**BEFORE THE PUBLIC UTILITIES COMMISSION**
**OF THE STATE OF CALIFORNIA**

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| Application of SAN DIEGO GAS & ELECTRIC COMPANY for Authorization to: (1) Obtain Long-Term Debt Capital Not to Exceed the Equivalent of U.S. $800,000,000; (2) Guarantee the Obligations of Others with Respect to the Issuance of Certain Tax-exempt Securities; (3) Include Certain Features in Debt Securities or Enter into Certain Derivative Transactions to Lower Cost of Money; (4) Obtain an Exemption From the Competitive Bidding Rule; (5) Enter Into Interest Rate Swaps, Caps, Collars and/or Currency Exchange Contracts; (6) Issue and Sell Not More than U.S. $200,000,000 Par or Stated Value of Preferred or Preference Stock; and (7) Take All Other Necessary, Related Actions.<br><br>(U 904-M) | Application No.____________ |

**APPLICATION OF**
**SAN DIEGO GAS & ELECTRIC COMPANY (U 904-M)**


GLEN J. SULLIVAN
KEITH W. MELVILLE
101 Ash Street, HQ13
San Diego, California 92101
Telephone: (619) 699-5162
Facsimile: (619) 699-5027
E-mail: gsullivan@sempra.com

Attorneys for
SAN DIEGO GAS & ELECTRIC
COMPANY


February 14, 2006

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**APPLICATION OF**
**SAN DIEGO GAS & ELECTRIC COMPANY (U 904-M)**

Pursuant to Articles 5 and 6 of Chapter 4, Part 1, Division 1 of the Public Utilities Code and Rules 33 and 34 of the Rules of Practice and Procedure of the California Public Utilities Commission (the "Commission"), SAN DIEGO GAS & ELECTRIC COMPANY ("SDG&E" or "Applicant") requests authorization from the Commission:

(1) To issue first mortgage bonds, debentures, overseas indebtedness, foreign securities, medium-term notes, accounts receivable financing, and to enter into long-term loans (collectively, "Debt Securities"), in an aggregate principal amount not to exceed $800 million of debt capital, in addition to previously-authorized amounts. SDG&E's management or board of directors will determine the principal amount and the terms and conditions of each issue of Debt Securities according to market conditions at the time of sale;

(2) To issue certain tax-exempt Debt Securities in order to guarantee

the obligations of others;

(3) To include certain features in SDG&E Debt Securities or to enter into certain derivative transactions related to underlying debt in order to improve the terms and conditions of SDG&E's debt portfolio and with the goal of lowering SDG&E's cost of money for the benefit of ratepayers;

(4) To hedge, when appropriate, planned issuances of Debt Securities, Preferred and Preference Stock;

(5) To issue and sell not more than U.S. $200 million stated value of preferred or preference stock; and

(6) To obtain certain exemptions from the Commission's competitive-bidding rule.

Applicant also requests that the additional features associated with the Debt Securities, Preferred and Preference Stock requested in this Application be similarly authorized for the unused authority previously granted in Commission Decisions 04-01-009 and 93-09-069 described in the "Background" section below.

The authorization requested in this application is in addition to the unused authority previously granted in Commission Decisions 04-01-009 and 93-09-069 illustrated in the "Background" section below.

## I.
## INTRODUCTION

SDG&E anticipates substantial growth in the near-term in serving an increasing load, improving reliability and reducing congestion costs, connecting to new generation, increasing operational flexibility, and upgrading aging infrastructure. Additionally, SDG&E is planning for significant capital expenditures for the Palomar Energy Center power plant in 2006 at a cost of approximately $500 million and the Otay Mesa transmission project at approximately $200 million. As the Commission has appropriately recognized in approving them, these investments are important additions for the San Diego region to help deliver reliable supplies of energy as the area's energy demands increase.

SDG&E is also pursuing other large-scale projects that are in varying stages of management and/or Commission approval. These projects include the Advanced Metering Infrastructure (AMI) investments where the Commission has authorized certain pre-deployment expenses through the end of 2006. SDG&E has filed for spending of approximately $450 million through 2010. Future years' investment plans will include the results of the Commission's decision in the AMI case-in-chief to be filed in 2006. Transmission investments not yet approved by the Commission will also be an important component for SDG&E's future growth. SDG&E is planning for a new major transmission line referred to as the "Sunrise Powerlink" that will greatly improve the reliability of the region's electrical transmission grid and provide access to available and proposed electricity supplies, including renewable resources, from the region and beyond. In the CPCN application filed December 15, 2005, SDG&E indicated a cost between $1.0 billion and $1.4 billion to complete this transmission line, although the eventual amount could be less.

Capital investment projections are updated as part of SDG&E's financial plan development and are subject to potentially substantial changes from year to year as business and regulatory requirements and conditions evolve. Thus, in considering these estimates, it is important to emphasize that variability is inherent in the financial planning process. In sum, SDG&E has a robust capital investment plan to ensure that customers continue to receive reliable service at the lowest reasonable cost, as illustrated in Schedule I appended to the testimony of Mr. Jack S. Lewis, in Attachment D.

SDG&E requests herein authority to issue various kinds of long-term securities; these securities and their features are described below, and are supported by the appended testimony of Mr. Gary H. Hayes, in Attachment E.

## II.
## BACKGROUND

As illustrated in the chart at the bottom of this section, all of the Applicant's existing long-term debt financing authority was granted in Commission Decision 04-01-009, dated January 8, 2004, in which the Commission authorized the issuance of $660 million in long-term debt capital, of which no less than $109 million would be applied to, or used to reimburse SDG&E's treasury for the discharge of indebtedness or preferred stock.

Applicant's preferred-equity authority consists of (1) Decision 04-01-009, which grants the authority to issue up to $80 million stated value of preferred or preference stock, of which no less than $76 million would be applied to, or used to reimburse SDG&E's treasury for, the discharge of indebtedness or preferred stock, and (2) Decision 93-09-069, which grants authority to issue and sell not more than $100 million par or stated value of preferred stock and was extended by Decision 96-05-066 and again, to an indeterminate period, by Decision 00-01-016.

Through the month ending December 31, 2005, SDG&E had utilized $366.51 million of the long-term debt authority granted by D.04-01-009, issuing $361.52 million of new long-term debt and applying $4.99 million to the discharge of existing indebtedness. Remaining authority under D.04-01-009 now totals $293.5 million, of which no less than $103.6 million will be applied to the discharge of indebtedness or preferred stock.

Through the month ending December 31, 2005, SDG&E had utilized $51.6 million of the preferred-stock authority granted by D.93-09-069 and had not utilized any of the authority granted by D.04-01-009 to issue preferred or preference stock, thereby leaving unused a total of $52.4 million of new-money preferred authority and $76.0 million of rollover preferred authority.

Summary of Authorized, Used & Unused Long-Term Debt & Preferred Stock Authority at 12/31/05

| ($ Millions)<br>Decision # | $ Amount Authorized in Decision | $ Amount Used | $ Amount Unused | Remarks |
|---|---|---|---|---|
| Long-Term Debt | | | | |
| 04-01-009 | $660.0 | $366.5 | $293.5 | Unused authority comprised of $189.91 New Money Debt; $103.59 Rollover Debt |
| Preferred Stock | | | | |
| 93-09-069 | 100 | 51.6 | 48.4 | New Money Preferred Stock, extended by D.96-05-066 and D.00-01-016 |
| 04-01-009 | 4 | 0 | 4 | New Money Preferred Stock |
| 04-01-009 | 76 | 0 | 76 | Rollover Preferred Stock Authority |
| Total Preferred Stock | $180.0 | $51.6 | $128.4 | |

In summary, the financing needs to support SDG&E's capital investments are significantly above the currently unused portion of the existing debt authorizations. With approximately $1.1 billion of financing needed over the next 3 years, and only approximately $300 million left authorized in D.04-01-009 and only $52.4 million left on the new preferred stock authorized in D.93-09-069 and D.04-01-009, SDG&E will need new debt authority for an additional approximately $800 million and new preferred and preference stock authority of $200 million.

Long-term interest rates continue to be at historically low levels. In order to take full advantage of such low financing costs, as well as to enable SDG&E to meet its anticipated financing needs, SDG&E requests the Commission give this Application prompt consideration.

Additional information about the requested authorizations is provided below in this Application.

## III.
## USE OF PROCEEDS

SDG&E intends to apply the net proceeds from the proposed debt and preferred capital financings to, or to reimburse its treasury for monies expended or to be expended for: (i) the expansion and betterment of utility plant and (ii) the discharge of its indebtedness or preferred stock retired or to be retired at maturity and through sinking fund payments, redemption, prepayment (including premiums, if any, required in connection with redemption or prepayment), repurchase or otherwise. Further detail on these uses is included in Schedules I and IIIa of Attachment D, the testimony of Mr. Lewis.

## IV.
## DESCRIPTION OF DEBT SECURITIES

The following describes the types of Debt Securities that may be issued. Optional features designed to enhance the terms and conditions of the Debt Securities are described in Section V of this Application.

In general, each series of Debt Securities is expected to have a maturity of between one (1) year and one hundred (100) years. Medium-term notes are expected to have a maturity of between nine (9) months and forty (40) years.

With the exception of first mortgage bonds and long-term loans (both defined below), each issue of Debt Securities may be issued under an indenture or a supplement to an existing indenture to be delivered to the trustee for such issue. The indenture or supplemental indenture would set forth the terms and conditions of each issue of Debt Securities.

A. Secured debt. Secured debt may be secured by a lien on property or through other credit-enhancement arrangements described in Section V, below.

First mortgage bonds ("FMBs") will be issued in accordance with SDG&E's trust indenture dated July 1, 1940, as amended and supplemented and which heretofore has been filed with the Commission. The supplemental indenture delivered in connection with each new series of first mortgage bonds will be in a form consistent with supplemental indentures previously filed with the Commission.

Secured debt may be sold to either domestic or foreign investors. It may be sold to underwriters who in turn will offer the secured debt to investors, or it may be sold directly to investors either with or without the assistance of a private placement agent. Secured debt may be registered with the Securities and Exchange Commission ("SEC"), depending on the method of offering and sale, and may be listed on a stock exchange.

In certain instances, SDG&E may enter into contractual agreements whereby a third party will provide appropriate credit facilities as security for a secured debt issue. The cost of the credit facilities will be included in determining the issue's overall cost.

B. Unsecured debt ("debentures"). Debentures may be sold to either domestic or foreign investors. They may be sold to underwriters who in turn will offer the debentures to investors, or they may be sold directly to investors either with or without the assistance of a placement agent. Debentures may be registered with the SEC and may be listed on a stock exchange. Unsecured debt may be senior or subordinated.

C. Foreign capital markets. Debt Securities issued by SDG&E in foreign capital markets may be denominated in, or proceeds from their sale received in, United States Dollars or in other currencies. To reduce or eliminate the risk of currency fluctuations, the Company may engage in currency swaps (defined below) or other arrangements. The Company intends to confine its financings in foreign capital markets and its financings involving foreign currencies to those periods in which it is reasonably confident that the financing, including any related currency transactions, will provide more favorable terms and conditions than are then available to it in domestic capital markets or through financings not involving foreign currencies. During other periods, it will confine its financings to domestic capital markets or to those not involving foreign currencies.

D. Medium-term notes. Medium term notes are a form of debt that may be offered on a continuous or periodic basis. Maturities generally range from nine months to 15 years, although they can extend as far as 40 years. They may be sold in public or private offerings, with fixed or floating rates, in senior or subordinated form. Medium-term notes are generally sold on a best-efforts or agency basis. Medium-term notes can be tailored to an investor's specific maturity needs so as to achieve the lowest cost of funds.

E. Direct long-term loans. SDG&E may enter into long-term loans, Debt Securities with a maturity of greater than one (1) year, pursuant to a line(s) of credit with banks, insurance companies, or other financial institutions. SDG&E may enter into loans either when loans can result in an overall cost of money lower than that available through the issuance of alternate Debt Securities or when the Company finds that interest rates or other circumstances appear unfavorable or that it is prevented from issuing alternative Debt Securities altogether.

F. Accounts-receivable financing. The Company may issue Debt Securities secured by a pledge, sale or assignment of its accounts receivable. SDG&E anticipates that the transactions would be structured to be a true sale for bankruptcy purposes, a sale for financial reporting, and debt for tax purposes although other structures may be developed using accounts receivable as security or collateral. Because of the additional security provided by the accounts receivable, it may be possible to obtain financing through accounts receivable financings at interest rates lower than SDG&E's short-term borrowing costs. Because an accounts receivable financing would be an encumbrance on utility properties to the extent that accounts receivable are considered to be utility property, SDG&E requests authorization under Public Utilities Code Section 851 to mortgage and encumber utility property. D.04-01-009 previously granted SDG&E this authority to pledge or otherwise dispose of or encumber its accounts receivable in connection with the issuance and sale of Debt Securities.

