

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

[..X..] Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

September 30, 1995

For the quarterly period ended.....

Or

[.....] Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number	Name of Registrant as specified in its charter	State of Incorporation	IRS Employer Identification Number
1-3779	SAN DIEGO GAS & ELECTRIC COMPANY	California	95-1184800
1-11439	SDO PARENT CO., INC.	California	33-0643023

101 ASH STREET, SAN DIEGO, CALIFORNIA

92101

(Address of principal executive offices)

(Zip Code)

Registrants' telephone number, including area code. (619) 696-2000

No Change

Former name, former address and former fiscal year, if changed since last report

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Sections 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes...X... No.....

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Common Stock outstanding September 30, 1995

San Diego Gas & Electric Company 116,539,315

SDO Parent Co., Inc. None

SAN DIEGO GAS & ELECTRIC COMPANY  
AND  
SDO PARENT CO., INC.

FORM 10-Q FOR THE QUARTER ENDED SEPTEMBER 30, 1995

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## BACKGROUND - SDO Parent Co., Inc.

SDO Parent Co., Inc., a California corporation, was formed by San Diego Gas & Electric Company, a California corporation, for the purpose of becoming the parent holding company for SDG&E and for SDG&E's present direct subsidiaries. At the annual meeting of SDG&E's shareholders on April 25, 1995, the merger transaction to effect the holding company structure was approved. However, completion of the merger is subject to SDG&E's receipt of certain authorizations from the California Public Utilities Commission. An application was filed with the CPUC on November 7, 1994.

At present, SDO Parent has no assets, no operations, and no issued and outstanding stock. Although SDG&E will be the initial holder of SDO Parent's securities prior to the merger, this step in the holding company formation process is being held in abeyance pending receipt of the authorizations.

The CPUC's Division of Ratepayer Advocates has recommended against approval of the holding company or, in the alternative, that approval include several conditions, some of which are onerous. To date, the holding company proposal has been approved by the Federal Energy Regulatory Commission, the Nuclear Regulatory Commission and SDG&E shareholders. SDG&E anticipates forming the holding company shortly after receiving final approval from the CPUC, whose decision is expected before the end of December 1995. For additional information see Note 2 of the notes to consolidated financial statements. Upon receipt of the authorizations, the merger will be effected and then-present holders of SDG&E common stock will become the holders of SDO Parent's common stock.

The financial position and results of operations of SDO Parent had the merger occurred on or prior to September 30, 1995 would be the same as reported for SDG&E in Parts 1 and 2 of this Quarterly Report on Form 10-Q.

## PART I - FINANCIAL INFORMATION - SDO Parent Co., Inc.

Part I - Financial Information - San Diego Gas & Electric Company beginning on page 4 of this Quarterly Report on Form 10-Q is incorporated herein by reference.



PART I - FINANCIAL INFORMATION  
SAN DIEGO GAS & ELECTRIC COMPANY  
STATEMENTS OF CONSOLIDATED INCOME  
(In thousands except per share amounts)

	Three Months Ended September 30,	
	1995	1994
	-----	-----
	(Unaudited)	
Operating Revenues		
Electric . . . . .	\$ 396,526	\$ 387,144
Gas . . . . .	68,574	75,261
Diversified operations . . . . .	13,589	14,270
	-----	-----
Total operating revenues . . . . .	478,689	476,675
	-----	-----
Operating Expenses		
Electric fuel . . . . .	31,151	42,311
Purchased power . . . . .	91,501	93,409
Gas purchased for resale . . . . .	19,468	24,567
Maintenance . . . . .	18,486	15,400
Depreciation and decommissioning . . . . .	68,645	65,631
Property and other taxes . . . . .	11,514	11,221
General and administrative . . . . .	54,934	44,217
Other . . . . .	51,528	52,834
Income taxes . . . . .	41,160	42,771
	-----	-----
Total operating expenses . . . . .	388,387	392,361
	-----	-----
Operating Income . . . . .	90,302	84,314
	-----	-----
Other Income and (Deductions)		
Allowance for equity funds used during construction . . . . .	1,434	1,196
Taxes on nonoperating income . . . . .	(2,127)	(2,649)
Other - net . . . . .	(409)	4,388
	-----	-----
Total other income and (deductions)	(1,102)	2,935
	-----	-----
Income Before Interest Charges . . . . .	89,200	87,249
	-----	-----
Interest Charges		
Long-term debt . . . . .	22,476	23,495
Short-term debt and other . . . . .	5,534	3,922
Allowance for borrowed funds used during construction . . . . .	(630)	(342)
	-----	-----
Net interest charges . . . . .	27,380	27,075
	-----	-----
Income from Continuing Operations . . . . .	61,820	60,174
Discontinued Operations, Net of Income Taxes . . . . .	--	(385)
	-----	-----
Net Income (before preferred dividend requirements) . . . . .	61,820	59,789
Preferred Dividend Requirements . . . . .	1,916	1,916
	-----	-----
Earnings Applicable to Common Shares . . . . .	\$ 59,904	\$ 57,873
	=====	=====
Average Common Shares Outstanding . . . . .	116,538	116,475
	=====	=====
Earnings Per Common Share - Continuing Operations . . . . .	\$ 0.51	\$ 0.50
	=====	=====
Earnings Per Common Share . . . . .	\$ 0.51	\$ 0.50
	=====	=====
Dividends Declared Per Common Share . . . . .	\$ 0.39	\$ 0.38
	=====	=====

See notes to consolidated financial statements.

