UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2001

Commission file number 1-3779

SAN DIEGO GAS & ELECTRIC COMPANY

(Exact name of registrant as specified in its charter)

California	95-1184800
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

8326 Century Park Court, San Diego, California 92123
- --
(Address of principal executive offices)
(Zip Code)

(619) 696-2000

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 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
----- -----

Common stock outstanding: Wholly owned by Enova Corporation

PART I - FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

SAN DIEGO GAS & ELECTRIC COMPANY AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME
Dollars in millions
Three
Months
Ended June
30, -------

2001 2000 -
----- -----
- ~~Operating~~
~~Revenues~~
~~Electric $~~
~~432 $ 473~~
~~Natural gas~~
~~192 101~~
~~Total~~
~~operating~~
~~revenues~~
~~624 574~~
~~Operating~~
~~Expenses~~
~~Electric~~
~~fuel and~~
~~net~~
~~purchased~~
~~power 203~~
~~264 Cost of~~
~~natural gas~~
~~distributed~~

~~143 55 Operation and maintenance 116 79 Depreciation and amortization 48 52 Other taxes and franchise payments 24 19 Income taxes 33 36 ----------- -- Total operating expenses 567 505 ---- ----------- Operating Income 57 69 ----------- ------ Other Income and (Deductions) Interest income 6 14 Allowance for equity funds used during construction -- 2 Regulatory interest -- net 1 (2) Taxes on non-operating income (4) (2) Other -- net 1 (5) - ----------- - Total 4 7 ----------- -- Income Before Interest Charges 61 76 --------- ----- Interest Charges Long-term debt 22 23 Other 3 13 Allowance for borrowed funds used during construction (2) (1) ---- ----------- Total 23 35 ----------- --- Net Income 38 41 Preferred Dividend Requirements 1 1 ------- ------ Earnings Applicable to Common Shares $ 37 $ 40 ====== ====== See~~

~~notes to Consolidated Financial Statements.~~

SAN DIEGO GAS & ELECTRIC COMPANY AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME
Dollars in millions
Six Months Ended June 30, ------- ----------
2001 2000 - ----- ----- -
~~Operating Revenues Electric $1,236 $ 822 Natural gas 530 223~~
~~Total operating revenues 1,766 1,045~~
~~Operating Expenses Electric fuel and net purchased power 788 397 Cost of natural gas distributed 388 102 Operation and maintenance 232 172 Depreciation and amortization 102 104 Other taxes and franchise payments 46 36 Income taxes 80 83~~
~~Total operating expenses 1,636 894~~
~~Operating Income 130 151~~
~~Other Income and (Deductions) Interest income 12 28 Allowance for equity funds used during construction 1 3 Regulatory interest - net 6 (4) Taxes on non-~~

~~operating income (8) (8) Other net (1) (6) ---------------- Total 10 13 ---------------- Income Before Interest Charges 140 164 ------------- Interest Charges Long-term debt 43 44 Other 8 26 Allowance for borrowed funds used during construction (3) (1) ---------------- Total 48 69 ---------------- Net Income 92 95 Preferred Dividend Requirements 3 3 ------------- Earnings Applicable to Common Shares $ 89 $ 92 ====== ====== See notes to Consolidated Financial Statements.~~

SAN DIEGO GAS & ELECTRIC COMPANY AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
Dollars in millions
Balance at ----

------- June
30, December
31, 2001 2000 -
--------- -----
------- ~~ASSETS Utility plant at original cost $4,859 $4,778 Accumulated depreciation and decommissioning (2,553) (2,502) ---------------- Utility plant net 2,306 2,276 ---------------- Nuclear decommissioning trust 538 543 ---------------- Current assets Cash and cash equivalents 375~~

~~256 Accounts receivable -- trade 258 233 Accounts receivable -- other 12 20 Income taxes receivable -- 236 Regulatory assets arising from fixed price contracts and other derivatives 21 -- Fixed price contracts and other derivatives 12 -- Inventories 66 50 Other 5 8 -------------- Total current assets 749 803 -------------- Other assets Deferred taxes recoverable in rates 127 140 Regulatory assets 932 925 Fixed price contracts and other derivatives 89 -- Deferred charges and other 52 47 ---- ---------- Total other assets 1,200 1,112 ---------- ---- Total assets $4,793 $4,734 ====== ====== See notes to Consolidated Financial Statements.~~

SAN DIEGO GAS & ELECTRIC COMPANY AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS (CONTINUED)
Dollars in millions
Balance at -- ------------- ----------- June 30, December 31, 2001 2000 --- ------- ----- -------

~~CAPITALIZATION AND LIABILITIES Capitalization Common stock $ 857 $ 857 Retained earnings 294 205 Accumulated other comprehensive income (loss) (3) (3) ------ -------- Total common equity 1,148 1,059~~

