

ANNUAL REPORT
1982
SAN DIEGO
GAS & ELECTRIC

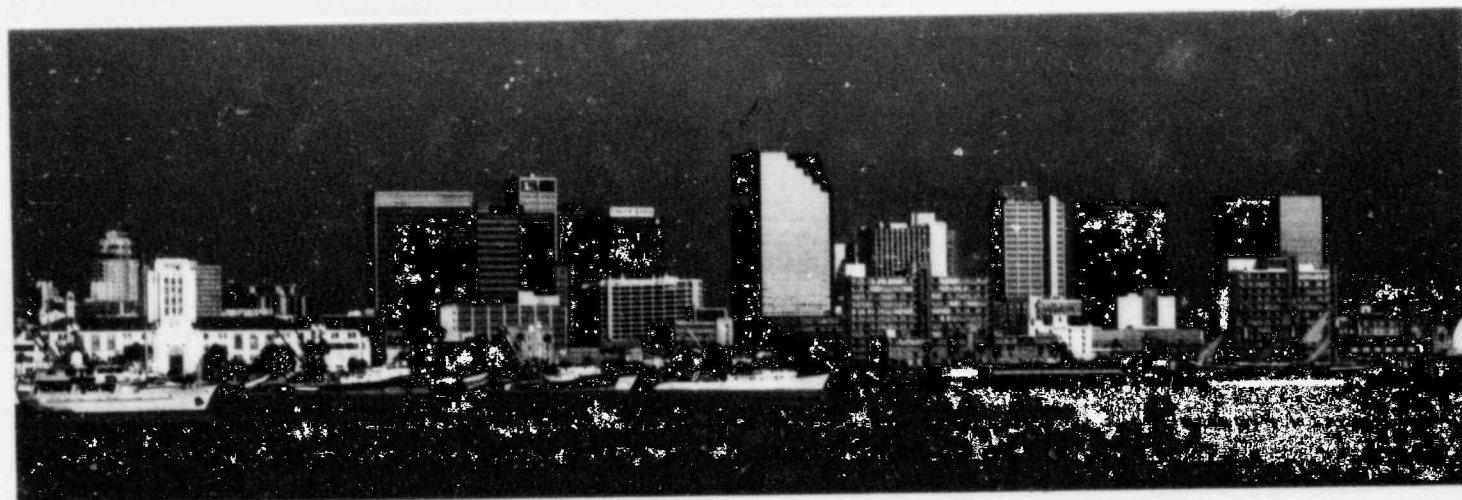


280-mile Southwest Powerlink Moves Ahead

San Diego Gas & Electric Company has a service territory that covers 4,400 square miles. It includes San Diego, now the eighth largest city in the United States, mountain, and desert communities.

SDG&E is an investor-owned utility. It generates, purchases, and distributes electricity to more than 800,000 customers in San Diego County and portions of Orange and Imperial counties in California. It also purchases and distributes natural gas to more than 500,000 customers in San Diego County.

The company headquarters is located at 101 Ash Street, San Diego, California. SDG&E's common stock is traded on the New York and Pacific stock exchanges.



Financial Highlights of 1982

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	1982	1981	% Change
Operating revenues	\$1,430,948	\$1,159,662	+ 23.4
Operating expenses	\$1,261,087	\$1,017,539	23.9
Net income (before preferred dividend requirements)	\$ 157,303	\$ 110,156	42.8
Average common shares outstanding (thousands)	45,306	39,091	15.9
Earnings per common share	\$ 2.90	\$ 2.34	23.9
Dividends declared per common share	\$ 1.785	\$ 1.64	8.8
Utility plant additions and replacements	\$ 323,729	\$ 259,431	24.8
Total investment in utility plant at year-end	\$2,567,767	\$2,251,716	14.0
Number of customers at year-end			
Electric department	804,546	792,400	1.5
Gas department	520,136	513,683	1.3
Total energy sales			
Electric (in billions of kWhrs)	10.53	10.40	1.3
Gas (in millions of therms)	478	437	9.4

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TO OUR SHAREHOLDERS

Summing up the events of the year for SDG&E, a company with more than 800,000 customers, a billion dollars in revenues, 100,000 shareholders, and 5,000 employees, is an annual challenge for us.

The financial statistics, while they are an important measure of our company's activities, provide at best only a partial view of performance. An equally important measure is the progress we made during the year toward reaching our multi-year corporate goals of achieving flexibility of resources, developing broad community support for our plans, improving customer service operations to meet changing needs, and completing our financial recovery program.

Because our company is in the midst of change, and achievement of our goals will have a significant impact on SDG&E, our report to you this year focuses on our goals. The report discusses why we selected them, what we did in 1982 to move the company toward achieving them, and what we will do in 1983 to continue that progress.

The Energy Future

Providing energy to customers is no longer the relatively uncomplicated business it was for SDG&E years ago. San Diego, because of its fine climate and environment, has grown in recent years into the eighth largest city in the United States and become an international tourist attraction. At the same time, SDG&E has been swept along by the city's transformation, by the national environmental concerns, and by the international fuel crisis.

We have had to change dramatically and the timing of those changes has not always been of our choosing. While we cannot go back to "the old days," we believe that

through the attainment of our corporate goals we can regain greater control over how local, national, and international developments will affect our company and its customers.

The first step, taken several years ago, was to assess the availability of energy across the nation in the years ahead. Then we decided on a major goal: to achieve flexibility of resources through greater purchases of energy.

Achieving Flexibility of Resources

Our perception of the energy future of the United States is not shared by all utilities, but our own research into the country's total generating capability leads us to conclude that there will be the opportunity to purchase energy during the remainder of the present decade.

Although the utility industry now generally recognizes that the growth in demand of the 1960s and 1970s will not continue into the 1980s, the long-term planning required to develop major projects will result in increasing capacity as the generating projects begun five to ten years ago come into production.

Energy demand has leveled off for several reasons. One trend we have seen is the sharply lower energy demand in industrial centers. Many basic industries, including the steel, aluminum, and electrochemical industries that have either closed plants or sharply cut back production during the business recession, will not return to former high levels of production, if at all, in our view.

Forecasters believe business in the United States has entered a new industrial revolution, the age of information. To us, this means we are changing from an economy based

"Our company is in the midst of change and the achievement of our goals will have a significant impact on SDG&E." TOM PAGE, CHAIRMAN, PRESIDENT, AND CHIEF EXECUTIVE OFFICER



Thomas A. Page

on energy-intensive manufacturing industries to energy-conservation, information processing, and service industries. This change already is freeing up energy capacity in major cities. We believe it will continue to do so.

Another trend is the increasing energy awareness and conservation effort of customers. In SDG&E's service territory, the sharply rising cost of energy has prompted customers to seek ways to use less energy. We believe increased conservation efforts on a nationwide basis during the 1980s will lead to a lower-than-projected growth in demand for energy.

The excess energy capability that will become available as a consequence will, in turn, cause a dramatic change in the way utilities operate. In the past few years, utilities have significantly increased their cooperation in the purchase or sale of excess energy. By the end of the decade, there will be utility networks in operation in the West on a far greater scope than exists today. These networks will make in-

dividual utilities less vulnerable to fluctuations in the price or availability of specific fuels. Our company is directing its plans to capitalize on the expected increase in the amount of energy available for purchase and interchange.

We are building a system capability that will allow us to reach excess energy generation by others through the Southwest Powerlink, a 280-mile long electric transmission line, and through interconnections with Mexico.

The Southwest Powerlink will connect SDG&E with other Southwestern utilities, making a new network. The Powerlink, which will terminate near Phoenix, will give us access to coal-fueled energy in Arizona and New Mexico and geothermal energy in Imperial Valley, California. Our two interconnections with Mexico, to be completed in 1983 and 1984, will give us immediate access to existing geothermal energy from Mexico, as well.

Construction of the Southwest Powerlink was delayed for several months by legal challenges. These were decided in mid-1982, allowing work to begin. We expect to complete the transmission line in August 1984.

Broad Community Support Is Vital

To achieve our corporate goals, community support is needed for these projects. Without such support, the risk of expensive delays, or even cancellation, is too great.

In the past, utilities could, and did, undertake multi-million-dollar, multi-year projects with the assurance that the community would approve efforts made on its behalf. Today, we no longer can make that assumption. Customers have told us they want more information about, and more participation in,

decisions regarding San Diego's future energy supply. We, in turn, are telling them that we need them to speak out when they do support us, if we are to succeed in efforts to gain greater control over our energy future.

Some steps already have been taken to gain greater public input: We have been meeting with community representatives and local government leaders; participating in programs for industry executives; speaking before groups in our service territory, and also communicating with the entire community in a series of issue-related corporate advertisements. We will continue to expand our communications activities in 1983.

Earning Support Through Helping People

Each day we have the opportunity to gain or to lose the support of some customers by the way we answer their questions and solve their problems. With the cost of energy becoming a major monthly expense for many families and for companies, calls to our phone center and visits to our customer service offices increased sharply in the past year.

The questions that our linemen, meter readers, and construction workers receive when they are on the job are more difficult. And all our employees have found that picnics, Little League games, and social get-togethers often result in serious discussions on energy costs. To help them answer customers' questions, we offered a communications training program for employees and more than 4,000 took advantage of the opportunity during 1982.

Customers have told us they need help understanding their energy bills and in doing something to control their energy use. Our 1982

customer service effort responded to those needs through stepped-up residential and commercial energy audit programs and by creating a new inquiry response system.

Customers not only want information, they want reliable service. In 1982, we began a systematic preventive maintenance program for the overhead electric distribution system that will help us to meet that expectation. This complements a preventive maintenance program for the underground distribution system that was established in 1979.

In late November, San Diego suffered one of its worst storms in many years, causing considerable damage to the electric system. SDG&E emergency crews worked thousands of hours in violent weather to repair the damage and to restore power.

The company received many compliments, including television and newspaper editorials, on the efforts that were made. We are proud of the work our employees do in such difficult, and sometimes dangerous, job situations. We are pleased that our customers recognize and appreciate the work that is done on a routine basis as well as in emergencies.

Completing the Financial Recovery Program

Our financial recovery program, begun in 1979, is meeting its interim targets. We have been able to make progress due to a combination of factors: improvements in the rates of return authorized by the California Public Utilities Commission,

the speedy recovery of fuel expenses, and our own improved expense control system.

On January 1, 1982, new rates went into effect, authorizing us to earn a 12.92 percent return on our rate base. And we achieved a 12.7 percent rate of return. This General Rate Case also allowed us to obtain rate relief for inflation in 1983 based on indexing without a complete hearing by the commission. This attrition allowance will increase the overall revenues for this year by \$55.5 million, increasing our allowed return on rate base to 13.25 percent. It became effective January 1, 1983.

Among the many measures undertaken by the company to control expenses was a project to integrate completely our expense control system with the company's rate case filings. As a result, we now have a fully coordinated system for financial and operations planning.

The main objective of the financial recovery program is to regain an A bond rating, which SDG&E, along with a number of other utilities, lost after the oil embargo of 1973. We anticipate that by the end of 1983 we will have achieved the financial results needed to position the company for an improved bond rating.

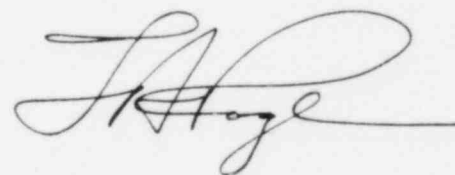
We are pleased that earnings increased substantially in 1982 as a result of the combination of regulatory improvements and internal cost-control efforts and that our financial return on equity rose to 17.47 percent in 1982 from 14.50 percent in 1981.

Operating revenues rose to \$1.4 billion, up 23.4 percent from

\$1.2 billion in 1981. Earnings rose to \$131.2 million, compared with \$91.4 million in 1981, and earnings per common share rose to \$2.90 from \$2.34 in the prior year, a 23.9 percent increase.

The annual dividend was increased by 8.3 percent to \$1.82 per share in May 1982, the sixth consecutive annual increase. One of our financial goals is to continue to increase the dividend annually so that SDG&E will remain a competitive and attractive investment for shareholders.

We began 1983 with greater confidence in our company's ability to weather future uncertainties in energy supplies and in the economy. The company's management team has put many new plans and projects in motion. Already SDG&E, its customers, and its shareholders are benefiting from them, and we expect these benefits will increase during 1983.



T.A. Page
Chairman, President,
and Chief Executive Officer

February 9, 1983

"The Southwest Powerlink will help us to gain greater flexibility of resources, greater control of our future." AL DAVIS,
GROUP VICE PRESIDENT-OPERATIONS

1982 REVIEW

December 15 was the most important day of 1982 for SDG&E. On that day, the groundbreaking ceremony for a major new transmission line for the Southwest was held in Boulevard, 70 miles east of San Diego, along the route of the new line.

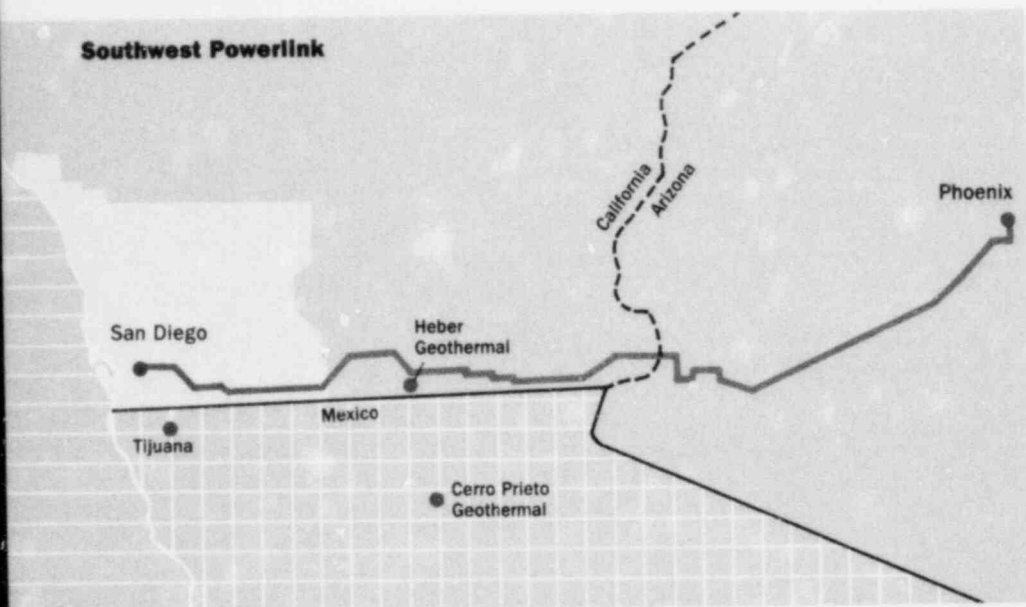
While the groundbreaking celebrated a beginning, it also marked the conclusion of a lengthy planning stage. In 1982, and during the four prior years, route choices were studied, revised, and approved; construction contracts negotiated; tower designs selected; legal challenges were overcome; and even a new name, Southwest Powerlink, adopted.

The Southwest Powerlink will integrate SDG&E with other Southwestern utilities and with the Mexican national utility to form a new, international energy network. The line will allow SDG&E to achieve greater flexibility of resources by giving the company direct access to lower-cost purchased energy. Extending 280 miles from the Palo Verde switchyard near Phoenix to the Miguel substation of SDG&E in Bonita, southeast of San Diego, it will pass through the desert, mountains, and valley farmlands.

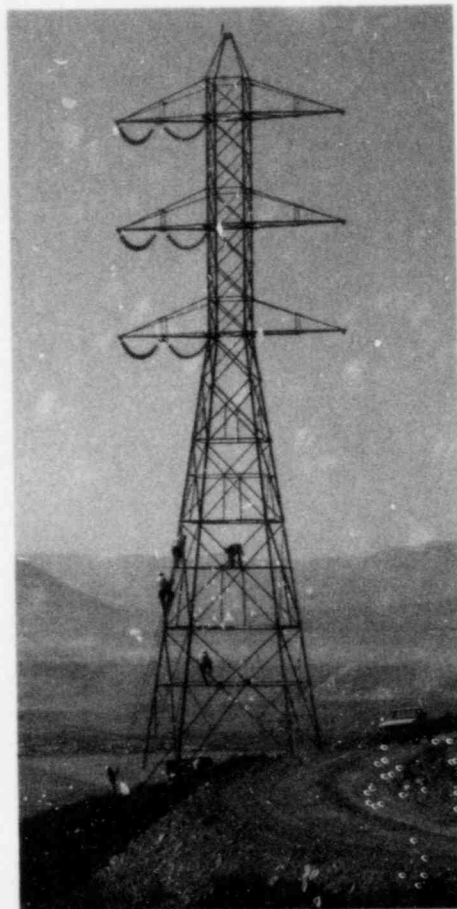
The problems posed by the varied terrain, plus concerns of environmental and agricultural groups, were considered when planning for the towers that will support the line and for the construction work to install them. The company will do some of the construction work using helicopters to ferry men and materials to and from work sites. This will avoid the need to build roads that would run through



Helicopters are being used to transport men and materials, such as concrete for transmission tower bases, to construction sites along the Southwest Powerlink.



