corporation and two other defendants alleging liability for unspecified compensatory damages, including the loss of tax benefits and losses sustained from the adverse tax consequences of defendants' alleged acts, and punitive damages for various improprieties relating to the sale and leaseback of Springerville Unit 1. In March 1991, Chrysler Capital Corporation and four others filed a substantially identical lawsuit.

A portion of the electricity generated by Unit 1 was purchased by the company. The sale and leaseback transaction was entered into between Century and the six investors referred to above.

Plaintiffs assert that the company unlawfully agreed to delay its claim that it was entitled to rate relief as a result of the sale and leaseback transaction until after the transaction was completed in December 1986. According to the lawsuits, SDG&E allegedly participated in a plan with the other defendants to conceal the expected rate relief.

According to the lawsuits, Philip Morris's investment in the Springerville unit is $90 million and the combined investment of Chrysler Capital and the other investors is $110 million. The plaintiffs do not specify that the investments represent a loss or damage.

In October and November 1991, the federal claims of Philip Morris and Chrysler Capital and the other investors were dismissed on statute of limitations grounds. The Philip Morris state law claims were dismissed for jurisdictional reasons, and the Chrysler Capital state law claims remain pending in federal court. In November 1991, Philip Morris moved for reargument on the grounds that the state law claims should not have been dismissed. In February 1992, Philip Morris's motion for reargument was granted.

All of the plaintiffs have moved for reinstatement of the federal claims based on December 1991 legislation which attempts to nullify a recent Supreme Court decision upon which the dismissal of the federal claims was partially based. The company intends to oppose these motions vigorously.

If the cases were to be reinstated, the company faces the exposure of joint and several liability with the other defendants. An involuntary petition for bankruptcy has been filed against co-defendant Century Power Corporation.

Since the Federal Energy Regulatory Commission has not ruled that SDG&E is entitled to the expected rate relief, it is the company's position that the plaintiffs have not been damaged by SDG&E's alleged actions.

The company believes it has meritorious defenses against the claims and intends to defend the lawsuits vigorously. Management cannot predict the ultimate outcome.

Subsidiary Shareholder Litigation In June 1990, an action was instituted against Wahlco Environmental Systems, Inc., certain directors and officers as well as the underwriters for Wahlco Environmental's initial public offering. In November 1990, a substantially similar action was filed, naming SDG&E as an additional defendant. The two lawsuits have been consolidated into one action. The complaint, which seeks unspecified compensatory and punitive damages, alleges various violations of federal and state securities laws and various state law claims based upon alleged misrepresentations and material omissions made in connection with Wahlco Environmental's initial public offering, first quarter 1990 10-Q, press releases, and other documents and statements.

The case is in the discovery phase, with discovery set to close in 1992. However, a trial date has not been set. SDG&E and Wahlco Environmental believe they have meritorious defenses to the claims and intend to defend the lawsuit vigorously. Management cannot predict the ultimate outcome of the litigation.

Other Litigation The company is involved in various legal matters arising out of the ordinary course of business. Management believes that these matters will not have a material adverse effect on the company's financial position.

8 *OTHER CONTINGENCIES AND COMMITMENTS*

Nuclear Insurance Public liability claims that could arise from a nuclear incident are limited by law to $7.8 billion for each licensed nuclear facility. The company and the co-owners of the San Onofre units have purchased primary insurance of $200 million for this exposure, the maximum amount available. The remaining $7.6 billion is provided by secondary financial protection required by the Nuclear Regulatory Commission. This secondary coverage provides for loss sharing among utilities owning nuclear reactors if a costly accident occurs. The company could be assessed retrospective premium adjustments of up to $40 million in the event of a nuclear incident involving any of the licensed, commercial reactors in the United States, if the amount of the loss exceeds $200 million.

Coverage is provided also for property damage and replacement power costs at San Onofre. Coverage is provided for primary property damages and for up to $500 million additional decontamination liability and excess property damage of $2 billion. Replacement power insurance provides indemnity payments for up to two years, after a waiting period of 21 weeks. These three insurance coverages are provided primarily through mutual insurance companies owned by utilities with nuclear facilities. If losses at any of the nuclear facilities covered by the risk-sharing arrangements were to exceed the accumulated funds available for these insurance programs, the company could be assessed retrospective premium adjustments of up to $7.8 million per year. The preceding does not contemplate changes that may result from a pending CPUC decision concerning the future status of San Onofre Unit 1 (see Note 7).

Construction Approximately $339 million, excluding nuclear fuel and AFUDC, is planned to be spent for utility plant construction in 1992.