~~Preferred stock not subject to mandatory redemption 79 79 Preferred stock subject to mandatory redemption 25 25 Long-term debt 1,263 1,281 ------- ------- Total capitalization 2,515 2,444 ------- ------- Current liabilities Accounts payable 174 407 Income taxes payable 20 -- Deferred income taxes 199 252 Regulatory balancing accounts -- net 256 367 Customer refunds payable 162 -- Regulatory liabilities arising from fixed-price contracts and other derivatives 12 -- Fixed price contracts and other derivatives 22 -- Current portion of long-term debt 93 66 Other 187 196 ------- ------- Total current liabilities 1,125 1,288 ------- ------- Deferred credits and other liabilities Customer advances for construction 43 40 Deferred income taxes 569 502 Deferred investment tax credits 47 48 Regulatory liabilities arising from fixed-price contracts and other derivatives 89 -- Deferred credits and other~~

liabilities
405 412

Total
deferred
credits and
other
liabilities
1,153 1,002

Contingencies
and
commitments
(Note 2)
Total
liabilities
and
shareholders'
equity $4,793
$4,734 ======
====== See
notes to
Consolidated
Financial
Statements.

SAN DIEGO GAS & ELECTRIC COMPANY AND SUBSIDIARY
CONDENSED STATEMENTS OF CONSOLIDATED CASH FLOWS
Dollars in millions

	Six Months Ended June 30, 2001	Six Months Ended June 30, 2000	
Cash Flows from Operating Activities			
Net income	$ 92	$ 95	
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization		102	104
Deferred income taxes and investment tax credits	26	9	
Non-cash rate reduction bond expense	34	11	
Other - net	(144)	(16)	
Net changes in other working capital components	129	132	
Net cash provided by operating activities	239	335	
Cash Flows from Investing Activities			
Capital expenditures	(138)	(130)	
Loan repaid by affiliate	19	16	
Contributions to decommissioning funds	(2)	(2)	
Other - net	(5)	--	
Net cash used in investing activities	(126)	(116)	
Cash Flows from Financing Activities			
Dividends paid	(3)	(203)	
Issuance of long term debt	93	4	
Repayment of long term debt	(84)	(49)	
Net cash provided by (used in) financing activities	6	(248)	
Increase (decrease) in cash and cash equivalents	119	(29)	
Cash and cash equivalents, January 1	256	337	
Cash and cash equivalents, June 30	$ 375	$ 308	
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION			
Cash paid during the year for:			
Income tax payments (refunds) - net	$ (191)	$ 8	
Interest payments, net of amounts capitalized	$ 44	$ 69	

See notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

~~1. GENERAL~~

~~This Quarterly Report on Form 10-Q is that of San Diego Gas & Electric Company (SDG&E or the Company), the common stock of which indirectly is wholly owned by Sempra Energy, a California-based Fortune 500 energy services company. The financial statements herein are the Consolidated Financial Statements of SDG&E and its sole subsidiary, SDG&E Funding LLC.~~

~~The accompanying Consolidated Financial Statements have been prepared in accordance with the interim-period-reporting requirements of Form 10-Q. Results of operations for interim periods are not necessarily indicative of results for the entire year. In the opinion of management, the accompanying statements reflect all adjustments necessary for a fair presentation. These adjustments are only of a normal recurring nature. Certain changes in classification have been made to prior presentations to conform to the current financial statement presentation.~~

~~The Company's significant accounting policies are described in the notes to Consolidated Financial Statements in the Company's 2000 Annual Report. The same accounting policies are followed for interim reporting purposes.~~

~~Information in this Quarterly Report is unaudited and should be read in conjunction with the Company's 2000 Annual Report and March 31, 2001 Quarterly Report on Form 10-Q.~~

~~As described in the notes to Consolidated Financial Statements in the Company's 2000 Annual Report, SDG&E accounts for the economic effects of regulation on utility operations (excluding generation operations) in accordance with Statement of Financial Accounting Standards No. 71, "Accounting for the Effects of Certain Types of Regulation" (SFAS No. 71).~~

~~2. MATERIAL CONTINGENCIES~~

~~ELECTRIC INDUSTRY RESTRUCTURING~~

~~The restructuring of California's electric utility industry significantly affected the Company's electric utility operations. The background of this issue is described in the company's 2000 Annual Report. Various developments since January 1, 2001 are described herein.~~