G. Tax-exempt debt. The Company anticipates that from time to time the cost of SDG&E's Debt Securities may be reduced by placing such securities with one or more political subdivisions ("Authority") and unconditionally guaranteeing or otherwise securing such Authority's obligations in respect of its issuances of tax-exempt debt in connection with the financing of SDG&E's facilities. SDG&E anticipates having the ability to use the tax-exempt option whenever (1) its facilities qualify for tax-exempt financing under federal law, either as eligible pollution control facilities or facilities that may be financed by tax-exempt revenue bonds under the "two-county" rule *and* (2) it receives sufficient "volume cap", or tax-exempt borrowing authority, from the California Debt Limit Allocation Committee (CDLAC). Such tax-exempt financings may be structured substantially as follows:

- An Authority would issue and sell one or more series of its bonds, notes, debentures or other securities ("Authority Bonds") to a group of underwriters who would ultimately market such Authority Bonds to investors.
- Concurrently with the sale and delivery of such Authority Bonds and in consideration for the proceeds of the Authority Bonds, SDG&E would enter into a loan agreement or other security agreement with the Authority, or would enter into an installment-sale agreement with the Authority pursuant to which the eligible facilities would be conveyed to the Authority in consideration for the proceeds of the Authority Bonds, and the eligible facilities would be reconveyed to the Company in consideration for its Debt Securities. The operation and control of such facilities would remain with SDG&E or the project operator at all times.
- Concurrently with the sale and delivery of such Authority Bonds, SDG&E would issue and deliver to the Authority, in consideration of the Authority's obligations set forth in (2) above, Company Debt Securities plus accrued interest (the terms and conditions of such indebtedness would be substantially consistent with the terms and conditions of such Authority Bonds) or would unconditionally

guarantee or otherwise secure such Authority's obligations in respect of the Authority Bonds. All rights and title of such Authority in Company Debt Securities would be assigned to a trustee under an indenture pursuant to which the Authority Bonds would have been issued as security for the purchasers of the Authority Bonds.

H. Variable-rate debt. SDG&E anticipates that from time to time the cost of SDG&E debt may be reduced by issuing variable-rate debt securities. A variable-rate debt security includes, but is not limited to, Debt Securities bearing interest based on the prime rate of banks, bankers' acceptances, Eurocommercial paper, or some other referenced interest rate. A variable-rate debt security may also be a Debt Security for which investors possess a series of periodic, mandatory put options which require SDG&E to repurchase all or a portion of the Debt Securities, and which may be coupled with a re-marketing obligation by SDG&E of the repurchased Debt Security.

Certain variable-rate Debt Securities require credit support, such as bank lines. These bank lines may be in the form of a short-term or long-term bank line agreement. Since these credit facilities are an integral part of the variable-rate debt issuance, such facilities (and any borrowing thereunder) should not be considered by the Commission to count against existing short-term debt authorizations. This condition was approved by Commission Decision 96-05-066, and extended by Decision 00-01-016.

Some variable-rate bonds accrue interest at a rate set by a Dutch auction. In a Dutch auction, existing or potential bondholders may submit orders to hold, sell, or bid for bonds. The winning bid rate is that which, in combination with all lower bid rates, clears the market of the entire principal amount available for sale and becomes the interest rate on all bonds until the next auction. The auctions will be held according to a schedule, which is often anywhere from every seven days to any integral multiple of seven. Interest is typically payable on the business day following the auction. The Dutch auction process removes the contingent obligation of an issuer to purchase investors' bonds at par on any given interest-reset date, thus eliminating the need for liquidity support and other associated costs.

I. "Fall-away" mortgage bonds. The Company may wish to issue debt that is initially secured and subsequently convertible into unsecured debt, known as "fall-away bonds". These senior notes are initially secured under their indenture by collateral FMBs issued in equal principal amount under the existing 1940 first mortgage indenture and delivered to the fall-away indenture trustee. Subsequent to the redemption or maturity of all outstanding FMBs (other than the collateral FMBs held by the fall-away indenture trustee) the fall-away bonds will become unsecured general obligations of the Company. The fall-away bonds' indenture will contain a negative pledge clause, which provides that the newly-unsecured obligations will be secured equally with any secured bonds that may be issued in the future.

J. Subordinated debt. The Company may issue subordinated debt securities, which will be junior in right of payment to its senior unsecured and secured indebtedness.

## V.
## DEBT SECURITY ENHANCEMENTS

SDG&E hereby requests authorization to include certain features in its Debt Securities or enter into certain derivative transactions related to underlying debt. Such measures would be taken when appropriate to improve the terms and conditions of SDG&E's Debt Securities and to lower the overall cost of money for the benefit of the ratepayers.

A. Put options. SDG&E anticipates that from time to time the cost of its Debt Securities may be reduced by the inclusion of a put option. This feature grants to a Debt Security owner the right to require SDG&E to repurchase all or a portion of that holder's securities. Debt holders are willing to accept a lower interest rate in exchange for the protection against rising interest rates offered by the put option.

B. Call options. SDG&E anticipates that from time to time it may retain the right to retire, fully or partially, a Debt Security before the scheduled maturity date. The chief benefit of such a feature is that it permits the Company, should market rates fall, to replace the bond issue with a lower-cost issue, thus producing a positive net benefit to ratepayers.

C. Sinking funds. SDG&E anticipates that from time to time the cost of SDG&E Debt Securities may be reduced by the use of a sinking fund. A sinking fund typically operates in one of two ways: (1) SDG&E may set aside a sum of money periodically so that, at the maturity date of the bond issue, there is a pool of cash available to redeem the issue, or (2) SDG&E may periodically redeem a specified portion of the bond issue. Typically, SDG&E would have the right to meet its sinking fund obligations in the latter fashion by either calling a certain number of bonds or purchasing the bonds in the open market.

D. Interest rate swaps. An interest rate swap is a contractual agreement between two parties to exchange a series of payments for a stated period. In a typical interest rate swap, one party issues fixed-rate debt while another issues floating rate debt, and the two swap interest payment obligations based on a notional principal amount (the principal itself is not exchanged). Swaps are generally used to reduce either fixed-rate or floating-rate costs, or to convert fixed-rate borrowing to floating. SDG&E will enter into swap contracts when it expects that such arrangements may provide an overall cost of money lower than that available through the issuance of alternate Debt Securities.

E. Swaptions. Swaption contracts give the right to enter into a swap agreement (or to exit a swap) under specified terms and conditions. The swaption's strike price, maturity, size and structure can be tailored to suit a party's particular needs. Corporate treasurers use swaptions to hedge an existing or anticipated exposure while retaining the ability to benefit from an advantageous change in interest rates – a benefit ultimately realized by Company ratepayers in a lower cost of debt.

F. Caps and collars. In order to reduce ratepayers' exposure to interest rate risk on variable-rate securities, SDG&E may negotiate some type of maximum rate, usually called a cap. In that case, even if variable rates increase above the cap (or ceiling) rate, SDG&E would only pay the ceiling rate. In addition to the ceiling rate, sometimes a counterparty will desire a "floor" rate. In the event that the variable rate falls below the floor rate, SDG&E would pay the floor rate. The combination of a floor and a ceiling rate is called an interest-rate "collar" because the Company's interest expense is restricted to a band negotiated by the Company and the counterparty. Such protection for variable rate obligations is not unlike protection negotiated by consumers for variable-rate home mortgages.

G. Currency swaps. A currency swap is an arrangement in which one party agrees to make periodic payments in its domestic currency, based on either fixed or floating interest rates, to a counterparty, who in turn makes periodic payments to the first party in a different currency. The payments are based on notional principal amounts that are fixed at the initiation of the swap. Unlike interest rate swaps, the principal amount is generally exchanged at the beginning of the transaction and re-exchanged at maturity. Currency swaps are useful in the management of exchange risk and will be used when necessary to hedge exposures created by Debt Securities denominated in foreign currencies.

H. Credit enhancements. SDG&E may obtain credit enhancements for Debt Securities, such as letters of credit, standby bond purchase agreements, surety bonds or insurance policies, or other credit support arrangements. Such credit enhancements may be included to reduce interest costs or improve other credit terms; and the cost of such credit enhancements would be included in the cost of the Debt Securities.

I. Capital replacement. SDG&E may specify that it intends to replace Debt Securities when redeemed with replacement securities having similar, or more equity-like, characteristics.

J. Interest deferral. The Company may issue subordinated Debt Securities that permit discretionary interest payment deferral during an extension period. The extension period may specify a period wherein the issuer is not required to take any action. The deferral period shall not extend beyond the maturity date of the series of debt securities. SDG&E may be obligated to pay any such accrued interest at the end of the extension period; however, in certain cases, claims for deferred payments may be waived in part or in whole.

K. Special-purpose entity transactions. In some instances it may be advantageous for the Company to guarantee the securities of a special-purpose entity ("SPE"). The SPE would be a subsidiary or other affiliate of the Company (including a limited partnership, a limited liability company or a business trust) and would issue securities and commit the proceeds from the issuance thereof to the Company. Although the structure of an actual transaction may vary, generally the SPE would issue long-term debt securities to the investment community, either for cash or in exchange for existing SDG&E securities. The securities may be guaranteed by the Company in order to obtain better rates and/or terms. The guarantee could cover any accrued and unpaid distributions on the securities, the redemption price and any repurchase obligations as well as the liquidation preference. The proceeds of the issuance by the SPE would be loaned to the Company through the issuance of Debt Securities featuring terms and conditions specified by the Company at the time of issuance. This type of transaction can result in SDG&E obtaining external capital which qualifies as having equity-like characteristics for the credit rating agencies but which the Company can treat as debt for tax purposes. The Commission has previously authorized guarantees of Debt Securities issued by SPEs in D.96-09-036 (Southern California Gas Company) and D.04-10-037 (Pacific Gas and Electric Company).

L. Delayed drawdown. The Company may enter long-term loans or issue debt securities where the full principal amount is not borrowed immediately, but over time in a series of disbursements which draw down the funding over a period of time.

## VI.
## PREFERRED AND PREFERENCE STOCK

SDG&E's sale of shares of its preferred or preference stock will be effected through the offering and sale of such shares to the public through either negotiated underwritings or otherwise, or by private placements with institutional or other investors. Such sales can take place at any time and the precise amount and timing of each, along with the securities' features, have not yet been determined and will be established by the Company prior to the offering with due regard for its funding requirements and the prevailing and anticipated market conditions.

SDG&E anticipates that the terms and conditions of such securities may include, but not be limited to, preference, dividends, redemption provisions, capital replacement, and trust structures.

A. Preference stock. The Company's preference stock is junior to its preferred stock and senior to its common equity. Preference stock rights to dividends – and to a redemption payment if the corporation is dissolved – generally will be subordinated to the rights of the preferred stock, but will rank superior to the claims of the Company's common stock.

B. Dividends. The Company pays preferred and preference dividends at the discretion of its Board of Directors; the dividends are either cumulative or non-cumulative in nature. New issues may feature dividend rates which are fixed, floating, or set through remarketing or Dutch auction procedures. The Company may include a dividend deferral provision that may allow for optional deferral of payments of dividends.

C. Redemption. Some preferred and preference stocks are perpetual in nature, as is common stock. Others have a specified redemption date on which the issuer must redeem the shares at a stated value. There are preferred and preference stocks that, like debt instruments, feature sinking funds. Finally, some preferred or preference securities can be callable anytime at the Company's option, in whole or in part, at a preset price plus accrued and unpaid dividends up to the call date.

D. Capital Replacement. The Company may specify that it intends to replace the preferred stock when redeemed with replacement securities having similar or greater equity characteristics.

E. Special-purpose entity transactions. In some instances it may be advantageous for the Company to guarantee the preferred securities of an SPE. As described in Section V above, the SPE would be a subsidiary or other affiliate of the Company (including a limited partnership, a limited liability company or a business trust) that would issue preferred securities and loan the proceeds from the issuance to the Company in exchange for Debt Securities featuring terms and conditions specified by the Company at the time of issuance. The SPE's securities may be guaranteed by the Company. This type of transaction would typically result in SDG&E obtaining external capital which qualifies as having preferred characteristics for the credit rating agencies but which the Company can treat as debt for tax purposes. The Commission has previously authorized guarantees of preferred securities issued by SPEs in D.94-07-062 (SDG&E) and D.05-08-008 (Southern California Edison Company).