SAN DIEGO GAS & ELECTRIC COMPANY  
STATEMENTS OF CONSOLIDATED INCOME  
(In thousands except per share amounts)

	Nine Months Ended September 30,	
	1995	1994
	----- (Unaudited) -----	
Operating Revenues		
Electric . . . . .	\$1,130,530	\$1,115,061
Gas . . . . .	229,897	252,371
Diversified operations . . . . .	41,456	41,272
	-----	
Total operating revenues . . . . .	1,401,883	1,408,704
	-----	
Operating Expenses		
Electric fuel . . . . .	75,480	110,677
Purchased power . . . . .	262,702	256,376
Gas purchased for resale . . . . .	82,610	105,312
Maintenance . . . . .	55,194	47,970
Depreciation and decommissioning . . . . .	208,354	194,698
Property and other taxes . . . . .	34,193	33,717
General and administrative . . . . .	140,521	151,240
Other . . . . .	156,011	155,560
Income taxes . . . . .	123,373	120,949
	-----	
Total operating expenses . . . . .	1,138,438	1,176,499
	-----	
Operating Income . . . . .	263,445	232,205
	-----	
Other Income and (Deductions)		
Writedown of real estate . . . . .	-	(25,000)
Allowance for equity funds used during construction . . . . .	4,447	6,036
Taxes on nonoperating income . . . . .	(950)	6,853
Other - net . . . . .	(3,354)	4,047
	-----	
Total other income and (deductions)	143	(8,064)
	-----	
Income Before Interest Charges . . . . .	263,588	224,141
	-----	
Interest Charges		
Long-term debt . . . . .	72,122	68,785
Short-term debt and other . . . . .	14,425	10,174
Allowance for borrowed funds used during construction . . . . .	(2,013)	(2,580)
	-----	
Net interest charges . . . . .	84,534	76,379
	-----	
Income from Continuing Operations . . . . .	179,054	147,762
Discontinued Operations, Net of Income Taxes . . . . .	(6,168)	(61,396)
	-----	
Net Income (before preferred dividend requirements) . . . . .	172,886	86,366
Preferred Dividend Requirements . . . . .	5,747	5,747
	-----	
Earnings Applicable to Common Shares . . . . .	\$ 167,139	\$ 80,619
	=====	
Average Common Shares Outstanding . . . . .	116,535	116,480
	=====	
Earnings Per Common Share - Continuing Operations . . . . .	\$ 1.48	\$ 1.22
	=====	
Earnings Per Common Share . . . . .	\$ 1.43	\$ 0.69
	=====	
Dividends Declared Per Common Share . . . . .	\$ 1.17	\$ 1.14
	=====	

See notes to consolidated financial statements.



SAN DIEGO GAS & ELECTRIC COMPANY  
CONSOLIDATED BALANCE SHEETS  
(In thousands of dollars)

	September 30, 1995	December 31, 1994
	-----	-----
	(Unaudited)	
<b>ASSETS</b>		
Utility plant - at original cost . . . . .	\$5,468,196	\$5,329,179
Accumulated depreciation and decommissioning . . . . .	(2,364,825)	(2,180,087)
	-----	-----
Utility plant-net . . . . .	3,103,371	3,149,092
	-----	-----
Investments and other property . . . . .	514,993	465,918
	-----	-----
<b>Current assets</b>		
Cash and temporary investments . . . . .	140,093	25,405
Accounts receivable . . . . .	190,542	187,988
Notes receivable . . . . .	33,194	31,806
Inventories . . . . .	73,001	75,607
Other . . . . .	33,192	34,022
	-----	-----
Total current assets . . . . .	470,022	354,828
	-----	-----
Deferred taxes recoverable in rates . . . . .	283,968	305,717
	-----	-----
Deferred charges and other assets . . . . .	333,441	322,881
	-----	-----
Total . . . . .	\$4,705,795	\$4,598,436
	=====	=====
<b>CAPITALIZATION AND LIABILITIES</b>		
<b>Capitalization</b>		
Common equity . . . . .	\$1,505,881	\$1,474,430
Preferred stock:		
Not subject to mandatory redemption . . . . .	93,475	93,493
Subject to mandatory redemption . . . . .	25,000	25,000
Long-term debt . . . . .	1,395,759	1,339,201
	-----	-----
Total capitalization . . . . .	3,020,115	2,932,124
	-----	-----
<b>Current liabilities</b>		
Short-term borrowings . . . . .	-	89,325
Long-term debt redeemable within one year . . . . .	115,000	115,000
Current portion of long-term debt . . . . .	45,550	35,031
Accounts payable . . . . .	99,509	130,157
Dividends payable . . . . .	47,365	46,200
Taxes accrued . . . . .	48,721	5,519
Interest accrued . . . . .	25,770	23,372
Regulatory balancing accounts		
overcollected-net . . . . .	188,279	111,731
Other . . . . .	121,089	113,815
	-----	-----
Total current liabilities . . . . .	691,283	670,150
	-----	-----
Customer advances for construction . . . . .	35,250	36,250
	-----	-----
Accumulated deferred income taxes-net . . . . .	497,322	513,592
	-----	-----
Accumulated deferred investment tax credits . . . . .	105,286	109,161
	-----	-----
Deferred credits and other liabilities . . . . .	356,539	337,159
	-----	-----
Total . . . . .	\$4,705,795	\$4,598,436
	=====	=====

See notes to consolidated financial statements.