~~In February 2001, the California Department of Water Resources (DWR) began to purchase power from the generators and marketers, who had previously sold their power to the California Power Exchange (PX) and Independent System Operator (ISO), and has entered into long-term contracts for the purchase of a portion of the power requirements of the state's population that is served by investor-owned utilities (IOUs). SDG&E and the DWR entered into an agreement, as amended, under which the DWR will continue to purchase power for SDG&E's customers until December 31, 2002, subject to earlier termination upon six months' prior notice and the satisfaction of certain regulatory and other conditions intended to assure SDG&E's timely recovery of costs incurred in resuming power procurement for its customers (see MOU discussion below).~~

~~The DWR is now purchasing SDG&E's full net short position (the power needed by SDG&E's customers, other than that provided by SDG&E's nuclear generating facilities or its previously existing purchase power contracts). Therefore, future increases in SDG&E's undercollections from the June 30, 2001 balance of $786 million would result only from these contracts and interest, offset by nuclear generation, the cost of which is below the 6.5-cent customer rate cap. These increases are not expected to significantly affect SDG&E's or Sempra Energy's liquidity. The increase during the six-month period ended June 30, 2001 was greater than expected in the future because nuclear generation was reduced from February 2001 through May 2001 due to a fire and the DWR agreement was not in effect until February 2001.~~

~~On June 18, 2001 representatives of California Governor Davis, the DWR, Sempra Energy and SDG&E entered into a Memorandum of Understanding (MOU) contemplating the implementation of a series of transactions and regulatory settlements and actions to resolve many of the issues affecting SDG&E and its customers arising out of the California energy crisis. The principal provisions of the MOU are briefly summarized below. This summary only highlights selected~~

~~provisions of the MOU and readers are urged to read the full text of the MOU which was filed as Exhibit 99.1 to the Company's Current Report on Form 8-K filed on June 19, 2001.~~

~~----- The MOU contemplates, subject to requisite approvals of the California Public Utilities Commission (CPUC), the elimination from SDG&E's rate ceiling balancing account of the approximately $750 million (the last reported balance at the time of the MOU discussion) of undercollected costs that otherwise would be recovered in future rates charged to SDG&E customers; settlement of reasonableness reviews, electricity purchase contract issues and various other regulatory matters affecting SDG&E; the sale to the DWR of power purchased by SDG&E under certain intermediate-term contracts; and various related matters.~~

~~----- The effective date of SDG&E's and SoCalGas' revised base rates would be delayed to 2004 from 2003.~~

~~----- Sempra Energy would make capital investments in SDG&E and SoCalGas aggregating at least $3.0 billion during 2001 through 2006. The utilities would receive their authorized rate of return on these investments.~~

~~----- The MOU also contemplates the sale of SDG&E's transmission system to the DWR or other state agency for a purchase price of 2.3 times SDG&E's net book value, plus the discharge or assumption of related long-term debt (purchase price of approximately $1.2 billion). Implementation of this element of the MOU would require enabling legislation as well as approval by the Federal Energy Regulatory Commission (FERC). The sale of the transmission system is not a condition to the implementation of the other elements of the MOU, but the implementation of the other elements is a condition to the transmission sale. SDG&E has no compelling financial need to sell its transmission assets.~~

~~Governor Davis recently stated that, if a contemplated purchase of Southern California Edison's transmission system by the State of California is not approved by the state legislature, the purchase of SDG&E's transmission assets contemplated by the MOU may not be pursued.~~

~~The agreement between SDG&E and DWR obligating the DWR to purchase power for SDG&E's customers has been amended as to the conditions that would result in the resumption by SDG&E of the procurement of the residual net power requirements for its retail customers. This procurement resumption shall occur upon the earlier of January 1, 2003 or a date determined by the DWR upon 180 days prior written notice, but not before at least one of the other two major California-based investor-owned electric utilities has resumed procurement of its residual net short and certain CPUC approvals, including adoption of a satisfactory procurement cost recovery mechanism, have occurred. These conditions are intended to assure SDG&E's timely recovery of costs incurred in resuming power procurement for its customers.~~

~~On August 2, 2001, the CPUC approved a reduction of the rate ceiling balancing account by the application thereto of overcollections in certain other balancing accounts. The amount of the reduction depends on balances in those other accounts, but is expected to be approximately $70 million. On that date the CPUC also targeted all other components for resolution at its meetings on or before October 25, 2001.~~

~~SDG&E's prior request for a temporary 2.3-cents/kWh electric rate surcharge that SDG&E requested begin on March 1, 2001 has been deferred pending the CPUC's action on the MOU. If the MOU is approved by the CPUC, no rate increase will be necessary, except as required to pass through, without markup, the rates to repay the DWR for its purchases of power. A pending case before the CPUC would, if approved, establish rate increases for SDG&E's electric customers in an average amount of approximately 3 cents/kWh in order to provide sufficient revenues for the collection of the DWR revenue requirement. Residential customers whose electric power consumption does not exceed 130 percent of baseline quantities, as well as certain low-income and medical customers, would be exempt from the increases. A CPUC decision is expected during the third quarter of 2001.~~