The Southwest Powerlink is a 500-kilovolt transmission line that will give SDG&E direct access to coal-fueled energy from Arizona and New Mexico and geothermal-fueled energy from Imperial Valley, California. At right, construction of an interconnection line to Mexico was begun in 1982. The mountains of Mexico, near Tijuana, can be seen beyond a new transmission line tower. When completed in early 1983, the line will provide the first continuous flow of energy between Mexico and the United States.



wilderness areas. Also, single pole towers were selected for use in the 26-mile stretch of the route that will run through Imperial Valley farmland. While these are expensive, their use will limit the total amount of land that will be needed there to less than two acres.

The Southwest Powerlink, when completed, will cost SDG&E an estimated \$326 million. The company will own the entire 160 miles of the line in California and 89 percent of the 120-mile segment in Arizona. Arizona Public Service Company, which is directing construction of the Arizona portion, will own the remaining 11 percent.

The Powerlink will also allow the company to tap Mexico's lower-cost geothermal energy, which is produced at Cerro Prieto, 30 miles south of Mexicali, Mexico. Cerro Prieto is being expanded by Comisión Federal de Electricidad (CFE), the Mexican national utility, in order to sell energy to U.S. utilities.

A 230-kilovolt line will be built to make this interconnection possible. It will run from a new Imperial Valley substation to the border near Mexicali, about five miles south. This interconnection is scheduled to be completed in 1984.

SDG&E has a tradition of cooperation with CFE because of the proximity of San Diego to Tijuana. The two cities form a single metropolitan area divided by an international border. In 1983, SDG&E will be able to purchase lower-cost energy from Mexico when a new 230-kilovolt line between SDG&E's Miguel substation and CFE's substation in Tijuana is completed. This line will carry the first continuous flow of energy from Mexico to the United States, which is a significant new development in the expanding economic cooperation between the two countries.

The Southwest Powerlink and the two interconnections with Mexico

Steam rises from Mexico's Cerro Prieto geothermal plant. In 1984, 150 megawatts of energy will be transmitted from Cerro Prieto to the SDG&E system via a new line running from the border near Mexicali, Mexico to the Southwest Powerlink.

are expected to reduce the company's current dependence on imported oil by three to five million barrels per year between 1984 and 1990. And, equally important, it will give SDG&E greater system reliability through its participation in a network of Southwestern utilities.

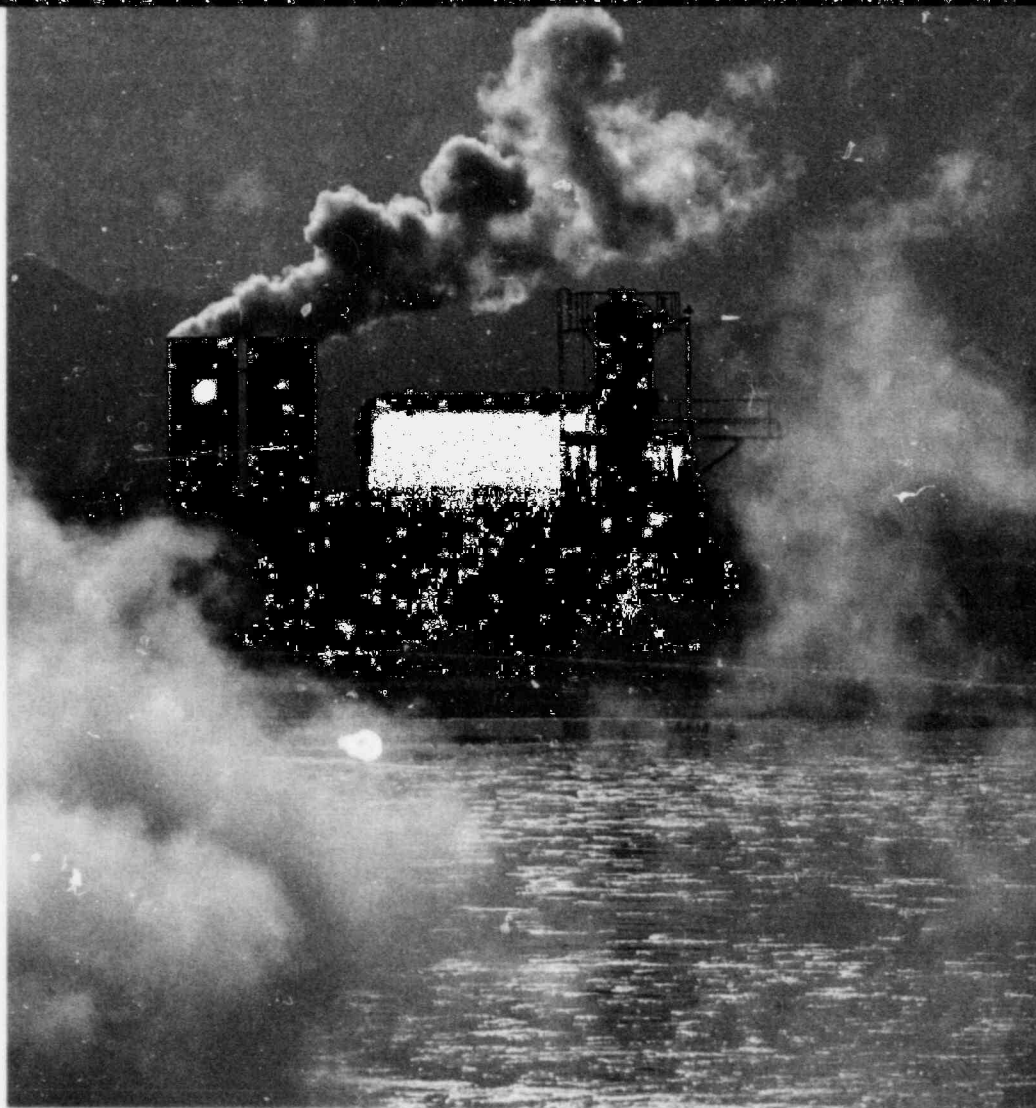
San Onofre: Units 2 and 3 soon will enter the power grid.

Nuclear-fueled energy will become a larger part of the company's resource mix in 1983, moving the company closer to its goal of diversifying fuel resources and allowing greater flexibility in its choices of fuels. This year, both San Onofre Units 2 and 3 are scheduled to begin producing at full power a total of 2,200 megawatts of electricity, of which 440 megawatts will be added to the SDG&E baseload generation.

The company owns 20 percent of the two units, Southern California Edison owns 75 percent, and the remainder is owned by the California cities of Anaheim and Riverside, which purchased their shares from Southern California Edison.

Testing of Unit 2 began in the summer of 1982. This phase normally is lengthy, since there are periodic shutdowns that may last from several days to several weeks as tests reveal the need for various changes. The start-up date of a nuclear unit is difficult to predict; however, it is expected that full-power operation will begin by mid-1983.

Fuel loading for Unit 3, the last of the nuclear generating units to be built at San Onofre, began late in 1982. It has received a low-power testing license and it is anticipated that the test period, like that of Unit 2, will take several months. Full-power operation of Unit 3 is scheduled for late 1983.



Unit 1 of San Onofre, which went into service in 1967, was shut down in February 1982 for extensive modifications, ordered by the Nuclear Regulatory Commission, to upgrade the unit's ability to resist earthquakes.

Unit 1, when in full operation, provides the SDG&E system with 87 megawatts of electricity, a small portion of the company's baseload capacity. By comparison, the company's two largest oil- and gas-fueled generating plants produce a total of 1,623 megawatts. SDG&E expects that Unit 1 will be back in operation in 1983, after the Nuclear Regulatory Commission approves the changes.

SDG&E has made a commitment to work to stabilize its rates.

Planning for San Onofre Nuclear Generating Station began in the 1960s, when construction costs for large generating plants were lower and the potential economic benefits to customers considerable. In the intervening years inflation and de-

lay have eroded the immediate cost benefit while the long-term benefits remain viable.

After San Onofre Units 2 and 3 begin operating at full power, SDG&E expects to begin recovering its construction costs in rates. This means that it will be several years before SDG&E customers will benefit fully from the lower cost of nuclear-fueled energy.

However, SDG&E late in 1982 began to seek a purchaser for a small portion of its share of San Onofre Units 2 and 3. The sale, if it occurs, will benefit our customers immediately in several ways. It will diminish the amount of construction costs to be added to the SDG&E rate base for the next several years and it will raise capital for the company's construction program, thus reducing the need to borrow funds and to pay interest on those funds.

The company's program to make its four gas- and oil-fueled generating plants less expensive to operate also will help stabilize rates. In the past several years, SDG&E has undertaken a major maintenance

Fuel-loading of San Onofre Nuclear Generating Station's Units 2 and 3 took place during 1982. Both units are scheduled to be in full-power operation by the end of 1983.

management and performance improvement program designed to assure the company, and its customers, generating reliability and maximum efficiency.

The program has saved SDG&E more than \$138 million in fuel costs. The ongoing power plant maintenance program is far less costly than building new generating plants and it will continue to keep the company's plants in peak operating condition in the years ahead.

Another cost saving could result from burning medium sulfur fuel oil rather than low sulfur oil in some of the company's plants. The first test, conducted in the fall of 1982, saved SDG&E about \$1 million in fuel costs during the test period.

A second test began in January 1983. The tests were authorized by San Diego County's Air Pollution Control District, which is monitoring the effects. If the test results are favorable and SDG&E is allowed to burn medium sulfur fuel oil on a continuing basis, it could save SDG&E customers \$5 to \$10 million annually in fuel costs.

Electric sales in 1982 were affected by conservation efforts and the recession, resulting in a 1.3 percent growth. However, the economic outlook for San Diego for the long term is excellent, and SDG&E anticipates that its service territory will resume a pattern of higher growth in population and an expansion of industry for the remainder of the decade.

The company is preparing to meet expanding energy needs through increased purchases of power, rather than building new generating plants of its own. At the same time, the company is exploring future electric energy sources and has been involved in the development of geothermal, fuel cell, and photovoltaic research projects.

Heber research project looks to the future.

Late in 1982 the groundbreaking for the Heber Binary Geothermal Project was held. This geothermal research project is located in the Imperial Valley of California, where hot brine is close to the earth's surface. It is along the route of the Southwest Powerlink.

The binary cycle process uses the hot brine from underground to heat and vaporize a special fluid. The high-pressure gas this heat produces will spin a turbine to generate electricity. When completed in 1985, Heber will produce enough electricity to serve the needs of about 45,000 residential customers and will be the world's first commercial, geothermal binary cycle power plant.

SDG&E is the majority owner of the Heber research project. Co-owners are the State of California, the Imperial Irrigation District, and the California Department of Water Resources. The U.S. Department of Energy, which will pay half of the project's costs, will not be an owner. The Electric Power Research Institute and Southern California Edison are also participating in the funding of the project, but will not

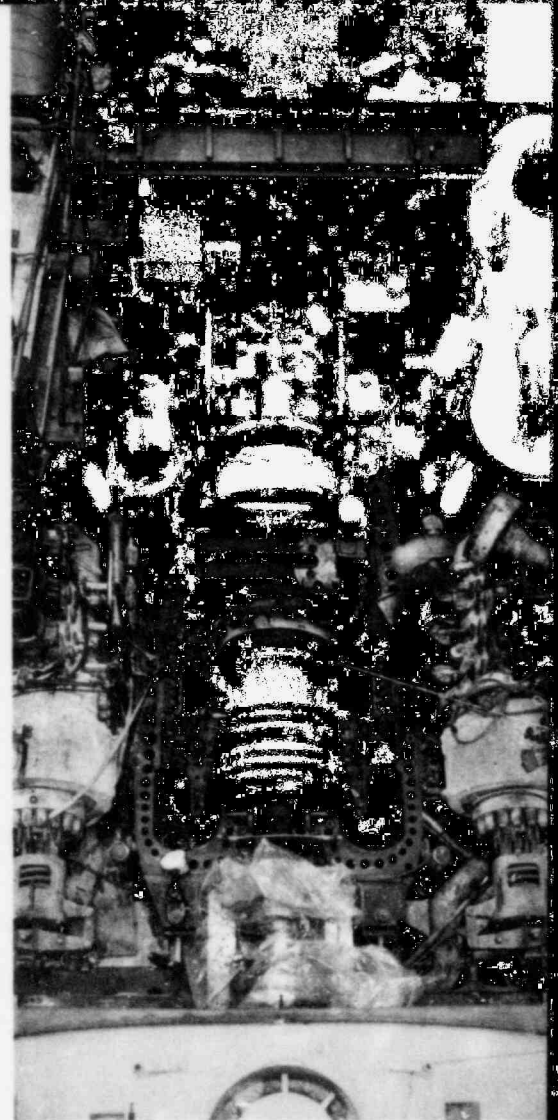
have an ownership interest.

The 45-megawatt Heber research project may lead to technology for more cost-competitive energy from geothermal sources in the United States.

The company and its customers have joined together to oppose accelerated natural gas price deregulation.

Customers' gas rates have risen sharply as a result of the 1978 Natural Gas Policy Act, which stimulated supply by providing for phased price deregulation. While in 1979 SDG&E paid its supplier an average of 18.3 cents per therm, by 1982 the cost had risen to 39.4 cents per therm. Customers felt these increases in both gas bills and electric bills, since natural gas is burned in SDG&E's generating plants.

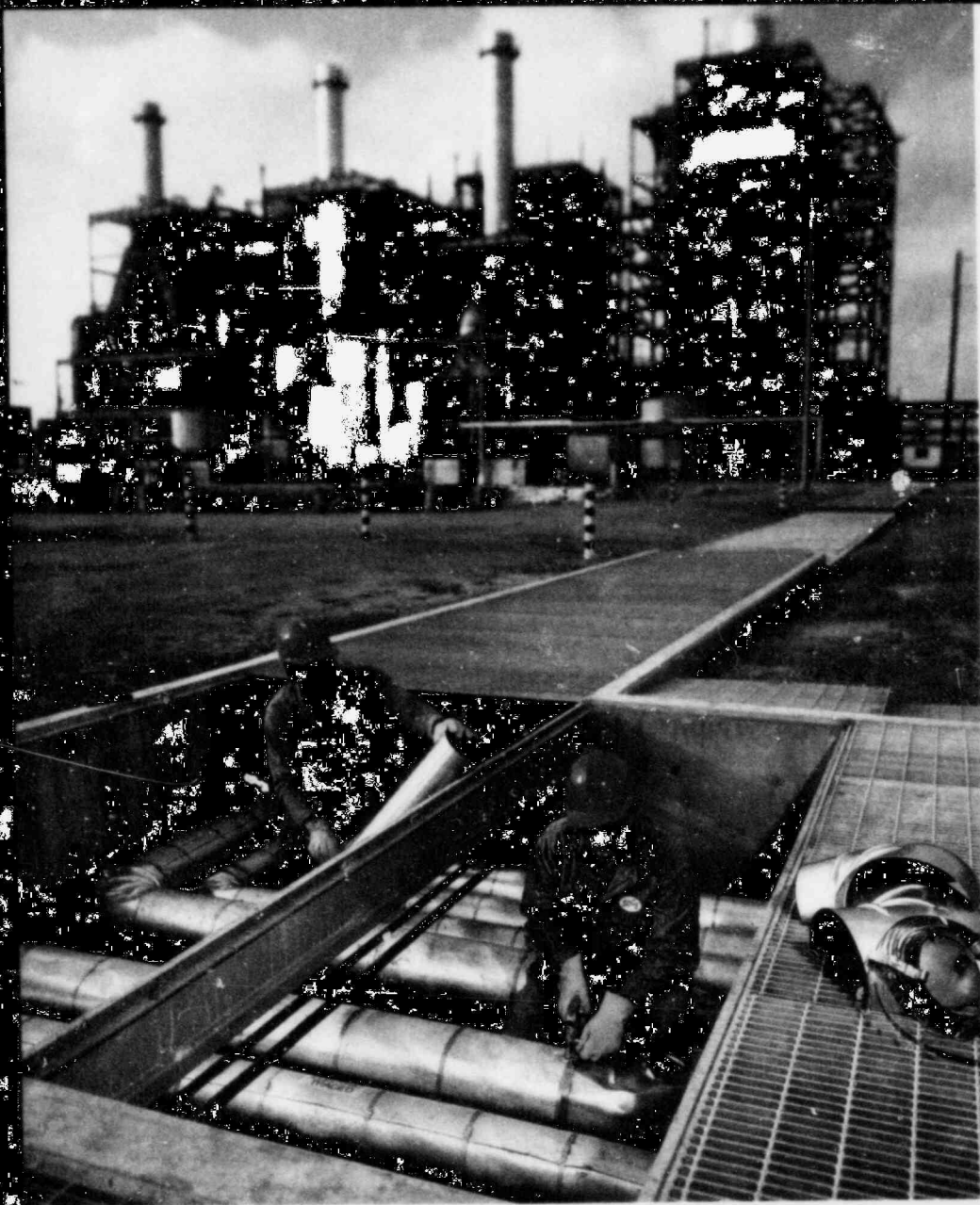
Mild weather in recent winters in the San Diego area has lessened the impact on customers' gas bills. Recognizing this, the company began communicating with customers in the fall to prepare them for higher gas bills in 1983 in case the winter



Preventive maintenance has given SDG&E's low oil- and gas-fueled generating stations a high efficiency record. As part of a systematic program, a turbine at the Encina plant in Carlsbad was completely overhauled in 1982.

