



PG&E Corporation: Customer Focused, Value Driven

**Investor Conference
March 1, 2006
New York, NY**



Cautionary Statement Regarding Forward-Looking Information

This presentation contains forward-looking statements regarding management's guidance for PG&E Corporation's 2006 and 2007 earnings per share from operations, cash flows, capital expenditures, Pacific Gas and Electric Company's (Utility) rate base and rate base growth, anticipated share repurchases and equity issuances, anticipated costs and benefits from Transformation initiatives, anticipated electric resources, energy efficiency funding, forecasted electric and gas sales, and targeted average annual growth rate for earnings per share from operations, and cash flow and liquidity, over the 2006-2010 period. These statements are based on current expectations and various assumptions which management believes are reasonable, including that substantial capital investments are made in Utility business over the 2006-2010 period, that the Utility earns an authorized return on equity of 11.35%, and that share issuances in some years are offset by share repurchases in other years over the 2006-2010 period. These statements and assumptions are necessarily subject to various risks and uncertainties the realization or resolution of which are outside of management's control. Actual results may differ materially. Factors that could cause actual results to differ materially include:

- Unanticipated changes in operating expenses or capital expenditures, which may affect the Utility's ability to earn its authorized rate of return;
- How the Utility manages its responsibility to procure electric capacity and energy for its customers;
- The adequacy and price of natural gas supplies, the ability of the Utility to manage and respond to the volatility of the natural gas market for its customers;
- The operation of the Utility's Diablo Canyon nuclear power plant, which could cause the Utility to incur potentially significant environmental costs and capital expenditures, and the extent to which the Utility is able to timely increase its spent nuclear fuel storage capacity at Diablo Canyon by 2007;
- Whether the Utility is able to recognize the anticipated cost benefits and savings to result from its efforts to improve customer service through implementation of specific initiatives to streamline business processes and deploy new technology;
- The outcome of proceedings pending at the Federal Energy Regulatory Commission (FERC) and the California Public Utilities Commission (CPUC), including the CPUC's pending investigation into the Utility's billing and collection practices;
- How the CPUC administers the capital structure, stand-alone dividend, and first priority conditions of the CPUC's decisions permitting the establishment of holding companies for the California investor-owned electric utilities, and the outcome of the CPUC's new rulemaking proceeding concerning the relationship between the California investor-owned energy utilities and their holding companies and non-regulated affiliates;
- The impact of the recently adopted Energy Policy Act of 2005 and future legislative or regulatory actions or policies affecting the energy industry;
- The outcome of the litigation pending against the Utility in California state court involving allegations of injury allegedly caused by exposure to chromium at certain of the Utility's gas compressor stations and other pending litigation;
- Increased municipalization and other forms of bypass in the Utility's service territory; and
- Other factors discussed in PG&E Corporation's and Pacific Gas and Electric Company's SEC reports.



Objectives for Today's Discussion

- Update PG&E's long-term business prospects, opportunities, and risks, within the context of our long-term business priorities
- Provide an understanding of our transformation effort and its impact in defining the future of PG&E
- Articulate how PG&E's investment opportunities and customer-centric operational goals translate to shareholder value
- Communicate the commitment to deliver on that plan



Your Top 10 Discussion Items

- Plan for 2006 and beyond
- Prospects for continued stable CPUC relations
- Progress on transformation
- Growth of rate base
- Maintaining resource adequacy in the future
- Updates on our key regulatory proceedings
- EPS guidance
- Prospects for increasing dividends
- Outlook on customer rates
- Environment for mergers and acquisitions



Agenda for Today

- **Plan for 2006 and Beyond**
- **Advancing Business Transformation**
Q&As
- **Increasing Investment in Utility Infrastructure**
Break
- **Implementing the Energy Procurement Plan**
- **Providing Attractive Shareholder Returns**
- **Evaluating the Evolving Energy Industry**
Q&As





Plan for 2006 and Beyond



Financial Restoration

- ✓ Authorized equity ratio Achieved 52% in January 2005
- ✓ Common Dividend Resumed at \$1.20 per share annually
Increased to \$1.32 per share in Q4 2005
- ✓ Energy Recovery Bonds \$1.9B issued in February 2005
\$850MM issued in November 2005
- ✓ Share Repurchases \$1.05B ASR executed in March 2005
\$1.1B ASR executed in November 2005



Strategic Direction

Our vision

The leading utility in the United States

Our goals

Delighted customers
Energized employees
Rewarded shareholders

Our strategies

Operational excellence
Transformation

Our values

We act with integrity and communicate honestly and openly.
We are passionate about meeting our customers' needs and delivering for our shareholders.
We are accountable for all of our own actions: these include safety, protecting the environment, and supporting our communities.
We work together as a team and are committed to excellence and innovation.
We respect each other and celebrate our diversity.