~~On April 12, 2001, California law AB 43X took effect, extending the temporary 6.5-cent rate cap to include SDG&E's large customers (the only customer class not previously covered by the rate cap)~~

~~retroactive to February 7, 2001. This law is not expected to add to the undercollection since the purchases for these customers are covered by the agreement between SDG&E and the DWR.~~

~~On June 18, 2001, the FERC approved an expansion of its April 25, 2001 order which adopted certain price restrictions during Stage 1, 2 and 3 shortage situations, limiting prices to all generators to the cost of the least efficient plant whose generation is required at that time. The new order expands price restrictions to 24 hours a day, seven days a week through September 2002. Prices are linked to the price the least efficient gas-fired plant was allowed to charge during Stage 1 emergencies under the April order. During non-emergency times, the ceiling price will drop to 85 percent of the emergency price cap. Various observers have responded that this proposal will be ineffective since, among other things, it does not cover power brokers and marketers, and the resultant price will still be relatively high.~~

~~NATURAL GAS INDUSTRY RESTRUCTURING~~

~~The Company's 2000 annual report discusses various proposals and actions related to this topic. As discussed therein, no significant impacts on the Company are expected when the various issues are finalized. This case is currently being held by the CPUC indefinitely.~~

~~NUCLEAR INSURANCE~~

~~SDG&E and the co-owners of SONGS have purchased primary insurance of $200 million, the maximum amount available, for public liability claims. An additional $9.3 billion of 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 $36 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. In the event the public liability limit stated above is insufficient, the Price Anderson Act provides for Congress to enact further revenue-raising measures to pay claims, which could include an additional assessment on all licensed reactor operators.~~

~~Insurance coverage is provided for up to $2.75 billion of property damage and decontamination liability. Coverage is also provided for the cost of replacement power, which includes indemnity payments for up to three years and six weeks, after a waiting period of 12 weeks. Coverage is provided through a mutual insurance company 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 from these insurance programs, SDG&E could be assessed retrospective premium adjustments of up to $3.4 million.~~

~~LITIGATION~~

~~A 2000 lawsuit, which seeks class action certification, alleges that Sempra Energy, SoCalGas, SDG&E and El Paso Energy Corp. acted to drive up the price of natural gas for Californians by agreeing to stop a pipeline project that would have brought new and less-expensive natural gas supplies into California. Management believes the allegations are without merit.~~

~~Except for the above, neither the Company nor its subsidiary is party to, nor is their property the subject of, any material pending legal proceedings other than routine litigation incidental to their businesses. Management believes that these matters will not have a material adverse effect on the Company's results of operations, financial condition or liquidity.~~

~~3. COMPREHENSIVE INCOME~~

~~The following is a reconciliation of net income to comprehensive income.~~

	~~Three month periods ended June 30,~~		~~Six month periods ended June 30,~~	
~~(Dollars in millions)~~	~~2001~~	~~2000~~	~~2001~~	~~2000~~
~~Net income~~	~~$ 38~~	~~$ 41~~	~~$ 92~~	~~$ 95~~

~~Minimum pension liability adjustments~~				~~2~~
~~Comprehensive income~~	~~$ 38~~	~~$ 41~~	~~$ 92~~	~~$ 97~~

~~4. FINANCIAL INSTRUMENTS~~

~~Adoption of SFAS 133~~

~~Effective January 1, 2001, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 133 "Accounting for Derivative Instruments and Hedging Activities" as amended by SFAS No. 138 "Accounting for Certain Derivative Instruments and Certain Hedging Activities." As amended, SFAS 133 requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position, measure those instruments at fair value and recognize changes in the fair value of derivatives in earnings in the period of change unless the derivative qualifies as an effective hedge that offsets certain exposures.~~

~~On January 1, 2001, $93 million in current assets, $5 million in noncurrent assets, $2 million in current liabilities, and $238 million in noncurrent liabilities were recorded as of January 1, 2001, in the Consolidated Balance Sheet as fixed-priced contracts and other derivatives. Due to the regulatory environment in which SDG&E operates, regulatory assets and liabilities were established to the extent that derivative gains and losses are recoverable or payable through future rates. The effect on earnings was minimal. The ongoing effects will depend on future market conditions and the Company's hedging activities.~~

~~Market Risk~~

~~The Company's policy is to use derivative financial instruments to manage its exposure to fluctuations in interest rates and energy prices. Transactions involving these financial instruments are with credit worthy firms and major exchanges. The use of these instruments exposes the Company to market and credit risk which may at times be concentrated with certain counterparties, although counterparty nonperformance is not anticipated.~~