SAN DIEGO GAS & ELECTRIC COMPANY  
 STATEMENTS OF CONSOLIDATED CASH FLOWS  
 ( In thousands of dollars)

	Nine Months Ended	
	September 30,	
	1995	1994
	-----	
	(Unaudited)	
<b>Cash Flows from Operating Activities</b>		
Income from Continuing Operations . . . . .	\$179,054	\$147,762
Adjustments to reconcile income from continuing operations to net cash provided by operating activities		
Writedown of real estate and other assets . . . . .	--	37,000
Depreciation and decommissioning . . . . .	208,354	194,698
Amortization of deferred charges and other assets . .	10,350	9,647
Amortization of deferred credits and other liabilities . . . . .	(24,561)	(22,622)
Allowance for equity funds used during construction .	(4,447)	(6,036)
Deferred income taxes and investment tax credits . .	(6,598)	(18,043)
Other-net . . . . .	14,653	21,784
Changes in working capital components		
Accounts and notes receivable . . . . .	(3,942)	(12,648)
Regulatory balancing accounts . . . . .	76,548	85,129
Inventories . . . . .	2,606	(11,189)
Other current assets . . . . .	830	1,267
Accrued interest and taxes . . . . .	44,081	51,059
Accounts payable and other current liabilities . . .	(23,374)	(38,290)
Cash flows provided (used) by discontinued operations .	(168)	2,335
	473,386	441,853
	-----	-----
<b>Cash Flows from Financing Activities</b>		
Dividends paid . . . . .	(140,927)	(137,315)
Short-term borrowings-net . . . . .	(89,325)	(77,397)
Issuance of long-term debt . . . . .	124,641	--
Repayment of long-term debt . . . . .	(102,074)	(24,507)
Redemption of common stock . . . . .	(29)	(929)
Redemption of preferred stock . . . . .	(18)	--
	(207,732)	(240,148)
	-----	-----
<b>Cash Flows from Investing Activities</b>		
Utility construction expenditures . . . . .	(146,569)	(197,715)
Withdrawals from construction trust funds . . . . .	--	58,042
Contributions to decommissioning funds . . . . .	(16,527)	(16,527)
Other-net . . . . .	7,008	(2,662)
Discontinued operations . . . . .	5,122	(14,508)
	(150,966)	(173,370)
	-----	-----
Net increase . . . . .	114,688	28,335
Cash and temporary investments, beginning of period . . .	25,405	12,711
	\$140,093	\$ 41,046
	=====	=====
<b>Supplemental Disclosure of Cash Flow Information</b>		
Income tax payments . . . . .	\$ 97,960	\$ 81,219
	=====	=====
Interest payments, net of amounts capitalized . . . . .	\$ 82,136	\$ 71,555
	=====	=====
<b>Supplemental Schedule of Noncash Investing and Financing Activities</b>		
Real estate investments . . . . .	\$ 32,553	\$ 10,641
Cash paid . . . . .	(250)	(52)
	-----	-----
Liabilities assumed . . . . .	\$ 32,303	\$ 10,589
	=====	=====

See notes to consolidated financial statements.



## NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

### 1. GENERAL

SDG&E believes all adjustments necessary to present a fair statement of the consolidated financial position and results of operations for the periods covered by this report, consisting of recurring accruals, have been made. Certain prior year amounts have been reclassified for comparability.

SDG&E's significant accounting policies are described in the notes to consolidated financial statements in its 1994 Annual Report to Shareholders. SDG&E follows the same accounting policies for interim reporting purposes.

This report should be read in conjunction with SDG&E's 1994 Annual Report on Form 10-K and its Quarterly Reports on Form 10-Q for the three months ended March 31, 1995 and June 30, 1995. The consolidated financial statements and Management's Discussion & Analysis of Financial Condition and Results of Operations included in SDG&E's 1994 Annual Report to Shareholders were incorporated by reference into SDG&E's 1994 Annual Report on Form 10-K and filed as an exhibit thereto.

### 2. MATERIAL CONTINGENCIES

#### INDUSTRY RESTRUCTURING - CALIFORNIA PUBLIC UTILITIES COMMISSION

On May 24, 1995 the CPUC voted 3-1 approving a proposed plan for restructuring California's electric industry with a wholesale power pool to begin by January 1997. The plan would allow the state's investor-owned utilities to remain in the business of owning and operating power plants for utility-owned generation. The pool, operated by an independent party, would provide for economic dispatch of competing generation facilities based on spot-market clearing prices similar to a commodities market. After two years, if jurisdictional and market power issues are resolved and transition cost recovery mechanisms are in place, retail consumers would be able to buy electricity directly from specific generators. The dissenting commissioner presented an alternative plan calling for direct power sales to all customers, including residential customers, by 1997.

The proposed majority plan supports the continued development of performance-based ratemaking. In addition, the CPUC stated that it is committed to industry restructuring in a manner that "...does not compromise the financial integrity of the utilities and continues to provide them with a reasonable opportunity to earn a fair profit." On July 24, 1995 SDG&E filed comments in support of the CPUC's majority plan. On September 11, 1995 Southern California Edison and a coalition of independent power producers and large customers including the California Manufacturers Association jointly filed a Memorandum of Understanding as an alternative to the CPUC's majority proposal for industry restructuring. The MOU calls for, among other things, simultaneous operation of the power pool and direct access no later than January 1, 1998; phase-in of direct access over five years (including residential and small commercial customers); honoring cogeneration contracts; developing a competitive transition charge to cover stranded assets; and separation of the independent system operator (where the state's electricity will be scheduled and dispatched) from the functions of the independent power pool (where the market transactions occur). The MOU was the subject of CPUC full-panel hearings on September 13 and 14, 1995. On October 2, 1995 SDG&E filed comments with the CPUC supporting the main components of the MOU, but questioning the feasibility of separating the power pool from the system operator. SDG&E also commented that the proposal does not ensure that the benefits of the pool will be distributed equitably to all customers and may result in cost shifting and inefficiencies.