## VII.
## HEDGING THE PLANNED ISSUANCE OF SECURITIES

Under certain circumstances, SDG&E may wish to hedge the issuance of debt securities, or preferred or preference stock, collectively referred to in this Section VII as "securities." For instance, compliance with legal, regulatory, and administrative matters may preclude the Company from acting on a low-cost funding opportunity during a time of market volatility. Conversely, the Company may have an immediate need for funds, but be reluctant to fix its cost at prevailing interest rates. Issuance-hedging strategies grant the ability to enter financial markets at times when interest rates or other circumstances appear most favorable.

SDG&E seeks expansion of its authority to minimize its exposure to potential interest rate increases by hedging planned issuances of securities. D.04-01-009 allows SDG&E to enter contracts for Treasury locks, caps and collar agreements for this purpose. In this Application, SDG&E requests extension of its authorization for hedging planned long-term financings to also include interest rate swaps, options, and long hedges, as additionally described below.

A. "Price today, fund later" strategies. These hedges allow the Company to lock in an interest rate today, even though it cannot issue securities due to legal, regulatory, economic or other reasons, or when other circumstances make current securities issuance appear unfavorable.

1. Treasury lock. This approach is used to lock in the Treasury component of the Company's borrowing cost. SDG&E can delay securities issuance and capture the current Treasury yield by selling short Treasury securities (i.e., selling Treasury securities that it does not own) of a maturity comparable to that of the contemplated debt security. If interest rates rise, SDG&E will cover its short Treasury position at a profit, which will be offset by the higher interest cost of the newly-issued securities; if interest rates decline, SDG&E will cover its short Treasury position at a loss, but this will be offset by the lower cost on the newly-issued securities.

2. Treasury options. The purchase of Treasury put options is an alternative to the Treasury lock. In this transaction, SDG&E would purchase put options entitling it to sell Treasury securities of a maturity comparable to that of the contemplated security issuance at a specified yield (the "strike yield") at any time before the option's expiration date. If interest rates rise above the put's strike yield, the Company will exercise the put and the resulting profit offsets the increased cost of borrowing. If interest rates decline, SDG&E will let the option expire worthless and issue securities at

prevailing lower rates.

3. Interest rate swaps. A forward-starting interest rate swap allows the Company to delay a securities issuance and capture current yields. As the fixed-rate payer in an interest rate swap, SDG&E hedges its borrowing cost: if interest rates rise, unwinding the swap at a profit offsets higher borrowing costs. Conversely, if rates decline, lower borrowing costs offset the loss caused by unwinding the swap. The swap's hedging effectiveness is a function of the relationship between swap rates and corporate coupons.

B. "Fund today, price later" strategies. These hedges allow the Company to fund immediately and price the securities after interest rates have declined.

1. Long hedge. This approach allows the Company to issue now and capture its current credit spread, but leave the all-in cost of the securities issue open. SDG&E establishes a long hedge by issuing securities today and investing the proceeds in Treasury securities of a comparable maturity. If interest rates subsequently decline, the gain in the value of the Treasury portfolio will compensate the Company for the lost opportunity to finance at lower rates. On the other hand, if rates rise, the interest expense savings realized by issuing immediately will be offset by the decline in value of the Treasury portfolio. Thus, the Treasury component of SDG&E's effective borrowing cost will be determined by the Treasury rates prevailing when it chooses to unwind the hedge; the credit spread is determined at the time of issuance.

2. Treasury options. The purchase of Treasury call options is an alternative to the long hedge. With this approach, the Company would issue securities today and purchase call options on Treasury securities of a comparable maturity. Such a call option allows the holder to purchase Treasury securities at a specified yield (the "strike yield") anytime before the expiration date. If rates decline below the strike yield, exercising the option produces a gain used to offset the interest cost of the securities issued today. If interest rates rise above the strike yield, the option will expire unexercised. In this case the Company benefits from the lower borrowing rate.

3. Interest rate swaps. A forward-starting interest rate swap allows the Company to issue securities immediately and benefit from a subsequent fall in interest rates. As the floating-rate payer in an interest rate swap, SDG&E hedges its borrowing

cost: if interest rates decline, unwinding the swap at a profit will compensate the company for the lost opportunity to finance at lower rates. Conversely, if rates rise, the interest expense savings realized by issuing immediately will be offset by the loss caused by unwinding the swap. The swap's hedging effectiveness is a function of the relationship between swap rates and corporate coupons.

## VIII.
## COMPETITIVE BIDDING

A. Public offerings by competitive bidding. Rules adopted in Commission Decision No. 38614, as amended in Commission Decision Nos. 49941, 75556 and 81908 and Commission Resolution No. F-616 (collectively, the "Competitive Bidding Rule"), generally require California public utilities to obtain competitive bids for the purchase of their debt securities. In Commission Resolution No. F-616, dated October 1, 1986 ("Resolution No. F-616"), the Commission stated that the Competitive Bidding Rule is mandatory for all domestic debt issues of debentures and First Mortgage Bonds of $200 million or less.

Applicant intends that all underwritten public offerings of its fixed interest rate debentures and First Mortgage Bonds in the principal amount of $200 million or less that are effected in domestic capital markets be competitively bid. The principal amounts and maturities, the redemption, security, subordination and conversion provisions, if any, and the other terms and provisions of the Debt Securities issued in each financing sold by means of competitive bidding will be established by Applicant prior to the offering thereof. The price of the Debt Securities and interest rate thereon will be that specified by the qualified bid for the Debt Securities that provides Applicant with the lowest cost of money.

In Resolution No. F-616, the Commission also modified its prior policy and stated that telephonic competitive bidding is allowable. Consistent with this modification, Applicant requests that the Commission authorize Applicant to telephonically, or through other electronic means such as e-mail, invite the submission of bids and to receive bids by telephone or through other electronic means such as e-mail from two or more underwriters or groups thereof, in lieu of newspaper publication of an invitation for bids and the submission and opening of sealed written bids, and to telephonically, or through other electronic means such as e-mail, accelerate, postpone or cancel the scheduled date and time for the receipt of bids and/or vary the terms and provisions of the Debt Securities submitted for bid. Applicant further requests that the Commission authorize Applicant, if it deems it to be appropriate, to reject all bids and to telephonically, or through other electronic means such as e-mail, request resubmission of bids for Debt Securities with the same or other terms and provisions.

B. Exemption from the competitive bidding rule for issues in excess of $200 million principal amount. In Resolution No. F-616, the Commission stated that it would entertain requests for exemptions from the Competitive Bidding Rule for debt issues in excess of $200 million and would grant such exemptions upon a compelling showing by a utility that, because of the size of an issue, such an exemption is warranted.

Applicant believes that compelling circumstances exist for an exemption for issues in excess of $200 million principal amount and that such an exemption would provide Applicant with the flexibility to meet its financing requirements on the most favorable terms available. The size of a debt offering may be determinative of whether competitive bidding or a negotiated offering will result in the lowest cost. In a competitively bid offering, the investment community is divided into competing bidding syndicates, with fewer participants and increased risk for each participant. Competitive bidding tends to fragment the capital commitment and placement capabilities of underwriters, who must work against each other and have less time to gauge and build market demand for an offering. In contrast, in a negotiated offering, a single underwriting syndicate can be formed that consists of a greater number of participants.

Consequently a negotiated offering for issues in excess of $200 million may result in a lower cost of funds. In addition, a negotiated offering may provide greater flexibility to adjust the timing and terms of a proposed debt offering to meet changing market conditions.

C. Exemption for debt issues for which competitive bidding is not viable or available. In Resolution No. F-616 the Commission exempted from that resolution all "debt issues for which competitive bidding is not viable or available" in response to the numerous changes which have occurred in the financial markets after the adoption of the

Competitive Bidding Rule. While Resolution No. F-616 does not specify the type of financings that come within the exemption, the Commission's "Report on the California Public Utilities Commission's Competitive Bidding Rule for Issuance of Debt Securities" dated September 5, 1986 (the "Report") contains a discussion of reasons for the exemption and specifically refers to types of debt instruments that should be exempt. The Report states, in relevant part, "A number of . . . debt securities, either by their nature or by established business practices do not lend themselves to competitive bidding. Securities privately placed with specific lenders and bank term loans obviously must be negotiated. Competitive bidding is not presently available in European or Japanese markets... Variable interest rate debt is normally completed on a negotiated basis. It is reasonable that these types of debt instruments should be exempt from the Competitive Bidding Rule. However, domestic issues of debentures and first-mortgage bonds still lend themselves quite nicely to competitive bidding . . ."

Consistent with the Competitive Bidding Rule, Applicant intends to effect its domestic underwritten public offerings of fixed interest rate debentures and First Mortgage Bonds by means of competitive bidding except in the instances described above. Financings involving Debt Securities other than domestic underwritten public offerings of fixed interest rate debentures and First Mortgage Bonds, including without limitation, Medium-Term Notes, loans, and Debt Securities (or other forms of security) issued to guarantee Authority Bonds in conjunction with financing Eligible Facilities, subordinated debt, and special-purpose entity transactions may be effected without competitive bids. Financings involving preferred stock, preference stock and capital other than domestic underwritten public offerings of fixed interest rate debentures and First Mortgage Bonds, may also be effected without competitive bids. Accordingly, Applicant requests authorization to effect its financings, other than domestic underwritten public offerings of fixed interest rate debentures and First Mortgage Bonds, without competitive bidding.

Applicant believes that at times it may be able to obtain more desirable terms and conditions or a lower cost through debt financings for which competitive bidding is not viable or available. Applicant intends to confine such financings to those that it is reasonably confident it can obtain upon more favorable terms and conditions or lower costs than are available at the same time through domestic underwritten public offerings of fixed interest rate debentures and First Mortgage Bonds.

The terms and conditions of Debt Securities issued in each financing sold by means other than competitive bidding will be determined by negotiations between Applicant and the underwriters selected for the proposed offering or the lenders or investors to whom the securities are to be issued.

D. Exemption for the competitive bidding rule to eliminate the one-day notice period. If Applicant's financings are to be effected in domestic capital markets through competitively bid underwritten public offerings, Applicant seeks authority to eliminate the one-day notice requirement of the Competitive Bidding Rule referred to in Resolution No. F-616. Through the use of the Securities and Exchange Commission's shelf registration procedures, it is possible to price an offering when market conditions appear most favorable. It is therefore desirable to be able to minimize the period of time between the issuance of an invitation for bids and the scheduled receipt of bids. The time interval between these events may be reasonably shortened to as little as a few hours. Further, it is desirable to be able to make adjustments in the size or terms of an offering up to the last moment in response to the current market conditions. Prospective bidders do not require twenty-four hour notification to adequately respond to an invitation for bids or to adjust terms.

## IX.
## FEES

A fee of $512,000 will be payable under Public Utilities Code §1904(b) upon the Commission's approval of the authorization requested in this application. The calculation of the fee is shown in Schedule X to the testimony of Mr. Lewis in Attachment D.

## X.
## CORPORATE INFORMATION

The exact name of Applicant is San Diego Gas & Electric Company. Applicant is a public utility organized and existing under the laws of the State of California.

Applicant is an electric and gas corporation subject to the jurisdiction of the Commission, engaged in the business of providing public utility electric and gas service throughout San Diego County and public utility electric service in a portion of Orange County. Applicant's principal place of business is 8306 Century Park Court, San Diego, California, 92123. Applicant's attorney in this matter is Glen J. Sullivan.

Correspondence or communications regarding this application should be addressed to:

Lisa Browy
Regulatory Case Administrator
California Regulatory Affairs
8330 Century Park Court, CP 32D
San Diego, California 92123
Phone: (858) 654-1566
Fax: (858) 654-1788

with a copy to:

Glen J. Sullivan
Attorney for
San Diego Gas & Electric Company
101 Ash Street
San Diego, CA 92101
Telephone: (619) 699-5162
Facsimile: (619) 699-5027
gsullivan@sempra.com

A certified copy of Applicant's Restated Articles of Incorporation presently in effect and certified by the California Secretary of State was filed with the Commission on December 4, 1997, in connection with A.97-12-012, and is incorporated herein by reference.

Pursuant to Rule 33(e) a copy of Applicant's most recent proxy statement was attached to Applicant's Annual Earnings Assessment Proceeding, Application (A.05-05-003) filed May 2, 2005, and is incorporated herein by reference.