Environmental Issues The company's operations are conducted in accordance with federal, state and local environmental laws and regulations governing hazardous wastes, air quality, water quality, land use and solid waste disposal. Compliance programs necessary to meet existing and future environmental laws and regulations will increase the cost of electric and gas service by requiring changes to the company's operations or facilities. The costs of compliance with environmental laws and regulations are normally included in rates.

Leases Nuclear fuel, an office building and a generating facility are financed by long-term capital leases. Utility plant includes $297 million at December 31, 1991 and $285 million at December 31, 1990 related to these leases.

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

In millions of dollars	Operating Leases	Capitalized Leases
1992	$ 14	$ 38
1993	12	33
1994	9	12
1995	8	12
1996	6	12
Thereafter	19	93
Total future rental commitments	$ 68	200
Imputed interest (6 to 9 percent)		(52)
Net Commitment		$148

Rental payments totaled $58 million in 1991, $58 million in 1990, and $62 million in 1989.

Purchased Power Contracts The company buys electric power under several long-term contracts. The contracts expire on various dates between 1993 and 2019.

At December 31, 1991, the future minimum payments under the contracts were:

In millions of dollars	
1992	$ 136
1993	137
1994	138
1995	136
1996	119
Thereafter	1,330
Total minimum payments	$1,996

These payments are fixed charges. The company is required to pay additional amounts for actual deliveries of energy under the contracts. The company has exercisable options to extend two long-term contracts.

Total payments, including energy payments, under the contracts were $245 million in 1991, $236 million in 1990, and $247 million in 1989.

Natural Gas Contract The company has a contract with Southern California Gas Company that provides SDG&E with capacity on interstate gas pipelines and storage capacity in SoCal Gas' facilities. The future minimum payments under the contract are $80 million for each of the years 1992 to 1994 and $53 million for 1995. These costs are based on CPUC-authorized rates effective January 1, 1992, and are subject to review in the next biennial gas ratemaking proceeding in 1993. Payments under the contract were $83 million in 1991, 1990 and 1989.

Concentration of Credit Risk The company grants credit to its customers, substantially all of whom are located in its service territory, which covers all of San Diego County and the southern portion of Orange County.

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated balance sheets and the consolidated statements of capital stock and long-term debt of San Diego Gas & Electric Company and its subsidiaries as of December 31, 1991 and 1990, and the related consolidated statements of income, changes in capital stock and retained earnings, and cash flows for each of the three years in the period ended December 31, 1991. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of San Diego Gas & Electric Company and its subsidiaries as of December 31, 1991 and 1990 and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1991 in conformity with generally accepted accounting principles.

Deloitte & Touche

DELOITTE & TOUCHE
San Diego, California
February 21, 1992

At December 31	1991	1990	1989	1988	1987	1986
Current assets*	**$ 325.1**	$ 335.5	$ 299.2	$ 319.9	$ 336.4	$ 299.7
Current liabilities*	**$ 562.1**	$ 535.5	$ 555.2	$ 510.1	$ 533.7	$ 450.2
Working capital*	**$ (237.0)**	$ (200.0)	$ (256.0)	$ (190.2)	$ (197.3)	$ (150.5)
Working capital ratio	**.6**	.6	.5	.6	.6	.7
Long-term debt*	**$ 1,164.2**	$ 1,167.1	$ 1,112.7	$ 1,179.5	$ 1,204.6	$ 1,193.9
Common shareholders' equity*	**$ 1,357.7**	$ 1,303.3	$ 1,256.1	$ 1,229.9	$ 1,197.4	$ 1,159.9
Number of utility customers†	**1,111.3**	1,095.2	1,069.6	1,032.6	990.4	940.7
Number of utility employees	**4,215**	4,175	4,209	4,420	4,612	4,815
Common shares outstanding	**56,248,038**	55,948,922	55,921,505	55,898,342	55,872,602	55,847,822
Book value per common share	**$ 24.14**	$ 23.29	$ 22.46	$ 22.00	$ 21.43	$ 20.77
Price/Earnings ratio	**12.8**	12.7	14.3	12.0	9.1	9.9