On October 12, 1995 CPUC President Daniel Fessler requested the California utilities to: 1) comment on a new CPUC proposal to reduce commercial and residential electric rates by 10 percent beginning on the date that the industry restructuring decision becomes effective and subsequently freezing rates for the next five years (due to recent voluntary rate reductions, SDG&E would not be subject to the immediate 10 percent rate cut, but would be subject to the 5-year rate freeze for rates that were in effect



1995); 2) comment on a new CPUC proposal that the utilities separate their generation, transmission and distribution assets, and divide the generation assets into two or three separate entities of which one or more would be spun off to shareholders; and 3) provide additional justification for the adoption of the MOU's proposal to separate the functions of the power pool from the system operator. Commissioner Fessler indicated that he does not currently favor this separation. Fessler also indicated that the new proposals are intended to alleviate concerns that only large industrial customers would receive the benefits of industry restructuring or that a single entity would control a significant portion of California's generation resources. Comments are due by October 25, 1995. A final CPUC policy decision is expected in December 1995.

SDG&E believes that there are no state or federal laws that need to be changed in order for the CPUC's majority proposal to go forward, although the California legislature does not agree. The California legislature is considering the CPUC's proposal and may hold additional hearings and/or issue its own restructuring policy in early 1996.

On September 30, 1995 SDG&E had approximately \$960 million of net utility plant (including approximately \$750 million of nuclear facilities) and \$60 million of deferred taxes and regulatory assets (included in "Deferred Charges and Other Assets" on the Consolidated Balance Sheets) relating to generating facilities currently being recovered in rates over various periods of time. In addition, SDG&E has long-term purchased-power commitments totaling \$3.8 billion with various utilities and other providers. Further, the CPUC's December 1994 Biennial Resource Plan Update decision could require SDG&E to contract for an additional 500 megawatts of power over 17 to 30-year terms at an estimated cost of \$4.8 billion beginning in 1997. Prices under the 1994 BRPU contracts are estimated to exceed future market prices by \$500 million. SDG&E challenged the decision and in February 1995 the FERC issued a decision declaring the BRPU unlawful under federal law. Subsequently the CPUC delayed the schedule for completion of the BRPU auction and directed SDG&E and the successful bidders to attempt to negotiate a settlement. SDG&E presented a comprehensive settlement offer that provides for a \$10 million pool to be shared by the successful bidders and would terminate SDG&E's BRPU obligations. SDG&E also offered to negotiate market-based contracts. SDG&E regards all bidders as having no rights to a contract under the BRPU process. No settlement has been reached.

Once the CPUC has completed its restructuring of the electric utility industry, if the prices of competing suppliers are as anticipated, and if the regulatory process does not provide for complete recovery of those costs that are in excess of what will otherwise be recoverable via market-based pricing structures, SDG&E would incur a charge against earnings for a significant portion of its generating facilities, the related regulatory assets and the long-term commitments. However, the CPUC has indicated that any otherwise unrecovered amounts will be provided for in the new environment. SDG&E cannot at this time predict the impact of the CPUC's tentative decision and the transition to a more competitive environment on SDG&E's financial condition and results of operations.

SDG&E believes that changes in the California utility industry and the movement toward a more competitive marketplace will require SDG&E to change its corporate structure. SDG&E is presently considering various strategies for the separation of its power generation and transmission assets from its other utility assets. These strategies are dependent on the outcome of the CPUC industry restructuring proceedings and the FERC wholesale open access rule-making proceedings (see "Industry Restructuring - Federal Energy Regulatory Commission" below). In connection with the proposed industry restructuring, SDG&E has applied to the CPUC for permission to form a holding company. A holding company structure would, among other things, provide a platform for the separation of SDG&E's generation and transmission assets. The CPUC's Division of Ratepayer Advocates has recommended against approval of the holding company or, in the alternative, that approval include several conditions, some of which are onerous. To date, the holding company proposal has been approved by the FERC, the Nuclear Regulatory Commission and

SDG&E shareholders. SDG&E anticipates forming the holding company shortly after

receiving final approval from the CPUC, whose decision is expected before the end of December 1995.

#### INDUSTRY RESTRUCTURING - FEDERAL ENERGY REGULATORY COMMISSION

On March 29, 1995 the FERC issued a proposed rule that, if adopted, would require all public utilities to offer wholesale "open-access" transmission service on a nondiscriminatory basis. In addition, public utilities would be required to functionally price their generation and transmission services separately from each other. The FERC also stated its belief that utilities should be allowed to recover the costs of assets and obligations made uneconomic by the changed regulatory environment. Although SDG&E's cost recovery mechanisms are not currently under the jurisdiction of the FERC, the recognition by the FERC of the propriety of such cost recovery supports the CPUC's similar position, as stated in its tentative policy decision.