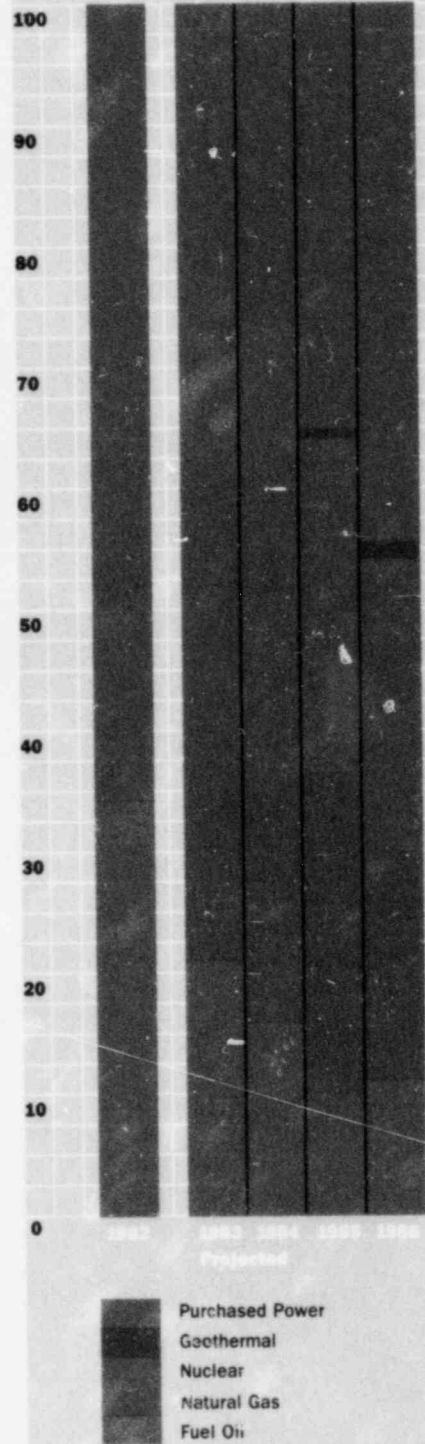


More than half of SDG&E's 5,000 employees work in customer service activities, including the systematic preventive maintenance program for the energy distribution system.



The maintenance program in 1962 included building new concrete-lined trenches and installing insulated fuel lines between the oil storage tanks and the South Bay power plant.

Electric System Energy Sources (by percent of kwhr output)



months return to normal, or colder, temperature levels.

In 1982, pressure began building in Washington, D.C. to accelerate natural gas deregulation. As part of the company's effort to protect its customers, SDG&E launched an intensive effort to oppose accelerated deregulation that would bring additional sharp increases in natural gas prices, without any corresponding improvement in supplies.

Company executives met with suppliers to discuss the potential of natural gas to price itself out of the market as a fuel for electric generation and for other industrial uses, should prices continue to rise as forecast. Other SDG&E staff members participated in federal energy regulatory hearings in opposition to proposed changes in the law, and in rate proceedings of our supplier to advocate price moderation.

Through corporate issue advertisements, published throughout the SDG&E service territory, customers were asked to write letters voicing their opposition to the acceleration of natural gas price deregulation. And many of them did so. Local government leaders were visited and they, too, were asked to write to congressmen. They also supported the effort with letters.

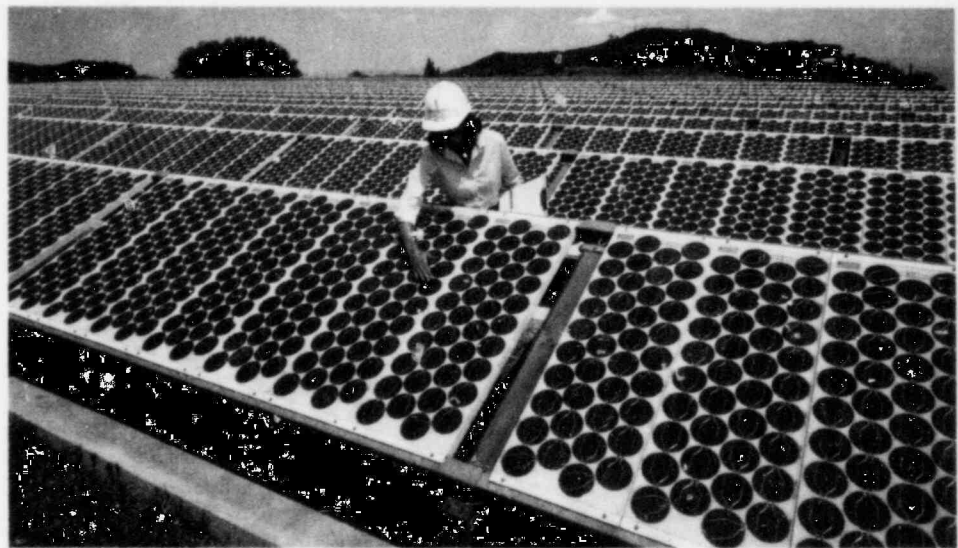
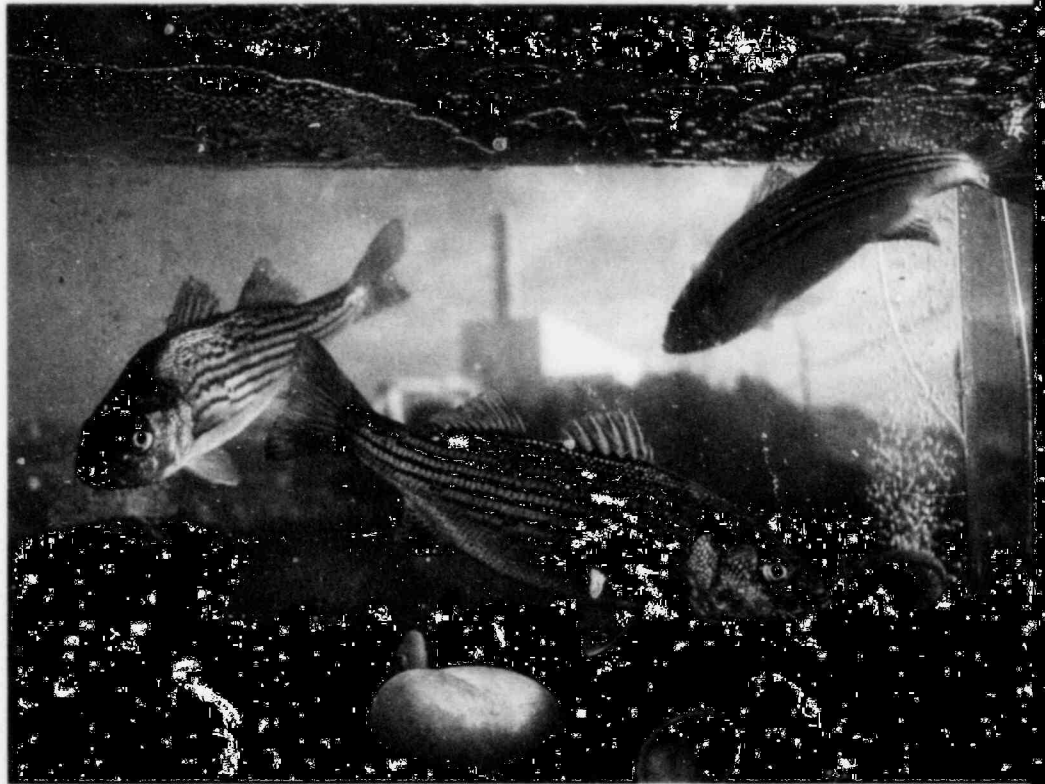
By year end, prices for some natural gas supplies had softened considerably in response to these and other similar pressures. The company's campaign to return natural gas price and supply to a balance is continuing in 1983.

Higher prices have resulted in greater conservation efforts by customers. The Gas Division is continuing to study the effects of higher prices and lessened demand on the need to expand the gas system's capacity. In the interim, during 1982, the division postponed several capital projects because of uncertainties in the growth in natural gas demand.

Soaking in the 80-degree waters of the Encina Environmental Research Facility, these striped bass are part of an experiment. SDG&E is cooperating with Aquaculture Systems International to determine if the cooling waters of the Encina plant could be used to raise striped bass to market size in a year's time. In their native Atlantic waters,

striped bass usually take four years to reach market size.

During the experimental stage, above-ground tanks are being supplied with warm water from Encina. If successful, Encina's cooling waters could yield about 25,000 pounds of bass each year for sale by Aquaculture.



The sun is San Diego's only natural energy resource and SDG&E has been searching for ways to harness its power. The photovoltaic panels of Mt. Laguna provide SDG&E with information for its data bank.

"Our overall financial goal remains an A bond rating."

DICK KOPAN,
GROUP VICE PRESIDENT-FINANCE

In 1983, the company's cash needs for construction will reach a peak of \$365 million, or \$1 million each day, primarily because of construction on the Southwest Powerlink and continuing work on San Onofre.

The company developed a financial improvement program in 1979 that is designed to regain an A bond rating in 1984. When this is achieved it will lower financing costs for the company and result in a savings of millions of dollars for customers.

A key objective of the company's five-point financial plan is to limit the cash spent each year on construction to 10 percent or less of the total capitalization of the company. With the completion of San Onofre and most of the work on the Southwest Powerlink by the end of 1983, the company should reach and maintain its goal in 1984 and the years beyond.

The second objective in the five-point plan, to improve earnings before income taxes and interest charges to three times interest charges, was reached at the end of 1982. This ratio is expected to be maintained in the years ahead.

The third objective is to increase the common stock portion of the company's total capitalization to 40 percent or more. During 1982, the company achieved this objective.

The fourth objective, to increase the portion of capital requirements paid for by internal generation of funds to 40 percent or more, should be reached during 1983. The company achieved the 29 percent level at the end of 1982.

The fifth objective is to maintain dividend growth. This has been accomplished in the five prior years. In May 1982, the company announced an 8.3 percent dividend increase, bringing the annual dividend to \$1.82 per share.

Attainment of these five objectives will give the company a healthier financial profile and the financial community is more likely to favor the company's stock, making it easier to raise equity capital and at a better price.

The company's progress was recognized by the financial community in 1982 in several ways.

- SDG&E common stock rose from a low of \$11.75 to a high of \$17.88 during the year and in September began selling above book value, which at the time was \$16.84 per share.

- The company's short-term commercial paper was upgraded by Moody's Investors Service from Prime 3 to Prime 2, a very significant move, since this generally occurs before an upgrading in ratings of long-term debt securities.

- Earlier in the year, Moody's upgraded the company's rating for preference and preferred stock from Ba-1 to Baa-3.

A combination of factors led to financial improvement.

The company's financial improvement in 1982 was made possible by a combination of increases in rates, a speedy recovery of expenses, and the development of a better expense control system by management.

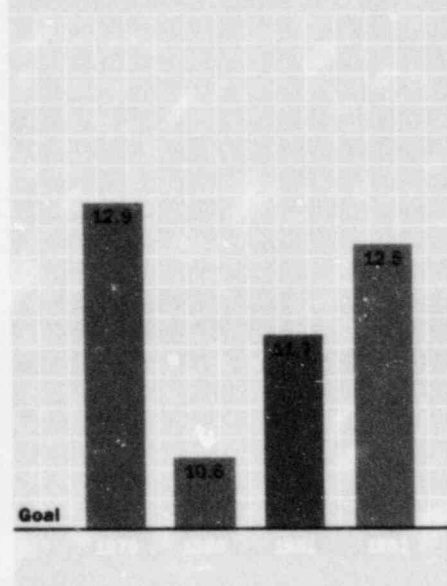
In the 1982 General Rate Case, the California Public Utilities Commission (CPUC) granted the company an opportunity to earn a 36.25 percent rate of return on common equity and a 12.92 percent rate of return on rate base in 1982 and a 13.25 percent rate of return on rate base in 1983.

The higher rates of return, while less than the company thought were necessary, were significant improvements over what the commission has authorized in the past for SDG&E.

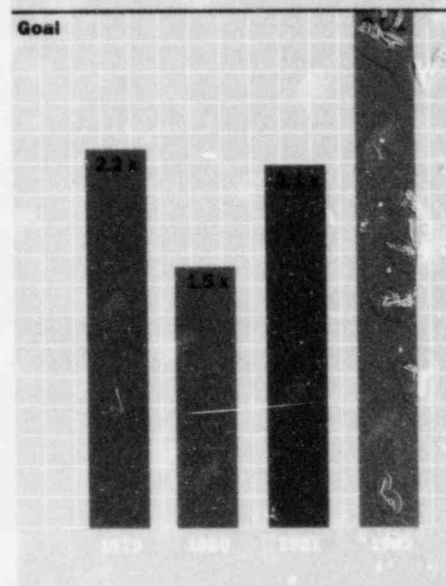
In January 1982, the company's new general rates went into effect.

Five-Point Financial Improvement Plan

Limit Construction Expenditures (to 10% of capitalization*)



Achieve 3x Pretax Interest Coverage



*Includes capital leases except for nuclear fuel
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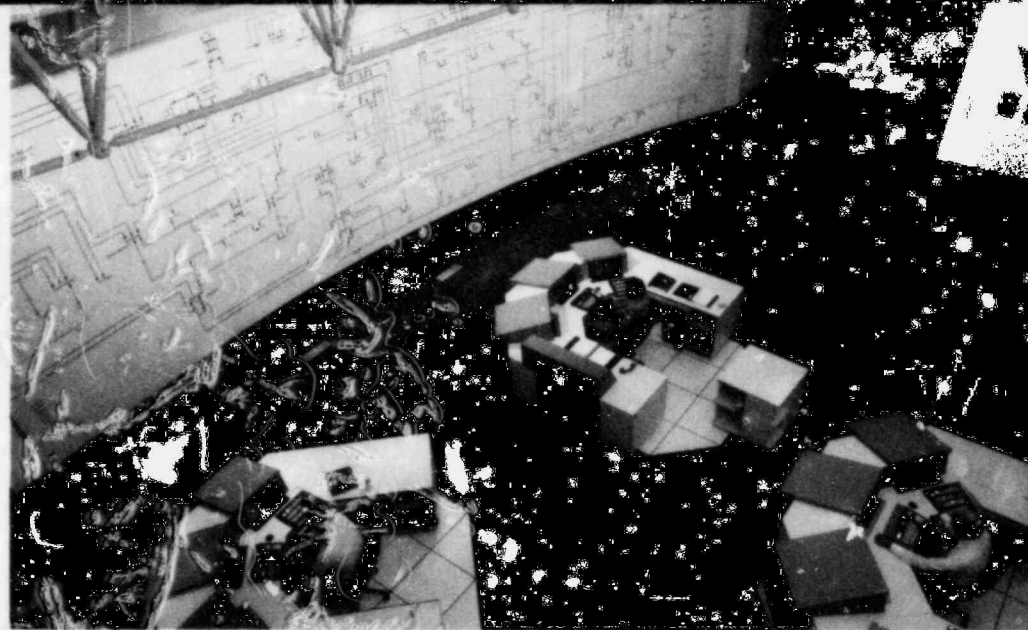
Computers are a valuable tool for managing the energy control center. In 1982, sophisticated utility management helped SDG&E utilize its most economical energy to use. Its computers compare the cost of energy produced at the company's own generating plants with energy available for purchase throughout the West and Southwest.

These helped to increase the company's revenues during the year, leading to higher earnings and increased cash flow to finance the company's construction program.

Another improvement, granted in the 1982 General Rate Case, allowed SDG&E to adjust rates to recover increasing expenses and financing costs caused by inflation and growth in the year between general rate reviews. In December 1982, the CPUC granted SDG&E a \$55.5 million increase, with the new rates becoming effective January 1, 1983.

A new Electric Revenue Adjustment Mechanism, designed to eliminate the impact of electric sales fluctuations on revenues, resulted in higher revenues and thus improved earnings in 1982 and may improve cash flow in 1983.

There were three Consolidated Adjustment Mechanism decisions during 1982, passing through to customers the price increases from



the company's gas supplier. The company was allowed to increase its rates by \$66.3 million in May, by \$39 million in October, and by \$9.4 million in January 1983.

In December, the CPUC granted a \$79 million Energy Cost Adjustment Clause increase. ECACs permit the company to recover its electric fuel and purchased energy costs. The ECAC increase was effective January 1, 1983.