A general description of Applicant's property and equipment was previously filed with the Commission on October 5, 2001, in connection with Applicant's A.01-10-005 and is incorporated herein by reference. A statement of the original cost and depreciation reserve attributable thereto is attached to this application as Attachment A.

Applicant's most recent balance sheet, together with financial and income statements covering the period from the close of the last year for which an annual report has been filed with the Commission to the date of the balance sheet, are contained in Attachment B.

Applicant's regulatory capitalization at September 30, 2005, is set forth on Attachment C.

## XI.
## COMPLIANCE WITH SENATE BILL 960 RULES, INCLUDING PROPOSED SCHEDULE

In accordance with Rule 6(a)(1) of the Commission's Rules of Practice and Procedure, Applicant provides the following information concerning "the proposed category for the proceeding, the need for hearing, the issues to be considered, and a proposed schedule."

Applicant proposes to categorize this Application as a "ratesetting" proceeding within the meaning of Rules 5(c) and 6.1(c). Applicant believes that no hearing is necessary in this proceeding and respectfully requests that the Commission find that no hearing is necessary in respect of this Application. *Ex parte* grant of the authorizations sought herein at the earliest possible date will permit Applicant to proceed with its proposed financings in an expeditious manner. Such expeditious treatment will, in turn, allow Applicant to pursue its utility objectives in a timely and cost-effective manner to the benefit of ratepayers. In order to expedite the processing of this Application, Applicant files with this application as Attachment D the testimony of Jack S. Lewis that provides additional schedules containing information pertaining to the authorizations requested in this application beyond that information normally required by the Commission's Rules 33 and 34 and Public Utilities Code §§816-830.

If, however, the Commission finds that a public hearing is necessary, Applicant requests that such hearing be conducted as soon as practicable. Applicant is prepared to proceed with any necessary hearing.

Applicant proposes the following procedural schedule:

| ACTION | DATE |
|---|---|
| Application filed | February 14, 2006 |
| Protests filed, if any | 30 days after notice of filing in Daily Calendar (approx. March 16, 2006) |
| ALJ Draft Decision | April 25, 2006 |
| Comments on Draft Decision | May 15, 2006 |
| Final COMMISSION Decision | May 25, 2006 |

The issues in this proceeding are whether Applicant should be authorized, pursuant to and consistent with Public Utilities Code §§816-830, to issue the securities described herein with the features described herein, and whether Applicant should be authorized, where appropriate, to be exempt from the Commission's competitive-bidding rules. Applicant is unaware of any specific objections any party might raise to any of these issues.

## XII.
## ATTACHMENTS

Attachments A through E, described below, are a part of, and incorporated into, this Application:

Attachment A: A statement of account of the original cost and depreciation reserve attributable to Applicant's property and equipment.

Attachment B: Applicant's most recent balance sheet, together with financial and income statements.

Attachment C: Applicant's adjusted capitalization at September 30, 2005.

Attachment D: Testimony of Jack S. Lewis providing information concerning Applicant's request for financing authority, especially as to capital spending needs.

Attachment E: Testimony of Gary H. Hayes providing information concerning

Applicant's request for financing authority, especially as to the particular securities and their features for which authorization is sought.

## XIII.
## REQUESTED AUTHORIZATIONS

WHEREFORE, Applicant respectfully requests that the Commission issue its Order herein, *ex parte*, providing specifically[1] for the following:

1. To issue first mortgage bonds, debentures, overseas indebtedness, foreign securities, medium-term notes; to enter into long-term loans; and engage in accounts-receivable financings (collectively, "Debt Securities"), in an aggregate principal amount not to exceed $800,000,000 of debt capital. The principal amount and the terms and conditions of each issue of Debt Securities will be determined by SDG&E's management and/or board of directors according to market conditions at the time of sale.
2. To guarantee the obligations of others with respect to the issuance of certain tax-exempt Debt Securities.
3. To include certain features in SDG&E Debt Securities or to enter into certain derivative transactions related to underlying debt, as necessary, to improve the terms and conditions of SDG&E's debt portfolio and lower SDG&E's cost of money for the benefit of ratepayers.
4. To issue and sell not more than U.S. $200,000,000 stated value of preferred or preference stock.
5. To hedge, when appropriate, planned issuances of Debt Securities.
6. To obtain certain exemptions from the Commission's competitive-bidding rule.
7. Specifically finding, as required by §818 of the Public Utilities Code, that in the opinion of the Commission, the money, property or labor to be procured or paid

[1] Assuming the Commission approves the authorizations requested in this Application, it is extremely important that the language in the Commission's Order mirror the language set forth in this section. It will be the Ordering Paragraphs that financial institutions and their representatives will scrutinize for confirmation that Applicant has sufficient regulatory authority for issuance of the Debt Securities addressed herein.

for by such issues is reasonably required for the purposes so specified, and that, except as otherwise permitted in the order in the case of bonds, notes, or other evidences of indebtedness, such purposes are not, in whole or in part, reasonably chargeable to operating expenses or to income.

8. Providing that the authority granted in such Order shall be effective upon payment of the fee prescribed in Sections 1904(b) and 1904.1 of the Public Utilities Code of the State of California which fee is $512,000.
9. Providing that the authority granted in such Order shall be in addition to the authority granted in Decisions 93-09-069 (as extended by Decisions 96-05-066 and 00-01-016) and 04-01-009.
10. Providing that the additional features associated with the Debt Securities, Preferred and Preference Stock granted in such Order be similarly authorized for the unused authority previously granted in Commission Decisions 04-01-009 and 93-09-069.
11. Granting such additional authorizations as this Commission may deem appropriate.

DATED at San Diego, California, this 13th day of February, 2006.

Respectfully submitted,

SAN DIEGO GAS & ELECTRIC COMPANY

By: Steven D. Davis

Steven D. Davis
Senior Vice President and Chief Financial Officer

By: Glen J. Sullivan

Glen J. Sullivan
Attorney for:
San Diego Gas & Electric Company
101 Ash Street
San Diego, CA 92101
Telephone: (619) 699-5162
Facsimile: (619) 699-5027
Email: gsullivan@sempra.com

# VERIFICATION

I am Steven D. Davis, Senior Vice President and Chief Financial Officer of San Diego Gas & Electric Company ("SDG&E"). I am an officer of SDG&E and am authorized to make this verification for and on behalf of said corporation. The content of this document is true, except as to matters that are stated on information and belief. As to those matters, I believe them to be true.

I declare under penalty of perjury under the laws of the State of California that the foregoing is true and correct.

Executed this 13th day of February 2006, at San Diego, California.

By: ______________________________
Steven D. Davis
Senior Vice President and Chief Financial Officer

# ATTACHMENT A

SAN DIEGO GAS & ELECTRIC COMPANY

COST OF PROPERTY AND
DEPRECIATION RESERVE APPLICABLE THERETO
AS OF SEPTEMBER 30, 2005

| No. | Account | Original Cost | Reserve for Depreciation and Amortization |
|---|---|---|---|
| | ELECTRIC DEPARTMENT | | |
| 302 | Franchises and Consents | $ 222,841 | $ 202,900 |
| 303 | Misc. Intangible Plant | 22,933,194 | 15,560,573 |
| | TOTAL INTANGIBLE PLANT | 23,156,035 | 15,763,474 |
| 310.1 | Land | 46,518 | 46,518 |
| 310.2 | Land Rights | 0 | 0 |
| 311 | Structures and Improvements | 8,125,342 | 8,125,342 |
| 312 | Boiler Plant Equipment | 10,633,963 | 17,564,440 |
| 314 | Turbogenerator Units | 7,484,308 | 7,484,308 |
| 315 | Accessory Electric Equipment | 2,172,934 | 2,172,934 |
| 316 | Miscellaneous Power Plant Equipment | 239,053 | 239,053 |
| | Steam Production Decommissioning | 0 | 0 |
| | TOTAL STEAM PRODUCTION | 28,702,119.15 | 35,632,596 |
| 320.1 | Land | 0 | 0 |
| 320.2 | Land Rights | 283,677 | 283,677 |
| 321 | Structures and Improvements | 266,131,641 | 265,028,707 |
| 322 | Boiler Plant Equipment | 393,571,684 | 393,571,684 |
| 323 | Turbogenerator Units | 135,444,115 | 135,444,115 |
| 324 | Accessory Electric Equipment | 166,711,550 | 166,711,550 |
| 325 | Miscellaneous Power Plant Equipment | 227,509,308 | 195,742,751 |
| 107 | ICIP CWIP | 0 | 6,316,103 |
| | TOTAL NUCLEAR PRODUCTION | 1,189,651,975.50 | 1,163,098,588 |
| 340.1 | Land | 143,476 | 0 |
| 340.2 | Land Rights | 2,428 | 2,428 |
| 341 | Structures and Improvements | 0 | 0 |
| 342 | Fuel Holders, Producers & Accessories | 0 | 0 |
| 343 | Prime Movers | 0 | 0 |
| 344 | Generators | 35,499,024 | 311,366 |
| 345 | Accessory Electric Equipment | 0 | 0 |
| | Other Production Decommissioning | 0 | 0 |
| | TOTAL OTHER PRODUCTION | 35,644,927.94 | 313,794 |
| | TOTAL ELECTRIC PRODUCTION | 1,253,999,022.59 | 1,199,044,978 |

| No. | Account | Original Cost | Reserve for Depreciation and Amortization |
|---|---|---|---|
| 350.1 | Land | $ 17,372,998 | $ 0 |
| 350.2 | Land Rights | 55,562,001 | 8,132,125 |
| 352 | Structures and Improvements | 66,110,188 | 23,413,505 |
| 353 | Station Equipment | 446,148,076 | 114,791,898 |
| 354 | Towers and Fixtures | 95,772,649 | 70,337,333 |
| 355 | Poles and Fixtures | 101,890,205 | 37,247,488 |
| 356 | Overhead Conductors and Devices | 175,460,263 | 129,052,714 |
| 357 | Underground Conduit | 40,545,485 | 6,364,189 |
| 358 | Underground Conductors and Devices | 27,924,959 | 9,063,824 |
| 359 | Roads and Trails | 14,486,278 | 4,344,160 |
| | TOTAL TRANSMISSION | 1,041,273,103 | 402,747,238 |
| 360.1 | Land | 18,556,845 | 0 |
| 360.2 | Land Rights | 62,453,586 | 23,288,249 |
| 361 | Structures and Improvements | 3,303,347 | 1,860,265 |
| 362 | Station Equipment | 269,796,390 | 66,657,507 |
| 364 | Poles, Towers and Fixtures | 326,546,372 | 174,712,834 |
| 365 | Overhead Conductors and Devices | 266,203,185 | 86,089,208 |
| 366 | Underground Conduit | 688,522,221 | 265,155,056 |
| 367 | Underground Conductors and Devices | 887,063,474 | 459,518,546 |
| 368.1 | Line Transformers | 318,231,814 | 57,126,109 |
| 368.2 | Protective Devices and Capacitors | 22,415,676 | 3,043,864 |
| 369.1 | Services Overhead | 86,950,511 | 112,040,554 |
| 369.2 | Services Underground | 235,389,865 | 131,652,641 |
| 370.1 | Meters | 80,590,797 | 29,579,861 |
| 370.2 | Meter Installations | 38,402,241 | 9,687,745 |
| 371 | Installations on Customers' Premises | 5,876,869 | 7,848,260 |
| 373.1 | St. Lighting & Signal Sys.-Transformers | 0 | 0 |
| 373.2 | Street Lighting & Signal Systems | 23,091,952 | 16,312,790 |
| | TOTAL DISTRIBUTION PLANT | 3,333,395,143 | 1,444,573,490 |
| 389.1 | Land | 1,572,703 | 0 |
| 389.2 | Land Rights | 0 | 0 |
| 390 | Structures and Improvements | 24,498,434 | 8,755,516 |
| 392.1 | Transportation Equipment - Autos | 0 | 49,884 |
| 392.2 | Transportation Equipment - Trailers | 175,979 | 118,313 |
| 393 | Stores Equipment | 54,331 | 43,453 |
| 394.1 | Portable Tools | 10,357,661 | 3,539,493 |
| 394.2 | Shop Equipment | 578,489 | 283,424 |
| 395 | Laboratory Equipment | 487,294 | 143,653 |
| 396 | Power Operated Equipment | 92,162 | 149,134 |
| 397 | Communication Equipment | 88,010,541 | 38,071,116 |
| 398 | Miscellaneous Equipment | 293,121 | (123,021) |
| | TOTAL GENERAL PLANT | 126,120,714 | 51,030,966 |
| 101 | TOTAL ELECTRIC PLANT | 5,777,944,018 | 3,113,160,146 |