On October 6, 1995 SDG&E filed for approval of its open-access tariffs for its service territory with the FERC in conjunction with its request for a marketing license for Enova Energy Management, SDG&E's wholly owned subsidiary, which intends to transact business at market-based rates in the wholesale energy market. Open-access tariffs provide for nondiscriminatory access to SDG&E's transmission system. The filing is required of any company seeking to market energy at market-based rates. SDG&E requested three exceptions to the FERC's proposed transmission pricing rules: 1) SDG&E's rates should reflect any additional costs incurred to the extent that providing transmission service to others would conflict with Internal Revenue Service restrictions on SDG&E's Industrial Development Bonds and result in the loss of their tax-exempt status. SDG&E has issued \$800 million of tax-exempt bonds to finance its generating, distribution and transmission facilities. Such an impairment could result in SDG&E's incurring approximately \$300 million of additional interest costs over the life of the bonds if its IDBs are replaced with taxable bonds. If an impairment occurred, it is not certain if all of the bonds would lose their tax-exempt status, or only the portion attributable to SDG&E's transmission facilities; 2) SDG&E should be compensated for lost opportunities that result from providing transmission service to others; and 3) transmission rates should be higher during peak periods to prevent "cherry picking" of transmission capacity. The FERC is expected to act on SDG&E's request within 60 days.

Final approval of the FERC's rule and the CPUC's industry restructuring plan would result in the creation of a bid-based wholesale electricity spot market with open-access transmission. Participating utilities would transfer complete operating control over the flow of energy to an independent system operator that would be responsible for directing the operation of the transmission system. At least at the outset, retail customers would not participate directly as buyers in the wholesale market. SDG&E has also proposed that a single entity would ultimately own and/or lease the transmission facilities within a broad geographic area. The creation of such an entity could involve the sale, lease or other disposition of SDG&E's transmission facilities. The FERC is expected to issue a final rule in early 1996.

#### SAN ONOFRE NUCLEAR GENERATING STATION UNITS 2 & 3

In November 1994 SDG&E, Southern California Edison and the CPUC's Division of Ratepayer Advocates signed a settlement agreement on the accelerated recovery of SONGS Units 2 and 3 capital costs. It is anticipated that the rates in the agreement would be sufficient for SDG&E to recover approximately \$750 million over an eight-year period beginning in February 1996, rather than over the anticipated operational life of the units, which may extend to 2013. During the eight-year period, the authorized rate of return would be reduced from the authorized weighted average cost of capital (currently 9.76 percent) to 7.52 percent (SDG&E's 1995 authorized cost of debt). The agreement also includes a performance-incentive plan that would encourage continued, efficient operation of the plant. However, continued operation of SONGS beyond the eight-year period would be at the owners' discretion. Under the plan, customers would pay about four cents per kilowatt-hour for energy delivered from SONGS during the eight-year period. This pricing plan would replace the

traditional method of recovering the units' operating expenses and capital improvements. This is intended to make the plants more competitive with other sources. SDG&E is



unable at this time to predict the impact of this proposal, if approved, on the results of its operations. Hearings were concluded in May 1995. On September 14, 1995 a CPUC Administrative Law Judge issued a proposed decision recommending that the settlement be addressed in the Industry Restructuring proceeding. The CPUC could issue a decision as early as November. However, Commissioner Fessler indicated that he is considering writing an alternate decision, which could delay the CPUC's final decision until December 1995.

#### NUCLEAR INSURANCE

Public liability claims that could arise from a nuclear incident are limited by law to \$9 billion for each licensed nuclear facility. For this exposure, SDG&E and the co-owners of SONGS have purchased primary insurance of \$200 million, the maximum amount available. The remaining coverage is provided by secondary financial protection required by the Nuclear Regulatory Commission and provides for loss sharing among utilities owning nuclear reactors if a costly accident occurs. SDG&E could be assessed retrospective premium adjustments of up to \$32 million in the event of a nuclear incident involving any of the licensed, commercial reactors in the United States, if the amount of the loss exceeds \$200 million.

Insurance coverage is also provided for up to \$2.8 billion of property damage and decontamination liability, and the cost of replacement power, which includes indemnity payments for up to two years, after a waiting period of 21 weeks. Coverage is provided primarily through mutual insurance companies owned by utilities with nuclear facilities. If losses at any of the nuclear facilities covered by the risk-sharing arrangements were to exceed the accumulated funds available for these insurance programs, SDG&E could be assessed retrospective premium adjustments of up to \$9 million.

#### 3. WRITEDOWNS

In June 1994 SDG&E recorded writedowns related to the utility and its subsidiaries. SDG&E recorded a \$25 million writedown of various commercial properties, including \$19 million of subsidiary properties in Colorado Springs and in San Diego, to reflect continuing declines in commercial real estate values. As a result of the CPUC's proposal to restructure the electric utility industry and the uncertainty concerning the impact of competition, SDG&E also recorded a \$12 million writedown of various non-earning utility assets, including the South Bay Repower project. Additional information on the CPUC's proposed industry restructuring and its potential impacts on SDG&E is provided in Note 2. Additional writedowns associated with discontinued operations are described in Note 4.

4. DISCONTINUED OPERATIONS -- WAHLCO ENVIRONMENTAL SYSTEMS, INC.

On June 6, 1995 SDG&E sold its investment in Wahlco Environmental Systems, Inc. for \$5 million. The sale of Wahlco is being accounted for as a disposal of a segment of business and SDG&E's prior periods' financial statements have been restated to reflect Wahlco as a discontinued operation. Discontinued operations consist of the following:

	Nine Months Ended		Year Ended		
	September 30,	September 30,	December 31,		
	1995	1994	1994	1993	1992
	(millions of dollars)				
Revenues	\$24	\$50	\$70	\$82	\$82
Loss from operations before income taxes	--	(64)	(70)	(14)	(13)
Loss on disposal before income taxes	(10)	--	--	--	--
Income tax benefits	4	3	7	5	3

The loss on disposal of Wahlco was recorded in 1995 and reflects the sale of Wahlco and Wahlco's net operating losses after 1994. The loss from discontinued operations for the nine months ended September 30, 1994 was primarily due to the \$59 million writedown of Wahlco's goodwill and other intangible assets as a result of the depressed air pollution-control market and increasing competition.