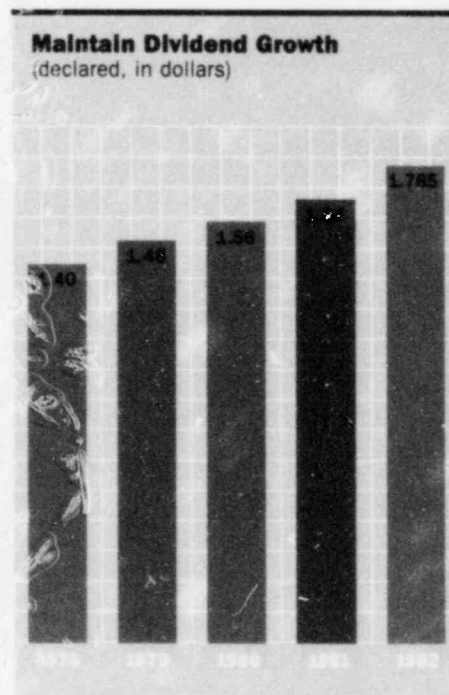
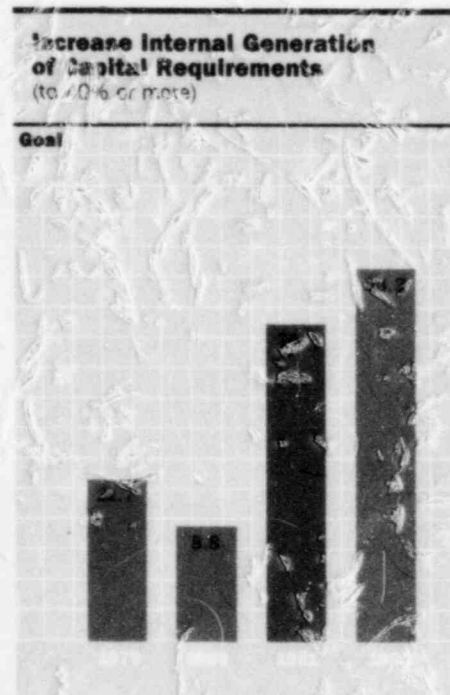
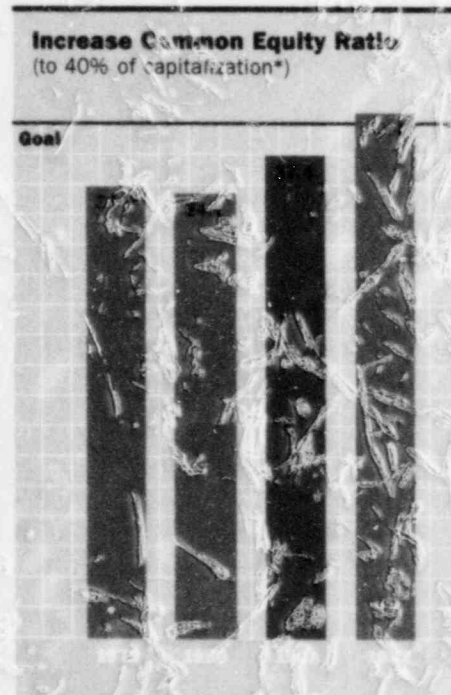
The ECAC proceeding also addressed the company's payment for non-delivery of high-cost contracted fuel oil to Tesoro Alaska Petroleum Company, one of SDG&E's fuel oil suppliers. Because of the contract's suspension, the company is using less-expensive natural gas fuel that is now available and sav-

ing money for its customers.

Although the commission allowed the \$46.8 million in payments to be recovered in rates over a two-year period, the payments are subject to refund. The CPUC indicated that it intends to give further consideration in hearings in the fall of 1983 to the reasonableness of the amount of the payments.

For 1984, the company is seeking a 17.5 percent return on common equity and a 14.05 percent rate of return on rate base. A decision by the commission after extensive public hearings should be announced in December 1983.

Of considerable importance during 1982, SDG&E developed improved expense control procedures. These will help the company limit



its expenses, while increasing productivity, thus enabling SDG&E to earn its authorized rate of return.

SDG&E is considering many financing alternatives to meet its 1983 construction costs.

In order to finance the company's construction needs, many capital-raising alternatives, in addition to the normal offerings of stocks and bonds, were investigated in 1982:

- SDG&E continued to seek approval to use up to \$300 million in tax-exempt industrial development bond financing, low-cost debt financing not normally available to utilities.
- Sale of Applied Energy, Inc., (AEI) a wholly-owned subsidiary, was approved by the board of directors in November. AEI operates cogeneration and chilled water plants. R. E. Morris, former SDG&E chairman, resigned in February

1983 to head a new independent company that, among others, may offer to purchase AEI. SDG&E may still maintain an ownership interest in AEI.

- Sale of part of San Onofre Units 2 and 3 also is being explored (see page 7 for details).
- The company began initial efforts to gain access to the European financing market. It received authorization from the CPUC to issue up to \$75 million of Eurobonds. Originally anticipated for 1982, a planned offering was postponed due to high interest rates in the international market.

The company is moving into the "information age."

Today's complex and constantly changing world demands increased sophistication in the development and use of information systems within the company.

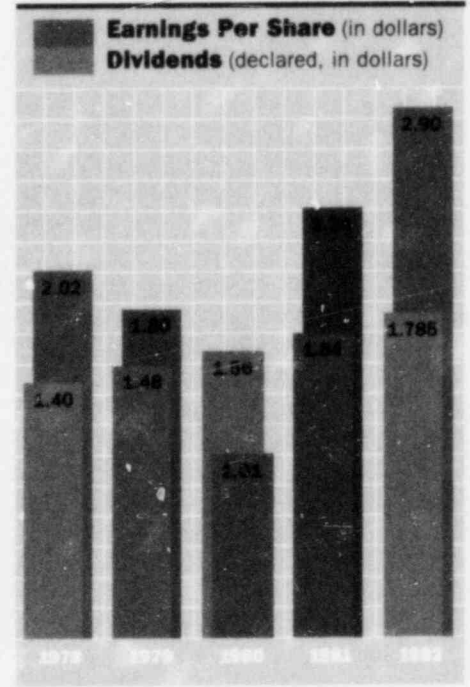
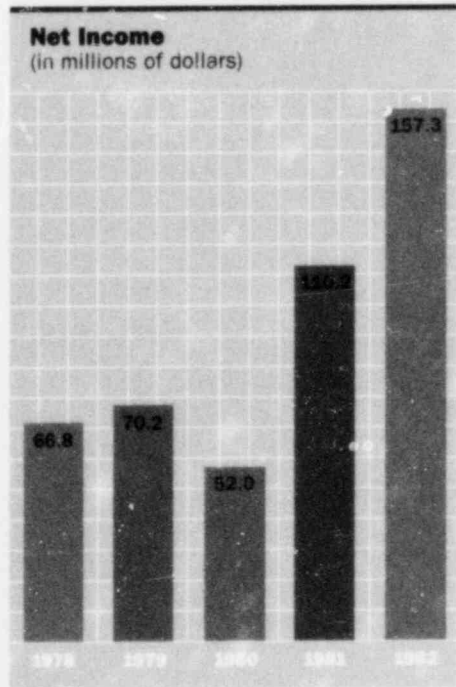
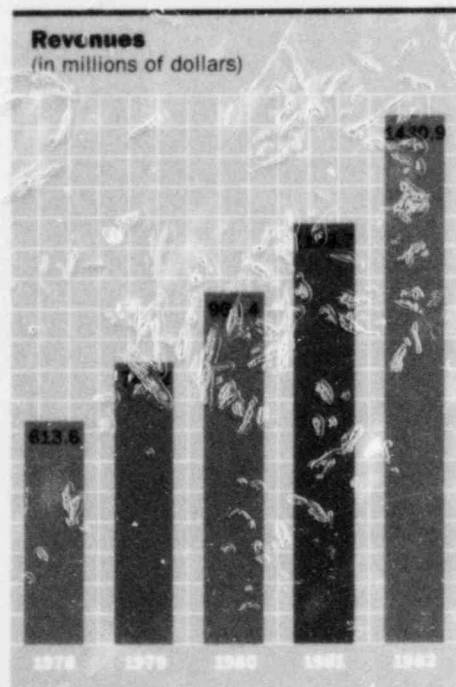
The computer is being used more effectively as a management tool with the help of the Information

Services Division, which was organized in May 1981. Since then, an information center was created to provide easy-to-use computer aids and personal computing for the company and a management services department was formed. Management services aids company employees with analysis of business operations, provides recommendations for improvement, and coordinates all corporate modeling activities.

Automation for high productivity improvements is the emphasis for Information Services. One example is a new system to keep track of and map the company's underground and overhead distribution facilities, such as poles and transformers.

Another project will assist the company's materials management system to reduce inventory carrying costs.

Also important are the decision analysis tools that support operational systems and long-range planning.



"The nature of our business is service. We are looking for new ways to help our customers and to earn their support through our efforts." JACK THOMAS,
GROUP VICE PRESIDENT—CUSTOMER SERVICE

The cost of energy to the company's residential customers has risen substantially in the past few years. Customers need help in understanding why their bills are higher and what they can do to control their energy use. To respond, in 1982 customer service made several changes in its operations, provided communications training for its employees, added new programs, and extended its conservation counseling services.

Since many customers are at work from 8 to 5 on weekdays, telephone center hours were extended. This has leveled the flow of calls received, trimmed the average customer wait time to 23 seconds, and increased productivity in the center. Each working day the telephone center responds to 5,000 inquiries, many in Spanish, so a number of the telephone center employees are bilingual. And, if required, company employees are available to answer questions in eight other languages.

Saturday service is provided for customers who must move on weekends and need electricity turned on or gas appliances serviced. One of the customer service offices is open weekday evenings and on Saturday mornings, which is convenient for working customers also.

"People Power" trained employees how to cope with difficult questions and improved communications skills.

Customers are asking more difficult questions. To help SDG&E employees respond more effectively, a training program was created, called "People Power." More than 4,000 employees attended the day-long sessions in order to improve their communications skills.



Information Exchange, a new communications project, was adopted late in 1982. It is assisting customer contact workers, including linemen, meter readers, and construction workers, to cope with questions they are not able to answer. Employees now carry Information Exchange cards that they fill out if they themselves do not know the answer to a question and a response system has been set up to assure the customer is called back promptly.

Unemployment and high winter bills have created serious problems for some SDG&E customers.

With high unemployment and bigger energy bills, some customers who are not eligible for existing

"Buenos días, Compañía de San Diego Gas y Eléctrico, en que le puedo ayudar?"

"Guten morgen, San Diego Gas und Electric Kompanie, kann ich Ihnen helfen?"

"Bonjour, c'est la compagnie de Gaz et Electricité de San Diego, comment puis je vous aider?"

"Magandang umaga San Diego Gas & Electric Company, ano po ang maliitulong ko sa inyo?"

"Chong-ty Gas & Diên San Diego tran trong chao Quy khach Quy-vi can giup do gi khong?"

"Good morning, San Diego Gas and Electric Company, how may I help you?"



A cogeneration station at North Island Naval Air Station provides energy for the base kitchens. When in port, Navy ships are hooked up with huge hoses that provide thermal energy from cogeneration plants onshore. Cogeneration captures thermal power, produced by the generation of electricity, for heating or cooling uses.

government energy assistance programs have difficulty paying their energy bills. Concerned about utility customers, the CPUC in late 1982 requested all California electric utilities to develop programs that would alleviate the potential hardship for these customers.

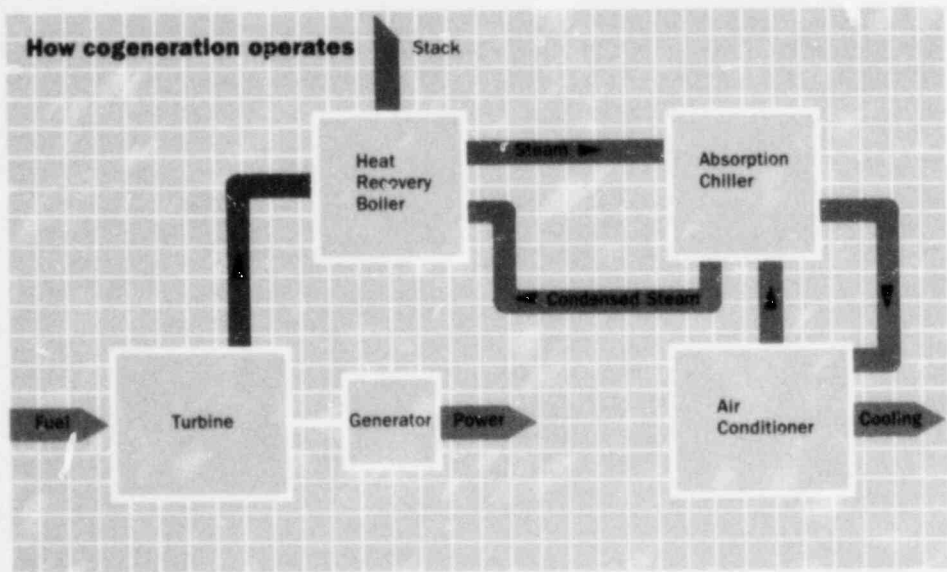
In response, SDG&E in November announced its four-month Winter Assistance Program. The company contributed \$100,000 to United Way agencies, which are administering the fund providing temporary loans, that need not be repaid, to customers who do not qualify for other assistance. In January, the company asked its customers to contribute to this fund. The first donation, \$50,000, came from SDG&E employees.

Home energy audits are helping customers to lower their bills.

Since SDG&E began offering home energy audits in 1979, the program has proved very popular with customers. Last year SDG&E conducted nearly 29,000 residential audits. Because of greater efficiency, each audit took one hour, half the time required when the program began. It is estimated that, in 1982 alone, residential conservation programs trimmed customers' energy bills by an estimated 21.8 million kilowatt hours and 11.8 million therms. Conservation representatives will conduct 35,000 additional residential audits in 1983.

The company's load management field test program in 1982 was received favorably by customers. The tests involved 6,350 residential customers, or 8 percent of the total, who have central air conditioners. These high-energy use appliances were cycled on and off by remote computers during peak demand periods.

SDG&E will offer 12,000 more



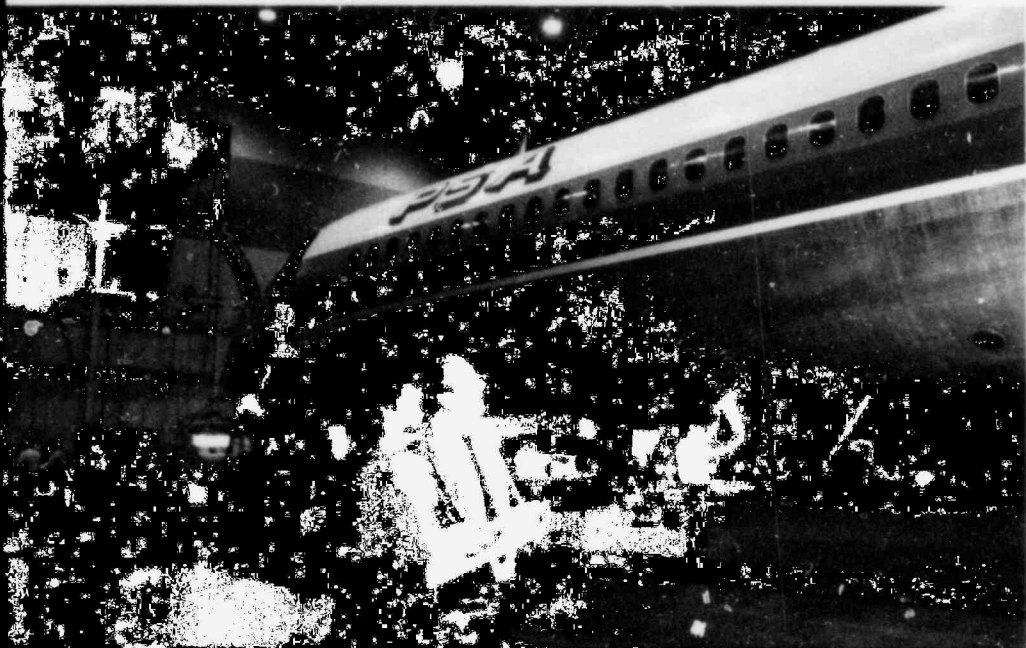
Sea World, a popular tourist attraction, has one of the largest privately-owned cogeneration systems. It supplies electricity to the amusement park and chilled water for the sea-life exhibits.

residential customers with central air conditioners and electric water heaters the opportunity to participate in this program in 1983.

Load management benefits both the utility and its customers. For SDG&E, the program lessens the peak demand and the need to generate greater amounts of energy for short periods of time. It also helps the company to avoid the expense of increasing the load-carrying capabilities of the distribution system. Participants benefit directly with a small annual credit plus energy cost savings.

Advisory help from SDG&E counselors assists industrial and commercial customers to control energy use.

Cogeneration counseling, energy conservation audits, and commercial load management are three of the most important ways that SDG&E is helping its commercial, industrial, and agricultural customers to control energy use. A special commercial audit staff conducted 6,000 commercial energy audits in 1982. The company also advises



A commercial energy audit of Pacific Southwest Airlines' hangar facilities helped the San Diego-based airline to find ways to trim its electricity bill by one million kilowatt hours each year.

SDG&E produces many brochures for customers that range in content from appliance use tips to information on ratemaking proceedings. The company's graphic arts department designs and prints many of these publications, such as this home heating brochure, which is being checked for color quality.



and assists customers who wish to develop their own generating projects, such as cogeneration, wind, photovoltaic, hydro, and biomass.

To assist interested business owners, the company holds cogeneration seminars, distributes information on equipment, and has developed standardized contracts and interconnection schematics for use by potential developers. SDG&E has worked with the owners of about 100 cogeneration and small power production projects. Of these, about 30 projects already are in operation.

The company continues to improve the maintenance program for its distribution system to help prevent power outages.

Reliable service is expected by customers and the company continues to look for ways to limit interruptions in service to them. For example, system reliability was enhanced by the expansion or adoption of the following programs in 1982.

- An overhead electrical dis-

tribution system preventive maintenance program was begun that identifies potential problems before they occur.

- The company's tree-trimming program was accelerated. Trees cause a significant amount of damage to the system each year. In 1982, even with the expanded program, about 17 percent of the power outages were tree related.

- SDG&E expanded its use of automatic devices that isolate failed components in the system. This program minimizes the number of customers who might be affected by a power outage.