~~Energy Derivatives~~

~~SDG&E utilizes derivative financial instruments to reduce exposure to unfavorable changes in energy prices which are subject to significant and often volatile fluctuation. Derivative financial instruments are comprised of futures, forwards, swaps, options and long-term delivery contracts. These contracts allow SDG&E to predict with greater certainty the effective prices to be received and delivered to their customers.~~

~~Due to the regulatory environment in which SDG&E operates, regulatory assets and liabilities are established to the extent that derivative gains and losses are recoverable or payable through future rates. As such, SDG&E does not apply hedge accounting to energy derivatives. However, such contracts continue to be effective in achieving the risk management objectives for which they were intended.~~

~~Swap Agreements~~

~~The Company periodically enters into interest-rate swap and cap agreements to moderate exposure to interest-rate changes and to lower the overall cost of borrowing. At June 30, 2001, SDG&E had one interest-rate swap agreement: a floating-to-fixed-rate swap associated with $45 million of variable-rate bonds maturing in 2002. Although this financial instrument did not meet the hedge accounting criteria of SFAS 133, it continues to be effective in achieving the risk management objectives for which it was intended.~~

~~Accounting for Derivative Activities~~

~~At June 30, 2001, $12 million in current assets, $89 million in noncurrent assets and $22 million in current liabilities were recorded in the Consolidated Balance Sheet for fixed-priced contracts and other derivatives. Regulatory assets and liabilities were established to the extent that derivative gains and losses are recoverable or payable through future rates. As such, $21 million in current regulatory assets, $12 million in current regulatory liabilities and $89 million in noncurrent regulatory liabilities were~~

recorded in the Consolidated Balance Sheet as of June 30, 2001. For the six month period ended June 30, 2001, $2 million in other operating losses was recorded in the Consolidated Statement of Income.

Fair Value

The fair value of the Company's derivative financial instruments (fixed-priced contracts and other derivatives) is not materially different from their carryings amounts. The fair values of fixed-priced contracts and other derivatives were estimated based on quoted market prices. Information regarding the fair value of the Company's non-derivative financial instruments is provided in Note 9 of the notes to Consolidated Financial Statements in the 2000 Annual Report on Form 10-K.

ITEM 2.

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

The following discussion should be read in conjunction with the financial statements contained in this Form 10-Q and Management's Discussion and Analysis of Financial Condition and Results of Operations contained in the Company's 2000 Annual Report.

INFORMATION REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains statements that are not historical fact and constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 including statements regarding SDG&E's ability to finance undercollected costs on reasonable terms and retain its financial strength, estimates of future accumulated undercollected costs, and plans to obtain future financing. The words "estimates," "believes," "expects," "anticipates," "plans," "intends," "may," "would" and "should" or similar expressions, or discussions of strategy or of plans are intended to identify forward-looking statements. Forward-looking statements are not guarantees of performance. They involve risks, uncertainties and assumptions. Future results may differ materially from those expressed in these forward-looking statements.

Forward-looking statements are necessarily based upon various assumptions involving judgments with respect to the future and other risks, including, among others, local, regional, national and international economic, competitive, political, legislative and regulatory conditions and developments; actions by the CPUC, the California Legislature, the DWR, and the FERC (including those with respect to the Memorandum of Understanding among Sempra Energy, SDG&E and the DWR); the financial condition of other investor-owned utilities; capital market conditions, inflation rates, interest rates and exchange rates; energy markets, including the timing and extent of changes in commodity prices; weather conditions and conservation efforts; business, regulatory and legal decisions; the pace of deregulation of retail natural gas and electricity delivery; the timing and success of business development efforts; and other uncertainties -- all of which are difficult to predict and many of which are beyond the control of the Company. Readers are cautioned not to rely unduly on any forward-looking statements and are urged to review and consider carefully the risks, uncertainties and other factors which affect the Company's business described in this quarterly report and other reports filed by the Company from time to time with the Securities and Exchange Commission.

See also "Factors Influencing Future Performance" below.

CAPITAL RESOURCES AND LIQUIDITY

Beginning in the third quarter of 2000 and continuing into the first quarter of 2001, SDG&E's liquidity was adversely affected by the undercollections that have resulted from the price cap on electric rates. Significant growth in these undercollections has ceased as a result of an agreement with the DWR, under which the DWR is obligated to purchase SDG&E's full net short position consisting of the power and ancillary services required by SDG&E's customers that are not provided by SDG&E's nuclear generating facilities or its previously existing purchase power contracts. The agreement extends through December 31, 2002 and can be earlier terminated only upon the satisfaction of regulatory and other conditions intended to assure SDG&E's timely recovery of costs incurred in resuming power procurement for its customers. Note 2 of the notes to Consolidated Financial Statements provides additional information concerning this agreement. Continued DWR purchases of SDG&E's full net short position or timely rate recovery of electricity procurement costs remain necessary to continue obtaining financing and provide adequate liquidity.

