S20 B

ROSPECTUS

300,000 Shares

SAN DIEGO GAS & ELECTRIC COMPANY

CUMULATIVE PREFERRED STOCK

4½% Series, $20 par value

Transfer Agent

THE FIRST NATIONAL TRUST AND SAVINGS
BANK OF SAN DIEGO
San Diego

Registrar

BANK OF AMERICA, N. T. & S. A.
San Diego

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION NOR HAS THE COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

This prospectus, when issued, will be used by the Company only in connection with its ublic invitation for sealed, written bids for the purchase from it of the Stock referred to herein.

If the Company accepts a bid for the purchase of the Stock, this prospectus will be ended so as to include certain information not now included herein.

No person has been authorized by the Company to give any information or to make any repre- tions, other than those contained in this Prospectus, in connection with the offer contained in Prospectus, and information or representations not herein contained, if given or made, must not lied upon as having been authorized by the Company or by the Underwriters. This Prospectus not constitute an offer by any person in any state to any person to whom it is unlawful to make offer.

The date of issue of this Prospectus is April 5, 1949.

REGISTRATION STATEMENT

San Diego Gas & Electric Company (hereinafter sometimes called the "Company") has filed with the Securities and Exchange Commission a registration statement, Form S-1, of which this prospectus is a part, under the Securities Act of 1933, as amended, with respect to the 300,000 shares of Cumulative Preferred Stock, 4½% Series, $20 par value, of the Company offered hereby (hereinafter sometimes called the "new Preferred stock"). The registration statement (including all parts thereof, such as the prospectus, financial statements and exhibits) is herein called the "Registration Statement," and the prospectus included in the Registration Statement, when separately referred to herein, is called the "Prospectus." This Prospectus omits certain information contained in the Registration Statement on file with the Securities and Exchange Commission. The information omitted may be obtained from the Commission's principal office at Washington, D.C., upon payment of the fee prescribed by the rules and regulations of the Commission.

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Neither the delivery of this Prospectus nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Company since the date hereof.

300,000 Shares

SAN DIEGO GAS & ELECTRIC COMPANY

Cumulative Preferred Stock

4½% Series, $20 Par Value

APPLICATION OF PROCEEDS

The Company proposes to use the net proceeds from the sale of the new Preferred Stock to reimburse its treasury for capital expenditures made prior to January 1, 1949, for the acquisition of property and for the construction, completion, extension or improvement of its facilities and to finance in part the Company's 1949 construction program referred to under the caption "Construction Program." The Company also intends to use an amount at least equal to the amount of the above reimbursement to finance in part said Construction Program.

Additional funds for the Construction Program will be obtained from (i) treasury funds on hand; (ii) internal sources (principally provisions for depreciation, estimated at approximately $2,489,000 for 1949); (iii) the sale of additional securities when and as required, the nature and amount of which are not now determined, and (iv), borrowings under the standby Loan Agreement described in Note 2 under the caption "Funded Debt and Capitalization." Any sale of additional securities may involve the sale of additional bonds or of promissory notes which, upon the issuance thereof, would have priority over the new Preferred Stock.

SUMMARY OF EARNINGS

The following summary of earnings has been reviewed by Messrs. Haskins & Sells, independent public accountants, whose certificate with respect thereto appears elsewhere in this Prospectus. The summary should be read in conjunction with its footnotes and the statement of income and related notes appearing elsewhere in this Prospectus.

	Year Ended December 31				
	1944	1945	1946	1947	1948
OPERATING REVENUES	$16,456,756	$17,463,481	$18,113,322	$19,718,474	$21,930,172
OPERATING EXPENSES:					
Operation	$ 6,739,818	$ 6,968,809	$ 7,803,124	$10,048,550	$11,737,343
Maintenance and repairs	909,827	938,111	978,034	1,173,655	1,424,986
Depreciation (Note 1)	1,945,728	2,113,893	1,860,849	1,985,239	2,162,728
Amortization of limited-term investments	408	404	397	397	394
Provision for employees' retirement annuities (Note 2):					
For future-service annuities	139,100	149,776	176,500	243,794	277,052
For past-service annuities			320,000	3,526	
Taxes other than Federal income taxes	1,489,871	1,581,470	1,693,882	1,785,470	2,156,241
Total operating expenses	$11,224,752	$11,752,463	$12,832,786	$15,240,631	$17,758,744
NET OPERATING REVENUES	$ 5,232,004	$ 5,711,018	$ 5,280,536	$ 4,477,843	$ 4,171,428
OTHER INCOME	1,500	5,740	14,787	990	13,642
GROSS INCOME	$ 5,233,504	$ 5,716,758	$ 5,295,323	$ 4,478,833	$ 4,185,070
INCOME DEDUCTIONS:					
Interest on funded debt (Note 3)	$ 540,000	$ 540,000	$ 540,000	$ 540,000	$ 776,667
Interest on miscellaneous long-term debt				38,751	79,594
Amortization of debt discount and expense, and premium	56,149	56,149	56,149	11,980	2,181
Other interest (Note 4)	39,529	37,404	15,947	11,563	8,537
Interest charged to construction (*credit)	* 6,687	* 7,721	* 16,219	* 79,351	* 80,457
Miscellaneous	28,835	38,375	57,063	33,985	36,211
Total income deductions	$ 657,826	$ 664,207	$ 652,940	$ 556,928	$ 822,733
NET INCOME BEFORE FEDERAL TAXES ON INCOME AND SPECIAL CHARGES	$ 4,575,678	$ 5,052,551	$ 4,642,383	$ 3,921,905	$ 3,362,337
PROVISION FOR FEDERAL TAXES ON INCOME (Note 5)	3,060,000	3,545,000	1,843,000	1,420,000	1,091,000
NET INCOME BEFORE SPECIAL CHARGES	$ 1,515,678	$ 1,507,551	$ 2,799,383	$ 2,501,905	$ 2,271,337
SPECIAL CHARGES (See Note 3 to Financial Statements for explanation):					
Accelerated amortization of debt discount and expense			$ 848,000	$ 312,758	
Amortization of plant acquisition adjustments			424,000	565,000	$ 300,414
Total special charges			$ 1,272,000	$ 877,758	$ 300,414
NET INCOME	$ 1,515,678	$ 1,507,551	$ 1,527,383	$ 1,624,147	$ 1,970,923
DIVIDENDS ON PREFERRED STOCK (Note 6)	375,000	375,000	375,000	375,000	375,000
BALANCE OF NET INCOME AFTER PREFERRED DIVIDENDS	$ 1,140,678	$ 1,132,551	$ 1,152,383	$ 1,249,147	$ 1,595,923
Shares of capital stock outstanding at end of each year were as follows:					
Cumulative preferred 5% series (par $20)	375,000	375,000	375,000	375,000	375,000
Common (par $10)	1,250,000	1,250,000	1,250,000	1,550,000	1,900,000

NOTES TO SUMMARY OF EARNINGS:

1. Includes amortization of emergency facilities: 1944, $76,804; 1945, $133,699.
2. For particulars with respect to the Company's pension plan, see the caption "Employees' Retirement Plan."
3. The annual interest requirements on the Company's First Mortgage Bonds outstanding at December 31, 1948 are $840,000.
4. Includes interest credited to employees' provident reserve: 1944, $29,647; 1945, $13,437.
5. Includes excess-profits taxes: 1944, $2,304,000; 1945, $2,793,000.
6. Upon sale of the new Preferred Stock offered hereby the annual dividend requirements of the Cumulative Preferred Stock of the Company will be increased by $270,000.
7. In February 1949, wage increases averaging approximately 4.6% were granted to employees who are members of International Brotherhood of Electrical Workers, Local B-465 (with which union the Company has an agreement) and to office employees, effective August 22 and 16, 1948, respectively. The Company estimates that such increases will result in an annual increase in operating expenses of approximately $125,000 after taxes. Provision for that portion of the wage increases applicable to the periods from the effective dates of the increases to December 31, 1948 has been made in the 1948 accounts.
8. Based upon unaudited figures, the Company in January 1949 suffered a net loss of $79,363 before giving effect to an appropriate reduction for income taxes. This loss is attributable principally to the extensive use during that month (the coldest in the Company's history) of manufactured gas which, as stated under the caption "Sources of Gas," is manufactured and sold at a loss. For further particulars, reference is made to the remarks under that caption and under the caption "Winter of 1948-1949." Operations for the month of January 1948 (which are included in operations for the year ended December 31, 1948) resulted in a net profit of $226,032. February 1949 operations, based upon unaudited figures, resulted in a net profit of $343,197 (after giving effect to a reduction in income taxes of approximately $32,000 as a result of the net loss for the preceding month) as compared with a net profit of $296,838 for the month of February 1948.
9. Reference is also made to the caption "Rates" for information with respect to the Company's proposed application for rate increases.

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FUNDED DEBT AND CAPITALIZATION

The funded debt and capitalization of the Company as of February 28, 1949, and as adjusted to give effect to the issuance of the new Preferred Stock offered hereby, are as follows:

	Amount Authorized or to be Authorized	Amount Outstanding as of February 28, 1949	Amount to be Outstanding on April 30, 1949 if All Securities Being Registered are Sold (3)
Funded Debt:			
First Mortgage Bonds,	Not limited (1)		
3⅜% Series, due July 1, 1970	$16,000,000	$16,000,000	$16,000,000
Series C due 1978 (3%)	10,000,000	10,000,000	10,000,000
Promissory Note (2)	1,600,000	None	None
Capital Stock:			
Cumulative Preferred Stock:			
Cumulative Preferred Stock, 5% Series, $20 par value	375,000 shares	375,000 shares	375,000 shares
Cumulative Preferred Stock, 4½% Series, $20 par value	300,000 shares	None	300,000 shares
Cumulative Preferred Stock (Serial designation and dividend rate undetermined), $20 par value	1,325,000 shares	None	None
Common Stock, $10 par value	6,000,000 shares	1,900,000 shares	1,900,000 shares

NOTES:

(1) Additional bonds may be issued under the Mortgage and Deed of Trust only in compliance with the provisions thereof.

(2) Issuable at any time on or before June 1, 1949, pursuant to the terms of a standby Loan Agreement with seven California banks and due, if issued, $800,000 on March 1, 1955, and $800,000 on September 1, 1955. The notes, when issued, bear interest at 2% per annum from the date thereof until paid, or until March 1, 1951, after which date the interest rate, determined by a formula prescribed by the loan agreement, will be not less than 2%, nor more than 2½% per annum.

(3) Upon completion of the sale of the 300,000 shares of new Preferred Stock, the funded debt and capitalization of the Company will consist of approximately 40.61% funded debt, 21.08% preferred stock, 29.67% common stock, and 8.64% surplus.

HISTORY AND BUSINESS

The Company was incorporated under the laws of the State of California on April 6, 1905. Its principal offices are in the Electric Building, 861 Sixth Avenue, San Diego 12, California. The Company is an operating public utility engaged in the business of generating, purchasing, transmitting, distributing and selling electric energy for light, power, and heat to domestic, commercial, industrial, agricultural, governmental, utility, military and naval customers in San Diego County and in a portion of the southern part of Orange County, California; and of purchasing natural gas at wholesale and manufacturing, transporting, distributing, and selling gas at retail to domestic, commercial, industrial, governmental, military, and naval customers in the City of San Diego and other communities in western San Diego County. The Company has been engaged in the electric and gas business since 1905 and in the steam-heating business in a limited area in the City of San Diego since 1920.

During the twelve months ended December 31, 1948, approximately 67.8% of the gross operating revenue of the Company was derived from the sale of electricity, 31.8% from the sale of gas, and .4% from the sale of steam. During this period approximately 57.6% of the total electric, 74.5% of the total gas, and all of the steam operating revenues were derived from sales within the corporate limits of the City of San Diego.

All the properties of the Company are located in the State of California and the Company does not carry on any business outside of that state. The Company intends to continue the businesses mentioned above.

Territories Served:

Retail electric service is furnished to fifty-five communities and adjacent rural territories having an estimated aggregate population (based upon the Special Federal Census for the year 1946) of approximately 550,000, all in the State of California and all but approximately 8,000 in San Diego County. Gas service is furnished at retail in twenty of these communities and in adjacent rural territories having an estimated aggregate population (based upon the Special Federal Census for the year 1946) of approximately 470,000. The California Taxpayers' Association has estimated that the population in San Diego County has continued to increase in 1948.