Even a well-maintained system, however, is vulnerable during storms. Lightning and high winds ripped through San Diego November 30 and December 1, 1982, causing more than \$1 million in damage. About 300 employees worked around-the-clock for three days, some in dangerous conditions, to repair the damage that left 378,000 of the company's customers without power for varying lengths of time. In one area, near the isolated community of Julian, to locate the source of the problems workers had

A hand-held computer will be tested by meter readers in 1983. It will be pre-programmed for the day's route, can ask for double-checks of meter readings when there seems to be an error, and even will issue "beware of dog" reminders to the meter readers.



"It will require a community-of-interest effort to assure adequate energy for the future. Utilities, business leaders, individuals, and government representatives must work together to achieve this." TOM PAGE, CHAIRMAN

to foot-patrol lines at night in the mountain forest terrain.

The key link with customers was the telephone information center. During the first day of the storm, its hours were extended by five and a half hours in order to handle the 23,596 calls that came in, nearly five times the normal volume.

Meter reading productivity leadership was maintained during 1982.

For the past several years, SDG&E has been a leader in the industry in meter reading productivity. In 1982, this was increased again with each meter reader averaging 695 meters per day compared with the estimated industry average of 344 meters per day.

Meter readers have begun testing a hand-held computer that will streamline the reporting of readings and help reduce errors.

Potentially one of the most important effects of computer-assisted meter readings will be to trim the turnaround time from reading to billing by one full day. This could speed up bill payment and improve cash flow.

Communications projects are aimed at developing community support through understanding.

Providing energy is the mutual concern of both a utility and the people it serves. In 1982, SDG&E began a program to develop greater community understanding of energy issues and support for its projects. The company initiated an energy issue advertising campaign, updated its speakers' program, and developed easy-to-understand informational brochures on key subjects, such as natural gas prices and the ratemaking process.



The energy issue communications campaign, which is continuing this year, resulted in the development of ads that were published and broadcast throughout the service territory. In the ads the company discussed its commitment to stabilize rates, why the company purchases power and the need for the Southwest Powerlink, the effect of natural gas deregulation on customer bills, and how SDG&E's customers can control their utility bills through understanding conservation and what it can do for them.

Company management attended many community meetings in order to discuss energy issues and to respond personally to questions from customers, and volunteer speakers appeared before 350 other groups. In 1983, an energy program catalogue will be distributed, offering many types of program approaches to discuss energy, SDG&E, and San Diego's future.

Communicating with customers about plans and energy issues is an ongoing responsibility. In January, Tom Page met with the local media to answer questions about the events of 1982 and about future plans.

SHAREHOLDER REFERENCE GUIDE

Where is the company's principal place of business?

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

When will the annual meeting be held?

The annual meeting will be held at 11 a.m. April 26, 1983 in the auditorium of the company's principal office, 101 Ash Street, San Diego, California.

Of what importance are proxies at the annual meeting?

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

What is SDG&E's ticker symbol and on which exchanges are its stocks listed?

SDG&E stock trades under the ticker symbol of SDO. The common stock is listed on the New York and Pacific stock exchanges. The preferred and preference stocks are traded on the American and Pacific stock exchanges (except the 4.60% preferred series and the \$7.325, \$8.25, \$9.125 and \$15.44 preference series, which are not listed).

What should a shareholder do if his or her stock certificates are lost or stolen?

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

The financial community in 1982 began to recognize the progress SDG&E has made in its financial improvement plan. One indication: for the first time in many years, the SDG&E common stock offering sold above book value.

Who are the transfer agents and registrars for the company's stock?

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

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

The transfer agent and registrar for the preference stock (except the \$7.325, \$8.25, and \$9.125 series), is First Interstate Bank of California.

What is the transfer agent's role?

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



Company management met with members of the professional financial community in meetings held in many cities, including New York, London, and San Diego. In October, SDG&E hosted a luncheon at its 60-year-old Station B power plant in downtown San Diego for a group of visiting financial analysts. Tom Page talks with several guests on the turbine deck.



How often are common stock dividends paid?

SDG&E's board of directors normally declares payment of a cash dividend each quarter. Dividends generally are payable on the 15th day of January, April, July, and October to shareholders of record as of the "record date," which is the 20th day of the month preceding the payable date.

Is there a common stock dividend reinvestment plan?

Nearly 21,000 SDG&E common stock shareholders, or almost 25 percent, are participating in the company's dividend reinvestment plan. For information, contact the shareholders' agent for the plan, First Interstate Bank of California, Dividend Reinvestment Service, P.O. Box 60975, Los Angeles, California 90060.

Where can I obtain additional information about SDG&E?

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

A financial and statistical supplement to the annual report and Form 10-K, the annual report to the Securities and Exchange Commission, are available free of charge by writing to:

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

How many shareholders of record does SDG&E have and where are they located?

(AS OF DECEMBER 31, 1982)

	Common	Preferred		Common	Preferred
Total Shareholders	86,576	14,582	Amounts Owned		
Class of Investor			1 to 99 shares	14,236	4,068
Women	26,305	4,488	100-300 shares	50,046	8,136
Men	18,785	2,652	301-500 shares	11,264	1,352
Joint accounts	31,577	5,150	501-1000 shares	7,757	637
Fiduciaries	8,534	1,388	Over 1000 shares	3,273	389
Securities dealers	49	49	Location		
Nominees	374	269	Service area	15,454	3,390
Other domestic	765	561	Others in California	27,071	4,884
Foreign	187	25	Other states and foreign countries	44,051	6,308

Selected Financial Data

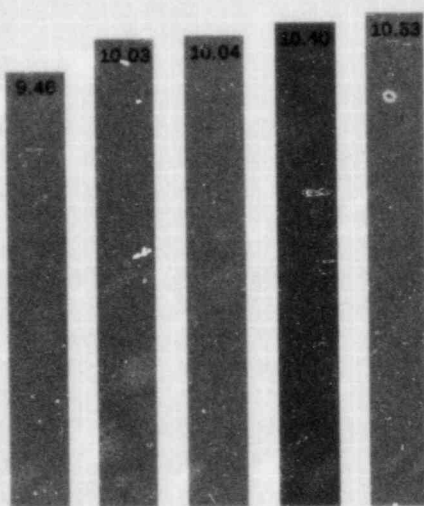
(IN THOUSANDS EXCEPT PER SHARE AMOUNTS)
FOR THE YEARS ENDED DECEMBER 31

	1982	1981	1980	1979	1978
Operating revenues	\$1,430,948	\$1,159,662	\$ 960,444	\$ 745,232	\$ 613,623
Operating income	169,861	142,123	100,336	97,233	91,409
Net income (before preferred dividend requirements)	157,303	110,156	52,046	70,166	66,802
Earnings per common share	2.90	2.34	1.01	1.30	2.02
Dividends declared per common share	1.785	1.64	1.56	1.48	1.40
Funds provided by operations	196,084	135,131	90,268	93,352	84,315
Funds provided by long-term financing	141,173	138,455	155,621	68,482	270,893
Additions to utility plant (excluding allowance for funds used during construction)	252,790	209,729	178,141	200,126	200,274
AT DECEMBER 31					
Total assets	2,411,676	2,165,951	1,969,563	1,756,921	1,539,288
Long-term debt and preferred stock subject to mandatory redemption (excludes current portion)	893,043	812,238	817,321	725,078	658,065

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

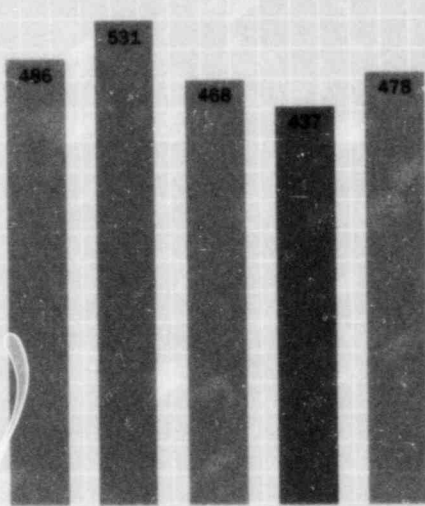
Electric Sales

(in billions of kWhrs)



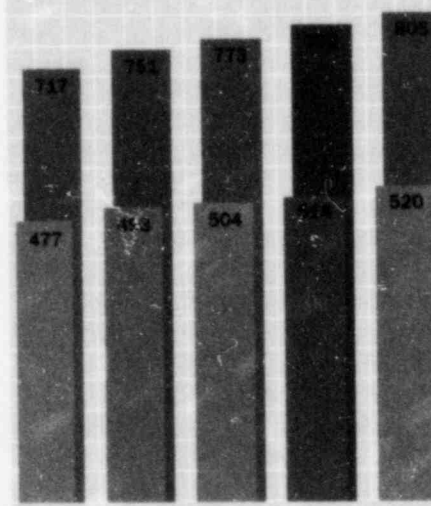
Gas Sales

(excluding interdepartmental sales)
(in millions of therms)



Electric Customers

Gas Customers
(in thousands)



Liquidity and capital resources

The company's liquidity is a function of its ability to internally generate cash, to access long-term security markets and to avail itself of short-term debt credit facilities. The sale of energy to its customers provides the cash to pay for operating expenses, interest expense, dividends and a portion of the company's construction program. To provide financing to supplement the internal sources and to assist in satisfying short-term liquidity needs, the company maintains unsecured lines of credit which, as of January 1983, aggregated \$205 million (see Note 3), and are available to support commercial paper that the company issues. The company periodically replaces such short-term financing and maturing long-term debt by issuing equity and debt securities and expects to issue approximately \$266 million in equity and debt securities in 1983. The company is also considering other sources of cash from: tax-exempt industrial development bonds; European financing markets; and possible sales of its cogeneration subsidiary, a portion of the company's ownership interest in San Onofre Nuclear Units 2 and 3, and other assets.

To finance the purchase of fuel oil, the company may borrow up to \$150 million in bankers' acceptances. The company also maintains a nuclear fuel lease arrangement to finance up to \$100 million of nuclear fuel. As of December 31, 1982, the company had a total of \$264.5 million outstanding under its short-term debt lines and the nuclear fuel lease.

The company's ability to internally generate funds continues to be dependent on obtaining timely and adequate rate relief from the California Public Utilities Commission (CPUC). Under the rate case processing plan of the CPUC, gen-

eral rate relief is granted in two-year intervals. The company's most recent General Rate Case decision was effective January 1, 1982 and has helped the company increase funds provided by operations. The 1982 General Rate Case established an Electric Revenue Adjustment Mechanism (ERAM) to eliminate fluctuations previously caused by actual electric revenues differing from those authorized in rates. Annual deferred taxes of \$22.5 million under the Economic Recovery Tax Act of 1981 were allowed in the 1982 General Rate Case and increased funds provided by operations. The 1982 General Rate Case also provided for an attrition allowance, effective January 1, 1983, to increase rates to offset expected increases in inflation and capital costs associated with proposed 1982 debt and preference stock financings. On December 24, 1982, the company filed its request for the 1984 General Rate Case and 1985 attrition allowance. The following table is a summary of the General Rate Cases.

	Granted for January 1	
	1982	1983
Increase in revenues (in millions)	\$166.3	\$55.5
Return on common equity	16.25%	16.25%
Return on rate base	12.92%	13.25%
	Requested for January 1	
	1984	1985
Increase in revenues (in millions)	\$126.8	\$69.0
Return on common equity	19.00%	19.00%
Return on rate base	14.93%	15.34%

In 1982, the company's actual rate-making return on common equity was 16.8% and its return on rate base was 12.7%. The company has informed the CPUC that based

upon current economic conditions it is seeking only a \$98.9 million increase in annual revenues for 1984. This reflects a 17.50% return on common equity and a 14.05% return on rate base.

The company experiences fluctuations in cash flows as a result of the regulatory balancing accounts authorized by the CPUC (see Note 1). The company increased rates on January 1, 1983 in part to recover certain costs incurred to suspend a contract for the purchase of fuel oil. The CPUC has allowed these higher rates to be collected subject to refund, pending a further review (see Note 6).

The company continues to expand its facilities to both meet the increased demand on its system and to reduce its reliance on oil-fueled generation. The 1983 construction program is the largest ever undertaken by the company, which directly impacts its short-term liquidity. This program will begin to decrease in 1984 as current major construction projects are completed and as a result the company's long-term liquidity is expected to improve. The major projects the company has under way include the San Onofre Nuclear units and the Southwest Powerlink, formerly called the Eastern Interconnection. The San Onofre Nuclear Unit 1 is currently shut down in connection with the Systematic Evaluation Program (SEP) required by the Nuclear Regulatory Commission (NRC). Compliance with the requirements of the SEP will require an additional investment. However, until the scope of the SEP is determined by the NRC, the total of these costs cannot be determined. During 1982, Unit 2 received its full-power license. Unit 2 was synchronized into the company's system and has been tested at up to 50% of its rated capacity. Unit 3 is expected to receive its

full-power license in early 1983. Units 2 and 3 are expected to be at full-power operation in 1983. CPUC hearings on the timing for the inclusion of Unit 2 in rate base have begun. Hearings will be held later in 1983 on the reasonableness of the costs incurred. The Southwest Powerlink, scheduled for completion in 1984, will provide access to lower-cost purchased energy from New Mexico, Arizona and Mexico.

The estimated cash requirements for the construction program and retirements of long-term financing

are approximately \$384 million for 1983 and \$1.3 billion for the period 1984-1987. The company estimates that internally generated funds will provide 30% to 40% of its capital needs during 1983 and, assuming adequate rate relief reflecting the timely inclusion of San Onofre Units 2 and 3 and the Southwest Powerlink in rate base, more than 60% during 1984 through 1987. The company's capital structure is shown on page 38 and the effect of off-balance sheet financing is discussed on page 34 in Note 6.

and the deferred tax expense recorded in compliance with the Economic Recovery Tax Act of 1981.

The allowance for funds used during construction, which is not an item of current cash income, has increased for the past three years as a result of the use of higher rates and the larger investment in construction work in progress, primarily San Onofre Nuclear Units 2 and 3. When these units are placed into commercial operation in 1983 and 1984, the amount of AFUDC will decrease.

The Provision for Exchange Loss was established to provide a reserve for a probable loss on fuel oil exchange transactions with an independent oil distributor (see Note 7). The increases in tax credits on non-operating income reflect more interest expense allocated to construction work in progress and lower Other Income-Net.

Other Income-Net decreased in 1982 as a result of recording \$5.9 million in settlement of the class action lawsuit (see Note 7) and \$4.9 million (\$0.05 per share, net of taxes) for the decision by the CPUC that certain fuel purchases were unreasonable considering other options available.

The additional long-term debt issued in 1982 to finance the company's construction program increased long-term debt interest expense by \$4.2 million. There was a reduction of \$8.1 million in short-term interest expense due to a decrease in short-term borrowings, lower interest rates and lower interest expense on the balancing accounts due to a shift of the balancing accounts from an over-collected to undercollected balance.

It is expected that inflation will continue to impact the company's operations. Successful achievement of the company's goals relating to its construction program and its overall financial stability is based, in part, upon receipt of timely and adequate rate relief which reflects this impact. The company has prepared information on the effects of inflation and changing prices in accordance with Financial Accounting Standards Board Statement No. 33. Such information is contained on pages 36 and 37.

Results of Operations

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

<i>(MILLIONS OF DOLLARS) FOR THE YEARS ENDED DECEMBER 31</i>			
	1982	1981	1980
Electric Revenues			
Fuel cost rate changes	\$(33.8)	\$ 91.3	\$216.6
General rate changes	139.2	77.5	24.8
Regulatory balancing account adjustments:			
Fuel cost	77.8	(2.6)	(60.6)
ERAM and other	10.5	(1.6)	(0.8)
Sales volume and other changes	(4.5)	13.2	(2.6)
Net increases	\$189.2	\$177.8	\$177.4
Gas Revenues			
Rate increases	\$ 49.8	\$ 32.2	\$ 32.8
Regulatory balancing account adjustments:			
Consolidated adjustment mechanism	24.2	(20.6)	26.2
Other balancing accounts	(3.2)	(0.4)	—
Interdepartmental sales (net of cost)	(4.8)	20.4	(5.4)
Sales volume and other changes	16.1	(10.2)	(15.8)
Net increases	\$ 82.1	\$ 21.4	\$ 37.8

The cost of electric fuel and purchased energy increased less in 1982 than in 1981. This reflects the increased use of less expensive purchased power in 1982. When the Southwest Powerlink is completed it is expected that purchased power will become a larger portion of the company's energy sources. The increased cost of gas reflects rising costs from the company's supplier. The company expects fuel costs to continue to rise, although such increases are expected to be offset by additional revenues through the Energy Cost Adjust-

ment Clause for the cost of electric fuel and the Consolidated Adjustment Mechanism for gas costs.

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

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

Management maintains the system of internal accounting controls which it believes is adequate to provide reasonable, but not absolute, assurance that its assets are safeguarded, transactions are executed in accordance with its objectives and the financial records and reports are reliable for preparing the financial statements in accor-

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

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

ciples applied on a consistent basis.

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

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

Auditors' Opinion

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

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

We have examined the financial statements and schedules of San Diego Gas & Electric Company (pages 26 to 37) for the years ended December 31, 1982, 1981 and 1980. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, such financial statements and schedules present fairly the financial position of the company at December 31, 1982 and 1981 and the results of its operations and the sources of funds for construction for each of the three years in the period ended December 31, 1982, in conformity with generally accepted accounting principles applied on a consistent basis.