A Diverse Leadership Team

Over just the past 2 years, experienced leaders have joined the PG&E officer team:

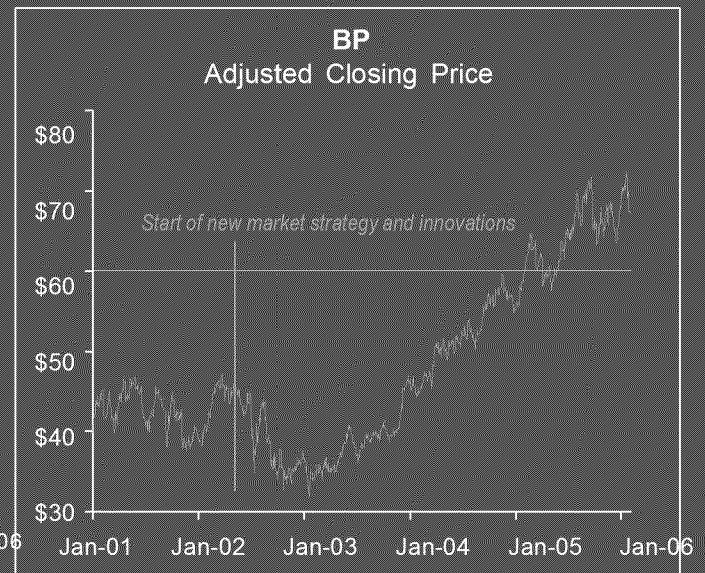
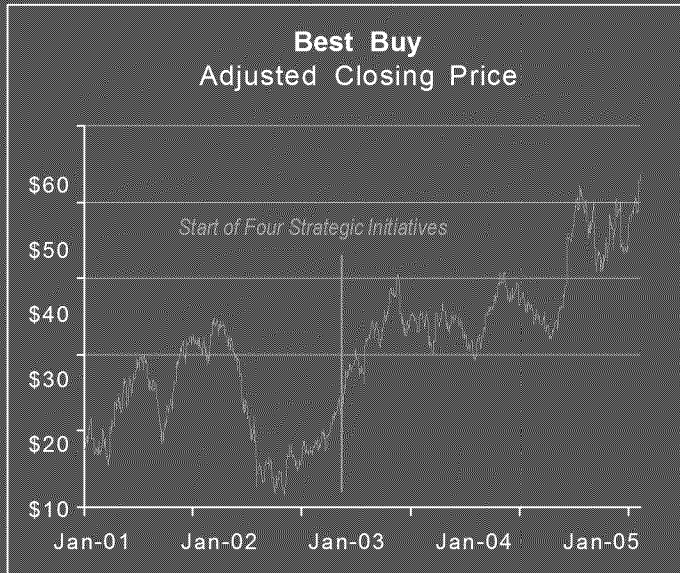
Ophelia Basgal, *Civic Partnership and Community Initiatives*
Helen Burt, *Chief Customer Officer*
Bob Howard, *Gas Transmission and Distribution*
Jack Keenan, *Chief Nuclear Officer*
Pat Lawicki, *Chief Information Officer*
Nancy McFadden, *Governmental Relations*
Bob Powell, *Controller*
Stewart Ramsay, *Asset Management and Electric Transmission*
Walter Rhodes, *Strategic Sourcing and Operations Support*
Rand Rosenberg, *Corporate Strategy and Development*

Past Experience

Alameda County Housing Authority
TXU
Gas Transmission Northwest
Progress Energy
NiSource
White House, California Governor's Office
PricewaterhouseCoopers
American Electric Power
Entergy
Pacific Telesis Group, Infospace



The Value in Transformation



Sources:
Yahoo Finance
Thompson Financial



Business Priorities 2006-2010

1. Advance business transformation
2. Provide attractive shareholder returns
3. Increase investment in utility infrastructure
4. Implement an effective energy procurement plan
5. Improve reputation through more effective communications
6. Evaluate the evolving industry and related investment opportunities



Regulatory Environment

- Regulators and policymakers continue to support a return to stable energy policies
- Regulators understand and appreciate the critical role of capital markets
- Regulatory strategy focused on:
 - Emphasizing the importance of the customer
 - Communicating constantly
 - Listening to concerns
 - Being responsive
 - Developing trust and rapport