The following is a list of the incorporated cities in San Diego County served by the Company together with their respective populations:

Name of City	Service Furnished	Population Federal Census 1920	1930	1940	Special*
San Diego	Electric, gas and steam	78,831	147,995	203,341	362,658
National City	Electric and gas	3,116	7,301	10,344	17,654
Coronado	Electric and gas	3,289	5,425	6,932	25,382
Chula Vista	Electric and gas	1,718	3,869	5,138	11,081
Oceanside	Electric and gas	1,161	3,508	4,651	10,698
Escondido	Electric and gas	1,789	3,421	4,560	5,930
La Mesa	Electric and gas	1,004	2,513	3,925	6,486
El Cajon	Electric and gas		1,050	1,471	3,175
	Totals	90,908	175,082	240,362	443,064

* Dates of special census varied, approximately 83% being in year 1946.

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The Company sells electric energy at wholesale to M. P. Barbachano and Cia. Electrica Fronteriza, S.A. (formerly Border Telephone & Light Company) at Tecate and San Ysidro, San Diego County, California, for re-sale in Lower California, Mexico; to the California Electric Power Company in San Diego County, near Rainbow; and to the Mountain Empire Electric Cooperative, Incorporated, at Laguna Junction, San Diego County.

Growth in Past Ten Years:

The expanding population in the territory served has resulted in a rapid growth in the Company's electric and gas services, as is illustrated in the following tables:

Customers

Date	Electric	Gas	Steam	Total
December 31, 1938	90,738	70,505	97	161,340
December 31, 1947	151,421	116,813	99	268,333
December 31, 1948	162,566	124,623	94	287,283

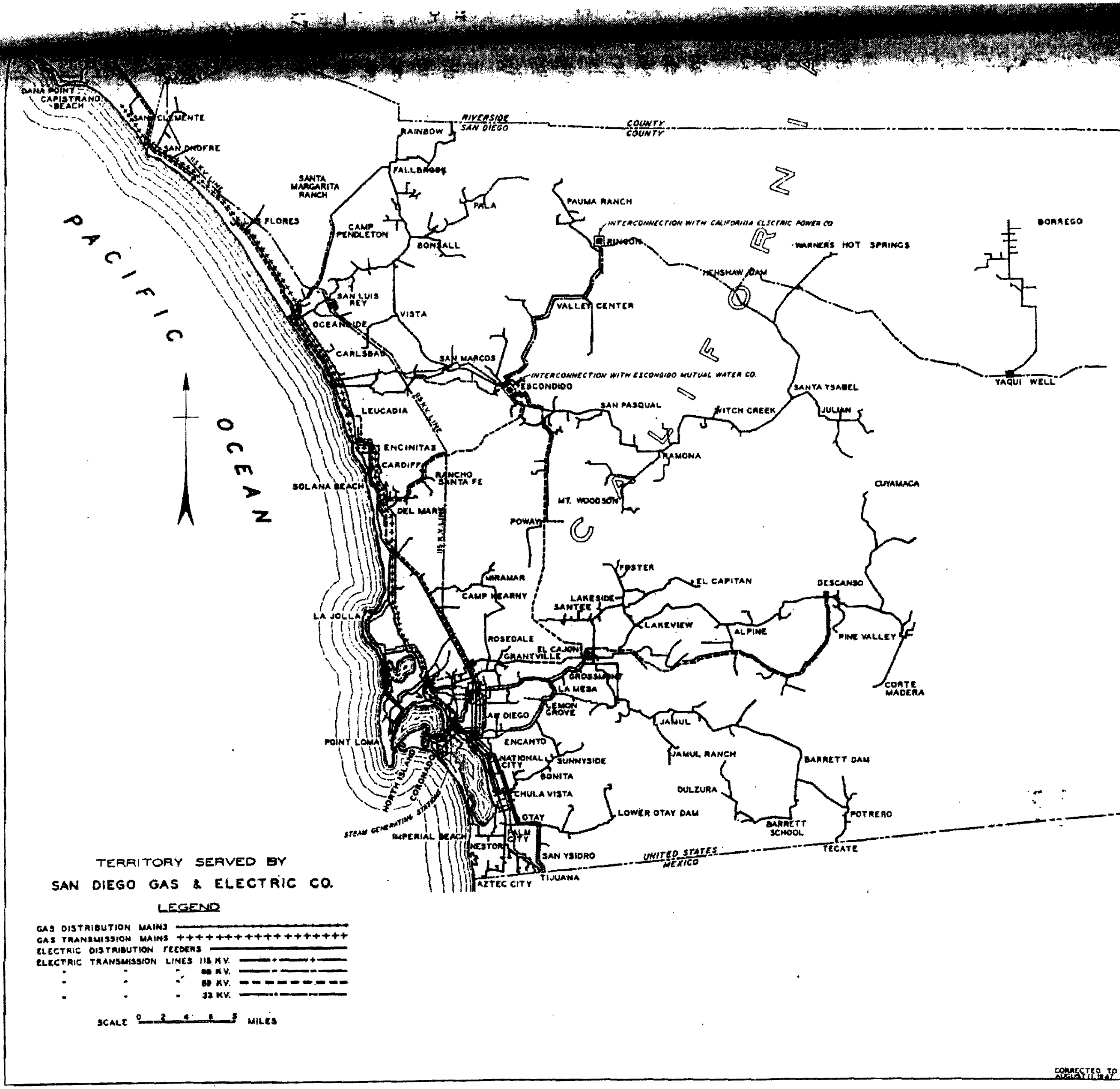
Sales

	Electricity (Kilowatt Hours)	Gas (Million Cubic Feet)
1938	209,165,570	2,492,654
1944	678,091,676	6,558,042
1948	820,387,348	8,433,077

The following tables, showing the approximate average annual use per residential customer of electricity and gas, illustrate that the increased output in the Company's services is attributable to increased demand as well as population increases:

	1938	1940	1942	1944	1946	1948
Kilowatt Hours of electricity	897	994	1074	1247	1445	1651
Thousand Cubic Feet of gas	25.0	25.8	33.7	39.7	43.1	48.[illegible]

For further information on the foregoing, see the caption "Operating Statistics."


TERRITORY SERVED BY
SAN DIEGO GAS & ELECTRIC CO.
LEGEND
GAS DISTRIBUTION MAINS
GAS TRANSMISSION MAINS
ELECTRIC DISTRIBUTION FEEDERS
ELECTRIC TRANSMISSION LINES 115 KV.
66 KV.
69 KV.
33 KV.
SCALE 0 2 4 6 8 MILES
PACIFIC OCEAN
CALIFORNIA
RIVERSIDE COUNTY
SAN DIEGO COUNTY
UNITED STATES
MEXICO
DANA POINT
CAPISTRANO BEACH
SAN CLEMENTE
SAN ONOFRE
SANTA MARGARITA RANCH
LAS FLORES
CAMP PENDLETON
RAINBOW
FALLBROOK
PALA
BONSALL
PAUMA RANCH
INTERCONNECTION WITH CALIFORNIA ELECTRIC POWER CO.
RINCON
WARNERS HOT SPRINGS
BORREGO
HENSHAW DAM
SAN LUIS REY
OCEANSIDE
VISTA
VALLEY CENTER
CARLSBAD
SAN MARCOS
INTERCONNECTION WITH ESCONDIDO MUTUAL WATER CO.
ESCONDIDO
SANTA YSABEL
YAQUI WELL
SAN PASQUAL
WITCH CREEK
JULIAN
LEUCADIA
ENCINITAS
CARDIFF
RAMONA
SOLANA BEACH
RANCHO SANTA FE
CUYAMACA
MT. WOODSON
DEL MAR
POWAY
115 K.V. LINE
FOSTER
EL CAPITAN
MIRAMAR
DESCANSO
CAMP KEARNY
LAKESIDE
SANTEE
LA JOLLA
LAKEVIEW
ALPINE
PINE VALLEY
ROSEDALE
EL CAJON
GRANTVILLE
GROSSMONT
LA MESA
CORTE MADERA
LEMON GROVE
SAN DIEGO
JAMUL
POINT LOMA
ENCANTO
JAMUL RANCH
NATIONAL CITY
SUNNYSIDE
BARRETT DAM
BONITA
NORTH ISLAND
CORONADO
CHULA VISTA
DULZURA
STEAM GENERATING STATION
OTAY
LOWER OTAY DAM
POTRERO
BARRETT SCHOOL
IMPERIAL BEACH
PALM CITY
NESTOR
SAN YSIDRO
TECATE
AZTEC CITY
TIJUANA
CORRECTED TO AUGUST 11, 1947

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Sources of Electric Energy:

The maximum demand on the Company's electric system in the twelve months ended December 31, 1948, occurred on December 16, 1948, when the total demand was 222,500 kilowatts (but see the subcaption "Winter of 1948-1949"). The total system requirements for the year ended December 31, 1948, were 890,493,825 kilowatt-hours, and the average daily sendout during the period was approximately 2,433,043 kilowatt-hours. Of the total system requirements during the period, approximately 98% was generated in the Company's two steam-electric generating plants, and approximately 2% was purchased from others. The foregoing figures do not include approximately 28,159,200 kilowatt-hours generated during the period in the Company's two steam-electric generating plants in off-peak hours for the Southern California Edison Company, or 7,814,950 kilowatt-hours sold to other utility companies.

The Company owns and operates its two steam-electric generating plants known as Station B and Silver Gate Station, having a combined total rated generating capacity of 187,000 kilowatts. The Company has on order a steam-electric generating unit, with a rated generating capacity of 50,000 kilowatts, for installation in Silver Gate Station in 1950. (For further information with respect to this unit see caption "Construction Program.")

The Company's steam-electric generating plants are equipped for operation either by natural gas or fuel oil. For the year 1949 it is estimated that the demand for electric energy will be met 81% by fuel oil generated power, 18% by natural gas generated power, and 1% by purchased power. The Company has a contract with the Union Oil Company of California under which the latter company is obligated to supply all the oil required by the Company up to 2,200,000 barrels during 1949. Major increases in the price of fuel oil which, under the present contract, fluctuate with the market, occurred in 1947 and again in 1948, but a small decrease became effective January 25, 1949. There was also a major increase in the price of gas consumed in the Company's electric generating plants effective as of February 1, 1948.

Electric energy is also purchased from and interchanged under interchange agreements with Southern California Edison Company at San Juan Capistrano, Orange County; California Electric Power Company near Oak Grove, San Diego County; Imperial Irrigation District at The Narrows, San Diego County; and Escondido Mutual Water Company at Rincon and at Escondido, San Diego County. This energy is received by the Company over facilities having an aggregate capacity of approximately 48,000 kilowatts.

Sources of Gas:

The maximum daily sendout of gas for the year ending December 31, 1948, amounting to 48,715,000 cubic feet, occurred on December 24, 1948 (but see the subcaption "Winter of 1948-1949"). The average daily sendout for the year was approximately 24,858,500 cubic feet.

The Company obtains its natural gas from Southern Counties Gas Company of California through a steel transmission pipeline (owned by the seller) having a capacity of approximately 33,000,000 cubic feet per day. The purchase price for firm gas is 23.5c per 1000 cubic feet subject to varying discounts. In the event of any deficiency in the supply of natural gas available to the seller to satisfy the demands of its own firm customers and the Company's firm customers, the Company is entitled to share on the basis of complete parity (as defined in the contract) in the natural gas supply of seller and seller's affiliate, Southern California Gas Company.

This source is inadequate to carry the total firm gas requirements of the Company during the colder days in the winter but, except as indicated below, the Company has been able to supply the deficiency by the use of manufactured gas which it is still equipped to produce in emergencies and in limited quantities in its own plant, which has a capacity of 18,000,000 cubic feet per day. At current rates, however, the manufacture and sale of manufactured gas is carried on at a loss to the Company. The shortage of natural gas during the colder weather in winter has required frequent curtailment or cessation of deliveries of gas to industrial consumers who purchase their gas on an interruptible basis. The situation may be further aggravated by a conservation program under study by the State of California which may also effect the availability of natural gas for use in the Company's steam electric generating plants.

The natural hazard resulting from dependence on a single gas transmission line and the shortage of natural gas during the colder days in winter, have caused the Company to enter into a contract with Southern Counties Gas Company of California looking to the installation of a second gas transmission line into San Diego, and providing for the sale of additional natural gas to the Company upon completion of the line. The new contract will supersede the existing contract upon the date of first delivery of gas in the new line, whereupon the seller will be obligated to furnish the Company (over the two lines) with its firm gas requirements up to 70,000,000 cubic feet per day at a base rate of 21.6c per 1000 cubic feet for firm gas other than that used by the Company for boiler fuel. In addition the contract provides for certain payments on account of fixed charges of the seller. The seller has recently augmented its source of supply of natural gas by completion of a gas line connecting it with sources in Texas and New Mexico. For further information with respect to the proposed pipeline see the sub-caption "Construction Program."