Deloitte Haskins & Sells

February 9, 1983

Statements of Income

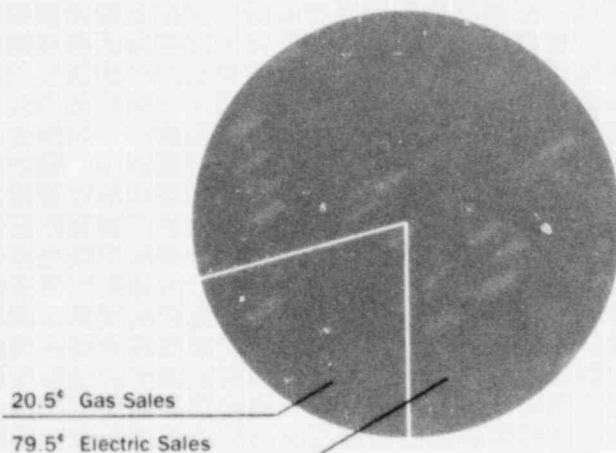
(IN THOUSANDS EXCEPT PER SHARE AMOUNTS)
FOR THE YEARS ENDED DECEMBER 31

	1982	1981	1980
Operating Revenues			
Electric	\$1,137,896	\$ 948,677	\$770,894
Gas	293,052	210,985	189,550
Total operating revenues	1,430,948	1,159,662	960,444
Operating Expenses			
Electric fuel and purchased energy	635,033	580,743	482,516
Gas purchased for resale	197,383	135,455	130,116
Transmission, distribution and storage	36,807	24,806	21,906
Other operating	136,412	107,630	89,092
Maintenance	50,535	38,368	35,743
Franchise payments	26,337	23,189	18,870
Depreciation and amortization	70,915	58,751	53,453
Property and other taxes	18,502	16,331	17,097
Income taxes (Note 4)	89,163	32,266	11,315
Total operating expenses	1,261,087	1,017,539	860,108
Operating Income	169,861	142,123	100,336
Other Income and (Deductions)			
Allowance for other funds used during construction	51,204	30,926	24,820
Provision for exchange loss (Note 7)	—	(4,588)	(26,000)
Taxes on non-operating income (Note 4)	28,142	24,406	19,801
Other—net	(3,655)	10,372	12,219
Total other income	75,691	61,116	30,840
Income Before Interest Charges	245,552	203,239	131,176
Interest Charges			
Long-term debt	76,898	72,659	63,921
Short-term debt and other	31,086	39,200	29,713
Allowance for borrowed funds used during construction	(19,735)	(18,776)	(14,504)
Net interest charges	88,249	93,083	79,130
Net Income (before preferred dividend requirements)	157,303	110,156	52,046
Preferred Dividend Requirements	26,068	18,718	17,643
Earnings Applicable to Common Shares	\$ 131,235	\$ 91,438	\$ 34,403
Average Common Shares Outstanding	45,306	39,091	34,135
Earnings Per Common Share	\$ 2.90	\$ 2.34	\$ 1.01
Dividends Declared Per Common Share	\$ 1.785	\$ 1.64	\$ 1.56

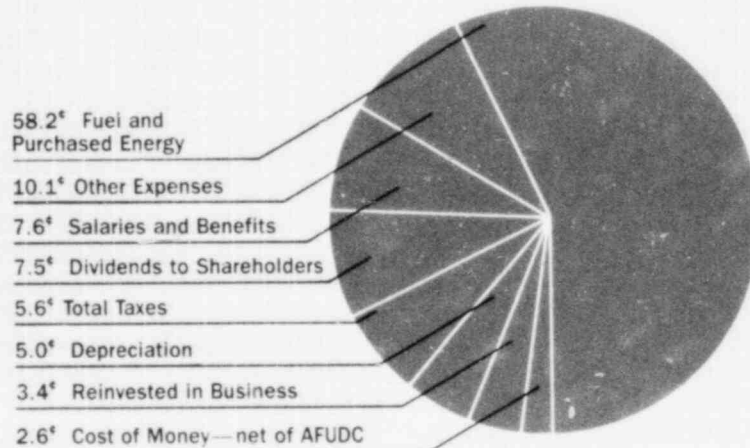
See notes to financial statements.

1982 Revenue Dollar

Source



Disposition



Balance Sheets

(IN THOUSANDS OF DOLLARS)
BALANCE AT DECEMBER 31

	1982	1981
Assets		
Utility plant—at original cost		
In service		
Electric	\$1,343,416	\$1,243,258
Gas	278,464	260,699
Common	31,673	28,505
Total plant in service	1,653,553	1,532,462
Plant held for future use (Note 6)	49,389	50,177
Construction work in progress	864,325	669,077
Total utility plant	2,567,267	2,251,716
Accumulated depreciation	(513,704)	(458,053)
Utility plant—net (Note 2)	2,054,063	1,793,663
Investments and other property	31,897	31,605
Current assets		
Cash and temporary investments	1,490	6,132
Receivables (less allowance for doubtful accounts: 1982, \$1,180; 1981, \$907)		
Customer	103,036	86,996
Other	19,861	14,685
Materials and supplies—at average cost	30,856	30,395
Fuel inventory—at average cost (Note 3)	111,939	161,326
Regulatory balancing accounts undercollected—net	31,649	—
Other	5,031	2,838
Total current assets	303,862	302,372
Deferred charges and other assets (Note 4)	21,854	38,311
Total	\$2,411,676	\$2,165,951
Capitalization and Liabilities		
Capitalization (see Statements of Capital Stock and Long-Term Debt)		
Common equity	\$ 817,441	\$ 672,379
Preferred stock (Note 5)		
Not subject to mandatory redemption	161,000	161,000
Subject to mandatory redemption	108,000	85,000
Long-term debt (Note 2)	785,043	727,238
Total capitalization	1,871,484	1,645,617
Current liabilities		
Short-term borrowings (Note 3)	176,000	178,500
Current portion of long-term debt (Note 2)	17,395	54,276
Accounts payable	126,020	97,584
Dividends payable	28,846	22,912
Taxes accrued	23,013	17,436
Interest accrued	27,173	24,871
Regulatory balancing accounts overcollected—net	—	22,913
Other	42,082	31,997
Total current liabilities	440,529	450,489
Customer advances for construction	30,335	27,970
Accumulated deferred investment tax credits (Note 4)	25,388	11,553
Reserves and deferred credits (Note 4)	43,940	30,322
Commitments and contingencies (Notes 6 and 7)	—	—
Total	\$2,411,676	\$2,165,951

See notes to financial statements.

Statements of Sources of Funds for Construction

(IN THOUSANDS OF DOLLARS)
FOR THE YEARS ENDED DECEMBER 31

	1982	1981	1980
Funds Provided by Operations			
Net Income	\$157,303	\$110,156	\$ 52,046
Non-cash items in net income			
Depreciation and amortization	70,915	58,751	53,453
Deferred income taxes and investment tax credits—net	33,116	9,526	(3,989)
Provision for exchange loss	—	4,588	26,000
Allowance for funds used during construction	(70,939)	(49,702)	(39,324)
Other—net	5,689	1,812	2,082
Funds provided by operations	196,084	135,131	90,268
Dividends	(108,119)	(83,712)	(71,598)
Funds reinvested	87,965	51,419	18,670
Funds Provided by Long-Term Financing			
Sale of common stock	96,276	58,559	64,113
Sale of preference stock	24,602	34,090	—
Sale of first mortgage bonds	74,603	48,678	123,569
Other long-term debt	—	10	1,008
Retirement of long-term financing	(54,308)	(2,882)	(33,069)
Funds provided by long-term financing	141,173	138,455	155,621
Other Funds Provided (Used)			
Regulatory balancing accounts—net	(54,562)	49,968	14,001
Receivables	(21,216)	5,669	(42,049)
Fuel inventory	49,387	(25,576)	(63,173)
Accounts payable	28,436	7,463	16,304
Taxes accrued	5,577	2,068	(4,104)
Short-term borrowings	(2,500)	(6,500)	29,580
Investments and other property	(645)	(9,441)	15,323
Other—net	19,175	(3,796)	37,968
Other funds provided	23,652	19,855	3,850
Total additions to utility plant (excluding allowance for funds used during construction)	\$252,790	\$209,729	\$178,141

See notes to financial statements.

Statements of Changes in Capital Stock and Retained Earnings

(IN THOUSANDS OF DOLLARS) FOR THE YEARS ENDED DECEMBER 31, 1980, 1981 AND 1982	Preferred Stock		Common Stock	Premium (Less Expense)	Retained Earnings
	Not Subject to Mandatory Redemption	Subject to Mandatory Redemption			
Balance, December 31, 1979	\$128,500	\$ 85,000	\$155,941	\$218,476	\$166,808
Net income—for year					52,046
Common stock sold (5,281,246 shares)			26,406	37,707	
Dividends declared					
Preferred stock					(17,643)
Common stock					(53,955)
Balance, December 31, 1980	128,500	85,000	182,347	256,183	147,256
Net income—for year					110,156
Common stock sold (5,029,551 shares)			25,148	33,411	
Preference stock sold (1,300,000 shares)	32,500			1,590	
Dividends declared					
Preferred stock					(18,718)
Common stock					(64,994)
Balance, December 31, 1981	161,000	85,000	207,495	291,184	173,700
Net income—for year					157,303
Common stock sold (6,767,110 shares)			33,836	62,440	
Preference stock sold (250,000 shares)		25,000		(398)	
Current sinking fund requirement		(2,000)			
Dividends declared					
Preferred stock					(26,229)
Common stock					(81,890)
Balance, December 31, 1982	\$161,000	\$108,000	\$241,331	\$353,226	\$222,884

Statements of Capital Stock

(IN THOUSANDS OF DOLLARS) BALANCE AT DECEMBER 31	1982	1981
Common Equity		
Common stock, \$5 par value, authorized 80,000,000 shares, outstanding: 1982, 48,266,144 shares; 1981, 41,499,034 shares	\$241,331	\$207,495
Premium on capital stock (less expense)	353,226	291,184
Retained earnings	222,884	173,700
Total common equity	\$817,441	\$672,379
Preferred Stock (Note 5)		
Not subject to mandatory redemption		
Cumulative preferred stock, \$20 par value, authorized 1,375,000 shares		
5% Series, 375,000 shares outstanding	\$ 7,500	\$ 7,500
4½% Series, 300,000 shares outstanding	6,000	6,000
4.40% Series, 325,000 shares outstanding	6,500	6,500
4.60% Series, 375,000 shares outstanding	7,500	7,500
Preference stock (cumulative) without par value*		
\$9.84 Series, 160,000 shares outstanding	16,000	16,000
\$7.80 Series, 200,000 shares outstanding	20,000	20,000
\$7.20 Series, 150,000 shares outstanding	15,000	15,000
\$2.63 Series, 1,000,000 shares outstanding	25,000	25,000
\$2.475 Series, 1,000,000 shares outstanding	25,000	25,000
\$4.65 Series, 1,300,000 shares outstanding	32,500	32,500
Total not subject to mandatory redemption	\$161,000	\$161,000
Subject to mandatory redemption		
Preference stock (cumulative) without par value*		
\$7.325 Series, 300,000 shares outstanding	\$ 30,000	\$ 30,000
\$8.25 Series, 250,000 shares outstanding	25,000	25,000
\$9.125 Series, 300,000 shares outstanding	30,000	30,000
\$15.44 Series, 250,000 shares outstanding	25,000	—
Current sinking fund requirement	(2,000)	—
Total subject to mandatory redemption	\$108,000	\$ 85,000

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

Statements of Long-Term Debt

(IN THOUSANDS OF DOLLARS)
BALANCE AT DECEMBER 31

	1982	1981
First mortgage bonds (Note 2)		
3¾% Series D, due April 1, 1982	\$ —	\$ 12,000
2¾% Series E, due April 1, 1984	17,000	17,000
3¾% Series F, due October 1, 1985	18,000	18,000
4¾% Series G, due October 1, 1987	12,000	12,000
4¾% Series H, due October 1, 1990	30,000	30,000
5½% Series I, due March 1, 1997	25,000	25,000
7% Series J, due December 1, 1998	35,000	35,000
8¾% Series K, due February 1, 2000	40,000	40,000
8% Series L, due September 1, 2001	45,000	45,000
8¾% Series M, due January 15, 2004	75,000	75,000
10.7% Series O, due May 1, 1982	—	40,000
10% Series P, due July 15, 2006	45,000	45,000
8¾% Series Q, due March 15, 2007	50,000	50,000
9¾% Series R, due May 1, 2008	50,000	50,000
16% Series S, due March 15, 2010	50,000	50,000
13¾% Series T, due August 1, 2010	75,000	75,000
5¾% Series U-1, due January 15, 1984	6,567	—
5½% Series U-2, due September 1, 1994	12,368	—
17¾% Series V, due July 15, 2011	50,000	50,000
16.70% Series W, due November 3, 1987 and 1988	40,000	—
16.65% Series X, due September 1, 1986 and 1987	20,000	—
16.65% Series Y, due September 1, 1986 and 1987	15,000	—
Total	711,435	669,000
Sinking fund debentures		
4¾%, due January 15, 1984	1,308	8,250
4½%, due September 1, 1994	1,501	14,800
Total	2,809	23,050
Other long-term debt		
Foreign term loans, variable rates (10.3% to 11.2% at December 31, 1982; 13.9% at December 31, 1981), due October 25, 1983—April 26, 1986	35,000	35,000
Term loan, 8¾%, due May 1, 1983—1985	40,000	40,000
Pollution control bonds, 6¾% 1977 Series A, due April 1, 2007	9,575	9,575
Pollution control bonds, 7.20% 1979 Series A, due April 1, 2009	5,700	5,700
Other	2,663	4,166
Total	92,938	94,441
Unamortized discount on long-term debt	(4,744)	(4,977)
Current portion of long-term debt (Note 2)	(17,395)	(54,276)
Total	\$785,043	\$727,238

See notes to financial statements.

Schedules of Financial Information by Segments of Business

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

(IN THOUSANDS OF DOLLARS) FOR THE YEAR ENDED DECEMBER 31, 1982	Electric Operations	Gas Operations	Adjustments and Eliminations	Total
Operating revenues				
Unaffiliated customers	\$1,137,896	\$253,877		\$1,391,773
Intersegment sales		182,575	\$(143,400)	39,175*
Total operating revenues	1,137,896	436,452	(143,400)	1,430,948
Operating income	147,565	22,296		169,861
Depreciation and amortization	60,715	10,200		70,915
Utility plant additions**	233,050	19,740		252,790
Identifiable assets				
Utility plant—net	1,877,231	176,832		2,054,063
Materials and supplies	27,617	3,239		30,856
Fuel inventory	108,582	3,357		111,939
Other assets				214,818
Total assets				\$2,411,676

FOR THE YEAR ENDED DECEMBER 31, 1981

Operating revenues				
Unaffiliated customers	\$ 948,677	\$ 167,052		\$ 1,115,729
Intersegment sales		167,188	\$(123,255)	43,933*
Total operating revenues	948,677	334,240	(123,255)	1,159,662
Operating income	124,365	17,758		142,123
Depreciation and amortization	50,075	8,676		58,751
Utility plant additions**	192,847	16,882		209,729
Identifiable assets				
Utility plant—net	1,625,806	167,857		1,793,663
Materials and supplies	27,337	3,058		30,395
Fuel inventory	158,910	2,416		161,326
Other assets				180,567
Total assets				\$ 2,165,951

FOR THE YEAR ENDED DECEMBER 31, 1980

Operating revenues				
Unaffiliated customers	\$ 770,894	\$ 166,074		\$ 936,968
Intersegment sales		132,962	\$(109,486)	23,476*
Total operating revenues	770,894	299,036	(109,486)	960,444
Operating income	83,773	16,563		100,336
Depreciation and amortization	45,347	8,106		53,453
Utility plant additions**	158,478	19,663		178,141
Identifiable assets				
Utility plant—net	1,431,495	159,357		1,590,852
Materials and supplies	26,845	2,604		29,449
Fuel inventory	133,635	2,115		135,750
Other assets				213,512
Total assets				\$1,969,563

See notes to financial statements.

*Revenue from inter-departmental sales of gas allowed by the CPUC in tariff rates.

**Excluding allowance for funds used during construction.

Notes to Financial Statements

1. Summary of Accounting Policies

System of Accounts

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

Subsidiaries

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

The accounts of the company's non-operating subsidiaries are consolidated in the accompanying financial statements.

Utility Plant and Depreciation

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

The company has a 20% interest in the San Onofre nuclear facilities. The company obtains its own financing for its share of the cost of the facilities and includes its share of operating expenses in the results of operations. The company's investment in San Onofre, as of December 31, 1982, included in plant in service is \$60.0 million, less accumulated depreciation of \$18.3 million. The amount included in construction work in progress is \$773.7 million.

The company makes no provision for future storage or disposal costs for spent nuclear fuel, but charges these costs to fuel expense as incurred with rate recovery obtained through provisions of the Energy Cost Adjustment Clause. The company estimates its share of future dismantling and decontamination costs for its nuclear plant in operation to approximate \$16.5 million

and such costs are recovered in rates through increased depreciation expense over the estimated life of the plant.

Provisions for depreciation of property, plant and equipment for financial statement purposes are generally based on the estimated service lives of the respective properties using the straight-line remaining life method of computation. The provisions for depreciation for 1982, 1981 and 1980 were 3.98%, 3.32% and 3.31%, respectively, of the related aggregate depreciable asset balances for these periods.