Cash and cash equivalents at June 30, 2001 are available for investment in utility plant, the retirement of debt and other corporate purposes. Major changes in cash flows not described elsewhere are described below.

CASH FLOWS FROM OPERATING ACTIVITIES

For the six-month period ended June 30, 2001, the decrease in cash flows from operations compared to the corresponding period in 2000 was primarily due to SDG&E's continuing undercollection of purchased-power costs, as described in Note 2 of the notes to Consolidated Financial Statements and the decrease in trade accounts payable due to less purchased electricity, because of the DWR purchases partially offset by an income tax refund received during the first quarter of 2001 (none received during the same period in 2000).

CASH FLOWS FROM INVESTING ACTIVITIES

Capital expenditures for property, plant and equipment are estimated to be $400 million for the full year 2001 and are being financed primarily by internally generated funds. Construction, investment and financing programs are continuously reviewed and revised in response to changes in competition, customer growth, inflation, customer rates, the cost of capital, and environmental and regulatory requirements.

CASH FLOWS FROM FINANCING ACTIVITIES

For the six-month period ended June 30, 2001, cash flows from financing activities increased from the corresponding period in 2000 due primarily to a decrease in common dividends paid during 2001.

Between January 24 and February 5, 2001, the Company drew down substantially all ($250 million) of its available credit facilities in order to enhance its liquidity in view of the current California electric industry situation. In May 2001 SDG&E repaid its entire balance.

During the first quarter of 2001, SDG&E remarketed $150 million of variable-rate debt and $25 million of variable-rate unsecured bonds as 7.0 percent and 6.75 percent fixed-interest-rate debt, respectively. All other terms remain the same and the interest rate may resume floating in the future at the Company's option.

RESULTS OF OPERATIONS

The Company's net income decreased for the three-month and six-month periods ended June 30, 2001, compared to the same periods in 2000, primarily due to increased operation and maintenance expense resulting from greater customer service activities during the California energy crisis. This was partially offset by increased regulatory interest income on increased undercollected balances and decreased interest expense on rate reduction bond refunds that were paid to customers during the third quarter of 2000.

Seasonality

SDG&E's electric sales volume generally is higher in the summer due to air conditioning demands. Its natural gas sales volumes generally are higher in the winter due to heating demands, although that difference is lessening as the use of natural gas to fuel electric generation increases.

The tables below summarize electric and natural gas volumes and revenues by customer class for the six-month periods ended June 30, 2001 and 2000.

Electric Distribution and Transmission
(Volumes in millions of Kwhrs, dollars in millions)
2001 2000
____
____
____

	~~Volumes~~	~~Revenue~~	~~Volumes~~	~~Revenue~~
~~Residential~~	~~2,993~~	~~$ 405~~	~~3,130~~	~~$ 332~~
~~Commercial~~	~~2,961~~	~~462~~	~~2,913~~	~~274~~
~~Industrial~~	~~1,532~~	~~272~~	~~1,139~~	~~84~~
~~Direct access~~	~~1,032~~	~~36~~	~~1,744~~	~~59~~
~~Street and highway lighting~~	~~44~~	~~5~~	~~33~~	~~3~~
~~Off system sales~~	~~952~~	~~214~~	~~253~~	~~11~~
	~~9,514~~	~~1,394~~	~~9,212~~	~~763~~
~~Balancing and other~~		~~(158)~~		~~59~~
~~Total~~	~~9,514~~	~~$1,236~~	~~9,212~~	~~$ 822~~

~~Gas Sales, Transportation and Exchange~~
~~(Volumes in billion cubic feet, dollars in millions)~~

	~~Gas Sales~~		~~Transportation & Exchange~~		~~Total~~	
	~~Volumes~~	~~Revenue~~	~~Volumes~~	~~Revenue~~	~~Volumes~~	~~Revenue~~
~~2001:~~						
~~Residential~~	~~21~~	~~$ 352~~	~~--~~	~~$~~		

~~21 $ 352 Commercial and industrial 11 173 10 10 21 183 Electric generation plants -- -- 39 11 39 11 ~~

~~32 $ 525 49 $ 21 81 546 Balancing accounts and other (16) -- Total $ 530~~

~~2000: Residential 20 $ 148 $ 20 $ 148 Commercial and industrial 12 63 9 8 21 71 Utility electric generation -- -- 19 5 19 5~~