Wahlco's net assets (included in "Investments and Other Property" on the Consolidated Balance Sheets) at December 31, 1994 are summarized as follows:

Current assets	\$ 40.2
Non-current assets	18.9
Current liabilities	(27.1)
Long-term debt and other liabilities	(24.2)
	<u>\$ 7.8</u>
	=====

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION  
AND RESULTS OF OPERATIONS

RESULTS OF OPERATIONS:

EARNINGS

Earnings per share from continuing operations for the three months ended September 30, 1995 were \$0.51, up \$0.01 per share from the same period in 1994. Earnings per share from continuing operations for the nine months ended September 30, 1995 were \$1.48, up from \$1.22 per share for the same period in 1994. The change in nine-month earnings results primarily from a \$0.20 per share June 1994 writedown associated with utility and real estate assets and a higher authorized return on equity in 1995. Additional information concerning the writedowns is provided in Note 3 of the notes to consolidated financial statements.

OPERATING REVENUES AND EXPENSES

Gas revenues, gas purchased for resale, and electric fuel expense decreased for the three months and nine months ended September 30, 1995 from the corresponding periods in 1994 primarily due to lower natural gas prices. Purchased power expense for the nine months ended September 30, 1995 was up over the corresponding 1994 period, primarily due to increased purchases of short-term energy to replace nuclear generation as a result of the refueling of San Onofre Nuclear Generating Station Units 2 and 3.

General and administrative expenses decreased for the nine months ended September 30, 1995 compared with 1994 primarily due to the June 1994 writedowns of various non-earning utility assets described in Note 3 of the notes to consolidated financial statements.

REGULATORY MATTERS:

CALIFORNIA PUBLIC UTILITIES COMMISSION'S PROPOSED INDUSTRY  
RESTRUCTURING

On May 24, 1995 the CPUC voted 3-1 approving a tentative plan for restructuring California's electric industry with a wholesale power pool to begin by January 1997. See additional discussion of industry restructuring in Note 2 of the notes to consolidated financial statements. SDG&E cannot at this time predict the impact of the CPUC's final decision and the transition to a more competitive environment on SDG&E's financial condition and results of operations.

HOLDING COMPANY

In November 1994 SDG&E filed an application with the CPUC to form a holding company. Under the proposed structure, SDG&E would become a subsidiary of the parent company, as would SDG&E's existing subsidiaries. Additional discussion of industry restructuring and the proposed holding company plan is provided in Note 2 of the notes to consolidated financial statements.

ELECTRIC RATES

On October 16, 1995 SDG&E filed rate requests with the CPUC to reflect lower expected prices for fuel and purchased power, lower cost of capital, balancing account activity, and inflation and customer growth based on SDG&E's PBR base-rates mechanism formula. If approved, SDG&E's system average electric rate would decrease from 9.9 cents to 9.7 cents. The adjustment for fuel and energy costs would be effective June 1, 1996. The cost of capital and other base rate adjustments would be effective January 1, 1996.

COST OF CAPITAL

On October 6, 1995 a CPUC Administrative Law Judge issued a proposed decision (subsequently modified on October 12) on the 1996 Cost of Capital proceeding recommending an 11.60 percent authorized return on common equity and a 0.25 percent increase in SDG&E's common equity ratio for an overall rate of return

of 9.38 percent. SDG&E's 1995 authorized return on equity and overall rate of return are 12.05 percent and 9.76 percent, respectively. A final decision is on the CPUC's agenda for its November 8, 1995 meeting.

In late October 1995 SDG&E expects to file a proposal with the CPUC to implement a 3-year cost of capital mechanism beginning in January 1997. Each October SDG&E's authorized rate of return would be adjusted if interest rates change by one percent or more from the prior year's benchmark. A one percent change in interest rates would result in a one-half percent change in SDG&E's return on equity. In addition, SDG&E's embedded costs of debt and preferred stock would be adjusted to reflect SDG&E's outstanding long-term debt and preferred stock at each September 30. The adjustments would be effective on January 1 of the following year.

#### BIENNIAL RESOURCE PLAN UPDATE PROCEEDING

In December 1994 the CPUC issued a decision ordering SDG&E, Pacific Gas & Electric and Southern California Edison to proceed with the BRPU auction. SDG&E was ordered to begin negotiating contracts (ranging from 17 to 30 years) to purchase 500 mw of power from qualifying facilities at an estimated cost of \$4.8 billion beginning in 1997. The FERC's February 1995 order declared the BRPU auction procedures unlawful under federal law. The CPUC encouraged SDG&E, PG&E and Edison to reach settlements with the auction winners. To date no settlements have been reached. Additional information is provided in Note 2 of the notes to consolidated financial statements.

#### LIQUIDITY AND CAPITAL RESOURCES:

Sources of cash for 1995 through 1999 are expected to consist of income from operations and issuances of stock and debt. Cash requirements for 1995 through 1999 include the construction program and retirements of long-term debt. SDG&E conducts a continuing review of its construction, investment and financing programs. They are revised in response to changes in competition, customer growth, inflation, customer rates, the cost of capital, and environmental and regulatory requirements.