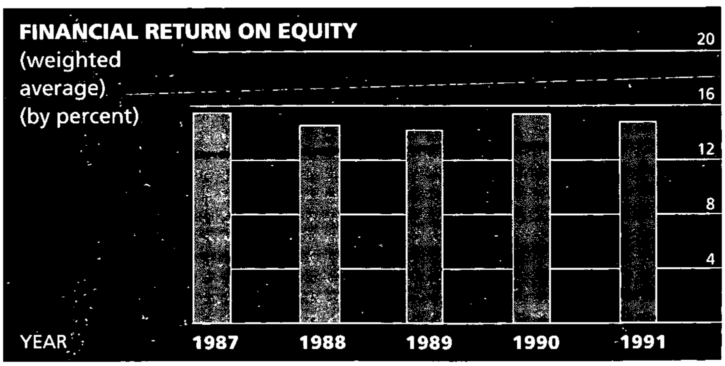
For year ended December 31						
Operating Revenues*						
Electric	**$ 1,357.5**	$ 1,356.4	$ 1,324.9	$ 1,300.0	$ 1,261.3	$ 1,333.5
Gas	**$ 338.2**	$ 355.1	$ 300.4	$ 285.4	$ 293.8	$ 299.2
Diversified operations	**$ 93.3**	$ 60.4	$ 44.2	$ 35.1	$ 7.1	$ 1.5
Pretax income/revenue	**19.0%**	20.6%	19.3%	18.7%	21.7%	21.6%
Return on equity	**14.9%**	15.4%	14.2%	14.6%	15.6%	12.3%
Effective federal tax rate	**33.3%**	37.3%	36.5%	32.5%	39.1%	47.8%
Earnings per common share	**$ 3.53**	$ 3.52	$ 3.15	$ 3.18	$ 3.28††	$ 2.59
Dividends declared per common share	**$ 2.775**	$ 2.70	$ 2.70	$ 2.60	$ 2.50	$ 2.345
Dividend payout ratio (declared)	**78.6%**	76.7%	85.7%	81.8%	76.3%	90.4%
Price range of common shares	**$46⅛–$36½**	$ 46¼–$39	$45⅝–$36⅜	$ 39½–$30	$37⅞–$28¼	$42½–$26¾

*In millions of dollars.

†In thousands.

††Including $0.32 for cumulative effect of change in accounting principle.

Financial return on equity is measured by earnings applicable to common shares divided by average common equity.



Compound Annual Growth Rate 5 Years	1985	1984	1983	1982	1981	Compound Annual Growth Rate 10 Years
1.6%	$ 366.2	$ 393.8	$ 267.3	$ 303.9	$ 302.4	**0.7%**
4.5%	$ 404.8	$ 352.2	$ 429.7	$ 443.6	$ 453.4	**2.2%**
—	$ (38.6)	$ 41.6	$ (162.4)	$ (139.7)	$ (151.0)	—
—	.9	1.1	.6	.7	.7	—
(0.5)%	$ 1,208.6	$ 1,277.5	$ 1,275.4	$ 1,007.2	$ 925.0	**2.3%**
3.2%	$ 1,153.0	$ 1,052.9	$ 957.6	$ 817.4	$ 672.4	**7.3%**
3.4%	893.9	853.6	823.2	804.5	792.4	**3.4%**
(2.6)%	4,860	4,841	4,917	5,084	4,909	**(1.5)%**
0.1%	55,822,762	54,063,592	51,693,662	48,266,144	41,499,034	**3.1%**
3.1%	$ 20.65	$ 19.48	$ 18.52	$ 16.94	$ 16.20	**4.1%**
—	8.3	7.6	6.1	5.9	5.3	—

0.4%	$ 1,395.7	$ 1,292.8	$ 1,207.1	$ 1,137.9	$ 948.6	**3.7%**
2.5%	$ 343.0	$ 327.9	$ 323.1	$ 293.0	$ 211.0	**4.8%**
—	—	—	—	—	—	—
—	22.7%	19.8%	18.7%	15.3%	10.2%	—
—	16.2%	15.8%	18.2%	17.5%	14.5%	—
—	44.5%	38.7%	31.2%	24.0%	4.7%	—
6.4%	$ 3.25	$ 3.01	$ 3.20	$ 2.90	$ 2.34	**4.2%**
3.4%	$ 2.205	$ 2.065	$ 1.925	$ 1.785	$ 1.64	**5.4%**
—	68.1%	68.8%	60.7%	62.4%	71.1%	—
—	$28⅜–$21½	$23¾–$17⅝	$ 22–$17	$17⅞–$11¾	$ 14–$11	—