~~32 $ 211 28 $ 13 60 224 Balancing accounts and other (1) -- Total $ 223~~

~~The increase in electric revenues was primarily due to the increase in electric commodity costs, which are passed on to customers without markup, and increased off-system sales.~~

~~The increase in natural gas revenues was primarily due to higher natural gas prices.~~

~~The increase in electric fuel and net purchased power expense was primarily due to the higher price of electricity as described in Note 2 of the notes to Consolidated Financial Statements and increased off-system sales. Under the current regulatory framework, changes in on-system prices normally do not affect net income, as explained in the 2000 Annual Report.~~

~~The increase in the cost of natural gas purchased for resale was primarily due to higher natural gas prices. Under the current regulatory framework, changes in core-market natural gas prices do not affect net income since, as explained more fully in the 2000~~

~~Annual Report, current or future customer rates normally recover the actual cost of natural gas.~~

~~FACTORS INFLUENCING FUTURE PERFORMANCE~~

~~Note 2 of the notes to Consolidated Financial Statements describes events in the deregulation of California's electric utility industry and the effects thereof on SDG&E.~~

~~Performance of the Company in the near future will depend primarily on the ratemaking and regulatory process, electric and natural gas industry restructuring, and the changing energy marketplace. These factors are discussed in this section and in Note 2 of the notes to Consolidated Financial Statements.~~

~~Performance-Based Regulation (PBR)~~

~~To promote efficient operations and improved productivity and to move away from reasonableness reviews and disallowances, the CPUC has been directing utilities to use PBR. PBR has replaced the general rate case and certain other regulatory proceedings for the California utilities. Under PBR, regulators require future income potential to be tied to achieving or exceeding specific performance and productivity goals, as well as cost reductions, rather than relying solely on expanding utility plant in a market where a utility already has a highly developed infrastructure.~~

~~In April 2001, SDG&E filed its 2000 PBR report with the CPUC. For 2000, SDG&E exceeded all six performance indicator benchmarks, resulting in a request for a total net reward of $11.7 million. In addition, SDG&E achieved an actual 2000 rate of return of 8.70 percent which is below the authorized 8.75 percent. This results in no sharing of earnings in 2000 under the PBR sharing mechanism (as described in the Company's 2000 Annual Report).~~

~~SDG&E's PBR mechanism is in effect through December 31, 2002, at which time the mechanism will be updated. That update is described in the Company's 2000 Annual Report. The PBR and Cost of Service (COS) cases for SoCalGas and SDG&E are both due to be filed on December 21, 2001. However, under the MOU described in Note 2, both SoCalGas' and SDG&E's PBR/COS cases would be delayed such that the resulting rates would be effective in 2004 instead of 2003, if this portion of the MOU is approved by the CPUC.~~

~~Cost of Capital~~

~~Electric industry restructuring has changed the method of calculating the utility's annual cost of capital. In June 1999, the CPUC adopted a 10.6 percent return on common equity and an 8.75 percent return on rate base for SDG&E's electric-distribution and natural gas businesses. These rates remain in effect for 2000 and 2001. SDG&E is working on a petition to modify SDG&E's last cost of capital proceeding which requires the 2002 application, to seek a delay in the required filing due date due to the current uncertainty in California's electricity market. SDG&E was granted an extension of time to file its 2002 cost of capital application to 60 days after the CPUC issues a decision on the petition to modify described above. The electric transmission cost of capital is determined under a separate FERC proceeding.~~

~~RELATIONSHIP WITH NON UTILITY SUBSIDIARIES~~

~~CPUC Investigation of Energy-Utility Holding Companies~~

~~The CPUC has initiated an investigation into the relationship between California's investor-owned utilities and their parent holding companies. Among the matters to be considered in the investigation are utility dividend policies and practices and obligations of the holding companies to provide financial support for utility operations.~~

~~NEW ACCOUNTING STANDARDS~~

~~Effective January 1, 2001, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 133 "Accounting for Derivative Instruments and Hedging Activities" as amended by SFAS No. 138 "Accounting for Certain Derivative Instruments and Certain Hedging Activities." The adoption of this new standard on January 1, 2001, did not have a material impact on the Company's earnings. For further information regarding the Company's implementation of SFAS 133, see Note 4 above.~~