| No. | Account | Original Cost | Reserve for Depreciation and Amortization |
|---|---|---|---|
| **GAS PLANT** | | | |
| 302 | Franchises and Consents | $ 86,104 | $ 86,104 |
| 303 | Miscellaneous Intangible Plant | 713,559 | 549,740 |
| | TOTAL INTANGIBLE PLANT | 799,663 | 635,844 |
| 360.1 | Land | 0 | 0 |
| 361 | Structures and Improvements | 412,998 | 554,836 |
| 362.1 | Gas Holders | 989,283 | 1,012,573 |
| 362.2 | Liquefied Natural Gas Holders | 0 | 0 |
| 363 | Purification Equipment | 0 | 0 |
| 363.1 | Liquefaction Equipment | 0 | 0 |
| 363.2 | Vaporizing Equipment | 0 | 0 |
| 363.3 | Compressor Equipment | 558,651 | 612,455 |
| 363.4 | Measuring and Regulating Equipment | 0 | 0 |
| 363.5 | Other Equipment | 0 | 0 |
| 363.6 | LNG Distribution Storage Equipment | 407,546 | 323,546 |
| | TOTAL STORAGE PLANT | 2,368,477 | 2,503,410 |
| 365.1 | Land | 4,649,144 | 0 |
| 365.2 | Land Rights | 2,217,185 | 922,455 |
| 366 | Structures and Improvements | 10,680,725 | 6,709,514 |
| 367 | Mains | 119,009,352 | 41,791,943 |
| 368 | Compressor Station Equipment | 59,997,587 | 32,327,448 |
| 369 | Measuring and Regulating Equipment | 14,366,390 | 8,493,475 |
| 371 | Other Equipment | 0 | 0 |
| | TOTAL TRANSMISSION PLANT | 210,920,383 | 90,244,836 |
| 374.1 | Land | 102,187 | 0 |
| 374.2 | Land Rights | 7,707,035 | 4,472,590 |
| 375 | Structures and Improvements | 43,447 | 61,253 |
| 376 | Mains | 461,588,156 | 242,523,609 |
| 378 | Measuring & Regulating Station Equipment | 8,028,089 | 5,195,601 |
| 380 | Distribution Services | 220,019,181 | 228,484,290 |
| 381 | Meters and Regulators | 66,536,984 | 30,414,752 |
| 382 | Meter and Regulator Installations | 55,902,125 | 21,999,829 |
| 385 | Ind. Measuring & Regulating Station Equipment | 1,516,811 | 651,573 |
| 386 | Other Property On Customers' Premises | 0 | 0 |
| 387 | Other Equipment | 4,446,936 | 3,709,510 |
| | TOTAL DISTRIBUTION PLANT | 825,890,951 | 537,513,007 |

| No. | Account | Original Cost | Reserve for Depreciation and Amortization |
|---|---|---|---|
| 392.1 | Transportation Equipment - Autos | $ 0 | $ 25,503 |
| 392.2 | Transportation Equipment - Trailers | 76,210 | 76,210 |
| 394.1 | Portable Tools | 5,803,445 | 1,569,074 |
| 394.2 | Shop Equipment | 84,597 | (8,246) |
| 395 | Laboratory Equipment | 363,609 | (192,881) |
| 396 | Power Operated Equipment | 246,939 | 23,284 |
| 397 | Communication Equipment | 3,247,090 | 1,440,271 |
| 398 | Miscellaneous Equipment | 188,371 | 23,359 |
| | TOTAL GENERAL PLANT | 10,010,261 | 2,956,573 |
| 101 | TOTAL GAS PLANT | 1,049,989,735 | 633,853,670 |
| | **COMMON PLANT** | | |
| 303 | Miscellaneous Intangible Plant | 163,191,341 | 113,316,416 |
| 350.1 | Land | 0 | 0 |
| 360.1 | Land | 0 | 0 |
| 389.1 | Land | 4,980,210 | 0 |
| 389.2 | Land Rights | 1,982,377 | 27,275 |
| 390 | Structures and Improvements | 116,730,309 | 40,992,319 |
| 391.1 | Office Furniture and Equipment - Other | 21,737,796 | 8,609,813 |
| 391.2 | Office Furniture and Equipment - Computer Equipm | 51,839,761 | 18,200,619 |
| 392.1 | Transportation Equipment - Autos | 33,942 | (338,930) |
| 392.2 | Transportation Equipment - Trailers | 41,567 | (104,129) |
| 393 | Stores Equipment | 150,312 | (214,858) |
| 394.1 | Portable Tools | 67,023 | (17,505) |
| 394.2 | Shop Equipment | 319,947 | 121,952 |
| 394.3 | Garage Equipment | 2,552,772 | 346,097 |
| 395 | Laboratory Equipment | 2,105,877 | 861,562 |
| 396 | Power Operated Equipment | 0 | (192,979) |
| 397 | Communication Equipment | 84,177,193 | 46,871,383 |
| 398 | Miscellaneous Equipment | 3,057,424 | 744,192 |
| 118.1 | TOTAL COMMON PLANT | 452,967,850 | 229,223,229 |
| | TOTAL ELECTRIC PLANT | 5,777,944,018 | 3,113,160,146 |
| | TOTAL GAS PLANT | 1,049,989,735 | 633,853,670 |
| | TOTAL COMMON PLANT | 452,967,850 | 229,223,229 |
| 101 & 118.1 | TOTAL | 7,280,901,604 | 3,976,237,044 |
| 101 | PLANT IN SERV-SONGS FULLY RECOVERED | $ (1,167,689,397) | $ (1,167,689,397) |

| No. | Account | Original Cost | Reserve for Depreciation and Amortization |
|---|---|---|---|
| 102 | Plant Purchased or Sold | | |
| | Electric | $ 0 | $ 0 |
| | Gas | 0 | 0 |
| | TOTAL PLANT PURCHASED OR SOLD | 0 | 0 |
| 105 | Plant Held for Future Use | | |
| | Electric | 37,013 | 0 |
| | Gas | 0 | 0 |
| | TOTAL PLANT HELD FOR FUTURE USE | 37,013 | 0 |
| 107 | Construction Work in Progress | | |
| | Electric | 510,492,308 | |
| | Gas | 3,353,607 | |
| | Common | 5,221,146 | |
| | TOTAL CONSTRUCTION WORK IN PROGRESS | 519,067,061 | 0 |
| 108.5 | Accumulated Nuclear Decommissioning | | |
| | Electric | 0 | 533,067,164 |
| | TOTAL ACCUMULATED NUCLEAR DECOMMISSIONING | 0 | 533,067,164 |
| 111.3 | Capitalized Leases | | |
| | Electric | 0 | 0 |
| | Gas | 0 | 0 |
| | Common | 0 | 0 |
| | TOTAL CAPITALIZED LEASES | 0 | 0 |
| 114 | ELECTRIC PLANT ACQUISITION ADJUSTMENT | 0 | 0 |
| 120 | NUCLEAR FUEL FABRICATION | 42,488,366 | 23,910,279 |
| 143 | FAS 143 ASSETS - Legal Obligation | 71,027,918 | (494,403,227) |
| 143 | FAS 143 ASSETS - Non-legal Obligation | 0 | (952,781,000) |
| | TOTAL FAS 143 | 71,027,918 | (1,447,184,227) |
| | UTILITY PLANT TOTAL | $ 6,745,832,565 | $ 1,918,340,864 |

Book cost is calculated by taking Original Cost less Reserve for Depreciation and Amortization.

| | | | | |
|---|---|---|---|---|
| NINE MONTHS ENDED SEPTEMBER 30, 2005 | | | | |
| | | | | |
| SEPTEMBER 30, 2005 | | | | |
| | | | | |
| AS OF SEPTEMBER 30, 2005 | | | | |

# ATTACHMENT B

**SAN DIEGO GAS & ELECTRIC COMPANY**
**BALANCE SHEET**
**ASSETS AND OTHER DEBITS**
**SEPTEMBER 30, 2005**

| | **1. UTILITY PLANT** | 2005 |
|---|---|---|
| 101 | UTILITY PLANT IN SERVICE | $6,898,961,671 |
| 102 | UTILITY PLANT PURCHASED OR SOLD | - |
| 105 | PLANT HELD FOR FUTURE USE | 37,013 |
| 106 | COMPLETED CONSTRUCTION NOT CLASSIFIED | - |
| 107 | CONSTRUCTION WORK IN PROGRESS | 112,566,173 |
| 108 | ACCUMULATED PROVISION FOR DEPRECIATION OF UTILITY PLANT | (3,732,130,393) |
| 111 | ACCUMULATED PROVISION FOR AMORTIZATION OF UTILITY PLANT | (166,891,052) |
| 118 | OTHER UTILITY PLANT | 451,040,471 |
| 119 | ACCUMULATED PROVISION FOR DEPRECIATION AND AMORTIZATION OF OTHER UTILITY PLANT | (115,879,537) |
| 120 | NUCLEAR FUEL - NET | 27,451,203 |
| | TOTAL NET UTILITY PLANT | 3,475,155,549 |

| | **2. OTHER PROPERTY AND INVESTMENTS** | |
|---|---|---|
| 121 | NONUTILITY PROPERTY | 14,532,030 |
| 122 | ACCUMULATED PROVISION FOR DEPRECIATION AND | - |
| | AMORTIZATION OF NONUTILITY PROPERTY | (1,499,100) |
| 123 | INVESTMENTS IN SUBSIDIARY COMPANIES | 3,290,000 |
| 124 | OTHER INVESTMENTS | - |
| 125 | SINKING FUNDS | - |
| 128 | OTHER SPECIAL FUNDS | 630,910,478 |
| | TOTAL OTHER PROPERTY AND INVESTMENTS | 647,233,408 |

**SAN DIEGO GAS & ELECTRIC COMPANY**
**BALANCE SHEET**
**ASSETS AND OTHER DEBITS**
**SEPTEMBER 30, 2005**

## 3. CURRENT AND ACCRUED ASSETS

| | | 2005 |
|---|---|---|
| 131 | CASH | 11,111,756 |
| 132 | INTEREST SPECIAL DEPOSITS | - |
| 134 | OTHER SPECIAL DEPOSITS | - |
| 135 | WORKING FUNDS | 83,747 |
| 136 | TEMPORARY CASH INVESTMENTS | 41,058,173 |
| 141 | NOTES RECEIVABLE | - |
| 142 | CUSTOMER ACCOUNTS RECEIVABLE | 135,221,963 |
| 143 | OTHER ACCOUNTS RECEIVABLE | 70,984,745 |
| 144 | ACCUMULATED PROVISION FOR UNCOLLECTIBLE ACCOUNTS | (2,132,477) |
| 145 | NOTES RECEIVABLE FROM ASSOCIATED COMPANIES | 47,032,686 |
| 146 | ACCOUNTS RECEIVABLE FROM ASSOCIATED COMPANIES | 42,496,991 |
| 151 | FUEL STOCK | - |
| 152 | FUEL STOCK EXPENSE UNDISTRIBUTED | - |
| 154 | PLANT MATERIALS AND OPERATING SUPPLIES | 47,129,473 |
| 156 | OTHER MATERIALS AND SUPPLIES | (3,014) |
| 163 | STORES EXPENSE UNDISTRIBUTED | - |
| 164 | GAS STORED | 35,667,426 |
| 165 | PREPAYMENTS | 13,238,205 |
| 171 | INTEREST AND DIVIDENDS RECEIVABLE | 16,472,775 |
| 173 | ACCRUED UTILITY REVENUES | 47,687,000 |
| 174 | MISCELLANEOUS CURRENT AND ACCRUED ASSETS | 22,590,382 |
| 175 | DERIVATIVE INSTRUMENT ASSETS | 22,891,609 |
| | TOTAL CURRENT AND ACCRUED ASSETS | 551,531,440 |

## 4. DEFERRED DEBITS

| | | |
|---|---|---|
| 181 | UNAMORTIZED DEBT EXPENSE | 14,436,235 |
| 182 | UNRECOVERED PLANT AND OTHER REGULATORY ASSETS | 1,416,076,360 |
| 183 | PRELIMINARY SURVEY & INVESTIGATION CHARGES | 10,449,538 |
| 184 | CLEARING ACCOUNTS | (332,913) |
| 185 | TEMPORARY FACILITIES | - |
| 186 | MISCELLANEOUS DEFERRED DEBITS | 416,600,362 |
| 188 | RESEARCH AND DEVELOPMENT | - |
| 189 | UNAMORTIZED LOSS ON REACQUIRED DEBT | 42,918,340 |
| 190 | ACCUMULATED DEFERRED INCOME TAXES | 80,716,467 |
| | TOTAL DEFERRED DEBITS | 1,980,864,389 |
| | TOTAL ASSETS AND OTHER DEBITS | 6,654,784,786 |