Quarterly Common Stock Data

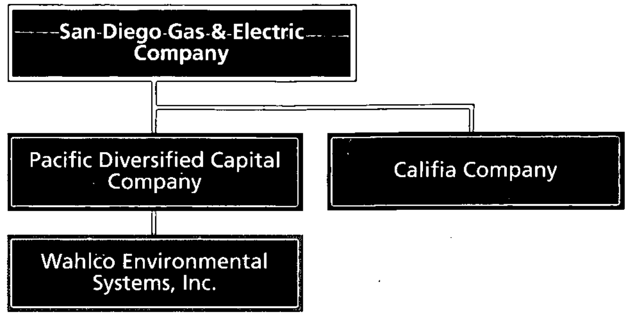
	1991				1990			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Market price								
High	45¾	45½	41⅞	46⅛	45⅜	43¾	44⅜	46¼
Low	42	37¼	36½	41⅜	40¾	39½	39	39¾
Dividends declared	67.5¢	70¢	70¢	70¢	67.5¢	67.5¢	67.5¢	67.5¢

Thomas A. Page, 58
Chairman and Chief Executive Officer

Thomas Page was elected chairman in 1983. He has been chief executive officer since 1981. He was president from 1981 through 1991. He joined SDG&E in 1978 as a senior officer.

Jack E. Thomas, 59
President and Chief Operating Officer

Jack Thomas was elected president effective January 1992 after having served as chief operating officer since 1986. He has been a group vice president since 1980, and a vice president since 1972. He joined SDG&E as an engineer in 1957.



Stephen L. Baum, 51
Senior Vice President—Law and Corporate Affairs and General Counsel

Stephen Baum was elected to his present position effective January 1992. He was elected senior vice president in 1987 after serving as a vice president since 1985, when he joined SDG&E as a vice president and general counsel. He formerly was senior vice president and general counsel for the Power Authority of the State of New York.

Gary D. Cotton, 51
Senior Vice President—Customer Services

Gary Cotton was elected to his present position effective January 1992, after serving as senior vice president—engineering and operations since 1986. He was elected senior vice president in 1985 after serving as a vice president since 1979. Cotton joined SDG&E in 1975.

R. Lee Haney, 52
Senior Vice President—Finance and Chief Financial Officer

Lee Haney was elected senior vice president—finance in January 1990. He was elected vice president—finance in 1986 and became chief financial officer in 1988. He was elected a vice president in 1983 after serving as treasurer for two years. He joined SDG&E in 1972.

Donald E. Felsinger, 44
Senior Vice President—Marketing and Resource Development

Donald Felsinger was elected senior vice president effective January 1992 after serving as a vice president since 1983. He was appointed vice president of marketing in 1986. Resource development was added to the division in 1989. Felsinger joined SDG&E in 1972.

Ronald K. Fuller, 54
Vice President—Governmental and Regulatory Services

Ronald Fuller was elected vice president—regulatory services in 1983. Governmental services was added to the division in 1984. He joined the company in 1974. Prior to that he served in the executive office of the president of the United States.

Frank H. Ault, 47
Controller

Frank Ault was elected controller in May 1986 after serving as director—internal auditing since 1981. Ault joined SDG&E in 1969.

Edwin A. Guiles, 42
Vice President—Engineering and Operations

Edwin Guiles was elected to his present position effective January 1992 after serving as vice president—corporate planning since 1990. He served as director—business planning from 1987. He joined SDG&E as an engineer in 1972.

Malyn K. Malquist, 39
Treasurer

Malyn Malquist was elected treasurer in January 1990 after serving as director—finance and assistant treasurer since 1988. He was named director—information services during 1987 following service as manager—financial services. He joined the company in 1978.

Margot A. Kyd, 38
Vice President—Administrative Services

Margot Kyd was elected vice president—administrative services in December 1988 after serving as treasurer since 1986. She served as manager—financial services and assistant treasurer the previous year. Kyd joined the company in 1980.

Delroy M. Richardson, 53
Corporate Secretary

Delroy Richardson was elected secretary in 1986 after serving as assistant secretary since 1983. He joined SDG&E as an attorney in 1971.

George A. F. Weida, 55
Vice President—Human Resources

George Weida joined SDG&E in 1983 as a vice president and was named head of the human resources division in 1984. Previously, he was head of human resources for other major U.S. corporations.

The seven-person board of directors consists of six outside directors and the chief executive officer of SDG&E, who serves as its chairman. The directors provide a broad perspective because of their diverse business, professional and civic backgrounds.

Thomas A. Page*

Mr. Page has been chairman and chief executive officer of the company since February 1983. Mr. Page is the chairman and a director of both Pacific Diversified Capital Company and Wahlco Environmental Systems, Inc. He is 58 years old and has been a director of SDG&E since 1979. Committee memberships: chairman of the Executive Committee and a member of the Nominating Committee.