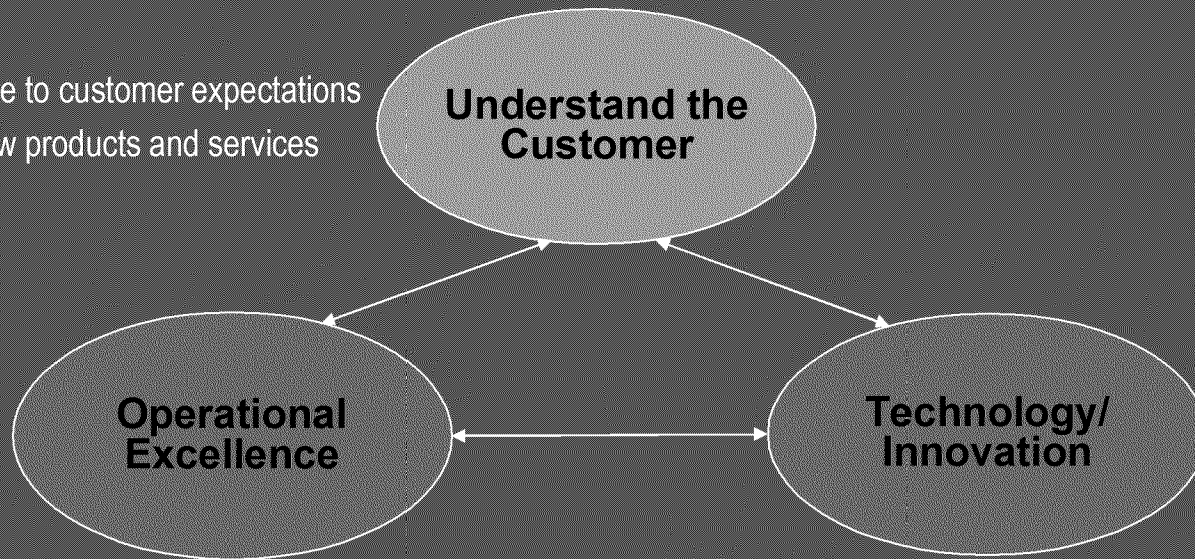


Advancing Business Transformation



Transformation Vision

- Responsive to customer expectations
- Deliver new products and services

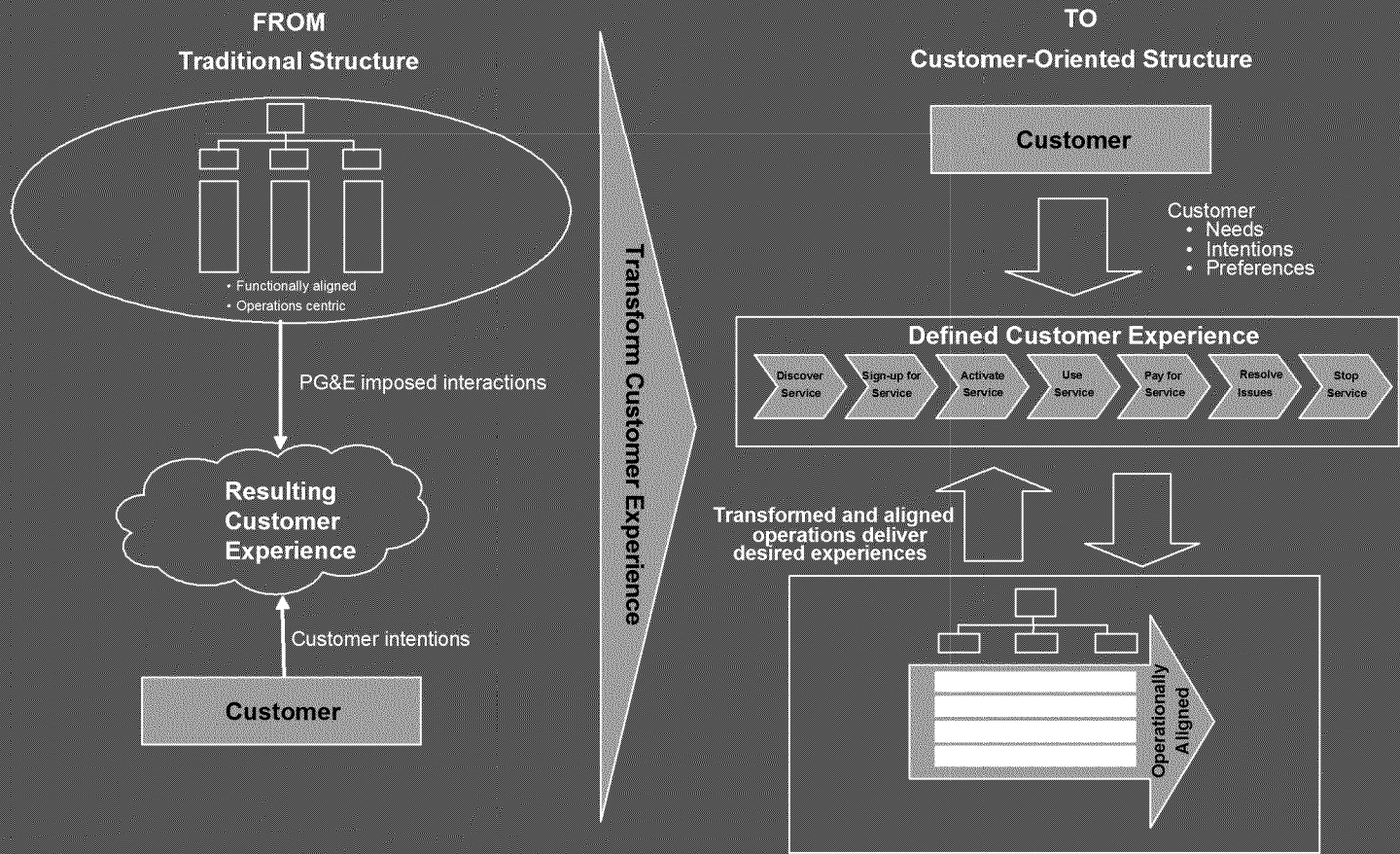


- Standardization prevails
- Relentless focus on efficiency

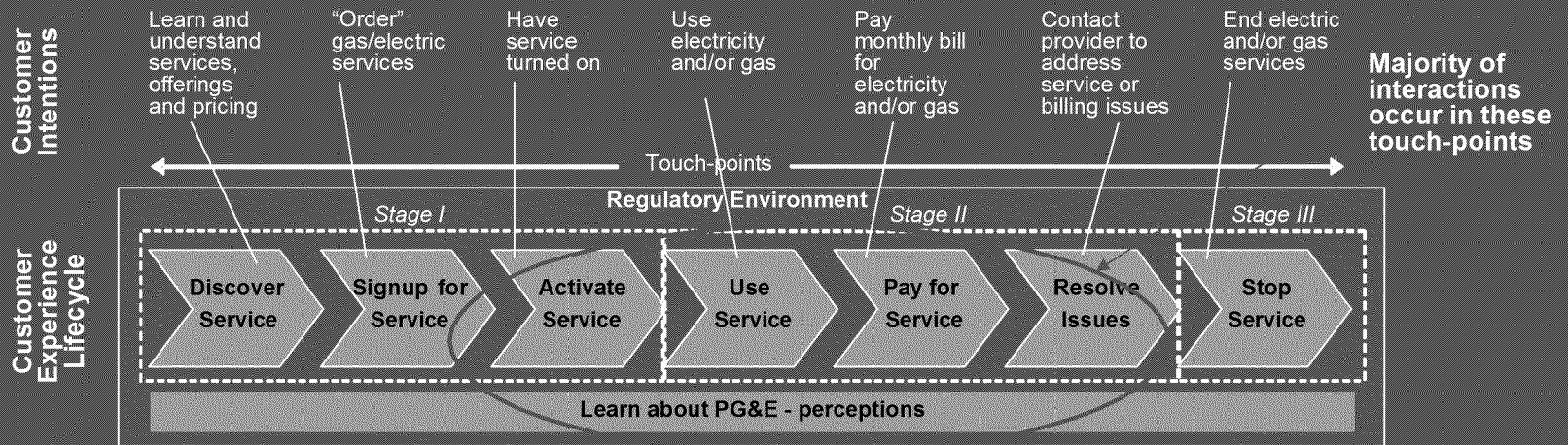
- Use of technology to drive operational excellence
- Innovation to lower cost and satisfy customers



Transforming the Customer Experience



The Customer Experience Lifecycle



Majority of interactions occur in these touch-points

- PG&E Enabled Experience**
- Stage I: Discover - Sign-up - Activate**
- Discover Service**
 - Engage w/ customer in introducing services, products and pricing.
 - Educate customers.
 - Set expectations.
 - Sign up for Service**
 - Help customer to sign up for services.
 - Provide various sign-up options.
 - Activate Service**
 - Interact with customer to fulfill their "order".

- Stage II: Use - Pay - Resolve**
- Use Service**
 - Provide highly reliable, quality gas and electric service.
 - Assist with usage efficiency.
 - Pay for Service**
 - Provide accurate, easy to understand bills.
 - Provide multiple ways to access and pay bills.
 - Resolve Issues**
 - Solve service disruption or billing issues.

- Stage III: Stop Service**
- Stop or transfer service per customer instructions.

- Indirect Experience**
- Customer perceptions of PG&E are influenced by media, word of mouth, and paid advertising



The Transformation Phases



Planned deployment of initiatives:

- 2005: 20 initiatives were fully or partial deployed
- 2006: 27 other initiatives will be fully or partially deployed

Transformation Enhancing Performance - Examples

Today (Manual)

Outage Management

- Customer notifies the utility of a problem
- Troublemaker assesses scope of outage
- Customized construction information prepared

New Residential Service

- Developer completes paper application for new service
- Multiple groups record and track project
- Local estimation of project

Work and Resource Management

- Supervisor schedules crews and assembles job information for crews
- Paper job packages provided to work crews
- Work crew gathers needed materials
- Manual updates to multiple systems

- **Improve infrastructure**
- **Deploy new technology**
- **Revamp business processes**
- **Instill a competitive, customer-focused mindset**

Future (Automated)

Outage Management

- Utility systems immediately locate a problem
- Troublemaker uses on-line records to prepare job information and specify material required for repair

New Residential Service

- Developer prepares electronic application for new service
- Single system entry of project information
- Central job estimation with specialized team focusing on subdivisions

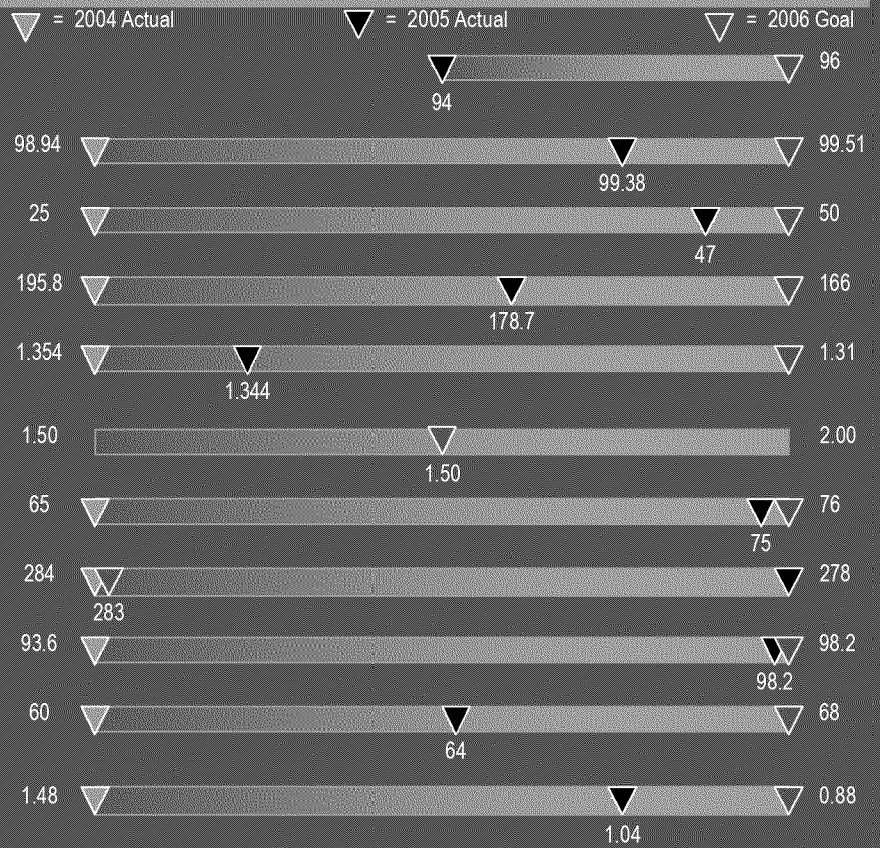
Work and Resource Management

- Integrated systems mobilize the right resources, at the right capacity
- Electronic job information provided to work crews
- Prepackaged material delivered on time to job site
- Work crew updates records remotely
- Supervisor is in the field to coach and assist crews