Research, Development and Demonstration

Research, development and demonstration costs related to specific construction projects and a portion of general engineering research costs are capitalized. Other such costs are either charged to expense as incurred or deferred and amortized in accordance with requirements of the CPUC. The company incurred research, development and demonstration costs of approximately \$9.2 million, \$6.4 million and \$4.1 million during 1982, 1981 and 1980, respectively.

Revenues

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

Pension and Savings Plans

The company provides a savings plan and a non-contributory funded pension plan for substantially all employees. The savings plan provides for a company contribution equal to 50% of the amount a participant elects to set aside. The company's contribution cannot, within specified limits, exceed 3% of the participant's basic compensation. The company makes annual contributions to its funded pension plan equal to its pension

expense. A comparison of accumulated plan benefits and plan net assets for this plan as of the latest valuation date is presented below:

(IN MILLIONS OF DOLLARS)	July 1	
	1982	1981
Actuarial present value of accumulated plan benefits		
Vested	\$ 90.9	\$ 82.1
Non-vested	3.7	3.4
Total	\$ 94.6	\$ 85.5
Net assets available for benefits	\$117.7	\$104.6

The company also maintains an unfunded non-contributory pension plan for certain officers. The company accrues its pension expense for the unfunded plan and as of July 1, 1982 and 1981, the actuarial present value of unfunded accumulated plan benefits was \$2.1 and \$1.5 million, respectively.

The rate of return used in determining the actuarial present value of accumulated pension plan benefits was 8.0% in 1982 and 7.5% in 1981. This change in rates between years resulted in lowering the plan costs by \$1.7 million.

The company's contributions to the plans charged to expense and utility plant for the years 1982, 1981 and 1980 were \$15.5 million, \$14.3 million and \$11.5 million, respectively.

Other

Certain prior year amounts have been reclassified for comparability.

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

2. Long-Term Debt

The mandatory payments to retire the company's long-term debt during the next five years are \$17.4 million for 1983, \$47.0 million for 1984, \$40.6 million for 1985, \$33.4 million for 1986 and \$50.0 million for 1987.

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

3. Short-Term Borrowings

The company issues commercial paper at various discount rates and the paper usually matures within 1 to 45 days. As of December 31, 1982, the company had various bank lines aggregating \$180.0 million, all of which are available to support commercial paper. Borrow-

ings under these bank lines of credit bear interest at various short-term rate options plus a commitment fee of up to a maximum of 0.375% on the total of the lines. In January 1983, the bank lines were increased by \$25.0 million. There are no requirements for compensating balances.

The company may also borrow up to \$150.0 million in bankers' acceptances to finance the purchase of fuel inventory. The bankers' acceptances are issued at the prevailing acceptance rate plus a placement fee and usually mature within 30 to 180 days. Warehouse receipts for the fuel inventory are pledged as collateral for this credit.

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

(IN MILLIONS OF DOLLARS)	1982		1981	
	Debt	Rate	Debt	Rate
Bank loans	\$ 79.0	11.1%	\$ 3.0	13.9%
Commercial paper	3.0	9.3%	40.0	12.6%
Bankers' acceptances	94.0	9.2%	135.5	13.1%
Short-term borrowings	\$176.0		\$178.5	

4. Income Taxes

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

The company's accounting for taxes has changed over the years to reflect the revisions in the law. In 1975, the company elected to provide deferred taxes on the additional available investment tax credits. In 1982, the company began to record deferred taxes on both the excess of tax over book depreciation for new property and for substantially all investment tax credits. The company amortizes deferred investment tax credits to in-

come ratably over the book lives of the property. As of December 31, 1982, the unused investment tax credits that may be carried forward and applied against future years' federal income taxes are estimated at \$67.8 million (expiring 1995 through 1997).

At December 31, 1982 and 1981, the company had net deferred income tax credits of \$13.6 million included in reserves and deferred credits, and net deferred income tax debits of \$5.8 million included in deferred charges and other assets, respectively.

Components of Income Tax Expense (Benefit)

(IN THOUSANDS OF DOLLARS)	1982	1981	1980
Current federal income tax	\$ 2,135	\$12,334	\$ 1,330
Current state franchise tax	6,760	8,334	1,387
Total current taxes	8,895	20,668	2,717
Total taxes allocated to subsidiaries	(5,948)	(6,381)	(997)
Deferred federal and state taxes			
Regulatory balancing accounts—net	25,000	(15,453)	(6,216)
Sundesert suspension	(4,351)	(2,335)	(2,335)
Encina East sale	—	1,682	(1,682)
Tax over book depreciation	14,835	—	—
Nuclear fuel financing	12,343	—	—
Other—net	(3,588)	41	41
Total deferred taxes	44,239	(16,065)	(10,192)
Deferred investment tax credits—net	13,835	10,138	(14)
Total income tax expense (benefit)	\$61,021	\$ 7,860	\$(8,486)

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

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

(IN THOUSANDS OF DOLLARS)	1982	1981	1980
Income before federal income taxes	\$207,020	\$115,636	\$46,019
Statutory federal income tax rate	46.0 %	46.0 %	46.0 %
Excess tax over book depreciation	(0.4)	(5.0)	(24.0)
Regulatory balancing accounts—net	(2.5)	10.7	5.5
Allowance for funds used during construction	(15.8)	(19.8)	(39.3)
Construction costs capitalized	(4.4)	(8.0)	(16.7)
Sundesert suspension	0.4	1.8	4.1
Operating loss carryforwards	—	(1.8)	(7.8)
Encina East sale	—	(0.3)	3.7
Nuclear fuel financing	2.7	(3.9)	(4.6)
Fuel—moving average to FIFO	1.0	(3.0)	—
Fuel oil exchange	—	—	12.3
Investment tax credits	(3.8)	(15.4)	—
Other—net	0.8	3.9	7.7
Effective federal income tax rate	24.0 %	4.7 %	(13.1)%

5. Preferred Stock

General

The company, at its option, may redeem the whole or any part of its cumulative preferred stock outstanding upon payment of the redemption price together with accrued dividends. At December 31, 1982, the redemption premiums per share ranged up to \$4, depending upon the series and the dates for redemption.

If unpaid dividends on the outstanding preferred stock equal or exceed eight full quarterly dividends, then until all dividends in default have been paid, the holders of the preferred stock are entitled to elect a majority of the full board of directors.

The company's preference stock (cumulative) may be redeemed at the option of the company upon payment of the redemption price together with accrued dividends provided that prior to certain specified dates through June 1, 1987, no redemption may be made through refunding at an effective cost of money to the company per annum at less than the respective dividend rates. Depending upon the series and the dates for redemption, the redemption prices range from \$100.00 to \$115.44 per share for the \$9.84, \$7.80, \$7.20, \$7.325, \$8.25, \$9.125 and \$15.44 series, and from \$27.75 to \$32.15 for the \$2.68, \$2.475 and \$4.65 series.

Subject to Mandatory Redemption

The company is required to set aside \$2.0 million in sinking funds each year beginning in 1983 to be used for the annual repurchase of the \$9.125 series preference stock (cumulative) subject to mandatory redemption. Beginning in 1984, an additional \$1.2 million in sinking funds will be required for the annual repurchase of the \$7.325 series. In 1985 and 1987, additional sinking funds will be required in the amounts of \$1.0 million and \$1.25 million for the \$8.25 and \$15.44 series, respectively.

6. Commitments and Contingencies

Construction

The company is engaged in a construction program under which expenditures of \$365 million are planned for 1983, excluding AFUDC and other non-cash items.

Revenues Subject to Refund

In prior years, the company entered into contracts with suppliers for the purchase of a minimum amount of fuel oil through June of 1986. In August 1982, the company entered into an agreement with one of its suppliers to suspend the fuel oil purchase contract that would have expired on December 31, 1983. Under the suspension agreement, the company has agreed to pay an underlift charge of \$46.8 million to the supplier and the fuel oil transporter not to deliver 6.9 million barrels of oil between October 1, 1982 and December 31, 1983. As of December 31, 1982, \$10.8 million has been paid under this agreement and is included in a regulatory balancing account. Recovery of the underlift charges was reviewed by the CPUC in hearings. The CPUC acknowledged that the ratepayers received a benefit from the suspension of fuel oil purchases under this contract and in December 1982 the CPUC authorized the company to adjust rates, effective January 1, 1983, to recover these costs over the next two years. However, since the CPUC staff did not have adequate time for analysis, the recovery of these costs will be subject to refund pending a further review of the reasonableness of the \$6.55 per barrel underlift charge. This review is expected to be completed by November 1, 1983. In the past, the CPUC has allowed the company to recover the entire amounts of underlift charges in rates. Management believes that its actions in determining the negotiated price of the underlift charge were prudent and has presented testimony to the CPUC supporting this belief. The CPUC will decide the extent to which costs under the suspension agreement with this supplier will ultimately be recovered in rates. Management is unable to predict the ultimate out-

come of the CPUC review, but believes the final result will not have a material effect on its financial position.

Leases

The company is committed under certain leases which have been accounted for as operating leases in accordance with the Addendum to Accounting Principles Board Opinion No. 2 but which meet the criteria of Statement of Financial Accounting Standards No. 13 for capital leases. The amounts of assets and liabilities that would have been included in the accompanying balance sheets for such capital leases approximated \$240 million and \$215 million, at December 31, 1982 and 1981, respectively. Had such leases been capitalized, there would have been no effect on expenses as recorded.

At December 31, 1982, the minimum rental payments of the company under all noncancellable leases were \$33.7 million, \$42.7 million, \$39.0 million, \$31.0 million and \$26.7 million for the years 1983 through 1987, respectively. The aggregate amount of noncancellable rental commitments at December 31, 1982 was \$397.3 million.

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

The company has no material subleases. The amount of rents charged to operating expenses for the years ended December 31, 1982, 1981 and 1980 was \$22.1 million, \$20.2 million and \$17.7 million, respectively.

Purchased Power Contracts

The company is committed under long-term contracts for the purchase of electric power with an estimated total minimum commitment of \$1.3 billion at current prices over the lives of the contracts (expiring 1983 to 1995).

At December 31, 1982, the minimum payments under the contracts were \$76.4 million, \$101.8 million, \$161.3 million, \$195.1 million and \$214.4 million for the years 1983 through 1987, respectively. The company is required to pay additional amounts for actual deliveries of electric power under the contracts.

The company's total payments, including electric power deliveries, under these contracts for the years ended December 31, 1982, 1981 and 1980 were \$87.6 million, \$25.8 million and \$29.0 million, respectively.

Fuel Oil Contracts

At December 31, 1982, there were approximately 10.2 million barrels of fuel oil, scheduled to be delivered, that are covered by contract. The company estimates that commitments under this contract aggregate \$435.6 million through June 1986 at current contract prices determined by a formula which is based upon the supplier's crude oil costs. In addition, the company has contracted to purchase 9.9 million barrels of fuel oil from July 1986 through December 1990 at prices to be determined in the future.

Plant Held for Future Use

Plant held for future use includes \$45.0 million of site related costs for the suspended Sundesert Nuclear Project. The CPUC has permitted these costs to remain in rate base through 1983. The CPUC has stated that this treatment will be discontinued in 1984 if the company does not have a specific plan for the proposed use or disposition of the property. The company continues to study various possible alternatives for use of the property and has presented its plan to the CPUC as part of the 1984 general rate case hearings. Management believes that the Sundesert site is a valuable asset to the company and that it can demonstrate this in future hearings. However, the realization of the value of this asset depends upon future rate decisions. It is management's opinion that the ultimate decision will not have a material effect on the financial position of the company.

7. Provision for Exchange Loss

During 1978 and 1979, the company had an excess supply of fuel oil and exchanged 2.4 million barrels (cost \$39.0 million) of fuel oil with an independent oil distributor. To partially collateralize its receivable, the company obtained the right to certain assets of the distributor. The distributor returned 0.3 million barrels of oil (valued at \$5.1 million) and repaid \$3.3 million in cash. The continuing review of the distributor's operations and value of collateral led the company to record reserves, in 1980 and 1981, for a probable loss of the remaining \$30.6 million receivable.

In an effort to collect its receivable, the company commenced litigation in federal courts seeking recovery of the collateral and enforcement of personal guarantees. The distributor and related entities have petitioned for bankruptcy and

the company has filed an involuntary bankruptcy petition against the distributor's principal officer. The distributor and others have filed counterclaims against the company and four officers for damages which appear to be in excess of \$6 billion. The company will vigorously oppose these claims and, in any case, believes that the ultimate outcome will not have a material effect on its financial position.

In 1981, a class-action lawsuit was filed against the company alleging inadequate disclosure by the company of potential losses associated with the exchange transactions. In 1982, the company, without admitting the allegations, settled the litigation and paid \$5.9 million (\$0.06 per share, net of taxes) to the law firm representing the class-action plaintiffs for distribution to the plaintiffs.

8. Quarterly Financial Data (Unaudited)

(IN THOUSAND OF DOLLARS)	Operating Revenues	Operating Income	Net Income	Earnings per Common Share**
Quarter Ended				
1981				
March 31	\$271,959	\$33,104	\$24,024	\$0.54
June 30	275,852	34,919	32,102	0.72
September 30	297,278	42,107	28,881	0.61
December 31	314,573	31,993	25,149	0.47
1982				
March 31	355,751	47,639	45,040	0.89
June 30	332,512	39,795	38,574	0.72
September 30	360,093	44,616	39,497	0.72
December 31	382,592	37,811	34,192	0.58

These amounts are unaudited but in the opinion of the company reflect all adjustments necessary for a fair presentation. Such adjustments comprise only normal recurring accruals except for the recognition in the quarter ended June 30, 1981 of a \$5.2 million (\$0.13 per share, net of taxes*) gain from the sale of subsidiary land holdings; the effect

on the quarter ended March 31, 1982 of the \$5.9 million (\$0.06 per share, net of taxes*) provision for the class-action lawsuit, as described in Note 7; and the effect on the quarter ended December 31, 1982, of reductions in revenues of \$14.5 million (\$0.14 per share, net of taxes*) as a result of CPUC hearings on the balancing accounts.

*Based on average common shares outstanding during the quarter.

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

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

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

Statement of Income from Operations Adjusted for Changing Prices

(IN THOUSANDS OF DOLLARS) FOR THE YEAR ENDED DECEMBER 31, 1982	As Reported in the Financial Statements (Historical)	Adjusted for General Inflation ⁽¹⁾ (Constant Dollars)	Adjusted for Changes in Specific Prices ⁽²⁾ (Current Cost)
Operating revenues	\$1,430,948	\$1,430,948	\$1,430,948
Electric fuel and purchased energy	635,033	635,033	635,033
Gas purchased for resale	197,383	197,383	197,383
Other operating	199,556	199,556	199,556
Maintenance	50,535	50,535	50,535
Depreciation and amortization	70,915	119,344	138,114
Taxes	107,665	107,665	107,665
Net interest charges	88,249	88,249	88,249
Other income—net	(75,691)	(75,685)	(75,685)
	1,273,645	1,322,080	1,340,850
Income from operations (excluding adjustment to net recoverable cost)	\$ 157,303	\$ 108,868 ⁽³⁾	\$ 90,098
Increase in specific prices (current cost) of property, plant and equipment held during the year ⁽³⁾			\$ 280,524
Adjustment to net recoverable cost		\$ (40,978)	(138,915)
Effect of increase in general price level			(163,817)
Excess of increase in general price level over increase in specific prices after adjustment to net recoverable cost			(22,208)
Gain from decline in purchasing power of net amounts owed		46,920	46,920
Net		\$ 5,942	\$ 24,712

⁽¹⁾At average 1982 price levels.

⁽²⁾Including the adjustment to net recoverable cost, the income from operations on a constant dollar basis would have been \$67,890.

⁽³⁾At December 31, 1982, current cost of property, plant and equipment, net of accumulated depreciation, was \$3,915,663, while historical cost or net recoverable cost was \$2,063,748.

Constant dollar amounts represent historical costs stated in terms of dollars of the same general purchasing power, as measured by the Consumer Price Index for All Urban Consumers. Current cost amounts reflect the changes in specific prices of plant from the date the plant was acquired to the present. The current cost of property, plant and equipment, which includes land, land rights, intangible plant, plant held for future use and construction work in progress, represents the estimated cost of replacing existing plant assets and was determined primarily by indexing surviving plant by the Handy-Whitman Index of Public Utility Construction Costs. The difference between these two methods of

measuring the effects of inflation results from current costs of utility plant assets having increased at a rate different from the rate of general inflation.

The current year's provision for depreciation on the constant dollar and current cost amounts of property, plant and equipment was determined by applying the company's book depreciation rates to the indexed plant amounts.

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

costs. For this reason, fuel inventories are effectively monetary assets. In addition, since only historical costs are deductible for income tax purposes, no adjustments have been made to tax expense.

Under the ratemaking prescribed by the CPUC, only the historical cost of plant is recoverable in revenues as depreciation. Therefore, the cost of plant stated in terms of constant dollars or current cost differing from the historical cost of plant is not presently recoverable in rates as depreciation, and is reflected as an adjustment to net recoverable cost. While the rate-making process gives no recognition to the current cost of replacing property, plant and equipment, based on past practices, the com-

pany believes it will be allowed to earn on the increased cost of its net investment when replacement of facilities actually occurs.