Clair W. Burgener

Mr. Burgener has been president of Burgener Properties, Inc., a real estate and property development firm, since January 1958. He is a former member of Congress, U.S. House of Representatives, 43rd District (California), 1973–1982. Mr. Burgener is a director of San Diego Trust and Savings Bank, TCS Enterprises, and Blue Shield of California. He serves on the California State Personnel Board, the Board of Management Analysis Co. and the Board of Regents of the University of California. He is 70 years old and has been a director of SDG&E since 1983. Committee memberships: chairman of the Nominating Committee and a member of the Finance and the Executive Compensation committees.

Malin Burnham*

Mr. Burnham is chairman and a director of John Burnham & Co., a mortgage loan, real estate and insurance firm. He is chairman and a director of Burnham Pacific Properties, Inc. He is chairman of the board and a director of First National Corp. of San Diego and a director of Pacific Diversified Capital Company and Wahlco Environmental Systems, Inc. Mr. Burnham is president of the America's Cup Organizing Committee, the non-profit corporation that conducts and manages the nation's participation in the international yachting competition. He is 64 years old and has been a director of SDG&E since 1967. Committee memberships: chairman of the Audit Committee and a member of the Executive Committee.

Daniel W. Derbes*

Mr. Derbes is president of Signal Ventures. From November 1985 until December 31, 1988, he was president of Allied-Signal International, Inc. and executive vice president of Allied-Signal, Inc., a multi-national advanced technologies company. He is a director of Oak Industries, Inc., of WD-40 Co. and of Pacific Diversified Capital Company and Wahlco Environmental Systems, Inc. He is 61 years old and has been a director of SDG&E since 1983. Committee memberships: Executive and Finance committees.

Ralph R. Ocampo

Dr. Ocampo is a San Diego physician and surgeon. He is 60 years old and has been a director of SDG&E since 1983. Committee memberships: chairman of the Finance Committee and a member of the Audit Committee.

Fred C. Stalder

Mr. Stalder is a private investor. He formerly was president, chairman of the board and chief executive officer of Central Federal Savings and Loan Association. He is 71 years old and has been a director of SDG&E since 1969. Committee memberships: Audit, Executive Compensation and Nominating committees.

Catherine Fitzgerald Wiggs

Ms. Wiggs is vice president, human resources development and a member of the Management Executive Committee of the Security Life of Denver, a wholly owned subsidiary of Nationale-Nederlanden N. V. She formerly was executive vice president, human resources, and a member of the management executive committee of The Broadway Stores, Inc., Division of Carter Hawley Hale Stores, Inc., a retail department store chain. She is 58 years old and has been a director of SDG&E since 1979. Committee memberships: chairwoman of the Executive Compensation Committee and a member of the Audit Committee.

*Member of the Executive Committee

Committees of the Board

Audit This committee selects an independent auditor and reviews the overall plan of the audit, financial statements, audit results, scope of internal audit procedures and the auditors' evaluation of internal controls.

Executive This committee is empowered to act in place of the full board, except in certain transactions for various board responsibilities that are reserved for the board.

Executive Compensation This committee reviews the salaries and other forms of compensation of company officers and makes compensation recommendations to the board.

Finance This committee counsels management, helps plan the company's capital requirements, proposed financing programs and capital risk exposure analyses, and reviews the general investment policy performance for the Pension Plan and the Savings Plan.

Nominating This committee considers and recommends nominees to the board, criteria for board and committee composition and membership.

SHAREHOLDER SERVICES OFFICE

San Diego Gas & Electric
Office of the Secretary
Post Office Box 1831
San Diego, CA 92112-4150

WHERE TO CALL FOR INFORMATION

Shareholders may call every business day, between 8:00 a.m. and 4:45 p.m. (Pacific time), to inquire about stock holdings:

Within California:	1 (800) 826-5942
Outside California:	1 (800) 243-5454

To hear a tape recorded corporate news report and stock update:

Within California:	1 (800) 443-SDGE
Outside California:	1 (800) 521-NEWS

Inquiries from the financial community should be directed to:

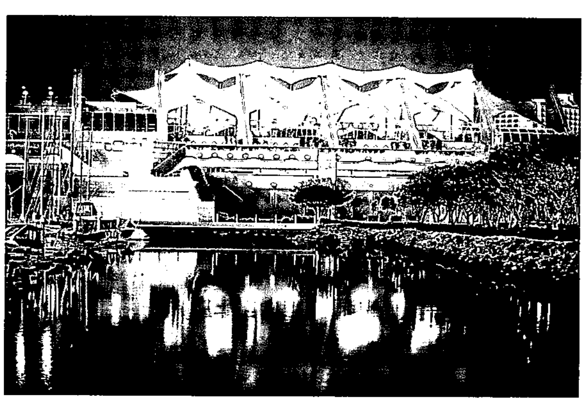
Lisa Ewbank:	(619) 696-2901
To call SDG&E Headquarters:	(619) 696-2000

(same mailing address as above)

ANNUAL MEETING

The annual meeting of shareholders will be held on Tuesday, April 28 at 11 a.m. at the San Diego Convention Center, San Diego, California 92101.