Transformation Metrics

Overall customer satisfaction <i>(Composite of J. D. Power residential and business customer surveys)</i>
Timely bills <i>(% billed within 35 days)</i>
Accuracy of outage restoration time estimate <i>(% accurate)</i>
System Average Interruption Duration Index <i>(yearly minutes per customer)</i>
System Average Interruption Frequency Index <i>(yearly interruptions per customer)</i>
Total energy availability * <i>(composite of generation and procured energy availability)</i>
Telephone service level <i>(% answered within 20 seconds)</i>
Expense per customer <i>(\$ cost of operations per customer)</i>
Diablo Canyon performance index <i>(composite of plant performance metrics)</i>
Employee opinion <i>(composite of employee satisfaction Premier survey metrics)</i>
Employee safety <i>(lost workday case rate per 100 employees)</i>



* Note: Performance based on whether Utility generation is available as planned and whether the Utility has obtained adequate electric supplies (as measured by California ISO alerts).



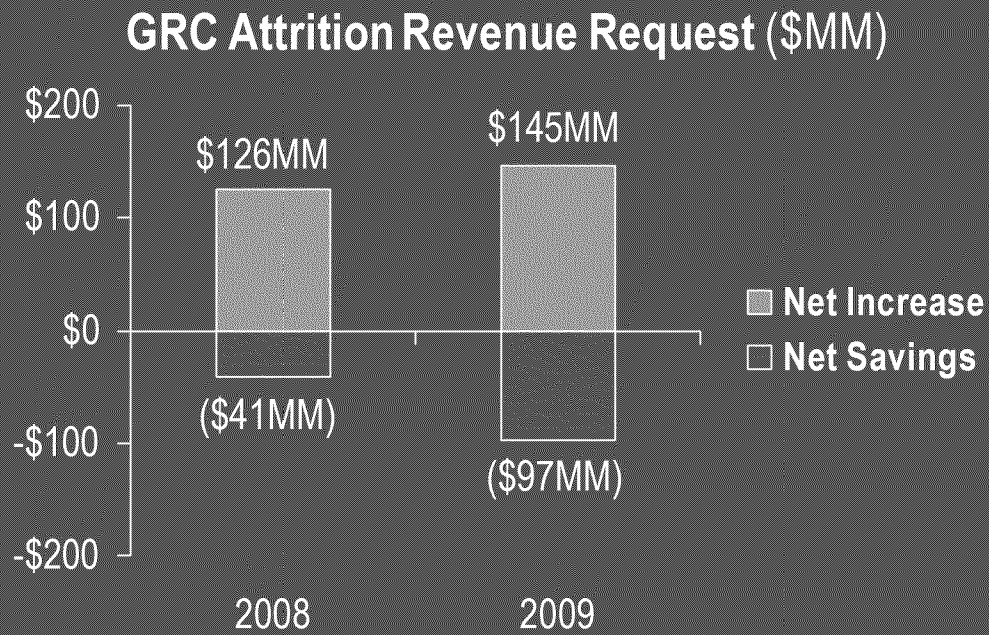


Video: *PG&E's Transformation Journey*



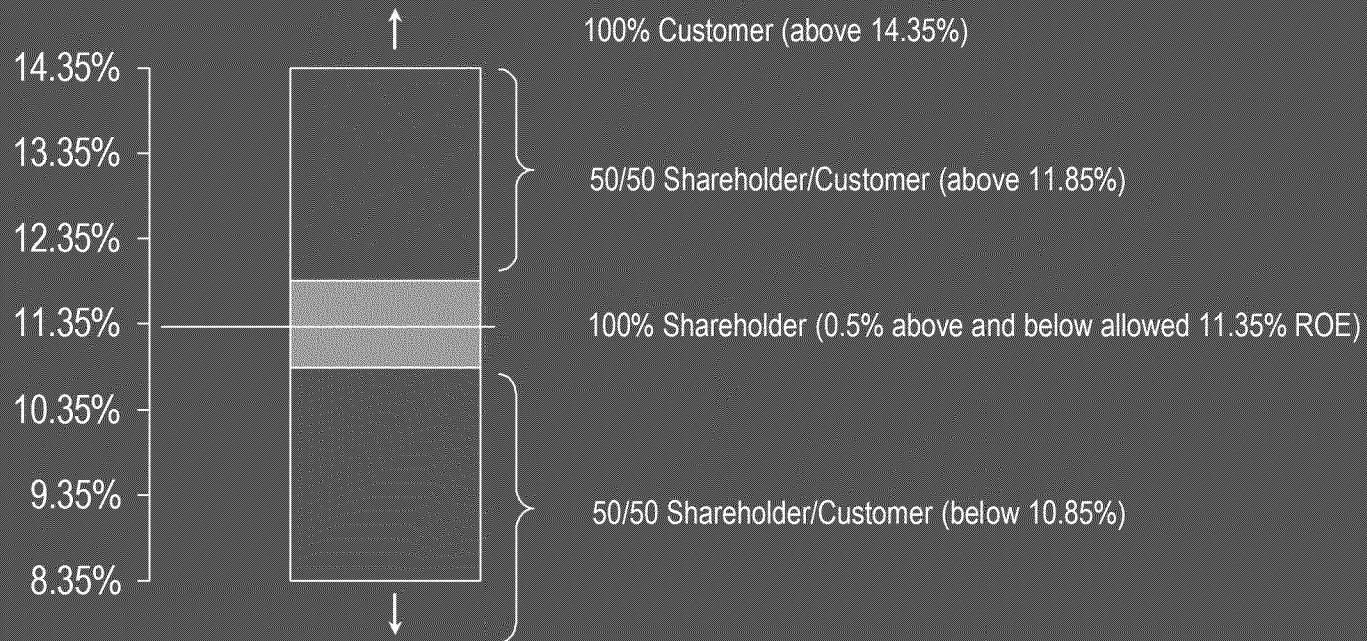
2007 GRC: Savings Proposals

Estimated net savings reduce cost increases in 2008 and 2009

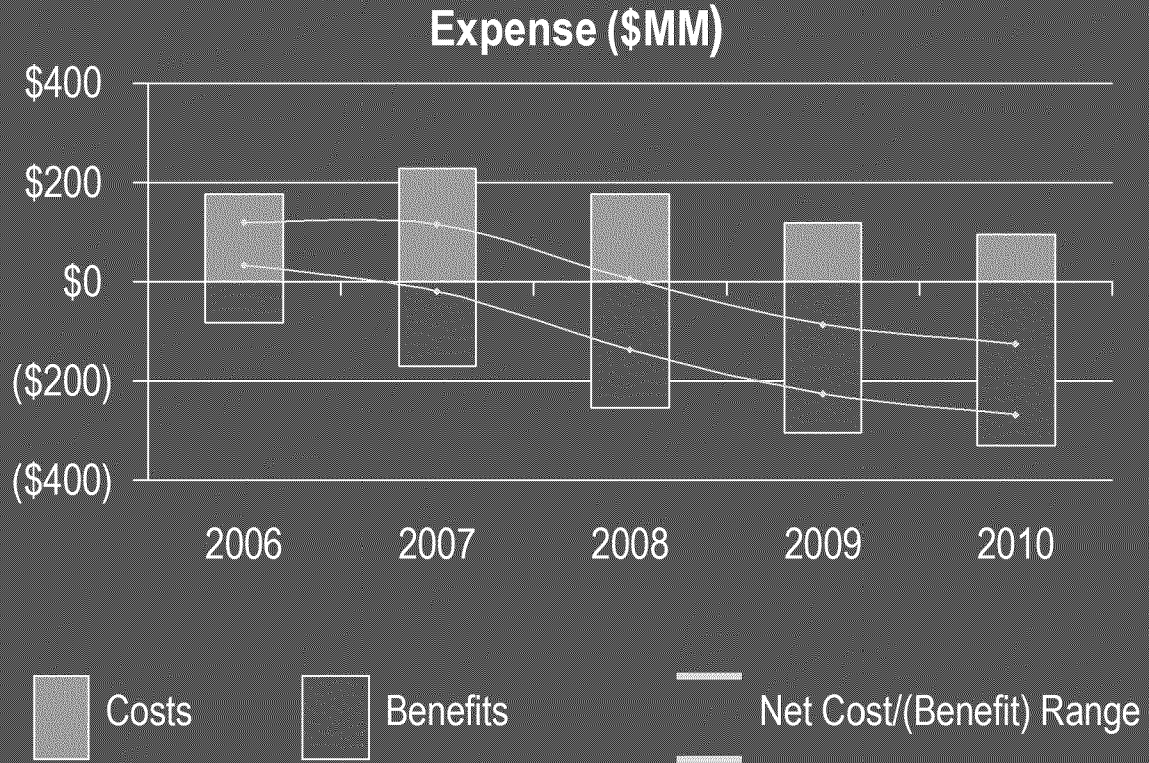


2007 GRC: Proposed Sharing Mechanism

- Sharing mechanism to ensure customers and shareholders share in transformation benefits and risks during 2007-2009