The Company is installing in the City of San Diego storage tanks with a total capacity of approximately 1,000,000 gallons of propane (capable of producing approximately 70,000,000 cubic feet of gas) for use in emergencies.

Winter of 1948-1949.

The territory served by the Company along with a large part of the United States west of the Mississippi, experienced one of the coldest months of January on record. On January 11, 1949, the total demand on the Company's system for electricity was 253,000 kilowatts. This demand was met by production from the Company's own generators which have an actual capacity of approximately 222,000 kilowatts and by purchases from other utilities with whom the Company has interchange agreements. The principal interchange agreement is with Southern California Edison Company which provides, among other things, for supplying the Company with up to [illegible]000 kilowatts of firm energy. This agreement extends to August 22, 1951. None of the other interchange agreements provide firm energy.

On four separate occasions it was necessary for the Company to appeal for curtailment of the use of gas for heating, but in spite of this, its firm gas sendout was 56,313,000 cubic feet on January 3, 1949. During one day in December and ten days in January the Company was unable to supply in full the demand of its customers for firm gas. The Company anticipates that completion of the proposed new gas pipeline by the end of 1949 will prevent the recurrence of such a shortage, even in the event of equally severe winters in the near future.

For the effect of this cold spell on the Company's earnings, see Note 8 under the caption "Summary of Earnings."

Operating Statistics:

The development of sales and revenues and increase in customers of the electric and gas departments for the past five years are shown on the following table of operating statistics:

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By direction of the Commission.

Orval L. DuBois,
Secretary.

OPERATING STATISTICS

	1944	1945	1946	1947	1948
Operating Revenues:					
Electric:					
Residential	$ 3,821,268.18	$ 4,106,456.66	$ 4,418,437.07	$ 4,837,002.08	$ 5,402,401.53
Commercial	2,755,900.75	3,188,313.16	3,487,003.85	4,021,728.39	4,726,157.80
Power—other than Agricultural	3,320,115.13	3,323,775.03	3,056,958.10	3,070,580.42	2,995,303.75
Agricultural Power	327,510.23	394,719.77	462,075.89	574,603.31	638,664.41
Railroad Corporations	231,444.25	225,815.60	208,979.85	169,127.68	152,872.41
Other Electrical Corporations	165,808.33	197,860.57	232,171.93	561,876.56	531,913.39
Municipal Street Lighting	204,514.10	222,067.42	235,178.43	244,884.45	260,005.59
Miscellaneous Municipal Sales	95,930.95	107,726.25	124,062.11	124,117.46	121,147.03
Miscellaneous Revenues	20,774.14	19,773.91	22,671.90	44,158.74	32,638.94
Total Electric	$10,943,266.06	$11,786,508.37	$12,247,539.13	$13,648,079.09	$14,861,104.85
Gas:					
Residential	$ 4,095,868.12	$ 4,179,138.74	$ 4,320,494.69	$ 4,472,082.66	$ 5,163,437.17
Commercial	1,156,945.63	1,281,672.08	1,311,454.48	1,387,196.25	1,570,658.94
Industrial	171,928.87	121,804.72	133,834.48	114,189.19	229,112.89
Miscellaneous Revenues	4,368.50	6,280.93	5,942.80	6,514.54	10,010.72
Total Gas	$ 5,429,111.12	$ 5,588,896.47	$ 5,771,726.45	$ 5,979,982.64	$ 6,973,219.72
Steam	$ 84,378.56	$ 88,076.31	$ 94,056.67	$ 90,412.57	$ 95,847.22
Total Operating Revenues	$16,456,755.74	$17,463,481.15	$18,113,322.25	$19,718,474.30	$21,930,171.79
Number of Customers Served (at end of year):					
Electric:					
Residential	109,007	110,771	114,934	123,382	132,657
Commercial	16,342	17,396	19,783	21,228	22,689
Power—other than Agricultural	3,315	3,466	3,829	4,017	4,085
Agricultural Power	1,890	2,103	2,293	2,628	2,954
Railroad Corporations	1	1	1	1	1
Other Electrical Corporations	8	9	9	9	9
Municipal Street Lighting	124	134	138	148	160
Miscellaneous Municipal	4	4	4	8	11
Total Electric Customers	130,691	133,884	140,991	151,421	162,566
Gas:					
Residential	95,957	96,546	99,209	104,815	111,758
Commercial	9,237	10,037	11,087	11,981	12,839
Industrial	29	25	19	17	26
Total Gas Customers	105,223	106,608	110,315	116,813	124,623
Steam:					
Total Steam Customers	98	100	101	99	94

Gas:					
Residential	95,957	96,546	99,209	104,815	111,758
Commercial	9,237	10,037	11,087	11,981	12,839
Industrial	29	25	19	17	26
Total Gas Customers	105,223	106,608	110,315	116,813	124,623
Steam:					
Total Steam Customers	98	100	101	99	94

OPERATING STATISTICS

	1944	1945	1946	1947	1948
Electric Energy Generated, Purchased and Sold (kilowatt hours):					
Generated (less station loss and use)	719,339,000	725,025,000	762,214,000	850,692,000	906,083,800
Purchased (from non-affiliated companies)	35,226,250	77,273,787	40,996,700	35,001,810	20,384,175
Total Generated and Purchased	754,565,250	802,298,787	803,210,700	885,693,810	926,467,975
Company Use	4,570,764	4,802,547	4,518,003	4,535,723	6,139,438
Lost and Unaccounted For	71,902,810	81,300,298	90,559,286	100,281,062	99,941,188
Balance (Total Energy Sold)	678,091,676	716,195,942	708,133,411	780,877,025	820,387,349
Electric Sales:					
Residential	133,711,701	147,078,886	162,814,621	183,641,489	211,840,550
Commercial	142,007,379	166,398,033	167,251,763	194,955,989	243,552,491
Power—other than Agricultural	321,053,440	309,224,814	277,340,141	254,385,195	225,733,829
Agricultural Power	22,955,447	28,718,008	34,201,801	44,042,845	47,659,908
Railroad Corporation	26,645,000	25,945,000	21,539,100	14,117,000	10,999,000
Other Electrical Corporations	15,022,730	19,363,520	22,320,960	66,407,855	57,432,430
Municipal Street Lighting	8,183,249	8,621,075	9,484,726	10,138,445	10,405,425
Miscellaneous Municipal Sales	8,512,730	10,846,606	13,180,299	13,188,207	12,763,716
Total Sales	678,091,676	716,195,942	708,133,411	780,877,025	820,387,349
Gas Manufactured, Purchased and Sold (1000 cubic feet)					
Natural Gas Purchased (non-affiliated companies)	9,174,162	9,221,231	9,018,243	8,621,884	11,662,473
Manufactured—Oil Gas	67,410	169,196	12,375	32,810	308,723
Net Increase in Gas Storage	1,147*	1,312	2,778*	477*	2,600
Totals	9,242,719	9,389,115	9,033,396	8,655,171	11,968,596
Gas Used by Company in Steam Electric Generating Plant	2,416,288	2,350,220	1,747,675	1,224,420	2,827,473
Other Company Use	45,225	33,420	28,729	30,190	55,177
Lost and Unaccounted For	223,164	284,657	318,222	435,208	652,869
Balance (Total Gas Sold)	6,558,042	6,720,818	6,938,770	6,965,353	8,433,077
Gas Sales:					
Residential	3,750,906	3,980,695	4,209,716	4,401,015	5,261,618
Commercial	1,870,854	2,091,724	2,078,332	2,214,093	2,533,074
Industrial	936,282	648,399	650,722	350,245	638,385
Total Sales	6,558,042	6,720,818	6,938,770	6,965,353	8,433,077
Sales of Steam for Heating (1000 pounds)	115,595	121,293	125,156	113,006	119,195

* Denotes Red Figure

Employee Relations:

As of December 31, 1948, the Company had 1,961 employees. These employees may be divided into three general classes: First, office and other clerical employees who are not members of a union; secondly, mechanical employees who are members of Local No. B-465 of San Diego, of the International Brotherhood of Electrical Workers, affiliated with the American Federation of Labor; and thirdly, construction mechanics and laborers temporarily engaged in the installation of several substations and in work on Silver Gate Unit Number 3.

The present year-to-year contract with the I.B.E.W., Local No. B-465, covering wages and working conditions and granting a Union Shop (the Union Shop provision is probably unenforceible under the Taft-Hartley Act), may be terminated by either party upon notice given 90 days prior to August 16th of any year, and permits an annual review of wages upon 30 days' like notice. The most recent wage review resulted in an award by the Board of Arbitration (the parties having been unable to agree) of an increase in wages of 7c per hour or approximately 4.6% on the average rate of pay, effective as of August 22, 1948. The Company granted a similar increase to office and clerical workers.

The construction mechanics and laborers, comprising the third class of employees, operate under the rules, regulations and wages of the Building Trades Council of the American Federation of Labor with which the Company has no labor contract.

Employees' Retirement Plan:

Effective as of January 1, 1941, and amended as of January 1, 1947, the Company adopted a retirement and annuity plan applicable equally to its salaried officers and all regular employees other than temporary, casual, and special employees. Each salaried officer or regular employee who has attained age 25 and has completed one year of continuous service is eligible to join the plan provided they have not attained their 65th birthday. As of December 31, 1948 there were 5 officers and 1,174 employees participating in the plan. Both the Company and participating members of the plan make payments with respect to future service, and in 1948 such payments by the members totaled $176,991.40 and by the Company $277,052.18. The members' contributions toward the purchase of annuities are based wholly on salary earned. The amount of the annuity payable to a member upon retirement is dependent upon his total contributions. The maximum annuity is limited to $500 per month. The Company, under the plan, agreed to make all payments with respect to past service and such payments were completed during 1947, having amounted to approximately $2,112,000. Of such amount approximately $1,312,000 was charged to earnings during the years 1941 to 1947 inclusive. Approximately $800,000 was charged to Employees' Provident Reserve, which reserve was established in 1940 out of earned surplus. The Company also makes payments to a number of employees not eligible to join the plan or retired before the plan went into effect. These payments presently amount to approximately $11,000 per year.

Insurance:

The Company is covered by insurance in the amounts, to the extent and against the types of risk, customary in corporations of its size and character.

onstruction Program:

During the period in which the war prevented any substantial expansion of the Company's fa-ilities, the population of the territories served by the Company increased rapidly, as indicated nder the subcaption "Territories Served." Accordingly, after the war, the Company commenced n extensive program of expansion to overcome the resulting deficiency in its facilities. As the pro-ram has developed, postwar population increases have required its further expansion. In the period om December 31, 1945 to December 31, 1948, the Company made additions to property, plant nd equipment amounting to $21,524,000 and during the same period it received $10,034,000 from e sale of bonds, and $8,362,000 from the sale of Common Stock, being a total of $18,396,000 from ch financing.

The major individual units involved in the post-war construction program are: the two 50,000 owatt steam-electric generating units for the Company's Silver Gate Station, one completed in 48 and now in operation and one to be completed in the latter part of 1950, thereby increasing e Company's total rated generating capacity from 137,000 kilowatts prior to 1948 to 237,000 kilo-atts by 1951; and a second natural gas transmission line, planned for completion by January 1, 50, which will provide an increase in available natural gas supply from 33,000,000 cubic feet per y to 70,000,000 cubic feet per day.

The 1949 construction budget calls for expenditures of approximately $16,000,000 with alloca-ons approximated as follows:

Electric production	$2,938,000
Electric transmission	2,152,000
Electric distribution	4,488,000
Gas transmission and distribution	6,010,000
General plant	715,000

The expenditure of these amounts during 1949 will not complete all of the construction proj-ts authorized. Their completion will require the expenditure during 1950 of approximately 00,000 exclusive of any amounts which may be expended on the third unit of Silver Gate nerating Station, hereinafter mentioned, and exclusive of the other items which will constitute e 1950 budget, which has not yet been prepared. Preliminary estimates, however, now indicate al 1950 construction expenditures in all categories of approximately $10,000,000.

In 1947, the Company placed an order for an additional turbo-generator with a rated capac- of 50,000 kilowatts to be installed in the latter part of 1950 as a third unit in its Silver Gate nerating Station. The total cost of this unit is estimated to be approximately $8,000,000, approxi-tely $3,000,000 of which is expected to be expended by the end of 1949 and has been already au-orized in the 1948 and 1949 budgets.