The record date for shareholders eligible to vote at the annual meeting is March 2, 1992.



STOCK TRANSFER AGENT AND REGISTRAR

The company's transfer agent and not the company has the primary responsibility for stock transfers and the cancellation and issuance of stock certificates. First Interstate Bank is the Transfer Agent and Registrar for the common, preferred and preference stocks. You can contact the agent directly.

Mailing Address:
First Interstate Bank, Ltd.
Stock Transfer Department
Post Office Box 54261
Los Angeles, CA 90054
1 (800) 522-6645

First Interstate Bank, Ltd.
120 Broadway, 33rd Floor
New York, NY 10271

Common Stock Investment Plan Agent:
First Interstate Bank, Ltd.
Dividend Reinvestment Service
Post Office Box 60975
Los Angeles, CA 90060
1 (800) 522-6645

SHAREHOLDER HANDBOOK

SDG&E has prepared a helpful shareholder's handbook providing information on the company's shareholder services, stock certificates and stock transfer systems. Copies are available from the Shareholder Services office.

STOCK LISTING AND TRADING INFORMATION

Common stock: Listed on the New York and Pacific stock exchanges under the ticker symbol SDO. Shareholders can find the previous day's closing price in the New York Stock Exchange listing table of daily newspapers under the symbol SDieGs or SanDieGE.

Preferred and Preference Stocks: Listed on the American and Pacific stock exchanges under the ticker symbol SDO. Previous day closing prices are listed in the American Stock Exchange listing table under the symbol SDGO. The 4.60% preferred series and the $7.05, $8.25 and $9.125 preference series are not listed.

Where to Buy and Sell Stock: You can purchase the listed common, preferred and preference stocks through any brokerage firm. Some firms specialize in selling the unlisted series, and they can be located through your broker.

Stock Held in Brokerage Accounts ("street name"): When you purchase your stock and it is held for you by your broker, it is listed with the Company in the broker's name, or "street name." SDG&E does not know the identity of individual shareholders who hold their shares in this manner — we simply know that a broker holds a certain number of shares which may be for any number of customers.

If you hold your stock in street name, you are not eligible to participate in SDG&E's Common Stock Investment Plan. Also, you receive all dividend payments, annual and quarterly reports, and proxy materials through your broker. Therefore, if you are receiving unwanted duplicate mailings, you should contact your broker, not SDG&E, to eliminate the duplications.

Lost or Stolen Certificates: If your stock certificate has been lost, stolen or in some way destroyed, you should notify the Shareholder Services office in writing immediately.

How to Transfer Stock: A transfer of stock is required whenever there is a change in the name or names in which the stock certificate is registered. This can happen when you sell the stock, make a gift of stock, or add or delete owners of the certificate. The transfer can be made by filling in the stock assignment form on the back of the stock certificate and signing it exactly as the name or names appear on the front of the certificate. The signatures of the individuals transferring the stock must be guaranteed by either a commercial bank (not a savings and loan association) or a brokerage firm that is a member of a major stock exchange. A notary's acknowledgment is not acceptable. The certificate can then be sent to the transfer agent for transfer. It is recommended that certificates be sent registered or certified mail.

DIVIDEND POLICY

The board of directors recognizes the need to provide attractive dividend growth for shareholders. One of the purposes of our corporate goal of increasing earnings per share is to also allow healthy dividend growth at or above the industry average. The board reviews the dividend on at least an annual basis, which typically occurs prior to the annual meeting in April.

MULTIPLE DIVIDEND CHECKS AND DUPLICATE MAILINGS

Some shareholders hold their stock on our records in similar but different names (e.g. Robert A. Johnson and R. A. Johnson). When this occurs, the law requires that we create a separate account for each name. Even though the mailing addresses are the same, we are required to mail separate dividend checks and annual and interim reports to each account.

How to Consolidate Accounts: If you want to consolidate your separate accounts into one account, you should contact the Shareholder Services office to obtain the necessary forms and instructions. When accounts are consolidated, it may be necessary to reissue the stock certificates.