## SAN DIEGO GAS & ELECTRIC COMPANY
## BALANCE SHEET
## LIABILITIES AND OTHER CREDITS
## SEPTEMBER 30, 2005

### 5. PROPRIETARY CAPITAL

| | | 2005 |
|---|---|---|
| 201 | COMMON STOCK ISSUED | $291,458,395 |
| 204 | PREFERRED STOCK ISSUED | 78,475,400 |
| 207 | PREMIUM ON CAPITAL STOCK | 592,222,753 |
| 210 | GAIN ON RETIRED CAPITAL STOCK | - |
| 211 | MISCELLANEOUS PAID-IN CAPITAL | 79,618,042 |
| 214 | CAPITAL STOCK EXPENSE | (25,990,045) |
| 216 | UNAPPROPRIATED RETAINED EARNINGS | 488,333,865 |
| 219 | ACCUMULATED OTHER COMPREHENSIVE INCOME | (13,028,510) |
| | TOTAL PROPRIETARY CAPITAL | 1,491,089,900 |

### 6. LONG-TERM DEBT

| | | |
|---|---|---|
| 221 | BONDS | 886,905,000 |
| 223 | ADVANCES FROM ASSOCIATED COMPANIES | 76,605,965 |
| 224 | OTHER LONG-TERM DEBT | 272,470,000 |
| 225 | UNAMORTIZED PREMIUM ON LONG-TERM DEBT | - |
| 226 | UNAMORTIZED DISCOUNT ON LONG-TERM DEBT | (791,230) |
| | TOTAL LONG-TERM DEBT | 1,235,189,735 |

### 7. OTHER NONCURRENT LIABILITIES

| | | |
|---|---|---|
| 227 | OBLIGATIONS UNDER CAPITAL LEASES - NONCURRENT | - |
| 228.2 | ACCUMULATED PROVISION FOR INJURIES AND DAMAGES | 25,735,943 |
| 228.3 | ACCUMULATED PROVISION FOR PENSIONS AND BENEFITS | 1,861,291 |
| 228.4 | ACCUMULATED MISCELLANEOUS OPERATING PROVISIONS | (5,572) |
| 230 | ASSET RETIREMENT OBLIGATIONS | 344,987,808 |
| | TOTAL OTHER NONCURRENT LIABILITIES | 372,579,470 |

## SAN DIEGO GAS & ELECTRIC COMPANY
## BALANCE SHEET
## LIABILITIES AND OTHER CREDITS
## SEPTEMBER 30, 2005

### 8. CURRENT AND ACCRUED LIABILITES

| | | 2005 |
|---|---|---|
| 232 | ACCOUNTS PAYABLE | 197,049,570 |
| 233 | NOTES PAYABLE TO ASSOCIATED COMPANIES | 65,800,000 |
| 234 | ACCOUNTS PAYABLE TO ASSOCIATED COMPANIES | 415,252,858 |
| 235 | CUSTOMER DEPOSITS | 50,224,472 |
| 236 | TAXES ACCRUED | 43,422,172 |
| 237 | INTEREST ACCRUED | 15,271,543 |
| 238 | DIVIDENDS DECLARED | 1,204,917 |
| 241 | TAX COLLECTIONS PAYABLE | 1,574,626 |
| 242 | MISCELLANEOUS CURRENT AND ACCRUED LIABILITIES | 137,216,533 |
| 243 | OBLIGATIONS UNDER CAPITAL LEASES - CURRENT | - |
| 244 | DERIVATIVE INSTRUMENT LIABILITIES | 461,910,142 |
| 245 | DERIVATIVE INSTRUMENT LIABILITIES - HEDGES | - |
| | TOTAL CURRENT AND ACCRUED LIABILITIES | 1,388,926,833 |

### 9. DEFERRED CREDITS

| | | |
|---|---|---|
| 252 | CUSTOMER ADVANCES FOR CONSTRUCTION | 27,068,038 |
| 253 | OTHER DEFERRED CREDITS | 367,787,171 |
| 254 | OTHER REGULATORY LIABILITIES | 1,109,003,434 |
| 255 | ACCUMULATED DEFERRED INVESTMENT TAX CREDITS | 34,996,413 |
| 257 | UNAMORTIZED GAIN ON REACQUIRED DEBT | - |
| 281 | ACCUMULATED DEFERRED INCOME TAXES - ACCELERATED | 5,201,256 |
| 282 | ACCUMULATED DEFERRED INCOME TAXES - PROPERTY | 538,201,005 |
| 283 | ACCUMULATED DEFERRED INCOME TAXES - OTHER | 84,741,531 |
| | TOTAL DEFERRED CREDITS | 2,166,998,848 |
| | TOTAL LIABILITIES AND OTHER CREDITS | $6,654,784,786 |

## SAN DIEGO GAS & ELECTRIC COMPANY
## STATEMENT OF INCOME AND RETAINED EARNINGS
## NINE MONTHS ENDED SEPTEMBER 30, 2005

### 1. UTILITY OPERATING INCOME

| | | | |
|---|---|---|---|
| 400 | OPERATING REVENUES | | $1,706,676,360 |
| 401 | OPERATING EXPENSES | $1,125,648,283 | |
| 402 | MAINTENANCE EXPENSES | 86,182,025 | |
| 403-7 | DEPRECIATION AND AMORTIZATION EXPENSES | 196,650,003 | |
| 408.1 | TAXES OTHER THAN INCOME TAXES | 37,276,621 | |
| 409.1 | INCOME TAXES | (4,018,801) | |
| 410.1 | PROVISION FOR DEFERRED INCOME TAXES | 235,916,579 | |
| 411.1 | PROVISION FOR DEFERRED INCOME TAXES - CREDIT | (191,456,835) | |
| 411.4 | INVESTMENT TAX CREDIT ADJUSTMENTS | (1,886,096) | |
| 411.6 | GAIN FROM DISPOSITION OF UTILITY PLANT | - | |
| | TOTAL OPERATING REVENUE DEDUCTIONS | | 1,484,311,779 |
| | NET OPERATING INCOME | | 222,364,581 |

### 2. OTHER INCOME AND DEDUCTIONS

| | | | |
|---|---|---|---|
| 415 | REVENUE FROM MERCHANDISING, JOBBING AND CONTRACT WORK | - | |
| 417.1 | EXPENSES OF NONUTILITY OPERATIONS | (518,974) | |
| 418 | NONOPERATING RENTAL INCOME | 837,441 | |
| 418.1 | EQUITY IN EARNINGS OF SUBSIDIARIES | - | |
| 419 | INTEREST AND DIVIDEND INCOME | 23,272,165 | |
| 419.1 | ALLOWANCE FOR OTHER FUNDS USED DURING CONSTRUCTION | 5,849,429 | |
| 421 | MISCELLANEOUS NONOPERATING INCOME | 1,329,787 | |
| 421.1 | GAIN ON DISPOSITION OF PROPERTY | 460,120 | |
| | TOTAL OTHER INCOME | 31,229,968 | |
| 426 | MISCELLANEOUS OTHER INCOME DEDUCTIONS | (817,506) | |
| 408.2 | TAXES OTHER THAN INCOME TAXES | 288,174 | |
| 409.2 | INCOME TAXES | (675,834) | |
| 410.2 | PROVISION FOR DEFERRED INCOME TAXES | 1,236,839 | |
| 411.2 | PROVISION FOR DEFERRED INCOME TAXES - CREDIT | (322,590) | |
| | TOTAL TAXES ON OTHER INCOME AND DEDUCTIONS | 526,589 | |
| | TOTAL OTHER INCOME AND DEDUCTIONS | | 31,520,885 |
| | INCOME BEFORE INTEREST CHARGES | | 253,885,466 |
| | NET INTEREST CHARGES* | | 59,641,891 |
| | NET INCOME | | $194,243,575 |

**NET OF ALLOWANCE FOR BORROWED FUNDS USED DURING CONSTRUCTION, (2,325,642)*

12/20/2005 5:24 PM

**SAN DIEGO GAS & ELECTRIC COMPANY**
**STATEMENT OF INCOME AND RETAINED EARNINGS**
**NINE MONTHS ENDED SEPTEMBER 30, 2005**

## 3. RETAINED EARNINGS

| | |
|---|---|
| RETAINED EARNINGS AT BEGINNING OF PERIOD, AS PREVIOUSLY REPORTED | $372,705,041 |
| NET INCOME (FROM PRECEDING PAGE) | 194,243,575 |
| DIVIDEND TO PARENT COMPANY | (75,000,000) |
| DIVIDENDS DECLARED - PREFERRED STOCK | (3,614,751) |
| OTHER RETAINED EARNINGS ADJUSTMENTS | 0 |
| RETAINED EARNINGS AT END OF PERIOD | $488,333,865 |

**SAN DIEGO GAS & ELECTRIC COMPANY**
**FINANCIAL STATEMENT**
**SEPTEMBER 30, 2005**

(a) Amounts and Kinds of Stock Authorized:

| | | |
|---|---|---|
| Preferred Stock | 1,375,000 shares | Par Value $27,500,000 |
| Preferred Stock | 10,000,000 shares | Without Par Value |
| Preferred Stock | Amount of shares not specified | $80,000,000 |
| Common Stock | 255,000,000 shares | Without Par Value |

Amounts and Kinds of Stock Outstanding:

| | | |
|---|---|---|
| **PREFERRED STOCK** | | |
| 5.0% | 375,000 shares | $7,500,000 |
| 4.50% | 300,000 shares | 6,000,000 |
| 4.40% | 325,000 shares | 6,500,000 |
| 4.60% | 373,770 shares | 7,475,400 |
| $1.7625 | 850,000 shares | 18,750,000 |
| $1.70 | 1,400,000 shares | 35,000,000 |
| $1.82 | 640,000 shares | 16,000,000 |
| **COMMON STOCK** | 116,583,358 shares | 291,458,395 |

(b) Terms of Preferred Stock:
Full information as to this item is given in connection with Application Nos. 93-09-069 and 04-01-009, to which references are hereby made.

(c) Brief Description of Mortgage:
Full information as to this item is given in Application Nos. 93-09-069, 96-05-066, 00-01-016 and 04-01-009 to which references are hereby made.

(d) Number and Amount of Bonds Authorized and Issued:

| First Mortgage Bonds: | Nominal Date of Issue | Par Value Authorized and Issued | Par Value Outstanding | Interest Paid in 2004 |
|---|---|---|---|---|
| 6.8% Series KK, due 2015 | 12-01-91 | 14,400,000 | 14,400,000 | 979,200 |
| Var% Series NN, due 2018 & 2019 | 09-01-92 | 118,615,000 | 0 | 6,445,565 |
| Var% Series OO, due 2027 | 12-01-92 | 250,000,000 | 150,000,000 | 12,705,737 |
| 5.9% Series PP, due 2018 | 04-29-93 | 70,795,000 | 68,295,000 | 4,029,405 |
| 5.85% Series RR, due 2021 | 06-29-93 | 60,000,000 | 60,000,000 | 3,510,000 |
| 5.9% Series SS, due 2018 | 07-29-93 | 92,945,000 | 92,945,000 | 5,483,755 |
| Var% Series TT, due 2020 | 06-06-95 | 57,650,000 | 0 | 338,451 |
| 2.539% Series VV, due 2034 | 06-17-04 | 43,615,000 | 43,615,000 | 0 |
| 2.539% Series WW, due 2034 | 06-17-04 | 40,000,000 | 40,000,000 | 0 |
| 2.516% Series XX, due 2034 | 06-17-04 | 35,000,000 | 35,000,000 | 0 |
| 2.832% Series YY, due 2034 | 06-17-04 | 24,000,000 | 24,000,000 | 0 |
| 2.832% Series ZZ, due 2034 | 06-17-04 | 33,650,000 | 33,650,000 | 0 |
| 2.8275% Series AAA, due 2039 | 06-17-04 | 75,000,000 | 75,000,000 | 0 |
| 5.35% Series BBB, due 2035 | 05-19-05 | 250,000,000 | 250,000,000 | 0 |
| Unsecured Bonds: | | | | |
| 5.9% CPCFA96A, due 2014 | 06-01-96 | 129,820,000 | 129,820,000 | 7,659,380 |
| Var% CV96A, due 2021 | 08-02-96 | 38,900,000 | 38,900,000 | 1,249,650 |
| Var% CV96B, due 2021 | 11-21-96 | 60,000,000 | 60,000,000 | 1,966,072 |
| Var% CV97A, due 2023 | 10-31-97 | 25,000,000 | 25,000,000 | 1,456,250 |