#### FINANCING ACTIVITIES

SDG&E anticipates that it will have no outstanding short-term or intermediate-term borrowings on December 31, 1995 and does not expect to issue any short- or intermediate-term debt in 1996. At December 31, 1994 SDG&E had various short-term bank lines aggregating \$170 million and two \$50 million long-term bank lines, related to which \$58 million in short-term bank loans was outstanding. At September 30, 1995 SDG&E had short-term bank lines of \$30 million (none outstanding) and long-term bank lines of \$280 million (\$50 million outstanding). Commitment fees are paid on the unused portion of the lines. There are no requirements for compensating balances.

SDG&E does not expect any issuances of long-term debt or preferred stock in 1995 other than refinancings. On June 6, 1995 SDG&E issued \$74 million of Industrial Development Bonds through the City of San Diego to refinance the 9-1/4 percent bonds issued in 1985. The new bonds were issued at par, with variable interest rates, and are due September 1, 2020. The proceeds were placed in an escrow fund and were used to call the 1985 bonds on September 1, 1995.

\$80 million of SDG&E's Pollution Control Bonds were remarketed in August 1995 at a rate of 4 percent, which compares to last year's rate of 4.25 percent. The new rate is effective September 1, 1995 through August 31, 1996.

SDG&E is in the process of delisting its preferred and preference stock from the Pacific Stock Exchange. Once this is accomplished, SDG&E's preferred and preference stock will be listed on the American Stock Exchange only.

SDG&E periodically enters into interest rate swap and cap agreements to moderate its exposure to interest rate changes and to lower its overall cost of borrowing. These swap and cap agreements generally remain off the balance sheet as they involve the exchange of fixed- and variable-rate interest payments without the exchange of the underlying principal amounts. The related gains or losses are reflected in the income statement as part of interest expense. Beginning in late 1995, SDG&E intends to use derivative financial instruments, such as futures, and option and swap contracts, to reduce price volatility of natural gas purchases in the regular course of business. SDG&E intends to use these contracts in its hedging activities on a continuing basis for periods consistent with its committed exposures. SDG&E's current policy is to use derivatives only as a hedge.

#### CAPITAL STRUCTURE

SDG&E maintains its utility capital structure so as to obtain long-term financing at the lowest possible rates. The following table lists key financial ratios for SDG&E's utility operations.

	September 30, 1995 or the twelve months then ended	December 31, 1994 or the year then ended
Pretax interest coverage	4.7 X	4.7 X
Internal cash generation	118 %	85 %
Construction expenditures as a percent of capitalization	7.3 %	9.1 %
Capital structure:		
Common equity	48 %	48 %
Preferred stock	4 %	4 %
Debt and leases	48 %	48 %

SDG&E's employee savings and common stock investment plans permit SDG&E to issue common stock or to purchase it on the open market. Currently, SDG&E is purchasing the stock on the open market for these plans.

#### CAPITAL REQUIREMENTS

Quarterly cash dividends of \$0.39 per share have been declared through September 30, 1995. The dividend pay-out ratio for the 12 months ended September 30, 1995 and December 31, 1994, 1993, 1992 and 1991 were 81%, 130%, 82%, 81% and 79%, respectively. The increase in the pay-out ratio for the year ended December 31, 1994 was due to the writedowns recorded during 1994. Additional information regarding the writedowns is provided in Notes 3 and 4 of the notes to consolidated financial statements. The payment of future dividends is within the discretion of the SDG&E Board of Directors and dependent upon future business conditions, earnings and other factors. Net cash flows provided by operating activities currently are sufficient to maintain the payment of dividends at the present level.

Construction expenditures were \$264 million in 1994 and are expected to be approximately \$230 million in 1995. The level of expenditures in the next few years will depend on the CPUC's proposed industry restructuring (as described in "Regulatory Matters" above), the timing of expenditures to comply with air emission reduction and other environmental requirements, and SDG&E's proposal to transport natural gas to Mexico. (Additional information concerning SDG&E's proposal to transport gas to Mexico is provided in SDG&E's 1994 Annual Report.)

#### OTHER

Besides the effects of items discussed in the preceding pages, significant changes to the balance sheet at September 30, 1995 compared to December 31, 1994 were in cash and temporary investments, accounts payable, taxes accrued and regulatory balancing accounts. The increase in cash and temporary investments was due to lower construction expenditures, and lower than expected prices for purchased-power and natural gas. Accounts payable decreased due to lower expense accruals at September 30, 1995. The increase in taxes accrued was due to regulatory balancing account overcollections. The increase in balancing accounts reflects overcollections as a result of lower than expected prices for purchased power and natural gas.

#### NEW ACCOUNTING STANDARD

In March 1995, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards ("SFAS") No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed of." This statement, which is effective for 1996 financial statements, requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the asset's book value exceeds its expected future cash flows such that the carrying amount of an asset may not be fully recoverable. The statement also affects utility plant and regulatory assets such that a loss must be recognized whenever a regulator excludes all or part of an asset's cost from a company's rate base. Based on the existing regulatory environment and preliminary indications from the CPUC and the FERC on recovery of transition costs arising from industry restructuring, SFAS 121 is not currently expected to have an adverse impact on SDG&E's financial condition or results of operations. However, this may change in the future as deregulation, competitive factors, and restructuring take effect in the electric utility industry.

PART II - OTHER INFORMATION - SDO Parent Co., Inc.

Part II - Other Information - San Diego Gas & Electric Company on page 17 of this Quarterly Report on Form 10-Q is incorporated herein by reference.

PART II - OTHER INFORMATION - San Diego Gas & Electric Company

ITEM 1. LEGAL PROCEEDINGS

There have been no significant subsequent developments in the American Trails, Public Service Company of New Mexico, Canadian Natural Gas, Covalt, North City West and Wood Poles Preservatives proceedings. Background information concerning these and the following proceedings is contained in SDG&E's 1994 Annual Report on Form 10-K and in its March 31, 1995 and June 30, 1995 Quarterly Reports on Form 10-Q.