How to Eliminate Duplicate Mailings: If you want to maintain more than one account but eliminate additional mailings of quarterly reports, you may do so by sending the labels (or a copy of the labels) from a Company mailing to the Shareholder Services office, indicating the names you wish to keep on the mailing list for quarterly reports and the names you wish to delete. This will affect only these mailings; dividend checks, annual reports and proxy materials will continue to be sent to each account.

REPLACEMENT OF DIVIDEND CHECKS

If you do not receive your dividend check within seven business days after the payment date, or if a check is lost or destroyed, you should notify the Shareholder Services office so that payment may be stopped on the check and a replacement issued.

COMMON STOCK INVESTMENT PLAN

Please call or write the Shareholder Services office for a prospectus on how SDG&E common stock shareholders can purchase additional shares by investing all or a portion of their quarterly dividends in additional shares. The plan also allows optional cash investments of as little as $25 per investment up to a maximum of $5,000 per calendar quarter. Shares purchased under this plan are free of any brokerage fees.

SHAREHOLDER PROFILE

As of December 31, 1991, there were 61,581 common stock shareholders of record and 4,530 preferred and preference stock shareholders. There are thousands of other stockholders whose shares are held in street name by securities brokers and nominees.

Common Stock Shareholders

By account registration:	
Joint accounts	18,492
Women	17,534
Men	12,851
Fiduciaries	11,938
Securities brokers, nominees, others	766
By geographic area:	
United States, except California	31,700
California, except SDG&E service area	18,780
SDG&E service area, including employees	10,973
Foreign countries	128
By shares owned:	
1-99	13,536
100-300	29,139
301-500	8,148
501-1000	6,557
1001 or more	4,201

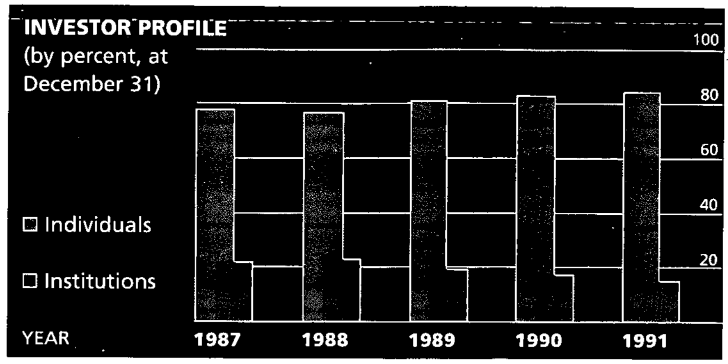
PUBLICATIONS AVAILABLE TO SHAREHOLDERS

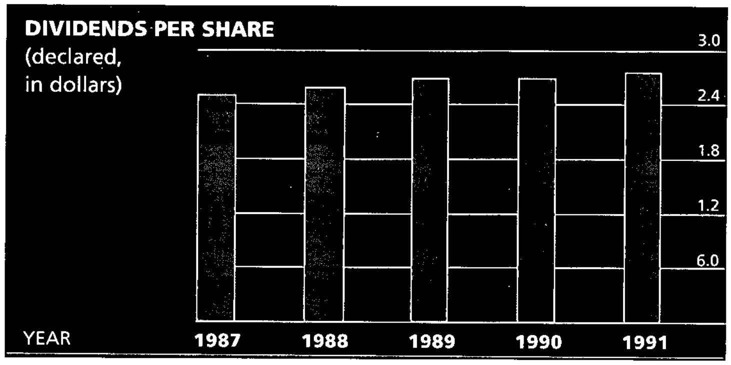
Annual Report: Inquiries about this annual report should be directed to Tom Murnane, Corporate Communications, Post Office Box 1831, San Diego, California 92112-4150.

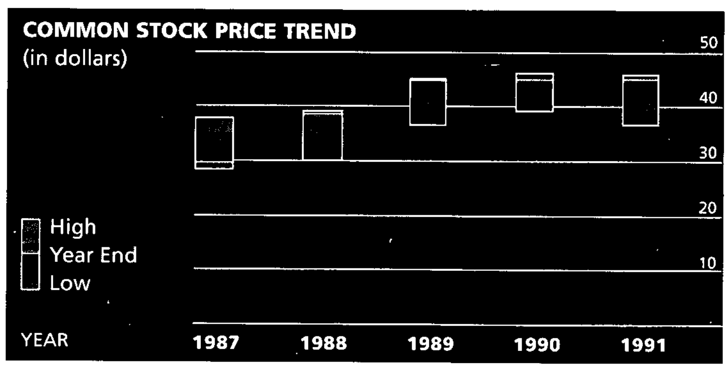
Investors Report: Reports of current activities, recent results and features of interest to shareholders are issued periodically during the year.