Likewise, the Company has ordered the pipe necessary to construct a new gas transmission e to connect with a line to be constructed by Southern Counties Gas Company of California at northern border of San Diego County, near Rainbow. It is estimated that the Company's portion this line will cost approximately $3,000,000, and that Southern Counties Gas Company of Cali-nia's portion will cost in the neighborhood of $2,000,000. It is expected that work on the pipe e will commence in 1949 and that the line will be completed by January 1, 1950. The contract be-een the two Companies, which is to become effective as to payments provided for thereunder on date of first delivery of gas, provides that the Company, in addition to other charges provided therein, shall pay Southern Counties Gas Company of California, during the ten year life of e contract, an annual charge of 13% of the cost to the latter Company of that portion of the line

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By direction of the Commission,

Secretary.

constructed by it, such payments being intended to reimburse Southern Counties Gas Company of California for the cost of its part of the line.

PROPERTY

As of December 31, 1948, the approximate weighted dollar average ages of the principal classes of property of the Company were as follows: Steam-electric production, 11 years; electric transmission, 9 years; electric distribution, 12½ years; general plant (electric) 15 years; gas production, 18 years; gas transmission, 7½ years; gas distribution, 15 years; steam distribution, 18 years; common utility, exclusive of automotive equipment and major construction equipment, 17 years. The Company maintains all of its properties in good operating condition in accordance with usual practice among responsible operators in the industry.

The plants and important units of property owned by the Company and their general character and location are indicated below. Unless otherwise shown, the data on the various items of property set forth in this section are as of December 31, 1948.

Steam-Electric Generating Plants:

The Company owns two steam-electric generating stations, known as Station "B" and Silver Gate Station. Both plants are equipped to burn gas or fuel oil.

Station "B" is located at Broadway and Kettner Boulevard in the city of San Diego, and has a rated capacity of 102,000 kilowatts (and an actual capacity of 112,000 kilowatts) in 6 turbo generators as follows:

Rated capacity of Units (Kilowatts)	Actual Capacity of Units (Kilowatts)	Year of Completion
6,000	5,000	1914
15,000	17,000	1922
15,000	17,000	1926
28,000	28,000	1928
35,000	43,000	1938
3,000 (house turbine)	2,000	1941

Silver Gate Station is located at the intersection of Sampson Street and the Atchison, Topeka and Santa Fe Railroad right of way in the City of San Diego, and has a rated capacity of 85,000 kilowatts (and an actual capacity of 110,000 kilowatts), in two turbo-generators. The rated capacity of Silver Gate Station, including the unit on order, is as follows:

Rated capacity of Units (Kilowatts)	Actual Capacity of Units (Kilowatts)	Year of Completion
35,000	44,000	1943
50,000	66,000	1948
50,000	66,000 (Estimated)	(on order) 1950

At present the Company has a total rated generating capacity of 187,000 kilowatts and an actual capacity of approximately 222,000 kilowatts.

Other Electric Properties:

The Company owns facilities for interconnection with other electric companies, which facilities have an aggregate capacity of approximately 48,000 kilowatts of which 37,000 kilowatts is on a firm basis.

Electric transmission pole lines interconnecting power supply sources and major substations operate at voltages from 33,000 volts to 120,000 volts. These lines total approximately 371 miles in length.

Electric distribution pole lines serving distribution substations and customer transformers operate at voltages of 2,400 volts to 12,000 volts. These lines total approximately 3,139 miles of wood pole line and 135 miles of underground cable, the latter being installed in approximately 28.7 miles of multi-duct conduit.

Transformer capacity for the total electric system is 896,797 kilovolt-amperes, consisting of 538,639 kilovolt-amperes connected to the transmission system, 151,132 kilovolt-amperes installed in distribution substations and 207,026 kilovolt-amperes stepping down from distribution voltages for customer purposes.

Gas Properties:

The Company's gas transmission and distribution system consists of approximately 1,212 miles of mains and appurtenant property and equipment which are utilized in serving natural gas to 20 communities in San Diego County. The natural gas used is purchased from the Southern Counties Gas Company of California.

For standby and peaking service the Company operates its gas generating plant, located at 10th Avenue and Imperial Street in the City of San Diego, having a capacity in excess of 18,000,000 cubic feet per day. This plant represented an historical investment cost of $1,008,000 but was retired from the capital accounts of the Company in 1939. The Company owns five low-pressure gas storage holders having a total storage capacity of approximately 9,000,000 cubic feet, and two high-pressure holders having a total storage capacity of 384,000 cubic feet. The Company is also installing tanks for the storage of approximately 1,000,000 gallons of propane.

Steam Distribution Properties:

In the main business area of the City of San Diego, the Company owns a low pressure steam heating system, comprising approximately 2.6 miles of steam mains and 94 services, the steam for which is obtained from Station "B."

Common Properties:

The Company owns or leases the necessary branch offices, shops, garages, service buildings and storeyards, and owns the necessary transportation equipment, tools, testing equipment and other items used in the integrated operation of a public utility. In the business district of San Diego, it owns an eight story reinforced concrete office building, the major portion of which is occupied by the Company.

Ownership Qualification:

Whenever statements are made in this Prospectus with respect to the ownership of property or interests in property by the Company, such statements disregard the effect upon titles to property and interests in property of the outstanding Mortgage and Deed of Trust from the Company to The Bank of California, N.A., dated July 1, 1940, as supplemented, current tax and assessment liens, rights of way, easements, conditions, restrictions, reservations, licenses, leases and contracts, and certain other matters and minor defects in the record title to some of the properties of the Company, none of which in the opinion of counsel for the Company, seriously affect the Company's title to, or its right to use, such properties in the conduct of its business. The electric and gas transmission and distribution lines and the steam distribution lines of the Company with unimportant exceptions are located: (a) on or under highways or streets in respect of which the Company has constitutional and/or granted franchises; (b) on lands of the United States under permits, licenses or easements; and (c) on privately owned lands under rights of way and easements (see caption

"Franchises and Concessions"). In the opinion of counsel for the Company, the Company is possessed of rights adequate to continue its operation upon any private land over which or under which its transmission or distribution lines extend, subject to minor defects in the record title to comparatively few of the easements or rights of way used by the Company, which defects are of slight importance.

The Company has held, for a number of years, certain leases to tidelands on San Diego Bay granted by the City of San Diego and adjacent thereto on which are located water tunnels for use for cooling purposes at Station B and Silver Gate Station. The State of California purported to transfer title to the aforementioned tidelands to the City of San Diego, but the validity of the title and leases from the City has not been adjudicated, although they have been commonly taken, accepted and used. Their validity may likewise be clouded by a recent decree of the United States Supreme Court adjudging, among other things, that the United States possesses paramount rights over the lands underlying the Pacific Ocean lying seaward of the ordinary low water mark on the California Coast outside inland waters.

FRANCHISES AND CONCESSIONS

The Company distributes gas and electricity under franchises acquired either through grant by the State of California (hereinafter called "constitutional franchises") or through grants by municipalities or counties (hereinafter called "granted franchises"). In addition the Company also distributes steam under granted franchises.

Constitutional Franchises

Constitutional franchises were acquired through the acceptance by the Company or its predecessors of the offer contained in Section 19 of Article XI of the Constitution of the State of California, until it was amended on October 10, 1911. This section in substance authorized the installation and maintenance of pipes and conduits for introducing into and supplying a city and its inhabitants "either with gas light or other illuminating light." In the opinion of counsel for the Company these franchises are perpetual and extend through the whole of the municipalities where acquired and do not require any annual or other payments to the municipalities. The Company operates under constitutional franchises for the transmission and distribution of gas and electricity in the cities of San Diego, Coronado, Escondido and National City, and of electricity in the City of Oceanside.

Granted Franchises

The granted franchises are in two categories, namely: municipal and county franchises. They have been granted to the Company or its predecessors under the provisions of the Broughton Act, California Statutes 1905, page 777, as amended, or recently under the Franchise Act of 1937, California Statutes 1937, page 1781, and in cases where the Company has constitutional franchises, they complement such franchises, while in cases where the Company has no constitutional franchise, they cover the use of streets and highways for transmission and distribution of gas and electricity for light, heat and power. The Broughton Act and the Franchise Act of 1937 each requires the payment to the grantor of the franchise, of 2% of the annual gross receipts derived from the use, operation or possession of the franchise and with respect to the Franchise Act of 1937 there are provisions for the payment of minimum amounts in certain cases. The Company holds granted franchises for the transmission and distribution of gas and electricity in the Cities of San Diego, Coronado, Oceanside, National City, Escondido, Chula Vista, La Mesa and El Cajon and for steam in small portions of the City of San Diego, and also granted franchises for the transmission and distribution of gas and electricity in San Diego County, and of electricity in certain portions of Orange County. All of the electric and gas franchises which are granted franchises expire between the years 1967 and 1986 except the electric franchise for light, heat and power in Escondido, which expires in 1959.

The franchise granted under the Broughton Act by Ordinance No. 8183 of the City of San Diego for the term expiring in 1970, for the transmission and distribution of gas and electricity for heat and power purposes, as originally granted contained the provision (among others) that in computing the rental or charge payable thereunder to said City, the gross receipts derived from the sale of electricity for street railway purposes should be excluded, and also contained the provision that, so long as the charter of said City required, the franchise would be subject to repeal, change or modification by the majority of the electors of said City. In 1931, by the adoption by the electors of said City of Peoples' Ordinance No. 13392-B, the City purported to amend said franchise so as to provide that in computing the rental or charge payable thereunder, gross receipts derived from the sale of electricity for street railway purposes shall be included, and further purported to amend said franchise so as to retain throughout the life thereof the right of a majority of the electors of said City voting at any election at any time thereafter to repeal, change or modify the same. The validity of Peoples' Ordinance No. 13392-B has not been adjudicated and the Company has disputed the power of said City to repeal, change or modify said franchise. On November 10, 1936, the City of San Diego and the Company entered into an agreement with regard to the calculation of payments under said franchise, to which both have since been conforming.

The Company is advised by its counsel that there are defects in connection with some of the franchises granted by the smaller cities and the franchises for steam granted by the City of San Diego, but both the Company and the grantors have been and are observing and conforming to the provisions thereof, and in the opinion of said counsel the use by the Company of its property in connection with said franchises is not materially impaired or endangered by reason of such defects or irregularities relating to its granted franchises.

Certificates of Public Convenience and Necessity

The Public Utilities Act of California, which became effective March 23, 1912, requires the obtaining under the circumstances and conditions therein specified of certain so-called certificates of public convenience and necessity from the Public Utilities Commission of the State of California before beginning the construction of any line, plant or system or the extension thereof, or the exercise of rights under franchises. The Company has applied for and secured from the Public Utilities Commission of the State of California certificates of public convenience and necessity in such instances where it has deemed the same to be necessary for the operation of its properties and systems.

Federal Permits, Licenses and Easements

The Company is the holder of various permits, licenses and easements granted by different Departments of the United States, most of which are revocable at the option of the grantor and in some instances call for small annual payments. Such permits, licenses and easements permit the use by the Company of public lands for gas and electric distribution and transmission facilities consisting principally of gas mains and electric power lines or cables. The Company also holds permits from the Federal Power Commission and from the President of the United States authorizing it to sell electric energy at wholesale for transmission by the purchaser into Mexico for distribution in that country. See also under the caption "Regulation."

The various permits, licenses and easements above mentioned are deemed adequate by counsel to Company for the purposes intended.

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REGULATION

Since March, 1912, the Company has been subject to regulation by the Public Utilities Commission of the State of California, under the Public Utilities Act of California and the California Constitution. The right of the Legislature to confer powers upon the Commission respecting public utilities is plenary, and unlimited by any provisions of the Constitution. Under the Act the Commission has and exercises wide powers over public utilities, including the power to establish rates and conditions of service, to regulate security issues, and to prescribe uniform systems of accounts.

On July 14, 1939 the Federal Power Commission issued an order for the Company to show cause why, among other things, it had failed to comply with the Electric Plant Account Instruction D of the Commission's Uniform System of Accounts promulgated pursuant to the provisions of the Federal Power Act, to which Order the Company filed its answer on August 15, 1939, denying, among other things, the jurisdiction of the said Commission as to the Company under said Act and requesting that such Order to Show Cause be dismissed. Under date of October 25, 1945, the Secretary of said Commission wrote to the Company requesting advice as to whether, in view of its operations at that time, the Company still adhered to its position in this matter. The Company replied, under date of November 5, 1945, that it still adhered to the position taken in its answer. No further proceedings have been taken or held. The Company has a number of permits from the Federal Power Commission authorizing it to construct, operate and maintain certain of its transmission lines over public lands and to transmit electric energy for export to Mexico. See also the caption "Franchises."