**SAN DIEGO GAS & ELECTRIC COMPANY**
**FINANCIAL STATEMENT**
**SEPTEMBER 30, 2005**

| Other Indebtedness: | Date of Issue | Date of Maturity | Interest Rate | Outstanding | Interest Paid 2004 |
|---|---|---|---|---|---|
| Commercial Paper & ST Bank Loans | Various | Various | Various | $0 | $0 |

Amounts and Rates of Dividends Declared:
The amounts and rates of dividends during the past five fiscal years are as follows:

| Preferred Stock | Shares Outstanding 12-31-04 | Dividends Declared 2000 | 2001 | 2002 | 2003 | 2004 | |
|---|---|---|---|---|---|---|---|
| 5.0% | 375,000 | $375,000 | $375,000 | $375,000 | $375,000 | $375,000 | |
| 4.50% | 300,000 | 270,000 | 270,000 | 270,000 | 270,000 | 270,000 | |
| 4.40% | 325,000 | 286,000 | 286,000 | 286,000 | 286,000 | 286,000 | |
| 4.60% | 373,770 | 343,868 | 343,868 | 343,868 | 343,868 | 343,868 | |
| $ 1.7625 | 850,000 | 1,762,500 | 1,762,500 | 1,762,500 | 1,674,375 | 1,498,125 | |
| $ 1.70 | 1,400,000 | 2,380,000 | 2,380,000 | 2,380,000 | 2,380,000 | 2,380,000 | |
| $ 1.82 | 640,000 | 1,164,800 | 1,164,800 | 1,164,800 | 1,164,800 | 1,164,800 | |
| | 4,263,770 | $6,582,168 | $6,582,168 | $6,582,168 | $6,494,043 | $6,317,793 | [2] |
| Common Stock Amount | | $400,000,000 | $150,000,000 | $200,000,000 | $200,000,000 | $205,000,000 | [1] |

A balance sheet and a statement of income and retained earnings of Applicant for the nine months ended September 30, 2005, are attached hereto.

[1] San Diego Gas & Electric Company dividend to parent.
[2] Includes $1,498,125 of interest expense related to redeemable preferred stock.

# ATTACHMENT C

**San Diego Gas & Electric Company**

**Total Regulatory Capitalization**

**(Dollars In Thousands)**

| | | 09/30/2005 recorded |
|---|---|---|
| **First Mortgage Bonds** | | |
| 6.80% Series KK | June 1, 2015 | 14,400 |
| 7.00% Series OO-2 | December 1, 2027 | 60,000 |
| 5.25% Series OO-3 | December 1, 2027 | 45,000 |
| 7.00% Series OO-4 | December 1, 2027 | 45,000 |
| 5.90% Series PP | June 1, 2018 | 68,295 |
| 5.85% Series RR | June 1, 2021 | 60,000 |
| 5.90% Series SS | September 1, 2018 | 92,945 |
| 2.539% Series VV | February 15, 2034 | 43,615 |
| 2.539% Series WW | February 15, 2034 | 40,000 |
| 2.516% Series XX | February 15, 2034 | 35,000 |
| 2.832% Series YY | January 1, 2034 | 24,000 |
| 2.832% Series ZZ | January 1, 2034 | 33,650 |
| 2.875% Series AAA | May 1, 2039 | 75,000 |
| 5.35% Series BBB | May 15, 2035 | 250,000 |
| **Total First Mortgage Bonds** | | 886,905 |
| **Unsecured long-term debt** | | |
| 5.90% Series CPCFA96A | June 1, 2014 | 129,820 |
| 5.30% Series CV96A | July 1, 2021 | 38,900 |
| 5.50% Series CV96B | December 1, 2021 | 60,000 |
| 4.90% Series CV97A | March 1, 2023 | 25,000 |
| **Total Unsecured long-term debt** | | 253,720 |
| **Unamortized discount less premium** | | (791) |
| **Unamortized issue expense** | | (18,442) |
| **Unamortized loss on reacquired debt (1)** | | (24,425) |
| **Total debt** | | 1,096,967 |
| **Equity capital** | | |
| Common stock equity | | 1,412,615 |
| Preferred stock equity | | 97,225 |
| **Total equity** | | 1,509,840 |
| **Total regulatory capitalization** | | 2,606,807 |

(1) Net of tax.

# ATTACHMENT D

**BEFORE THE PUBLIC UTILITIES COMMISSION**
**OF THE STATE OF CALIFORNIA**

| | | |
|---|---|---|
| Application of SAN DIEGO GAS & ELECTRIC COMPANY for Authorization to: (1) Obtain Long-Term Debt Capital Not to Exceed the Equivalent of U.S. $800,000,000; (2) Guarantee the Obligations of Others with Respect to the Issuance of Certain Tax-exempt Securities; (3) Include Certain Features in Debt Securities or Enter into Certain Derivative Transactions to Lower Cost of Money; (4) Obtain an Exemption From the Competitive Bidding Rule; (5) Enter Into Interest Rate Swaps, Caps, Collars and/or Currency Exchange Contracts; (6) Issue and Sell Not More than U.S. $200,000,000 Par or Stated Value of Preferred or Preference Stock; and (7) Take All Other Necessary, Related Actions.<br><br>(U 904-M) | ) | Application No.____________ |

# DIRECT TESTIMONY
# OF
# JACK S. LEWIS
# SAN DIEGO GAS & ELECTRIC COMPANY

**February 14, 2006**

# DIRECT TESTIMONY OF JACK S. LEWIS

**By whom are you employed and what is your current position?**

I am employed by SDG&E as a Principal Financial Analyst.

**What are your principal responsibilities?**

My principal responsibilities include business planning, forecasting and financial analysis.

**Please describe your educational background and professional experience.**

I possess a Bachelor of Science degree in Business Administration from San Diego State University and a Master of Science from San Diego State University. I am a Certified Public Accountant and a Certified Cash Manager. I worked for the public accounting firm of Coopers & Lybrand from 1986 until 1988 where I acquired my CPA license. I have held a variety of financial positions in Sempra Energy & SDG&E. I joined SDG&E's financial-services department in 1991; since the formation of Sempra Energy, I have served in the Sempra Energy Treasury and in the Sempra Energy Financial areas. I have served in the SDG&E Business Planning area since 2002. I volunteer as the Vice-Chairman of North Island Credit Union and have served as the credit union's Board Financial Officer.

**Have you previously testified before the California Public Utilities Commission?**

I am sponsoring the testimony supporting SDG&E's A.05-12-026, filed on December 22, 2005, which requests additional short-term financing authority for SDG&E. I have not testified before the CPUC in any other proceeding.

**What is the purpose of your testimony?**

The purpose of my testimony is to sponsor Schedules I through XI, which are attached to this testimony. Mr. Gary Hayes is also sponsoring testimony in support of this application. His testimony addresses the features of the long-term financing securities that SDG&E seeks to authority to issue in the instant application.

**Please describe Schedules I through XI.**

Schedules I through XI provide various financial data for use by the Commission in assessing San Diego Gas & Electric Company's (SDG&E's) instant long-term financing application. The format and content of the schedules are similar to those that accompanied SDG&E's A.05-12-026, and contain the same kinds of information as has been included in previous SDG&E long-term financing applications. In this application SDG&E has increased Preferred Stock issuances over 2006 - 2008 by $150 million. In SDG&E's A.05-12-026 the mid-point of the estimated capital expenditure ranges were used to project SDG&E's financing needs. The Preferred Stock issuance in this application provides the additional financing flexibility to fund about 50% of the capital expenditures noted in Schedule I that are above the mid-point of the ranges indicated.

Schedule I is a three-year forecast of the Company's capital expenditures.

Schedules II and IIIa summarize SDG&E's 2006 - 2008 cash flows on a monthly and annual basis, respectively.

Schedule IIIc presents the ratio of capital expenditures to internally-generated funds over the three-year planning horizon.

Schedule IV sets out SDG&E's unreimbursed capital construction position as of September 30, 2005.

Schedule V delineates SDG&E's estimated 2005 California and non-California revenues.

Schedules VI and VII provide details about SDG&E's 2005 and 2006 long-term financing activities.

Schedule VIII calculates SDG&E's §823(c) short-term borrowing allowance.

Schedule IX presents in pro-forma fashion how SDG&E's maximum requested long-term financing would affect the Company's capital structure. Schedule IX assumes that the entire amount of new requested debt and preferred stock in this application would have been issued simultaneously on 9/30/05. Consequently, it does not reflect any offsetting impacts resulting from higher equity stemming from net income from ongoing operations that will occur over the 4th quarter 2005 through the 2006 - 2008 application period. Therefore it is simply theoretical in nature and not a projection of 2006 - 2008 expectations.

Schedule X provides a detailed calculation of the application fee required by Public Utilities Code §1904(b), and Schedule XI details SDG&E's long term debt portfolio at

December 31, 2005.

**Does this complete your testimony?**

Yes.

**Schedule I**
**San Diego Gas & Electric Company**
**Construction Budgeted**
($ millions)

| | 2006 | 2007 | 2008 |
|---|---|---|---|
| Gas T&D, Elect Dist. And Generation | 750 - 850 | 400 - 500 | 450 - 550 |
| Electric Transmission | 275 - 325 | 200 - 250 | 475 - 525 |
| Common/Other | 25 - 75 | 25 - 75 | 25 - 75 |
| Total cash required for construction expenditures | 1,050 - 1,250 | 625 - 825 | 950 - 1,150 |

**Schedule II**
**San Diego Gas & Electric Company**
**2006 Monthly Cash Flow Projections ($ millions)**

| | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Cash (short-term debt) beginning balance | 220 | 285 | 115 | 20 | 270 | 250 | 175 | 155 | 130 | 55 | 30 | 5 |
| Change in Free Cash Flow[1] | 65 | (420) | (95) | 50 | (20) | (75) | (20) | (25) | (75) | (25) | (25) | (100) |
| Preferred stock | - | - | - | - | - | - | - | - | - | - | - | 100 |
| Common stock | - | - | - | - | - | - | - | - | - | - | - | - |
| Long term debt | - | 250 | - | 200 | - | - | - | - | - | - | - | - |
| Cash (short-term debt) beginning balance | 285 | 115 | 20 | 270 | 250 | 175 | 155 | 130 | 55 | 30 | 5 | 5 |

[1]Projections based on current estimates and are subject to change.

**Schedule II**
**San Diego Gas & Electric Company**
**2007 Monthly Cash Flow Projections ($ millions)**

| | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Cash (short-term debt) beginning balance | 5 | 15 | 40 | 25 | 10 | (10) | 185 | 190 | 150 | 115 | 90 | 90 |
| Change in Free Cash Flow[1] | 10 | 25 | (15) | (15) | (20) | (55) | 5 | (40) | (35) | (25) | (50) | (75) |
| Preferred stock | - | - | - | - | - | - | - | - | - | - | 50 | - |
| Common stock | - | - | - | - | - | - | - | - | - | - | - | - |
| Long term debt | - | - | - | - | - | 250 | - | - | - | - | - | - |
| Cash (short-term debt) beginning balance | 15 | 40 | 25 | 10 | (10) | 185 | 190 | 150 | 115 | 90 | 90 | 15 |

[1]Projections based on current estimates and are subject to change.

**Schedule II**
**San Diego Gas & Electric Company**
**2008 Monthly Cash Flow Projections ($ millions)**

| | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Cash (short-term debt) beginning balance | 15 | (15) | (5) | (20) | 355 | 305 | 230 | 200 | 135 | 70 | (25) | 55 |
| Change in Free Cash Flow[1] | (30) | 10 | (15) | (25) | (50) | (75) | (30) | (65) | (65) | (95) | (20) | (40) |
| Preferred stock | - | - | - | - | - | - | - | - | - | - | 100 | - |
| Common stock | - | - | - | - | - | - | - | - | - | - | - | - |
| Long term debt | - | - | - | 400 | - | - | - | - | - | - | - | - |
| Cash (short-term debt) beginning balance | (15) | (5) | (20) | 355 | 305 | 230 | 200 | 135 | 70 | (25) | 55 | 15 |

[1]Projections based on current estimates and are subject to change.