Form 10-K: The annual report to the Securities and Exchange Commission.

Shareholder Handbook: (See page 46.)







PROPOSED COMMON STOCK SPLIT

On February 24, 1992, the board of directors proposed that common stock be split two for one, subject to approval by the California Public Utilities Commission and by shareholders at the April 28 annual meeting. The board believes the split will make SDG&E's stock attractive to a greater number of individual investors.

GLOSSARY
(of terms used at SDG&E)

Capacity: The maximum energy output of an electric or natural gas system, or of an electric or a natural gas facility. For electrical generating facilities, capacity is expressed in megawatts. See "megawatt" below.

Demand Side Management (DSM): This term refers to efforts aimed at helping customers to conserve electricity and natural gas energy, to use energy more efficiently, or to shift energy use away from "on-peak" times. See "peak." For details on SDG&E's DSM programs, see pages 7–9 and 11. Also see pages 8 to 10 for information on DSM projects carried out at a biotechnology firm and at a new university campus.

Desalting (or desalination): The process of separating fresh water from a saline water source such as the ocean, a bay or brackish groundwater. In the desalting process, part of the water is recovered as fresh water. The dissolved impurities are concentrated in a brine that is discharged from the desalting system. SDG&E and the San Diego County Water Authority are considering a joint project that would combine a repowering project at an existing SDG&E power plant with a desalting facility. See pages 6 and 12. See "repowering."

Electric and Magnetic Fields (EMF): Invisible lines of force that surround anything that conducts electricity, including power lines and common electrical appliances such as hair dryers, electric clocks and TV sets. SDG&E established an EMF information center in 1991. See pages 12 and 15 for more details.

Fusion: Fusion is the process that occurs when hydrogen atoms fuse to make helium, similar to the natural process that the sun uses to produce energy. An international project to study fusion energy will be based in San Diego. See page 17.

Geothermal Energy: The process of using natural steam or hot water from below the earth's surface in combination with steam turbine generators to produce electricity. SDG&E plans to develop geothermal energy to meet about 6 percent of new generating capacity needs between now and the year 2000. See page 7.

Kilowatt: A measure of electric power equal to one thousand watts. See "watt" below.

Kilowatt-hour: The use of one thousand watts for one hour. Kilowatt-hour is the most common measure of how much electricity a customer uses. In SDG&E's service territory, the typical home uses 400 kilowatt-hours per month.

Megawatt: A measure of electric power capacity equal to one thousand kilowatts. In SDG&E's service area, one megawatt is enough capacity to meet the needs of 1,000 typical households. See "capacity" above.

Natural Gas: A naturally occurring mixture of simple hydrocarbon compounds, primarily methane. Natural gas is usually found in deep underground reservoirs, either by itself or in combination with crude oil. There are no natural gas resources within SDG&E's territory, and the utility purchases natural gas supplies from throughout the Southwestern U.S. and from Canada. See page 15.

Natural Gas Vehicles (or NGVs): Vehicles that use compressed natural gas as a fuel. See pages 13 and 15 for details on SDG&E's efforts to encourage the use of natural gas for vehicle fuel.

Peak (or on-peak), Off-Peak: A peak (or on-peak) time occurs when overall customer demand for electricity or natural gas is at or near the system's highest capacity.

On the electric system, peak (or on-peak) times occur during afternoons in summer months, and during late afternoons and early evenings in winter months. On the gas system, peak times occur during winter mornings.

Off-peak refers to times when overall customer demand for energy is lowest, and the electric or gas system is far from reaching maximum capacity. For electrical use, off-peak times occur during late evenings, early mornings and on weekends. For gas use, off-peak times occur during summer months.

Repowering: The process of adding capacity to an existing power plant by replacing some equipment with newer, more efficient equipment. SDG&E proposes to add new gas turbines to existing power plant facilities to help in meeting future capacity needs. For more details, see pages 6 and 7. See "turbine" below.

Therm: A unit of heating value equivalent to 100,000 British Thermal Units (Btu), or the amount of heat released by burning approximately 100 cubic feet of natural gas. In SDG&E's service area, the typical household uses 40 therms of natural gas per month.

Turbine: A steam turbine converts high-pressure steam to mechanical energy. A gas turbine converts hot exhaust gases to mechanical energy, using natural gas or oil as a fuel. Mechanical energy from either type of turbine is then used to turn generators to produce electricity. See page 6 for information on SDG&E's proposal to install new turbines at an existing power plant to increase power output.

Watt: A basic unit of electric power. One horsepower equals 746 watts.

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