As stated under the sub-caption "Sources of Gas" herein, the Company has recently entered into a contract with Southern Counties Gas Company of California looking to the construction of a new gas transmission line from Rainbow, San Diego County to the City of San Diego and the purchase of additional gas from the latter company under such contract. The Company has filed an application with the Federal Power Commission for a Certificate of Public Convenience and Necessity to build the new gas pipeline. In the opinion of counsel for the Company, however, nothing contained in the provisions of the Natural Gas Act requires such application. In the opinion of such counsel the rates to be charged the Company by Southern Counties Gas Company of California will be subject to the jurisdiction of the Federal Power Commission, but the rates charged by the Company in the resale of such gas to its customers will remain subject exclusively to the jurisdiction of the Public Utilities Commission of the State of California. The latter Commission has authorized the construction of the new pipeline.

RATES

The Public Utilities Commission of the State of California has for many years pursued a policy of making frequent or continuous examinations of the rates of public utilities with the result that at approximately annual intervals, or more frequently in times of rapidly changing conditions, informal discussions are had between the Company and representatives of the Commission and of the City of San Diego. Such consultations in the past have resulted in a number of rate reductions by mutual consent. There have been no general reductions in rates since February 15, 1943.

During the year 1948, a temporary discount, at the rate of 4%, was applied to firm gas sales exclusive of minimum bills. The amount of this discount was estimated at approximately $279,000 annually. An application has been filed with the Public Utilities Commission for authority to reduce this temporary discount to 3% on and after April 1, 1949.

Three developments occurring during the period since the war have resulted in such a substantially adverse effect on the Company's earnings, that the Company has determined to apply to the Public Utilities Commission of the State of California for authority to increase its electric and gas rates. These developments are: (1) The increase in operating expenses resulting primarily from postwar increases in the costs of labor, fuel and supplies; (2) the increased proportion of higher priced plant arising out of relatively high postwar unit costs and resulting in higher fixed charges; and (3) reestablishment of a physical plant reserve capacity necessary to guarantee continuity of service. The Company is now preparing such an application.

COMPETITION

Under the law of the State of California no privately owned public utility can enter into competition with the Company to render the same service as the Company in territory already served by the Company, without first obtaining a Certificate of Public Convenience and Necessity from the Public Utilities Commission of the State of California.

Under the Constitution and statutes of the State of California, municipal corporations, water and utilities districts and other public agencies have been authorized to engage in certain public utility activities, and may acquire properties for such purpose by purchase, condemnation, or new construction, and without regard to the fact that such activities may be in competition with privately owned public utilities. Such municipal corporations, water or utilities districts and public agencies are empowered, among other things, to condemn properties already operated by privately owned public utilities. In the event of condemnation, the amount of the award for the property would be determined by a valuation made by the Court, jury, state regulatory commission, or other authority having jurisdiction of the particular proceeding as initiated by the condemning party.

There has been, from time to time, agitation in the territories served by the Company, including the City of San Diego and similar adjacent municipalities, to engage in municipal ownership of electric plants and distribution systems. No installation of competitive facilities has resulted.

The United States Navy possesses standby plants for use in certain of its shore stations where service is now being rendered by the Company. So far as is known to the Company, these standby plants are of insufficient capacity to provide all the requirements of such stations, and are intended to be used only in emergencies.

Eastward of the territory served by the Company, in an area which consists principally of sparsely populated mountain districts adjacent to the Mexican border, the Mountain Empire Electric Cooperative, Incorporated, in cooperation with the Rural Electrification Administration of the Federal Government, has constructed a 12,000 volt distribution line approximately 129 miles in length, which has cost approximately $135,000 and serves approximately 880 customers. The Cooperative purchases its electrical energy from the Company.

Vista Irrigation District has available two locations on the Lake Henshaw watershed at which small amounts of electric energy could be generated by the installation of hydro-electric plants. Such a development might be competitive with the Company if the Company was not offered, or if offered, was unwilling to purchase, the energy generated.

DESCRIPTION OF STOCK

The following is a brief summary of certain of the provisions contained in Article Sixth of the Articles of Incorporation, as amended, of the Company with respect to its Cumulative Preferred Stock (of which there will be outstanding after the issue of the new Preferred Stock, 375,000 shares of Cumulative Preferred Stock, 5% Series, $20 par value and 300,000 shares of Cumulative

Preferred Stock, 4½% Series, $20 par value) and Common Stock, and a summary of the provisions of the Certificate of Determination of the Preferences of the Cumulative Preferred Stock, 4½% Series, $20 par value, of the Company. Copies of the Articles of Incorporation, as amended, and of the said Certificate have been filed as Exhibits to the Registration Statement. The following summaries do not purport to be complete and reference is made to Article Sixth of said Articles and to said Certificate which are hereby incorporated herein by reference, for a full and complete statement of such provisions.

It is proposed that $20 per share of the consideration to be received upon the sale of the new Preferred Stock offered hereby will be credited to capital, and that the balance over expenses will be credited to premium on capital stock.

Dividend Rights:

The holders of Cumulative Preferred Stock are entitled to receive, when and as declared by the Board of Directors, out of the surplus or net profits (to the extent permitted by law) of the Company, cumulative dividends at the full cumulative rate, payable quarterly, before any dividends may be declared or paid upon the Common Stock. The holders of the new Preferred Stock are entitled to cumulative dividends at the rate of 4½% of the par value thereof per annum.

Dividends on Cumulative Preferred Stock are presently payable quarterly on the 15th days of January, April, July and October to shareholders of record as of the last day of the preceding month.

Voting Rights:

The holders of the Common Stock (par value, $10 per share) and of the Cumulative Preferred Stock (par value, $20 per share) are entitled to one vote for each $10 par value of stock held on all questions upon which they are entitled to vote in accordance with the law, except as otherwise set forth below under the sub-caption "Special Voting Rights of Cumulative Preferred Stock," and shareholders are entitled to cumulate votes for election of directors.

Redemption Rights:

The Company, at the option of the Board of Directors, may redeem at any time, or from time to time, upon thirty days' prior mailed notice, the whole or any part of the Cumulative Preferred Stock or any series thereof, at the price fixed as being payable in case of redemption, together with accrued dividends. The redemption prices of the new Preferred Stock are: $22.00 if redeemed prior to April 1, 1954, $21.80 if redeemed prior to April 1, 1959, $21.60 if redeemed prior to April 1, 1964, and $21.20 thereafter. The redemption price of the 375,000 shares of Cumulative Preferred Stock, 5% Series, $20 par value, presently outstanding, is $24 per share.

Liquidation Rights:

In the event of any liquidation, dissolution or winding up of the Company, the holders of the Cumulative Preferred Stock are entitled to be paid in full, without priority between series, the respective liquidation prices fixed for each series, plus accrued dividends, prior to any payment to the holders of the Common Stock. The involuntary liquidation price of the new Preferred Stock is $20 per share, and the voluntary liquidation prices are the same as the redemption prices for the said stock. The involuntary liquidation price of the outstanding Cumulative Preferred Stock, 5% Series, $20 par value, is $20 per share, and the voluntary liquidation price, $24 per share.

Preemptive, Subscription and Conversion Rights, and Assessability:

Neither the holders of the Cumulative Preferred Stock nor of the Common Stock of the Company have any preemptive, subscription or conversion rights, nor are the shares thereof assessable.

Special Voting Rights of Cumulative Preferred Stock:

The affirmative consent of the holders of at least two-thirds of the number of shares of Cumulative Preferred Stock at the time outstanding are required to:

(a) Create or authorize any class of stock which shall be entitled to any preference over, or parity with, the Cumulative Preferred Stock;

(b) Make any change in any of the provisions relative to the Cumulative Preferred Stock or any series thereof, (but fixing the dividend rate, conversion rights, if any, redemption price, and liquidation preference of the 1,625,000 shares of such stock not constituting the initial series thereof by the Board of Directors shall not be deemed to be such a change) which would change the express terms or provisions of such stock in any manner prejudicial to the holders thereof, except that if such change is prejudicial to the holders of one or more, but not all of the series thereof, the consent of the holders of two-thirds of the total number of shares then outstanding of the series so effected shall be required;

(c) Issue any shares of any series of Cumulative Preferred Stock in addition to 375,000 shares of Cumulative Preferred Stock, 5% Series, $20 par value, unless immediately after such issue the sum of all indebtedness (as such term is defined in said Article Sixth) of the Company to be outstanding, plus the par value of all shares of Cumulative Preferred Stock to be outstanding, would not exceed three times the sum of (i) the par value of Common Stock to be outstanding, plus (ii) the premium on all stock to be outstanding, and plus (iii), to the extent the Company desires to use the same for such computation, the earned surplus of the Company. To the extent the Company uses earned surplus for the purpose of the computation, the amount thereof so used shall not be used for the payment of dividends on the Company's stock until such time as the Company shall have issued additional securities sufficient to satisfy the foregoing restrictions without the inclusion of such surplus;

(d) Issue shares of any series of Cumulative Preferred Stock, in addition to 375,000 shares of Cumulative Preferred Stock, 5% Series, $20 par value, unless (i) the net income of the Company available for dividends (as such term is defined in said Article Sixth), for twelve consecutive months within the preceding fifteen months is at least twice the annual dividend requirements on all Cumulative Preferred Stock to be outstanding immediately after the proposed issue, and (ii) unless the net income of the Company available for the payment of interest on indebtedness (as such term is defined in said Article Sixth), for twelve consecutive months within the preceding fifteen months is at least equal to one and one-half times the annual interest charge on all indebtedness to be outstanding, plus the annual dividend requirements on all shares of Cumulative Preferred Stock to be outstanding; or

(e) Merge with or consolidate into any other corporation or corporations.

No consent of the holders of any series of Cumulative Preferred Stock is required for the creation of any class of stock entitled to any preference over, or parity with, such series, if the purpose of the creation thereof and the proceeds from the sale thereof are to be used for the redemption of all shares of such series of Cumulative Preferred Stock then outstanding.

If, and whenever, dividends accrued and unpaid on the outstanding Cumulative Preferred Stock equal or exceed an amount equivalent to eight full quarterly dividends, then until all dividends in default shall have been paid or declared and set aside, the holders of the Cumulative Preferred Stock, voting separately as one class, shall be entitled to elect the smallest number of Directors necessary to constitute a majority of the full Board of Directors, and the holders of the Common Stock shall be entitled to elect the remaining Directors. Such special right of the Cumulative

Preferred Stock shall cease whenever all unpaid dividends on the Cumulative Preferred Stock shall be declared and paid or set aside, such special right being subject to renewal in the event of further like default or defaults.

LEGAL OPINIONS

The legality of the new Preferred Stock and all legal matters in connection therewith will be passed upon for the Company by Messrs. Chickering & Gregory, 111 Sutter Street, San Francisco 4, California, counsel for the Company. The statements in this Prospectus involving matters of law, including legal conclusions expressed under the captions "Property," "Franchises and Concessions," "Regulation," "Competition," and "Description of Stock," have been reviewed by them and are made on their authority. The legality of the new Preferred Stock and various legal matters in connection therewith, not including matters with respect to the franchises and titles of the Company, will be passed upon by Messrs. O'Melveny & Myers, 433 South Spring Street, Los Angeles 13, California, counsel for the Underwriters. Mr. Allen L. Chickering, a partner in the firm of Chickering & Gregory, is also a Vice President, Director and stockholder of the Company.

MANAGEMENT AND CONTROL

The names and addresses of the Directors and executive Officers of the Company, and the offices held by each, are as follows:

Name	Address	Office
H. S. Anderton, M.D.	525 C Street, San Diego 1, Calif.	Director
Allen L. Chickering*	111 Sutter Street, San Francisco 4, Calif.	Vice President and Director
Hance H. Cleland	Electric Building, 861 Sixth Avenue, San Diego 12, Calif.	Chairman of the Board and Director
James D. Forward, Sr.	1028 Second Avenue, San Diego 1, Calif.	Director
M. B. Fowler	3356 First Avenue, San Diego 1, Calif.	Director
Oakley J. Hall	656 Spreckels Building, San Diego 1, Calif.	Director
A. E. Holloway	Electric Building, 861 Sixth Avenue, San Diego 12, Calif.	Vice President in Charge of Sales and Director
L. M. Klauber	Electric Building, 861 Sixth Avenue, San Diego 12, Calif.	President and Director
Bernard W. Lynch	231 So. La Salle St., Chicago 4, Ill.	Chairman of Finance Committee and Director
Lawrence Oliver	c/o American Processing Co., Ft. of Beardsley Street, San Diego 2, Calif.	Director
E. D. Sherwin	Electric Building, 861 Sixth Avenue, San Diego 12, Calif.	Vice President in Charge of Operation and Director
J. M. Bourus	Electric Building, 861 Sixth Avenue, San Diego 12, Calif.	Vice President and Treasurer
R. C. Cavell	Electric Building, 861 Sixth Avenue, San Diego 12, Calif.	Secretary

*Member of the firm of Chickering & Gregory, counsel for the Company

For the last five years the executive officers of the Company have been directly connected with and have devoted their entire time to the operations of the Company except: Bernard W. Lynch, who has devoted a substantial part of his time to other public utilities, and Allen L. Chickering, who has been engaged in the private practice of law.