## Schedule IIIa
## San Diego Gas & Electric Company
## Statement of Cash Requirements for the Years 2006, 2007, and 2008
($ millions)

| | 2006 | 2007 | 2008 |
|---|---|---|---|
| Funds for construction (capital expenditures) | (1,150) | (775) | (1,150) |
| Maturing long-term debt[1] | (66) | (66) | - |
| Beginning of year cash (short-term debt) balance | 220 | 5 | 15 |
| Subtotal | (996) | (836) | (1,135) |
| Less: Estimated cash from internal sources | 450 | 550 | 650 |
| External funds required | (546) | (286) | (485) |
| External funds provided: | | | |
| Common stock | - | - | - |
| Preferred stock[2] | 100 | 50 | 100 |
| Long-term debt[2] | 450 | 250 | 400 |
| *End of year cash (short term debt) balance | 5 | 15 | 15 |

[1]See following page for detailed breakdown.

[2]Amount ultimately raised will be a function of the Company's access to long-term capital markets at the time funds are required.

* May not foot exactly due to rounding

**Schedule IIIa (continued)**
**San Diego Gas & Electric Company**
**Statement of Cash Requirements for the Years 2006, 2007, and 2008**
($ millions)

| | 2006 | 2007 | 2008 |
|---|---|---|---|
| Maturing long-term debt: | | | |
| Rate Reduction Bonds | (66) | (66) | - |
| Total | (66) | (66) | - |

**Schedule IIIc**
**San Diego Gas & Electric Company**
**Amount and Percentage of Internal Funds Provided**
($ millions)

| Year | Internal Sources | Internal Sources as % Construction Expenditures |
|---|---|---|
| 2006 | 450 | 39% |
| 2007 | 550 | 71% |
| 2008 | 650 | 57% |

**Schedule IV**
**San Diego Gas & Electric Company**
**Statement of Unreimbursed Construction**

| | | | |
|---|---|---|---|
| Net utility plant | | | $ 2,916,214,545 |
| Net proceeds from securities: | | | |
| Preferred stock | $ (97,225,400) | | |
| Common stock | (371,076,437) | | |
| Premium on capital stock | - | | |
| Long-term debt | (1,140,625,000) | | |
| Total net proceeds | | $ (1,608,926,837) | |
| Advances for construction | | (27,068,038) | |
| Total deductions | | | (1,635,994,875) |
| Unreimbursed construction as of September 30, 2005 | | | $ 1,280,219,670 |

**Schedule V**
**San Diego Gas & Electric Company**
**Fiscal Year 2005 Revenue Data**
($ millions)

| | |
|---|---|
| Company operating revenue | 2,500 |
| California operating revenue | 2,500 |
| California operating revenue % company | 100% |
| Company net income before preferred dividend requirements | 250 |
| Sales for resale | - |

Note: All figures above are reasonable estimates. Audited 2005 revenue and income numbers will not be available until late first quarter 2006.

## Schedule VI
## San Diego Gas & Electric Company
## 2005 Historical Financing Data

| Date | Transaction | Principal amount |
|---|---|---|
| May 19, 2005 | Issued first-mortgage bond Series BBB | $250 million |
| November 17, 2005 | Issued first-mortgage bond Series CCC | $250 million |
| December 1, 2005 | Remarketed Series CV92B and CV92D | $105 million |

**Schedule VII**
**San Diego Gas & Electric Company**
**2006 Projected Financing**

| Date | Transaction | Principal amount |
|---|---|---|
| First half of 2006 | New first-mortgage bonds | Up to $450 million[1,2] |
| Late 2006 | New preferred stock | Up to $100 million[2] |

[1]May involve two separate bond issues.

[2]Amount ultimately raised will be a function of the Company's access to long-term capital markets at the time funds are required.

**Schedule VIII**
**San Diego Gas & Electric Company**
**Short-Term Financing in Excess of CPUC Code §823 (c) Allowance**
($ thousands)

| | September 30, 2005 |
|---|---|
| Common stock issued | 371,076 |
| Preferred and preference stock | 97,225 |
| Long-term debt (excluding capital leases) | 1,140,625 |
| Total capitalization at September 30, 2005 | 1,608,926 |
| | |
| 5% allowed by CPUC Code §823 (c) | 80,446 |
| Maximum anticipated amount of short-term debt needed | 480,446 |
| Total excess financing authority requested in this application | 400,000 |
| Current excess financing authority granted under D.05-05-047 | 400,000 |
| Additional financing authority requested in this application | - |

**Schedule IX**
**San Diego Gas & Electric Company**
***Capital Ratios**
($ thousands)

| | 9/30/05 Actual | | Long-Term Debt Issued in Nov. 2005 | Pro-forma, showing the effect of requested authority | |
|---|---|---|---|---|---|
| | $ | % | $ | $ | % |
| **Long-term debt** | | | | | |
| Long-term debt, capitalized leases and other | 1,140,625 | | 250,000 | 1,390,625 | |
| *Additional long-term borrowing* | - | | | 800,000 | |
| Less: Unamortized expenses and discounts | (19,233) | | | (19,233) | |
| Total long-term debt | 1,121,392 | 42.6% | | 2,171,392 | 55.9% |
| **Short-term debt** | | | | | |
| Short-term borrowings under PUC Code §823(c) | - | | | - | |
| Current portion of long term debt | - | | | - | |
| Total short-term debt | - | 0.0% | | - | 0.0% |
| Total debt | 1,121,392 | 42.6% | | 2,171,392 | 55.9% |
| **Preferred stock** | | | | | |
| Current balance | 97,225 | | | 97,225 | |
| *Additional preferred and preference stock* | - | | | 200,000 | |
| Total preferred stock | 97,225 | 3.7% | | 297,225 | 7.7% |
| **Common equity** | | | | | |
| Common equity held by Sempra Corp. | 1,412,615 | 53.7% | | 1,412,615 | 36.4% |
| **Total capitalization** | 2,631,232 | 100.0% | | 3,881,232 | 100.0% |

* The ratios reflected here do not reflect SDG&E's expected case. The ratios here reflect a "what if" scenario indicating what the ratios would have looked like at 9/30/05 if all of the requested new authority in this application was issued on one day. It does not include additions to equity from ongoing operations prior to the new issuances

**Schedule X**
**San Diego Gas & Electric Company**
**Computation of Fee**

| Item | Amount | Rate | Fee |
|---|---|---|---|
| $800 million of long-term borrowing authority | $ 1,000,000 | $2 per thousand | $ 2,000 |
| | 9,000,000 | $1 per thousand | 9,000 |
| | 790,000,000 | $0.50 per thousand | 395,000 |
| | $ 800,000,000 | | $ 406,000 |
| $200 million of preferred stock issuance authority | $ 1,000,000 | $2 per thousand | $ 2,000 |
| | 9,000,000 | $1 per thousand | 9,000 |
| | 190,000,000 | $0.50 per thousand | 95,000 |
| | $ 200,000,000 | | $ 106,000 |
| Total fee required | | | $ 512,000 |

**Schedule XI**
**San Diego Gas & Electric Debt Outstanding**
**September 30, 2005**

| No. | Type[1] | Bond | Maturity | Principal ($ millions) |
|---|---|---|---|---|
| 1 | PCB | Series KK / CPCFA91A | 06/01/15 | 14.4 |
| 2 | IDB | Series PP / SD93A | 06/01/18 | 68.3 |
| 3 | IDB | Series SS / SD93C | 09/01/18 | 92.9 |
| 4 | PCB | Series RR / CPCFA93A | 06/01/21 | 60.0 |
| 5 | IDB | Series OO4 / CV92D | 12/01/27 | 45.0 |
| 6 | IDB | Series OO2 / CV92B | 12/01/27 | 60.0 |
| 7 | IDB | Series OO3 / CV92C | 12/01/27 | 45.0 |
| 8 | PCB | Series CPCFA96A | 06/01/14 | 129.8 |
| 9 | IDB | Series CV96A | 07/01/21 | 38.9 |
| 10 | IDB | Series CV96B | 12/01/21 | 60.0 |
| 11 | IDB | Series CV97A | 03/01/23 | 25.0 |
| 12 | IDB | Series VV/ CV04A | 02/15/34 | 43.6 |
| 13 | IDB | Series WW/ CV04B | 02/15/34 | 40.0 |
| 14 | IDB | Series XX/ CV04C | 02/15/34 | 35.0 |
| 15 | IDB | Series YY/ CV04D | 01/01/34 | 24.0 |
| 16 | IDB | Series ZZ/ CV04E | 01/01/34 | 33.6 |
| 17 | IDB | Series AAA/ CV04F | 05/01/39 | 75.0 |
| 18 | FMB | Series BBB | 05/15/35 | 250.0 |
| 19 | RRB | Class A-6 | 09/25/06 | 65.9 |
| 20 | RRB | Class A-7 | 12/26/07 | 83.5 |
| | | Total | | 1,289.9 |

On November 17, 2005, SDG&E issued the following:

| | | | | |
|---|---|---|---|---|
| 21 | FMB | Series CCC | 11/15/15 | 250.0 |

[1] "T" = Taxable, "IDB" = Industrial Development Bonds, "PCB" = Pollution Control Bonds, "RRB" = Rate Reduction Bonds.

# ATTACHMENT E

**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA**

| | |
|---|---|
| Application of SAN DIEGO GAS & ELECTRIC COMPANY for Authorization to: (1) Obtain Long-Term Debt Capital Not to Exceed the Equivalent of U.S. $800,000,000; (2) Guarantee the Obligations of Others with Respect to the Issuance of Certain Tax-exempt Securities; (3) Include Certain Features in Debt Securities or Enter into Certain Derivative Transactions to Lower Cost of Money; (4) Obtain an Exemption From the Competitive Bidding Rule; (5) Enter Into Interest Rate Swaps, Caps, Collars and/or Currency Exchange Contracts; (6) Issue and Sell Not More than U.S. $200,000,000 Par or Stated Value of Preferred or Preference Stock; and (7) Take All Other Necessary, Related Actions.<br><br>(U 904-M) | Application No.____________ |

# DIRECT TESTIMONY
# OF
# GARY H. HAYES
# SAN DIEGO GAS & ELECTRIC COMPANY

**February 14, 2006**

## DIRECT TESTIMONY OF GARY H. HAYES

**By whom are you employed and what is your current position?**

I am employed by Sempra Energy's treasury department as a Principal Financial Analyst.

**What are your principal responsibilities?**

My principal responsibilities include the analysis of financing and capital-structure issues as well as the execution of financial transactions.

**Please describe your educational background and professional experience.**

I possess a Bachelor of Science degree in Business and Accountancy from Wake Forest University and a Master of Business Administration degree from Dartmouth College. I have held a variety of financial positions in the defense, automotive, oil and banking industries. I joined SDG&E's financial-services department in 1995; since the formation of Sempra Energy in 1998, I have been employed in its business-planning and treasury departments.

**Have you previously testified before the California Public Utilities Commission?**

Yes, I have testified before the California Public Utilities Commission in several proceedings, including financing authority and cost of capital.

**What is the purpose of your testimony?**

The purpose of my testimony is to support features of the long-term financing securities for which SDG&E seeks authority in the instant application. These features are more fully described in the body of the instant application. Mr. Jack Lewis is also sponsoring testimony in this application, describing SDG&E capital spending plans and other schedules attached to his testimony.

**Please explain why it is reasonable for the Commission to authorize long-term financing securities with the features described in the body of the instant application.**

Judicious use of long-term securities with the features described in the body of the instant application will allow SDG&E to raise, in a variety of possible future financial environments, the capital necessary to serve its customers at the lowest cost.

**Does this complete your testimony?**

Yes.

**CERTIFICATE OF SERVICE**

I hereby certify that, pursuant to the Commission's Rules of Practice and Procedure, I have this day served a true and correct copy of **APPLICATION OF SAN DIEGO GAS & ELECTRIC COMPANY (U 904-M)** on the persons on the attached list, including the State of California, cities and counties in its service territory by placing copies in properly addressed and sealed envelopes and depositing such envelopes in the United States Mail with first-class postage prepaid.

In addition, I hereby certify that an electronic version of the **APPLICATION OF SAN DIEGO GAS & ELECTRIC COMPANY (U 904-M)** has been served by e-mail on all person who were served by SDG&E with its Advice Letter 1745-E and on parties in R.01-10-024.

Executed this 14th day of February, 2006 at San Diego, California.

Lisa Fucci-Ortiz

**Lisa Fucci-Ortiz**