Century Power

On October 23, 1995 SDG&E filed an Offer of Settlement with the Federal Energy Regulatory Commission which would result in the dismissal of all claims between SDG&E and Tucson Electric Power and Century with prejudice. SDG&E is unable to predict the ultimate outcome of these proceedings.

SONGS Personal Injury Litigation

On October 12, 1995 a jury ruled in favor of Southern California Edison, SDG&E and Combustion Engineering in the case filed by Glen James in the United States District Court for the Southern District. The plaintiffs have 30 days to appeal the verdict. The allegations in this case were substantially identical to those contained in the complaints of R. C. Tang, Linda McLandrich and Jason Mettler, described in SDG&E's 1993 and 1994 Annual Report on Form 10-K and subsequent quarterly reports. The complaint alleged that the plaintiff's cancer was caused by the emission of radiation while he was serving as a nuclear equipment operator at SONGS between 1982 and 1990. The Tang, James, McLandrich and Mettler complaints were all filed by the same attorneys. SDG&E is unable to predict the ultimate outcome of these proceedings.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

Exhibit 12 - Computation of Ratios

12.1 Computation of Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends as required under SDG&E's August 1993 registration of 5,000,000 shares of Preference Stock (Cumulative).

Exhibit 27 - Financial Data Schedule

27.1 SDG&E Financial Data Schedule for the nine months ended September 30, 1995.

(b) Reports on Form 8-K

None

SIGNATURE

Pursuant to the requirement of the Securities Exchange Act of 1934, the registrant has duly caused this quarterly report to be signed on its behalf by the undersigned thereunto duly authorized.

SAN DIEGO GAS & ELECTRIC COMPANY  
(Registrant)

Date: October 23, 1995

By: /s/ F.H. Ault

-----  
(Signature)

F. H. Ault  
Vice President and Controller



SIGNATURE

Pursuant to the requirement of the Securities Exchange Act of 1934, the registrant has duly caused this quarterly report to be signed on its behalf by the undersigned thereunto duly authorized.

SDO PARENT CO., INC.  
(Registrant)

Date: October 23, 1995

By: /s/ F.H. Ault  
-----  
(Signature)  
F. H. Ault  
Vice President and Controller

EXHIBIT 12.1  
SAN DIEGO GAS & ELECTRIC COMPANY  
COMPUTATION OF RATIO OF EARNINGS TO COMBINED FIXED CHARGES  
AND PREFERRED STOCK DIVIDENDS

	1990	1991	1992	1993	1994	9 Months Ended 9/30/95
<b>Fixed Charges:</b>						
<b>Interest:</b>						
Long-Term Debt	\$ 97,894	\$ 98,802	\$100,776	\$ 93,402	\$ 93,076	\$ 72,122
Short-Term Debt	12,301	8,234	6,242	7,980	10,322	10,750
Amortization of Debt Discount and Expense, Less Premium	2,465	2,471	2,881	4,162	4,604	3,675
Interest Portion of Annual Rentals	20,898	18,067	14,677	19,206	21,998	15,571
<b>Total Fixed Charges</b>	<b>133,558</b>	<b>127,574</b>	<b>124,576</b>	<b>124,750</b>	<b>130,000</b>	<b>102,118</b>
Preferred Dividends Requirements	10,863	10,535	9,600	8,565	7,663	5,747
Ratio of Income Before Tax to Net Income	1.75499	1.63017	1.72369	1.67794	1.90447	1.71910
Preferred Dividends for Purpose of Ratio	19,064	17,174	16,547	14,372	14,594	9,880
<b>Total Fixed Charges and Preferred Dividends for Purpose of Ratio</b>	<b>\$152,622</b>	<b>\$144,748</b>	<b>\$141,123</b>	<b>\$139,122</b>	<b>\$144,594</b>	<b>\$111,998</b>
<b>Earnings:</b>						
Net Income (before preferred dividend requirements)	\$207,841	\$208,060	\$210,657	\$218,715	\$143,477	\$172,886
Add:						
Fixed Charges (from above)	133,558	127,574	124,576	124,750	130,000	102,118
Less: Fixed Charges						
Capitalized	3,306	2,907	2,242	5,789	6,792	4,866
Taxes on Income	156,917	131,114	152,451	148,275	129,771	124,323
<b>Total Earnings for Purpose of Ratio</b>	<b>\$495,010</b>	<b>\$463,841</b>	<b>\$485,442</b>	<b>\$485,951</b>	<b>\$396,456</b>	<b>\$394,461</b>
<b>Ratio of Earnings to Combined Fixed Charges and Preferred Dividends</b>	<b>3.24</b>	<b>3.20</b>	<b>3.44</b>	<b>3.49</b>	<b>2.74</b>	<b>3.52</b>

UT  
1,000

9-MOS		
	DEC-31-1995	
	SEP-30-1995	
	PER-BOOK	
3,103,371		
514,993		
470,022		
259,900		
	357,509	
	4,705,795	
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565,159		
	649,374	
1,505,881		
	25,000	
		93,475
	1,170,110	
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	121,920	
	0	
152,074		
	0	
103,729		
	8,476	
1,525,130		
4,705,795		
1,401,883		
	123,373	
1,015,065		
1,138,438		
263,445		
	143	
263,588		
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		172,886
	5,747	
167,139		
	136,346	
	63,931	
	473,386	
		1.43
		1.43