Remuneration of Officers and Directors:

The aggregate remuneration paid directly or indirectly by the Company during the calendar year 1948 to (1) each of the two officers whose aggregate remuneration exceeded $25,000, and (2) all directors and officers as a group was as follows:

(1) Name of individual or identity of group	(2) Capacities in which remuneration was received	(3) Fees, salaries and commissions	(4) Bonuses and shares in profits	(5) Pension, retirement and similar payments
Hance H. Cleland	Chairman of Board and Director	$ 30,850.00	None	$ 5,544.08
L. M. Klauber	President and Director	30,800.00	None	102.80
All officers and directors		138,745.05	None	15,567.13

The annual benefits estimated to be payable in the event of retirement at normal retirement date to the above named officers pursuant to the retirement plan are:

Hance H. Cleland	$3,810.84
L. M. Klauber	6,000.00

During the last fiscal year no person who was a director or officer of the Company received remuneration, directly or indirectly, in the form of securities, option warrants, rights or other property, or through the exercise or disposition thereof.

Stockholdings of Directors and Officers:

As of February 28, 1949, the Directors and Officers of the Company, as a group, owned the following amounts of equity securities of the Company:

Title of Class	Type of Ownership	Amount Owned
Cumulative Preferred Stock, 5% Series, $20 par value	Beneficially and of Record	1,465
Common Stock ($10 par value)	Beneficially and of Record	17,830

Indemnification:

The Company has no arrangement under which any director or officer of the Company is insured or indemnified in any manner, directly or indirectly, by the Company against any liability which he may incur in his capacity as director or officer of the Company. In this connection attention is called to section 830 of the California Corporations Code which provides that if any person is sued in any action or proceeding by reason of his being or having been a director, officer or employee of a corporation, and arising out of his alleged misfeasance or nonfeasance in the performance of his duties or out of any alleged wrongful act against the corporation or by the corporation, the reasonable expenses, including attorney's fees, of any said director, officer or employee, incurred in the successful defense of such action or proceeding may be assessed against the corporation or its representative either by the court in which such action or proceeding is brought or by the court in a separate action or proceeding against the corporation or its representative. If any director, officer or employee is successful in whole or in part, or if the action or proceeding against him is settled with the approval of the court, and if the court also finds that the conduct of any such party is such as fairly and equitably to merit such indemnity, reasonable expenses, including attorney's fees, of any or all such parties may be assessed against the corporation in such amount as the court determines and finds to be reasonable. The awarding of indemnity for such expenses is to be by order of the court and shall not be governed by any provision of the Articles of Incorporation or by-laws of the corporation, or by resolution or agreement of the corporation, its directors or shareholders, but the rights and remedies given by this section are declared thereby to be exclusive. The Company has been advised that in the opinion of the Securities and Exchange Commission the provisions of this section, to the extent that they permit indemnification of directors and officers in causes of action based upon the Securities Act of 1933, as amended, may contravene federal public policy, as expressed in that Act, and, therefore, may be to such extent unenforceable. In the event application is made under California Corporations Code section 830 for indemnification in such a case, arising out of the issue or sale of the new Preferred Stock by a director or officer of the Company, the Company will, unless, in the opinion of its counsel, the question has already been settled by controlling precedent, submit the question of public policy under the Securities Act to a court of appropriate jurisdiction and will be governed by the final adjudication of such issue.

CERTAIN ADDITIONAL STATISTICS

Earnings Table

The following table sets forth in the second, third and fourth columns the approximate extent to which earnings have exceeded the respective categories, and, in the last column, the approximate earnings per share on the average number of shares of Common Stock outstanding, for each of the years 1941 to 1948 inclusive:

	Times Fixed Charges Earned After Income Taxes	Times Fixed Charges and Preferred* Dividends Earned	Times Preferred* Dividends Earned†	Earned Per Share Common Stock
1941	3.60	2.27	4.42	$1.11
1942	4.26	2.35	4.01	0.90
1943	3.45	2.17	4.18	0.96
1944	3.41	2.14	4.04	0.91
1945	3.41	2.13	4.02	0.91
1946	3.56	2.19	4.07	0.92
1947	4.11	2.39	4.33	0.93
1948	3.51	2.37	5.26	0.99

* Cumulative Preferred Stock, 5% Series, $20 par value

† The same figures represent the amount earned per share on the average number of shares of such stock outstanding in such years.

The foregoing table should be read in conjunction with the "Summary of Earnings" herein and the footnotes thereto.

Stock Ownership

The following are estimates, with respect to the distribution of the stocks of the Company, as of March 1, 1949, by class of investor and geographically, respectively:

Class	Cumulative Preferred Stock 5% Series, $20 par value Shareholders	Common Stock Shareholders
Women	1201	6318
Men	467	3182
Joint Tenants	585	4107
Trust Estates	176	352
Religious, Educational, Social and Charitable Institutions	43	82
Banks, Investment Trusts and Security Houses	33	66
Insurance Companies	23	35
Miscellaneous	23	25
Totals	2551	14,167

Area	Cumulative Preferred Stock 5% Series, $20 par value		Common Stock	
	Shares	Shareholders	Shares	Shareholders
San Diego area*	146,144	1389	862,248	5414
Rest of California	111,615	815	636,010	5127
Outside California	117,241	347	401,742	3626
Totals	375,000	2551	1,900,000	14,167

* Area mainly served by the Company.

CERTIFICATE OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

San Diego Gas & Electric Company:

We have examined the balance sheet of San Diego Gas & Electric Company as of December 31, 1948 and the related statements of income and surplus and schedule of supplementary profit and loss information for the three years then ended. Our examination was 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. Having previously made similar examinations for the two years ended December 31, 1945, we also have reviewed the summary of earnings for the five years ended December 31, 1948 which is included under the heading "Summary of Earnings" in this Prospectus.

As explained in Note 3 to the financial statements, special charges were made against income in the years 1946 to 1948, being completed in 1948, representing the write-off of certain intangible fixed capital and accelerated amortization of certain debt discount and expense, which charges were dependent upon earnings of the Company for those years. Inasmuch as these charges were based upon income available rather than upon a program of systematic amortization over a definite period, we are of the opinion that this practice is at variance with generally accepted accounting principles.

In our opinion, except as to the matter mentioned in the preceding paragraph, the accompanying balance sheet, statement of income (and its schedule), and statement of surplus, with their footnotes, present fairly the financial position of the Company at December 31, 1948 and the results of its operations for the three years then ended, and the summary of earnings, with its footnotes, summarizes fairly the results of operations for the five years ended December 31, 1948, all in conformity with generally accepted accounting principles applied on a consistent basis.

HASKINS & SELLS

Los Angeles, California
March 15, 1949

SAN DIEGO GAS & ELECTRIC COMPANY

BALANCE SHEET, DECEMBER 31, 1948

ASSETS

UTILITY PLANT (Note 1):		
Property, plant, and equipment	$77,728,109	
Intangibles (Note 3)	44,643	
Total utility plant		$77,772,752
CURRENT ASSETS:		
Cash on hand and demand deposits	$ 4,308,377	
Cash on deposit with trustee for payment of bond interest	269,922	
Accounts receivable:		
Customers (less reserve for uncollectible accounts, $239,667)	1,483,951	
Other	15,372	
Materials and supplies (at average cost)	1,555,560	
Prepayments	166,249	
Total current assets		7,799,431
DEFERRED CHARGES:		
Unamortized debt expense, less premium (Notes 2 and 3)	$ 33,955	
Retirement work in process	42,630	
Other deferred charges	52,588	
Total deferred charges		129,173
TOTAL		$85,701,356

The accompanying Notes to Financial Statements are an integral part of this Statement.

SAN DIEGO GAS & ELECTRIC COMPANY

BALANCE SHEET, DECEMBER 31, 1948

LIABILITIES

CAPITAL STOCK:		
Preferred (par value $20 each):		
Cumulative 5% series—authorized, issued, and outstanding, 375,000 shares; redeemable on 30 days' notice, at the option of the Company, at $24 a share, plus accrued dividends; total amount at which presently redeemable, $9,000,000, plus accrued dividends	$ 7,500,000	
Cumulative (serial designation and dividend rate undetermined)—authorized, 1,625,000 shares; issued, none; conversion rights, if any, redemption prices, and liquidation preferences to be fixed by Board of Directors	Nil	
Common (par value $10 each)—authorized, 6,000,000 shares; outstanding, 1,900,000 shares	19,000,000	
Total capital stock		$26,500,000
LONG-TERM DEBT:		
First mortgage bonds, 3⅛% series due July 1, 1970	$16,000,000	
First mortgage bonds, 3% series C due 1978	10,000,000	
First mortgage bonds, 2¾% series due December 1, 1981	Nil	
Total long-term debt		26,000,000
CURRENT LIABILITIES:		
Accounts payable	$ 1,566,002	
Dividends declared	473,750	
Customers' deposits	262,057	
Accrued salaries and wages (includes reserve for vacations and estimated retroactive wage adjustment)	329,451	
Accrued taxes	2,197,203	
Accrued bond interest	369,922	
Other current liabilities	256,597	
Total current liabilities		5,454,982
DEFERRED CREDITS:		
Customers' advances for construction	$ 240,278	
Other deferred credits	100,882	
Total deferred credits		341,160
RESERVES:		
Depreciation and amortization	$20,992,116	
Amortization of limited-term investments	6,679	
Other reserves	165,018	
Total reserves		21,163,813
CONTRIBUTIONS IN AID OF CONSTRUCTION		711,307
PREMIUM ON CAPITAL STOCK, PER STATEMENT OF SURPLUS		2,526,013
EARNED SURPLUS, PER STATEMENT OF SURPLUS		3,004,081
TOTAL		$85,701,356

The accompanying Notes to Financial Statements are an integral part of this Statement.

SAN DIEGO GAS & ELECTRIC COMPANY

STATEMENT OF INCOME

For the Three Years Ended December 31, 1948

	Year Ended December 31 1946	1947	1948
OPERATING REVENUES:			
Electric department	$12,247,539	$13,648,079	$14,861,105
Gas department	5,771,726	5,979,983	6,973,220
Steam department	94,057	90,412	95,847
Total operating revenues	$18,113,322	$19,718,474	$21,930,172
OPERATING EXPENSES:			
Operation:			
Power purchased	$ 427,682	$ 600,879	$ 435,271
Gas purchased	1,862,281	1,955,222	2,827,824
Production	2,427,898	3,774,182	4,414,482
Transmission	96,040	125,056	57,276
Distribution	940,180	1,221,197	1,436,294
Customers' accounting and collecting	676,604	780,354	886,613
Sales promotion	347,612	412,956	462,731
Administrative and general	1,001,315	1,169,077	1,209,314
Provision for doubtful accounts	23,512	9,627	7,538
Maintenance and repairs (Note 1)	978,034	1,173,655	1,424,986
Depreciation (Note 1)	1,860,849	1,985,239	2,162,728
Amortization of limited-term investments (patents and franchises) (Note 1)	397	397	394
Provision for employees' future-service retirement annuities (Note 6)	176,500	243,794	277,052
Provision made in contemplation of increasing benefits under employees' past-service retirement annuities (Note 6)	320,000	3,526	
Taxes other than Federal taxes on income	1,693,882	1,785,470	2,156,241
Total operating expenses	$12,832,786	$15,240,631	$17,758,744
NET OPERATING REVENUES	$ 5,280,536	$ 4,477,843	$ 4,171,428
OTHER INCOME—interest	14,787	990	13,642
GROSS INCOME	$ 5,295,323	$ 4,478,833	$ 4,185,070
INCOME DEDUCTIONS:			
Interest on funded debt	$ 540,000	$ 540,000	$ 776,667
Interest on miscellaneous long-term debt		38,751	79,594
Amortization of debt discount and expense and premium (Notes 2 and 3)	56,149	11,980	2,181
Other interest	15,947	11,563	8,537
Interest charged to construction (*credit)	* 16,219	* 79,351	* 80,457
Miscellaneous	57,063	33,985	36,211
Total income deductions	$ 652,940	$ 556,928	$ 822,733
NET INCOME BEFORE FEDERAL TAXES ON INCOME AND SPECIAL CHARGES	$ 4,642,383	$ 3,921,905	$ 3,362,337
PROVISIONS FOR FEDERAL TAXES ON INCOME	1,843,000	1,420,000	1,091,000
NET INCOME BEFORE SPECIAL CHARGES	$ 2,799,383	$ 2,501,905	$ 2,271,337
SPECIAL CHARGES (Note 3):			
Accelerated amortization of debt discount and expense	$ 848,000	$ 312,758	
Amortization of plant acquisition adjustments	424,000	565,000	$ 300,414
Total special charges	$ 1,272,000	$ 877,758	$ 300,414
NET INCOME—carried to earned surplus	$ 1,527,383	$ 1,624,147	$ 1,970,923

The accompanying Notes to Financial Statements are an integral part of this Statement.