During a period of inflation, holders of monetary assets suffer a loss of general purchasing power while holders of monetary liabilities experience a gain. To properly reflect the economics of rate regula-

tion in the Statement of Income from Operations, the adjustment to net property, plant and equipment should be offset by or combined with, as appropriate, the gain from the decline in purchasing power of net amounts owed. The gain from the decline in purchasing power of net amounts owed is primarily attributable to the substantial

amount of debt which has been used to finance property, plant and equipment. Since the depreciation of this plant is limited to the recovery of historical costs, the company does not have the opportunity to realize a holding gain on debt and is limited to recovery only of the embedded cost of debt capital.

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

(IN THOUSANDS EXCEPT PER SHARE AMOUNTS)⁽¹⁾
FOR THE YEARS ENDED DECEMBER 31

	1982	1981	1980	1979	1978
Operating Revenues	\$ 1,430,948	\$ 1,231,609	\$ 1,125,837	\$ 991,700	\$ 908,501
Historical Cost Information Adjusted for General Inflation (Constant Dollar)					
Income from operations (excluding adjustment to net recoverable cost)	\$ 108,868	\$ 67,184	\$ 9,614	\$ 47,863	
Income (loss) per common share (after preferred dividend requirements and excluding adjustment to net recoverable cost)	\$ 1.83	\$ 1.05	\$ (0.33)	\$ 0.83	
Net assets at year-end at net recoverable cost	\$ 961,491	\$ 854,953	\$ 799,393	\$ 843,866	
Historical Cost Information Adjusted for Changes in Specific Prices (Current Cost)					
Income (loss) from operations (excluding adjustment to net recoverable cost)	\$ 90,098	\$ 45,693	\$ (4,856)	\$ 29,164	
Income (loss) per common share (after preferred dividend requirements and excluding adjustment to net recoverable cost)	\$ 1.41	\$ 0.66	\$ (0.75)	\$ 0.20	
Excess of increase in general price level over increase in specific prices after adjustment to net recoverable cost	\$ (22,208)	\$ (88,688)	\$ (145,154)	\$ (159,916)	
Net assets at year-end at net recoverable cost	\$ 961,491	\$ 854,953	\$ 799,393	\$ 843,866	
General Information					
Gain from decline in purchasing power of net amounts owed ⁽²⁾	\$ 46,920	\$ 87,413	\$ 113,656	\$ 115,176	
Cash dividends declared per common share	\$ 1.785	\$ 1.74	\$ 1.83	\$ 1.97	\$ 2.07
Market price per common share at year-end ⁽³⁾	\$ 16.95	\$ 12.85	\$ 13.16	\$ 16.52	\$ 21.03
Average Consumer Price Index	289.3 ⁽³⁾	272.4	246.8	217.4	195.4

⁽¹⁾Average 1982 dollars

⁽²⁾In constant dollars

⁽³⁾1982 Average Consumer Price Index estimated.

Financial Data

(IN MILLIONS OF DOLLARS EXCEPT PER SHARE AMOUNTS)
FOR THE YEARS ENDED DECEMBER 31

	1982	1981	1980	1979	1978	1977	1976
Common Stock							
Financial return on equity	17.5%	14.5%	6.0%	10.4%	11.4%	13.4%	11.4%
Market to book ratio*	101.8%	77.2%	73.2%	75.6%	84.7%	89.3%	117.9%
Book value per share*	\$ 16.94	\$ 16.20	\$ 16.06	\$ 17.35	\$ 17.41	\$ 17.36	\$ 17.17
Earnings per common share	\$ 2.90	\$ 2.34	\$ 1.01	\$ 1.80	\$ 2.02	\$ 2.32	\$ 1.90
Dividends per share							
Paid	\$ 1.75	\$ 1.62	\$ 1.54	\$ 1.46	\$ 1.38	\$ 1.24	\$ 1.11
Declared	\$ 1.785	\$ 1.64	\$ 1.56	\$ 1.48	\$ 1.40	\$ 1.28	\$ 1.14
Payout ratio (declared)	62.4%	71.1%	156.8%	83.1%	71.5%	55.9%	61.9%
Dividend yield (declared)	10.3%	13.1%	13.3%	11.3%	9.5%	8.3%	5.6%
Price/Earnings ratio*	5.9	5.3	11.6	7.3	7.3	6.7	10.7
Capitalization*							
Common equity	\$ 817.4	\$ 672.4	\$ 585.8	\$ 541.2	\$ 480.4	\$ 393.2	\$ 197.4
Preferred stock							
Not subject to mandatory redemption	161.0	161.0	128.5	128.5	128.5	103.5	78.5
Subject to mandatory redemption	108.0	85.0	85.0	85.0	85.0	85.0	—
Long-term debt							
First mortgage bonds	706.3	612.4	615.2	491.2	490.9	491.1	243.6
Debentures	2.7	22.2	23.0	23.7	24.5	25.3	29.1
Other	76.1	92.6	94.1	125.2	57.7	56.2	57.0
Total long-term debt	785.1	727.2	732.3	640.1	573.1	572.6	329.7
Total capitalization	\$ 1,871.5	\$ 1,645.6	\$ 1,531.6	\$ 1,394.8	\$ 1,267.0	\$ 1,154.3	\$ 605.6
Capitalization ratios(%)							
Common equity	43.7	40.9	38.2	38.8	37.9	34.1	32.6
Preferred stock							
Not subject to mandatory redemption	8.6	9.8	8.4	9.2	10.2	9.0	13.0
Subject to mandatory redemption	5.8	5.2	5.6	6.1	6.7	7.3	—
Long-term debt:							
First mortgage bonds	37.7	37.2	40.2	35.2	38.7	42.5	40.2
Debentures	0.1	1.3	1.5	1.7	1.9	2.2	4.8
Other	4.1	5.6	6.1	9.0	4.6	4.9	9.4
Total long-term debt	41.9	44.1	47.8	45.9	45.2	49.6	54.4
Total capitalization	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Times earned							
Interest on debt before income taxes	3.02	2.06	1.47	2.18	2.25	2.20	2.19
Interest and preferred dividends after income taxes	1.98	1.70	1.31	1.65	1.67	1.74	1.77
Utility Plant*							
Electric	\$ 2,253.6	\$ 1,960.5	\$ 1,735.9	\$ 1,547.4	\$ 1,343.3	\$ 1,281.7	\$ 613.3
Gas	281.0	262.2	246.1	228.0	212.9	201.2	147.9
Common	33.2	29.0	27.4	25.8	23.4	21.9	39.4
Total	2,567.8	2,251.7	2,009.4	1,801.2	1,579.6	1,504.8	800.6
Accumulated depreciation							
Utility plant—net	\$ (513.7)	\$ (458.0)	\$ (418.6)	\$ (381.4)	\$ (344.9)	\$ (315.6)	\$ (193.5)
Total	\$ 2,054.1	\$ 1,793.7	\$ 1,590.8	\$ 1,419.8	\$ 1,234.7	\$ 1,189.2	\$ 607.1

*At December 31

Stock Prices 1981—1982

1981 Qtrs.	Common		4.40% Preferred		4½% Preferred		5% Preferred		\$9.84 Preference		\$7.80 Preference		\$7.20 Preference		\$2.68 Preference		\$2.475 Preference	
	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low
1st	13%	11	7	6	7	6%	7%	6%	70	63½	55	50%	50	45%	18%	17	17%	16
2nd	12%	11	6%	5%	6%	6	7%	6%	64%	61½	54	47%	47	44%	18%	17	17	15%
3rd	12%	11½	6%	5%	6%	5½	7%	6	64%	60	50%	45%	47	42%	18%	15%	16%	14%
4th	14	11%	6%	5%	6%	5½	7%	6%	67	58	55	45	49	43%	19%	16	18%	14%

1982 Qtrs.	Common		4.40% Preferred		4½% Preferred		5% Preferred		\$9.84 Preference		\$7.80 Preference		\$7.20 Preference		\$2.68 Preference		\$2.475 Preference		\$4.65 Preference	
	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low
1st	14%	11%	6%	5%	6%	5%	7%	6%	63	50	51	46	47½	43	18	15%	16%	15	30%	27%
2nd	15%	13%	6%	5½	6%	5%	7	6%	67	60	51½	47½	48	44	18%	16%	17%	15%	31%	28%
3rd	16%	14%	6%	5%	7%	5%	7%	6%	69%	59%	55½	48%	50	44	19%	16%	18%	15%	34	17%
4th	17%	15%	7%	6½	7%	6%	8%	7	76	69	62	54	56%	49	21%	18	20	17%	36%	31%

Quarterly Dividends Paid in 1981—1982

(Publicly sold issues only)

Common	4.40% Preferred	4½% Preferred	5% Preferred	\$9.84 Preference	\$7.80 Preference	\$7.20 Preference	\$2.68 Preference	\$2.475 Preference	\$4.65 Preference
45.5 ^a	22 ^b	22½ ^c	25 ^d	\$2.46	\$1.95	\$1.80	67 ^e	61½ ^e	\$1.1625

^aRate paid since July 15, 1982. Prior rates were 40^c, paid from October 15, 1980, and 42^c, paid from October 15, 1981.

^bThe company has paid dividends on its common stock in each year since 1969.

^c\$15.44 Preference was issued in May 1982 at an initial price of \$100.00. Initial dividend was paid in July 1982.

4th Quarter Results—Statements of Income

(IN THOUSANDS EXCEPT PER SHARE AMOUNTS)	Three Months Ended December 31		Years Ended December 31	
	1982	1981	1982	1981
Operating revenues	\$382,592	\$314,573	\$1,430,948	\$1,159,662
Operating expenses	344,781	282,580	1,261,087	1,017,539
Operating income	37,811	31,993	169,861	142,123
Other income	17,763	16,046	75,691	61,116
Net interest charges	21,382	22,890	88,249	93,083
Net income (before preferred dividend requirements)	34,192	25,149	157,303	110,156
Preferred dividend requirements	6,887	5,486	26,068	18,718
Earnings applicable to common shares	\$ 27,305	\$ 19,663	\$ 131,235	\$ 91,438
Average common shares outstanding	47,074	41,414	45,306	39,091
Earnings per common share	\$ 0.58	\$ 0.47	\$ 2.90	\$ 2.34
Dividends declared per common share	\$ 0.455	\$ 0.42	\$ 1.785	\$ 1.64

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

"The management team has successfully solved the company's problems. I'm leaving SDG&E in good hands." R. E. MORRIS,

FORMER CHAIRMAN OF THE BOARD

SDG&E has undergone many changes since 1965 when Robert Morris joined the company. In an interview, Morris reflected on these changes.

You were manager and then vice president of marketing between 1965 and 1970. How would you describe the times?

"They were years of accelerated growth in San Diego. To accommodate the many new customers, the company was expanding. And, because energy was cheap, there was an emphasis on marketing our services.

"In 1968, we formed Applied Energy, Inc. as a subsidiary to market thermal services—chilled water and steam—to our commercial and industrial customers. We were 10 years ahead of the industry in developing cogeneration expertise."

In early 1971, you became senior vice president with great'y expanded responsibilities. How would you sum up the next five years?

"This was the period of rapid inflation, the oil embargo, and the threat of energy shortages. The corporate response was to begin planning for three new facilities that would use lower-cost fuel: Kaiparowits for a coal plant; Sycamore Canyon for a combined-cycle, oil-burning facility; and Sundesert, for a nuclear plant."

You became president and chief executive officer in 1975. What changes occurred then?

"A period of readjustment began for us. The costs of building new generating facilities were rising rapidly. Many utilities, SDG&E included, began to face financial difficulties as the cost of capital increased sharply and the ability to raise capital was curtailed.

"Environmental regulations, passed in the mid-seventies, began to impact on our ability to make



Robert E. Morris

decisions. In fact, the decision-making process shifted from the utility industry to the public sector during this period. With the veto power for projects in the hands of many groups with differing interests, planning for capital-intensive projects became too risky. Our realization of this led us to the decision to cancel all three major capital projects in the face of the continuing uncertainty of ever being able to complete them."

What about the future?

"Since 1981, when I became chairman, the growth rate of San Diego has slowed down and energy consumption by our customers has leveled off. A new phase has begun.

"The management team is well on its way to achieving its goal of stabilizing rates for its customers. And their efforts returned the company to a pattern of growth in earnings in 1982, which will benefit both the customers and the shareholders."

R. E. Morris was chairman of SDG&E throughout the period covered by this report. He resigned February 1, 1983.

Board of Directors

Thomas A. Page*

President, Chief Executive Officer of SDG&E
Chairman of the Board (effective February 1, 1983)

Malin Burnham*

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

David M. DeMotte

President of Rough Country, Inc., (manufacturer and distributor of specialized automotive parts)

Bruce R. Hazard

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

William D. McElroy

Professor of Biology at the University of California at San Diego

Gordon Pearce

Vice President and General Counsel of SDG&E

Burt F. Raynes

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

O. Morris Sievert*

Private investor; former president of Oil Field Manufacturing Service and Supply Division of Nucorp Energy, Inc. (an oil and gas exploration, development and production firm)

Fred C. Stalder*

Chairman of the Board and Chief Executive Officer of Central Savings and Loan Association

Catherine T. Wiggs*

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

Robert E. Morris

Chairman of the Board of SDG&E
Chairman of the Executive Committee
(resigned, February 1, 1983)

*Member of the Executive Committee

Officers

Thomas A. Page

President, Chief Executive Officer
Chairman of the Board (effective
February 1, 1983)

Alton T. Davis

Group Vice President—Operations

Richard Korpan

Group Vice President—Finance

Jack E. Thomas

Group Vice President—Customer
Service

J. Robert Belt

Vice President—Administrative
Services

Gary D. Cotton

Vice President—Engineering

Frank W. DeVore

Vice President—Governmental Affairs

John E. Hamrick

Vice President—Customer Service

R. Lee Haney

Treasurer

Chris Harlow

Vice President—Information Services

James J. Holley

Vice President—Personnel

William J. Karnes

Secretary

Richard L. Manning

Vice President—Public Relations

Alan J. McCutcheon

Vice President—Customer Service
Administration

Ralph L. Meyer

Vice President—Regulatory Services

Robert E. Parsley

Controller

Gordon Pearce

Vice President and General Counsel

Ronald W. Watkins

Vice President—Resource
Management

Robert E. Morris

Chairman of the Board
(retired, February 1, 1983)

Division Managers—Operations

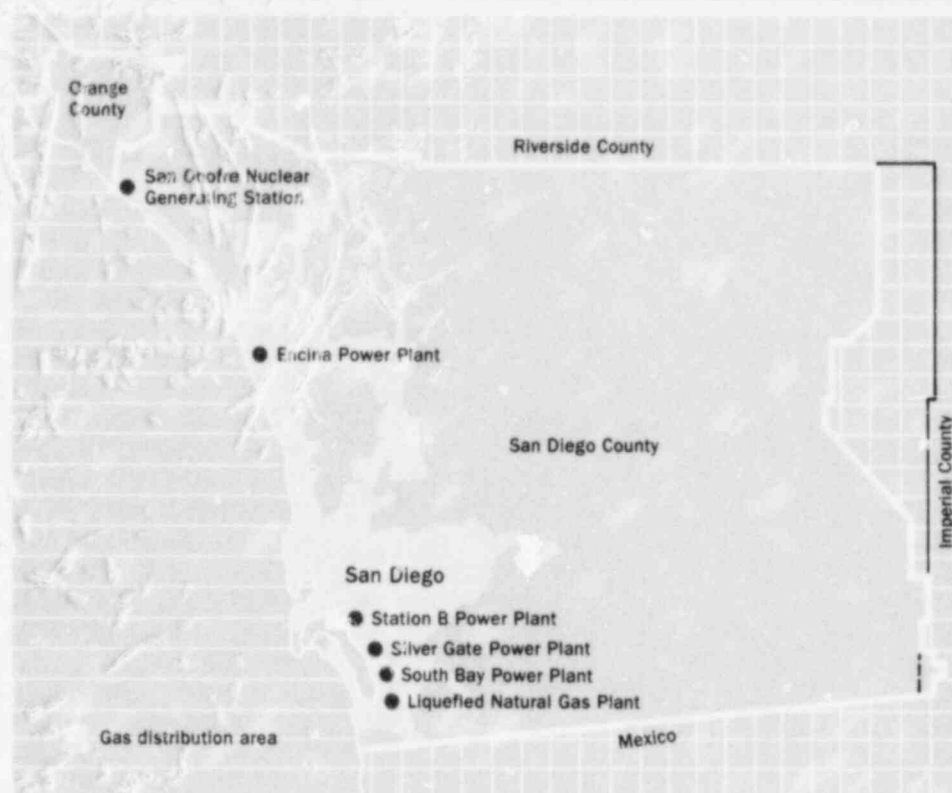
Donald E. Felsing

Division Manager—Gas

James C. Holcombe

Division Manager—Power Supply

SDG&E Service Territory



San Diego Gas & Electric serves communities in San Diego County, an adjoining part of Orange County and a small section of Imperial County.

San Diego Gas & Electric Customer Service Centers

Beach Cities

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

Centre City

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

Eastern

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

North Coast

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

Northeast

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

Orange County

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

South Bay

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

Gale-force winds and lightning made repair work hazardous for SDG&E crews who worked around-the-clock for three days to restore service to more than 375,000 customers affected by one of the worst storms of the decade. The storm caused more than \$1 million in damage.