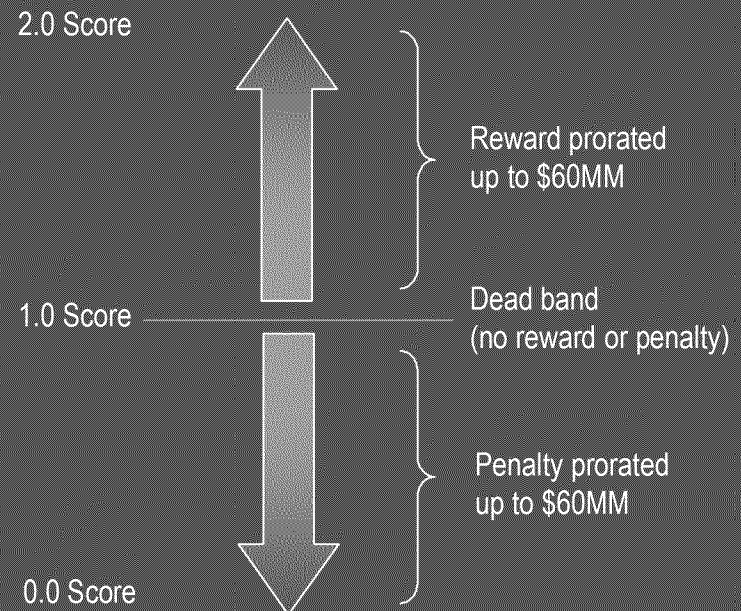


Anticipated Transformation Costs and Benefits



2007 GRC: Proposed Performance Incentive Mechanism

- Intended to reward (or penalize) PG&E for exceeding (or falling below) 6 measures:
 - Generation availability
 - Timely bills
 - Telephone service level
 - System Average Interruption Duration Index
 - System Average Interruption Frequency Index
 - Accuracy of outage restoration estimate
- Metrics are equally-weighted; scores range from 0 to 2, with a target of 1
- Reward (or penalty) can be up to \$60MM (\$35MM after-tax)





Transformation Q&A





Increasing Investment in Utility Infrastructure



Overview

2006-2010 capital program determined by:

- 2007 GRC for distribution and existing generation operations
- Advanced Metering Infrastructure (AMI) deployment
- Diablo Canyon steam generator replacement
- Electric Transmission Owner rate cases (FERC regulated)
- Gas Transmission safety and reliability investments
- Potential new generation investment



Distribution Investment Profile

- Investment drivers:
 - Connections of new customers and demand growth
 - Replacement of aging assets
 - Service levels to customers
- Major components:
 - Replacement and refurbishing of electric distribution facilities
 - New gas and electric facilities in developing areas
 - Gas Pipeline Replacement Program



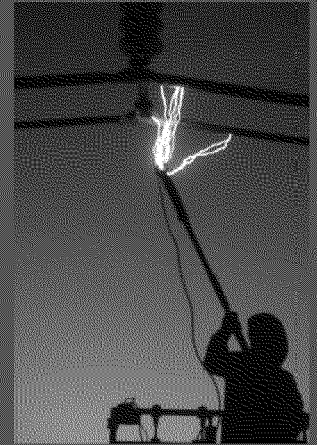
AMI Investment Profile

- Roughly 10 million meters planned to be installed by the end of 2011
- Proven technology to lower meter reading costs, improve outage management, improve demand response
- Over \$900 million in vendor contracts signed
- Design, planning, and small-scale testing underway
- On track for July 2006 CPUC decision on full deployment



Electric Transmission Investment Profile

- Fastest-growing area of the business
- Investment driven by:
 - System expansions as approved by the California ISO
 - Interconnections/upgrades to support new generation
 - Replacements, upgrades, and other life extension programs to maintain line capacity
 - Reduction of grid congestion and Reliability Must Run contracts



Gas Transmission Investment Profile

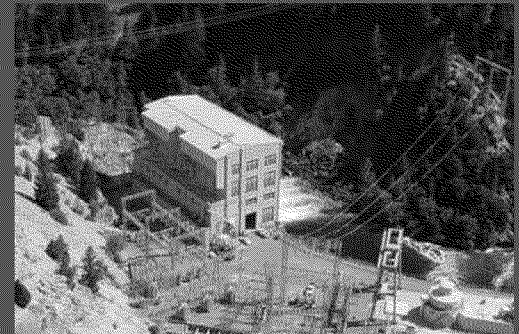
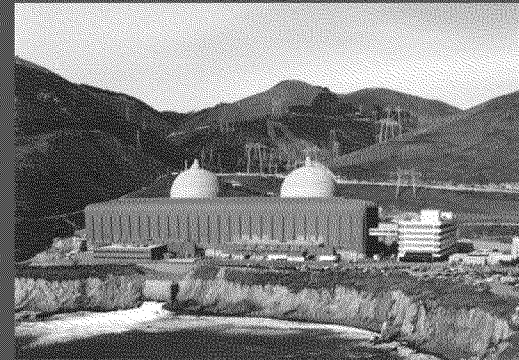
Investment driven by:

- Safety, reliability, and service enhancements
 - Storage development
- Core load growth and new customer loads
- Access to new gas supplies
 - Pipelines to new sources (such as LNG)
- Replacement of aging infrastructure
 - Stations
 - Pipelines