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SAN DIEGO GAS & ELECTRIC COMPANY
STATEMENT OF SURPLUS

For the Three Years Ended December 31, 1948

CAPITAL SURPLUS (Premium on Capital Stock)	Year Ended December 31 1946	 1947	 1948
Balance At Beginning of the Year	$ 689,719	$ 689,719	$1,642,363
Premium on Sale in 1947 of 300,000 Shares of Common Capital Stock, Less Expenses Incurred in Connection Therewith, $25,356		952,644	
Premium on Sale in 1948 of 350,000 Shares of Common Capital Stock, Less Expenses Incurred in Connection Therewith, $26,350			883,650
Balance at End of Year	$ 689,719	$1,642,363	$2,526,013
EARNED SURPLUS			
Balance at Beginning of the Year	$2,481,009	$2,529,011	$2,718,158
Net Income From Statement of Income	1,527,383	1,624,147	1,970,923
Total	$4,008,392	$4,153,158	$4,689,081
Deductions From Earned Surplus:			
Provision made in contemplation of increasing benefits under employees' past-service retirement annuities (Note 6)	$ 104,381		
Dividends—cash:			
Cumulative preferred stock 5% series ($1 a share each year)	375,000	$ 375,000	$ 375,000
Common stock (80c a share in 1946 and 1947 on 1,250,000 shares, plus, in 1947, 20c a share, declared December 9, 1947, on additional 300,000 shares sold in 1947; 80c a share in 1948 on 1,550,000 shares, plus, in that year 20c a share, declared December 13, 1948, on additional 350,000 shares sold in 1948) (Note 7)	1,000,000	1,060,000	1,310,000
Total	$1,479,381	$1,435,000	$1,685,000
Balance at End of the Year	$2,529,011	$2,718,158	$3,004,081

The accompanying Notes to Financial Statements are an integral part of this Statement.

SAN DIEGO GAS & ELECTRIC COMPANY

NOTES TO FINANCIAL STATEMENTS

Utility plant, comprising property, plant, and equipment and intangibles, is stated at cost, except as to relatively minor properties acquired by purchase which were recorded at values approved by the Public Utilities Commission of the State of California, less retirements and less write-offs of (a) a portion of engineering fees paid in prior years not includable in the Company's rate base and (b) plant acquisition adjustments (see Note 3). In the case of certain properties acquired prior to 1922 (at values approved by the Public Utilities Commission of the State of California) and property acquired at organization of the Company in 1905, cost (to the extent of approximately $3,000,000) was based on the principal amount or par value of securities issued or assumed in connection with the acquisitions.

The amount at which the utility plant is stated does not purport to represent its present realizable value or replacement cost.

Effective January 1, 1949, the Public Utilities Commission of the State of California prescribed a new system of accounts for gas utilities, patterned along the lines of the system of accounts for electric utilities which became effective January 1, 1938. Provision is made in these prescribed systems for the reclassification of utility plant accounts as of the effective dates of the respective systems so as to segregate the cost of acquisition of the subject properties into amounts representing original cost incurred by the person who first devoted the property to public service, plant acquisition adjustments, and plant adjustments. As of January 1, 1938, the effective date of the system of accounts prescribed for electric utilities, the Company filed a report with the Commission reclassifying its electric utilities and segregating the cost of acquisition of both its electric and gas utility accounts into amounts representing original cost and plant acquisition adjustments (a segregation of plant adjustments was inapplicable). No exception to this report was taken by the Commission. As stated in the first paragraph of this note and in Note 3 the plant acquisition adjustments (amounting to $1,289,414) were written off during the three years ended December 31, 1948. As of January 1, 1949, the effective date of the system of accounts prescribed for gas utilities, the Company filed a report with the Commission reclassifying its gas utilities and stated that the segregation of the cost of acquisition of such utilities into amounts representing original cost, plant acquisition adjustments, and plant adjustments was made as shown in the Company's report submitted to the Commission as of January 1, 1938, and also that no further adjustments for such segregation were required. A reply to the report as of January 1, 1949 has not yet been received from the Commission. The Company has no reason to believe that the Commission will take any material exception to the report as filed, or that application of the reclassifications will have any material effect on the depreciation reserves or on future earnings.

Provisions for depreciation in the three years ended December 31, 1948 of property, plant, and equipment, other than emergency facilities (which are fully reserved) and transportation and construction equipment, are based on the estimated service lives of the respective classes of depreciable assets, using a five per cent sinking-fund method. The ratios of the provisions to the related aggregate depreciable asset balances for the years 1946, 1947 and 1948 were 3.55%, 3.65%, and 3.66%, respectively. The reserve to which such provisions are credited is charged with the cost (estimated if not known) of property, plant, and equipment retired or otherwise disposed of, plus removal costs, less salvage. No specific reserve is provided for obsolescence.

Provisions for depreciation of transportation and construction equipment are based on the estimated service lives of the respective classes of equipment, using a straight-line method. Such provisions are charged to clearing accounts and subsequently distributed to operations and construction, and are not included in the item of depreciation in the statement of income. The amounts of the provisions for the years 1946, 1947, and 1948 were $34,310, $34,022 and $78,202, respectively, and are equivalent to 6.92%, 5.32%, and 8.98%, respectively, of the average monthly asset balance. The reserves to which the provisions are credited are charged with the cost of equipment retired or otherwise disposed of, less salvage; concurrently, the provision for the current period is increased to the extent of any deficiency or decreased to the extent of any excess in the reserve with respect to the equipment disposed of.

Provision is made for amortization of limited-term investments (patents and franchises) over the period of their respective lives, using a straight-line method. The cost of patents and franchises is charged to the reserve at their expiration.

Maintenance of property, plant, and equipment, other than transportation and construction equipment, is charged to operating expenses. Maintenance of transportation and construction equipment is charged to clearing accounts and subsequently distributed to operations and construction; the item of maintenance and repairs shown in the statement of income does not include maintenance of such equipment, except to the extent of a portion, impracticable of determination, of the distributions made to maintenance accounts from the clearing accounts referred to.

Renewals of units of property, plant, and equipment, other than minor items, are charged to the appropriate plant accounts and the latter are relieved of the cost of the units replaced; renewals of minor items are charged to maintenance and repairs. This practice is also followed with respect to betterments.

The balance in unamortized debt expense, less premium, comprises unamortized debt expense of $67,653 on the outstanding first mortgage bonds, 3⅜% series, less unamortized premium and expense of $33,698 on the outstanding first mortgage bonds, 3% series C. These amounts are being amortized over the lives of the respective issues. The premium of $1,180,800 received on the 3⅜% series was credited to earned surplus in a prior year pursuant to an order of the Public Utilities Commission of the State of California, and at the same time there was charged to earned surplus, pursuant to an order of such Commission, discount and expense and redemption premium of $1,160,272 on bonds called in prior years before maturity.

3. As a result of discussions in 1946 with the Public Utilities Commission of the State of California, the Company obtained permission to accelerate the extinguishment of unamortized debt discount and expense and redemption premium applicable to bonds refunded before maturity by the presently outstanding 3⅜% series, and to write off intangible fixed capital (plant acquisition adjustments), the acceleration and write-off being dependent upon earnings. In 1946 and 1947, the Company applied $848,000 and $312,758, respectively, by charges against income, to accelerate the extinguishment of such debt discount and expense and redemption premium (fully extinguished in 1947), and in 1946, 1947, and 1948, $424,000, $565,000, and $300,414, respectively, to the write-off of plant acquisition adjustments (fully written off in 1948). Had these charges not been made, net income for 1946, 1947 and 1948 would have been greater by $1,272,000, $833,589, and $247,412, respectively (considering as to the two last named periods that amortization of debt discount and expense and premium, included in income deductions, would have amounted to $56,149 and $55,183, rather than to $11,980 and $2,181 as reported).

4. In February 1949, wage increases averaging approximately 4.6% were granted to employees who are members of International Brotherhood of Electrical Workers, Local B-465 (with which union the Company has an agreement) and to office employees, effective August 22 and 16, 1948, respectively. The Company estimates that such increases will result in an annual increase in operating expenses of approximately $125,000 after taxes. Provision for that portion of the wage increases applicable to the periods from the effective dates of the increases to December 31, 1948 has been made in the 1948 accounts.

5. The Company has a standby loan agreement with a syndicate of banks for credit of $1,600,000, expiring June 1, 1949. This amount represents the unused portion of a credit of $8,000,000 arranged with such syndicate in 1946, the borrowings under which ($6,400,000), at 2% per annum, having been repaid in 1948.

6. Provision in 1946 for employees' past-service retirement annuities, aggregating $424,381, was made in contemplation of increasing the benefits under employees' past-service retirement annuities, and was formally approved by stockholders of the Company on April 22, 1947. Of the amount of $424,381, $320,000 was charged to income in 1946 and the remainder, $104,381, to earned surplus, the latter amount being equal to the amount transferred to earned surplus from employees' provident reserve in 1945. An adjustment ($3,526) of the 1946 provision was applied against 1947 income. For particulars with respect to the Company's pension plan, see comments under the caption "Employees' Retirement Plan" appearing elsewhere in this Prospectus.

7. The amount shown for dividends on Common Stock in 1947, $1,060,000, does not include the dividend of 20 cents a share declared September 22, 1947 applicable to the 300,000 shares of common stock sold September 23, 1947, $60,000. This dividend of 20 cents a share applicable to the 300,000 shares was considered to have been included in the selling price ($13.46 a share) of the stock, and accordingly was applied against proceeds from the sale rather than against earned surplus.

8. Reference is made to the comments under the caption "Construction Program," shown elsewhere in this Prospectus, for particulars with respect to the Company's extensive program for expansion for 1949 and subsequent years.

9. The Company's Federal income tax returns have been examined by the United States Treasury Department through the year 1944, and provisions made in the books for all additional assessments levied. The returns for years subsequent to 1944 have not yet been examined.

SAN DIEGO GAS & ELECTRIC COMPANY

SCHEDULE OF SUPPLEMENTARY PROFIT AND LOSS INFORMATION

For the Three Years Ended December 31, 1948

	Year Ended December 31		
	1946	1947	1948
MAINTENANCE AND REPAIRS, charged to:			
Operating expenses	$ 978,034	$1,173,655	$1,424,986
Clearing accounts (Note 1)	102,120	112,915	135,783
Total	$1,080,154	$1,286,570	$1,560,769
DEPRECIATION OF PROPERTY, PLANT, AND EQUIPMENT, charged to:			
Operating expenses	$1,860,849	$1,985,239	$2,162,728
Clearing accounts (Note 1)	34,311	34,022	78,202
Total	$1,895,160	$2,019,261	$2,240,930
AMORTIZATION OF PLANT ACQUISITION ADJUSTMENTS, charged to special charges to income (Note 2)	$ 424,000	$ 565,000	$ 300,414
AMORTIZATION OF LIMITED-TERM INVESTMENTS (Patents and Franchises), charged to operating expenses	$ 397	$ 397	$ 394
TAXES (Other Than Federal Taxes on Income) charged to:			
Operating expenses:			
City and county ad valorem	$1,221,156	$1,313,356	$1,711,675
State corporation franchise	173,000	137,750	106,700
Federal electrical energy	253,211	288,334	315,642
State and Federal social security	47,593	47,027	23,510
Total (Note 3)	$1,694,960	$1,786,467	$2,157,527
Clearing accounts (social security taxes) (Note 1)	23,344	32,057	23,432
Property, plant, and equipment (social security taxes)	16,881	29,370	21,356
Other accounts (principally social security and ad valorem taxes)	2,363	437	655
Total (Note 4)	$1,737,548	$1,848,331	$2,202,970
SERVICE CONTRACT FEES, charged to:			
Operating expenses	$ 6,188	$ 3,672	$ 3,850
Property, plant, and equipment	120,588	228,572	124,833
Clearing accounts (Note 1)	1,368	3,491	2,036
TOTAL	$ 128,144	$ 235,735	$ 130,719

NOTES:

1. The charges to clearing accounts are principally in respect of transportation and construction equipment and are apportioned to operations and construction, etc., on the basis of service rendered by the equipment.
2. Reference is made to Note 3 to financial statements for explanation of this item.
3. Includes taxes of $1,078 for 1946, $997 for 1947, and $1,286 for 1948, representing city and county ad valorem taxes charged to operating expenses other than taxes.
4. Excise taxes are included in cost of materials and supplies purchased and are not charged to taxes account. It would be impracticable to follow the ultimate distribution of, or to ascertain the total amount of, these many small items.
5. Amounts of rents paid during the three years were not significant, and there were no royalties.