In July 2001 the Financial Accounting Standards Board approved three statements, SFAS 141 "Business Combinations," SFAS 142 "Goodwill and Other Intangible Assets" and SFAS 143 " Accounting for Asset Retirement Obligations." SFAS 141 provides guidance on the accounting for a business combination at the date the combination is completed. It requires the use of the purchase method of accounting for all business combinations initiated after June 30, 2001. The pooling-of-interest method is eliminated. SFAS 142 provides guidance on how to account for goodwill and other intangible assets after the acquisition is complete. Goodwill and certain other intangible assets will no longer be amortized and will be tested in the aggregate for impairment at least annually. Goodwill will not be tested on an acquisition-by-acquisition basis. SFAS 142 applies to existing goodwill and other intangible assets, beginning with fiscal years starting after December 15, 2001. SFAS 143 requires entities to record the fair value of a liability for an asset retirement obligation in the period in which it is incurred. When the liability is initially recorded, the entity capitalizes a cost by increasing the carrying amount of the related long-lived asset. Over time, the liability is accreted to its present value each period, and the capitalized cost is depreciated over the useful life of the related asset. Upon settlement of the liability, an entity either settles the obligation for its recorded amount or incurs a gain or loss upon settlement. The effect of these standards on the Company's Consolidated Financial Statements has not yet been determined.

ITEM 3.   MARKET RISK

There have been no significant changes in the risk issues affecting the Company subsequent to those discussed in the Annual Report for 2000. As noted in that report, SDG&E may, at times, be exposed to limited market risk in its natural gas purchase, sale and storage activities as a result of activities under SDG&E's gas PBR. The risk is managed within the parameters of the Company's market risk management and trading framework. However, to lessen the impact on customers from the recent unprecedented natural gas price volatility at the California border, during the first quarter of 2001, SDG&E began hedging a larger portion of its customer natural gas requirements than in the past. As of March 31, 2001, the Value at Risk (VaR) of the hedges was $7.5 million. During the second quarter of 2001, the gas hedging activity at SDG&E was sharply reduced and, as of June 30, 2001, the VaR of the hedges was $0.75 million. This represents the 50-percent shareholder portion under the PBR mechanism and excludes the 50-percent portion subject to rate recovery. In addition, certain fixed price contracts that traditionally have not been considered derivatives, but now meet the derivative definition under SFAS 133 (see "New Accounting Standards" above), are excluded from the above-mentioned VaR amounts due to the offsetting regulatory asset or liability also recorded by the Company.

PART II - OTHER INFORMATION

ITEM 1.   LEGAL PROCEEDINGS

Except as otherwise described in this report, neither the Company nor its subsidiary is party to, nor is their property the subject of, any material pending legal proceedings other than routine litigation incidental to their businesses.

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.

(b) Reports on Form 8-K

The following reports on Form 8-K were filed after March 31, 2001:

Current Report on Form 8-K filed June 19, 2001 announced the Memorandum of Understanding with the State of California.

Current Report on Form 8-K filed July 16, 2001 reported the current status of California Public Utilities Commission review of the Memorandum of Understanding with the State of California.

SIGNATURE

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

SAN DIEGO GAS & ELECTRIC COMPANY
(Registrant)

Date: August 9, 2001 By: /s/ D.L. Reed

D.L. Reed
President

~~EXHIBIT 12.1~~

~~SAN DIEGO GAS & ELECTRIC COMPANY~~

~~COMPUTATION OF RATIO OF EARNINGS TO COMBINED FIXED CHARGES~~

~~AND PREFERRED STOCK DIVIDENDS~~

~~(Dollars in millions)~~

For the six months ended June 30, 1996 1997 1998 1999 2000 2001 -------- -------- -------- -------- -------- --------

~~Fixed Charges and Preferred Stock Dividends:~~

~~Interest:~~

~~Long Term Debt $ 76 $ 69 $ 55 $ 49 $50 $29~~

~~Rate Reduction Bonds -- 41 35 33 14~~

~~Short-Term Debt & Other 13 14 14 40 31 5~~

~~Amortization of Debt Discount and Expense, Less Premium 5 5 8 7 5 3~~

~~Interest Portion of Annual Rentals 8 10 7 5 3 2~~

~~Total Fixed Charges 102 98 125 136 122 53~~

~~Preferred Dividends for Purpose of Ratio (1) 13 13 11 10 13 6~~

~~Total Fixed Charges and Preferred Stock Dividends For Purpose of Ratio $115 $111~~

~~$136 $146 $135 $59~~
~~======== ======== ======== ======== ======== ========~~
~~Earnings: Pretax income from continuing operations $420 $457 $332 $325 $295 $180~~
~~Add: Fixed charges (from above) 102 98 125 136 122 53~~
~~Less: Fixed charges capitalized 1 2 1 1 3 —~~
~~Total Earnings for Purpose of Ratio $521 $553 $456 $460 $414 $233~~
~~======== ======== ======== ======== ======== ========~~
~~Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends 4.54 5.00 3.36 3.15 3.07 3.95~~
~~======== ======== ======== ======== ======== ========~~
~~(1) In computing this ratio, "Preferred dividends" represents the before-tax earnings necessary to pay such dividends, computed at the effective tax rates for the applicable periods.~~