TERMS OF OFFERING

No firm commitment has been made to purchase any of the new Preferred Stock.

Invitation for Bids. The Company is publicly inviting sealed written bids for the purchase from it of the new Preferred Stock. Such invitation is to be made by newspaper publication of a "Public Invitation for Bids for the Purchase of 300,000 shares of Cumulative Preferred Stock, 4½% Series, $20 par value," and will be subject to the terms and conditions of the "Statement of Terms and Conditions Relating to Bids" therein referred to (said Public Invitation and said Statement of the Terms and Conditions Relating to Bids being hereinafter together called the "Invitation," and in substantially the forms filed as Exhibits F-1, and F-2 to the Registration Statement).

The Invitation will contain the following provisions, among others:

Each bid shall be made on the Form of Bid (a copy of which is filed as Exhibit F-3 to the Registration Statement) supplied by the Company. Each bid shall be for the purchase of all the new Preferred Stock. Bids may be made by a single bidder or by a group of bidders. In case the bid of a group of bidders is accepted, the obligations of the bidders in the group shall be several and not joint to purchase the respective principal amount of the new Preferred Stock indicated in the bid, but such bidders shall act through a duly authorized representative who shall have authority to bind the bidders in the group. No bidder may submit or participate in more than one bid for the new Preferred Stock.

Each bid shall specify the price (exclusive of accrued dividends which are to accrue from April 1, 1949) to be paid to the Company for the new Preferred Stock and shall be accompanied by a deposit of $300,000. Any such deposit made by a bidder or group whose bid is rejected is to be returned; and such deposit made by a bidder or group whose bid is accepted is to be retained by the Company as security for the performance of the obligations of such bidder or bidders under such bid, including the obligation to execute a Purchase Agreement in the form referred to below, and if there is a failure of such performance, the same will be retained as liquidated damages. After the execution of the Purchase Agreement, such deposit is to be held and disposed of in accordance with the terms thereof.

No bid will be considered unless the bidder or representative of a group of bidders shall have furnished to the Company by the date specified in the Invitation certain specific information required in connection with the preparation of the post-effective amendment to the Registration Statement hereinafter referred to.

All bids must be delivered to the Company at the place and before the time specified in the Invitation, or at such later day as may be fixed by the Company as provided in the Invitation.

All bids are to be irrevocable during the period specified in the Form of Bid.

The Company reserves the right, from time to time, to postpone the date for presentation and opening of bids for an aggregate period of not exceeding seven (7) days, and will give telegraphic notice of any such postponement to each prospective bidder, or the representative of each group of prospective bidders, who shall have filed Questionnaires as provided in the Invitation.

Acceptance or Rejection of Bids: Subject to the right of the Company to return all bids unopened, all bids will be opened by the Company at the place and time provided in the Invitation, or at such later time as may be fixed by the Company as provided in the Invitation. Each bid will be accepted or rejected in its entirety. The Company may, in its discretion, reject all bids.

If any bid is accepted, the Company will accept that qualified bid which offers the Company highest price for the new Preferred Stock, and in case two or more bids provide the identical ghest price therefor, the Company (unless it shall reject all bids) will give the makers of such ntical bids as aforesaid an opportunity to improve their bids. If no improved bid is made with- the time fixed by the Company (which time shall not be later than 1:30 P.M. of the day of the ening of bids), or if upon such re-bidding two or more bids providing the identical highest price again received, the Company may without liability to the maker of any other bid accept any ch bid, in its sole discretion, or may reject all bids.

The Company reserves the right to reject the bid of any bidder or group of bidders if in the nion of its counsel the Company may not lawfully sell the new Preferred Stock to such bidder to any member of such group, or if such bidder or any member of such group of bidders shall have ed to comply with one or more of the terms and conditions of the Invitation and such failure all not have been waived by the Company or if such bidder or any member of such group is in h relationship with The Bank of California, National Association, as would disqualify such nk under Section 310(b) of the Trust Indenture Act of 1939 from acting as Trustee under the mpany's trust indenture if the bid of such bidder or group of bidders should be accepted. Any so rejected by the Company shall be disregarded.

The foregoing is a brief summary of certain provisions of the Invitation. Said summary es not purport to be complete, and reference is made to the several Exhibits heretofore referred under this caption which are hereby incorporated herein by reference for full and complete tements of said provisions.

Immediately after the acceptance of a bid (a) the successful bidder or bidders and the Com- ny shall enter into a Purchase Agreement, in substantially the form filed as an exhibit to the gistration Statement and discussed below, and (b) certain information with respect to the rchase of the new Preferred Stock and proposed public offering, if any, shall be furnished to Company by the successful bidders, including the proposed initial public offering price or ces, if any.

PURCHASE AGREEMENT

The following is a brief outline of certain of the provisions of the proposed Purchase Agreement, hich does not purport to be complete. A copy of the proposed Purchase Agreement is filed as an hibit to the Registration Statement (attached to the Form of Bid) and reference is hereby made reto for a full and complete statement of the terms and provisions thereof, and this outline is qual- d in its entirety by such reference.

The purchasers of the new Preferred Stock referred to in the Purchase Agreement (hereinafter lled the "Purchasers") will not own the new Preferred Stock prior to the Closing Date referred therein and will not be under a firm commitment to purchase the new Preferred Stock since the rchase Agreement is subject to termination as set forth below.

The Purchase Agreement provides in substance that, on the terms and subject to the condi- ns therein stated, the Company agrees to sell to each of the Purchasers therein named, severally not jointly, and that each of the Purchasers agrees to purchase from the Company, severally and not tly, the number of shares of new Preferred Stock to be set opposite the name of such Purchaser rein, such amounts in the aggregate being all the new Preferred Stock, at the price set forth in the epted Bid. Delivery of the new Preferred Stock is to be made against payment therefor on the osing Date referred to in the Purchase Agreement.

The Purchase Agreement contains certain representations and warranties on the part of the Company, including representations as to the accuracy and completeness of the Registration Statement (including the Post-Effective Amendment thereto) and the related Prospectus and as to the financial condition of the Company, and contains, among other things, provisions whereby the Company agrees to indemnify and hold harmless each Purchaser and each person, if any, who controls any Purchaser within the meaning of Section 15 of the Securities Act of 1933, to the extent provided in the Purchase Agreement, against any loss, expense, claim, damage or liability to which, jointly or severally, such Purchaser or such controlling person may become subject under said Act or otherwise, in so far as such loss, expense, claim, damage or liability (or actions in respect thereof) arises out of or is based on, the failure of the Company to obtain any requisite order, approval or authorization, of any public body in connection with the issue and sale of the new Preferred Stock by the Company, or any untrue statement or alleged untrue statement of any material fact contained in the Registration Statement or the Prospectus or any amendment or supplement thereto, or the omission of or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, and whereby each Purchaser similarly agrees to indemnify the Company with respect to information furnished by such Purchaser in connection with the Registration Statement. In the Purchase Agreement the Company agrees, among other things, that it will endeavor, within the limitations therein expressed, to qualify the new Preferred Stock for offer and sale under the blue sky laws of such states as the Representative referred to therein may designate. The Purchasers shall be required, as provided in the Purchase Agreement, to pay the fees and disbursements of counsel for the Purchasers, except in certain instances therein specified.

The obligations of the several Purchasers under the Purchase Agreement are subject to the accuracy of the representations and warranties of the Company contained therein and to the performance by the Company of its obligations thereunder, and to certain conditions precedent, including the conditions that the post-effective amendment to the Registration Statement will have become effective by a specified time; that at the Closing Date therein referred to the Purchasers shall receive a certificate of specified officers of the Company to the effect that subsequent to the respective dates as of which information is given in the Registration Statement, and other than as contemplated in the Purchase Agreement or as contemplated in the Registration Statement, (i) the Company has not incurred any material liabilities or oblgiations, contingent or otherwise, except in the ordinary course of business, and (ii) there has been no change in the capitalization of the Company or in the condition of the Company, financial or otherwise, except in the ordinary course of business, including the payment of regular dividends on the stock of the Company; that prior to the Closing Date therein referred to all necessary orders of public bodies having jurisdiction in the premises shall have been entered; and that counsel for the Purchasers shall have approved certain legal matters relating to the issue and sale of the new Preferred Stock and the Company shall have furnished to the Representative of the Purchasers an opinion of counsel for the Company and certificates, affidavits and letters of officers of the Company, and that certain other steps to be taken at or prior to the Closing Date therein referred to shall have been taken at or prior to said time.

The Purchase Agreement also provides in substance that it may be terminated by the Representative therein referred to with the consent of the Purchasers (including the Representative) who have agreed to purchase in the aggregate more than fifty per cent (50%) of the number of shares of the new Preferred Stock (a) at any time prior to the expiration of twenty-four (24) hours after the Post-Effective Amendment to the Registration Statement shall have become effective (but not after the initial public offering, if any, of the new Preferred Stock if the Purchasers shall make a public offering), if the market value of securities in general, or political, financial or economic conditions shall have so materially changed after 8:00 A.M., Pacific Standard Time, on the date of the Purchase Agreement, as in the judgment of he Representative to render it inadvisable to proceed with such public offering, if any, or (b) at any me prior to the Closing Date therein referred to if the Company shall have sustained a material and ubstantial loss by fire, flood, accident or other calamity, which in the judgment of the Representative hall render it inadvisable to proceed with the delivery of the new Preferred Stock, whether or not said oss shall have been insured.

The Purchase Agreement provides that if one or more Purchasers shall default in purchasing the ew Preferred Stock agreed to be purchased then if the number of shares of the new Preferred Stock hich all Purchasers so defaulting shall have agreed to purchase (a) does not exceed 300,000 shares, nondefaulting Purchasers shall have the right and be obligated severally, to take up and pay for, oportionately, the new Preferred Stock with respect to which default has been made, and (b) exceeds 0,000 shares, the non-defaulting Purchasers shall have the right and be obligated severally to take up d pay for, proportionately, 30,000 shares of the new Preferred Stock with respect to which default s been made, and the Representative of such Purchasers may, but shall not be obligated to, arrange, hin a specified period, for a person or persons satisfactory to the Company to take up and pay for the Preferred Stock with respect to which default has been made which is in excess of 30,000 shares. Purchase Agreement provides that if the new Preferred Stock which any defaulting Purchaser or chasers agreed to purchase and pay for shall not be purchased by non-defaulting or substituted Purers, such default shall not relieve any Purchaser from its obligation to purchase and pay for the prinamount of the new Preferred Stock which it is obligated to purchase, and the Company in such t may, if it does not terminate the Purchase Agreement, elect to proceed with the sale and delivery ess than all of the new Preferred Stock.

The Purchase Agreement contains provisions with respect to the rights of the Company and of the rchasers in case of default by any one or more of such Purchasers and the method of exercising such hts, and with respect to the disposition of the deposit required to be made with the bid of the Purchasers. No contract has been made by the Company or any affiliate thereof agreeing not to sell securities of ame class as the new Preferred Stock during the period of distribution.

As soon as practicable after the Purchase Agreement shall have been entered into, the Company will Post-Effective Amendment to the Registration Statement which will complete the information reed to be completed therein (with respect to the names of the purchasers, the price to the Company he new Preferred Stock, the terms of any further public offering and similar information not deterble until after the acceptance of a bid) and will amend this Prospectus so as to include herein the cable portions of such information.