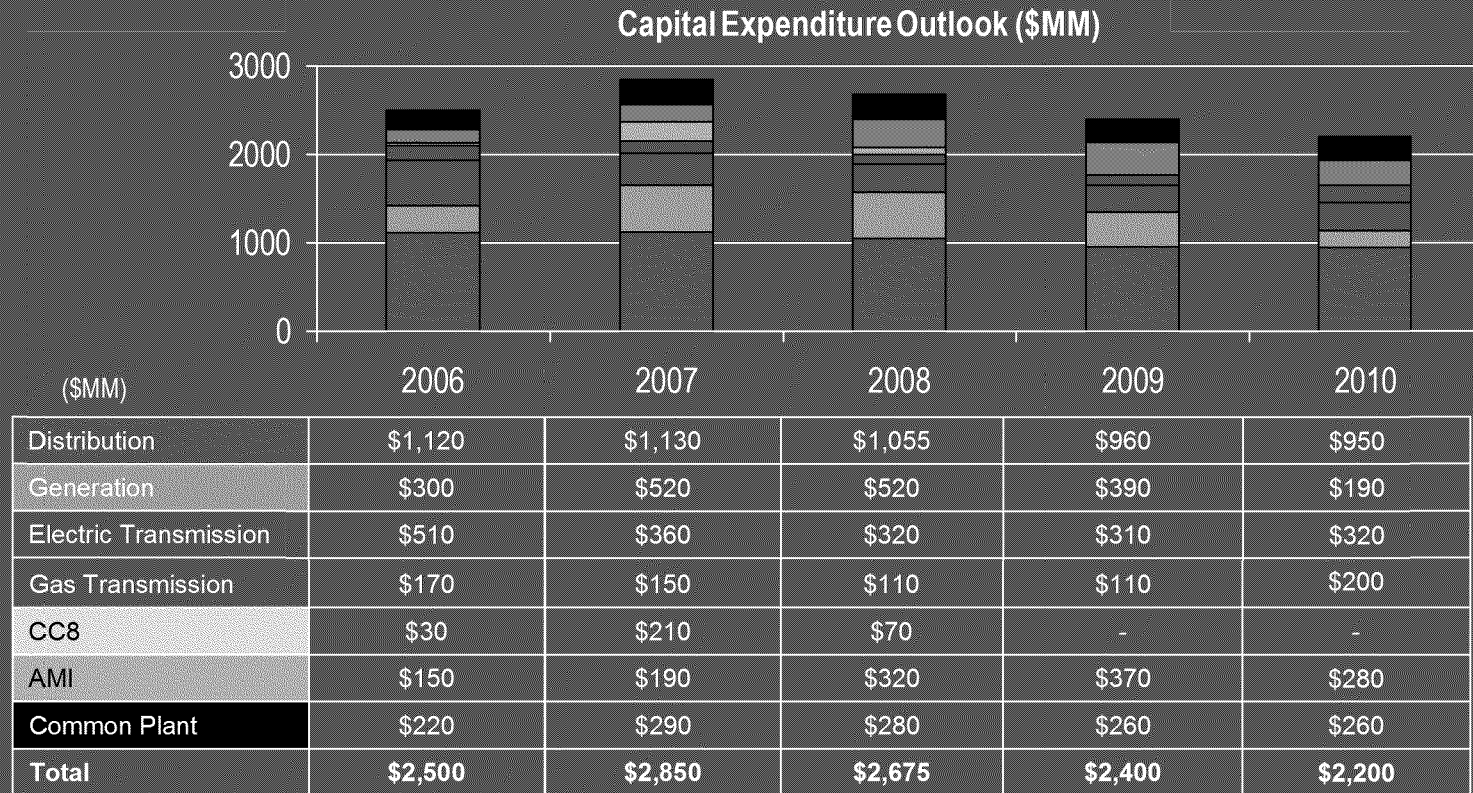
Owned Generation Investment Profile

- Investments driven by:
 - Replacements/upgrades to nuclear facilities
 - Hydroelectric reliability improvements, relicensing compliance, and dam safety and security requirements
- Major components:
 - Diablo Canyon steam generator replacement
 - Hydro maintenance-related capital and relicensing
 - Contra Costa Unit 8
 - Humboldt Bay repowering



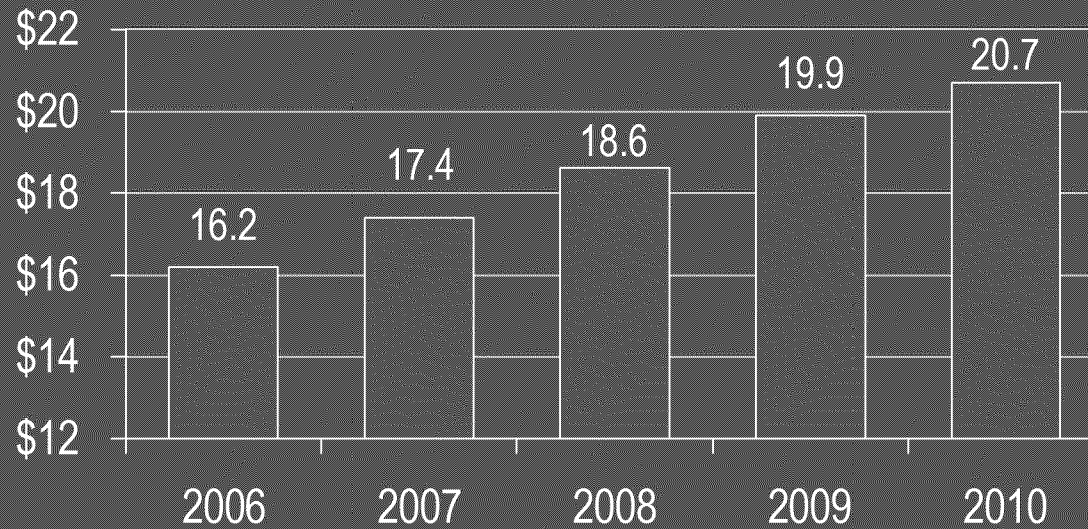
Capital Expenditure Outlook

Capital expenditures average \$2.5B for years 2006-2010:



Rate Base Growth

Average Annual Rate Base (\$B)*



* 2006-2010 rate base is not adjusted for the impact of the carrying cost credit that primarily results from the second series of the Energy Recovery Bonds. Earnings will be reduced by an amount equal to the deferred tax balance associated with the regulatory asset, multiplied by the utility's equity ratio and by its equity return. The carrying cost credit declines to zero when the taxes are fully paid in 2012.





Short Break





Implementing the Energy Procurement Plan



Overview

- Procurement plan intended to meet customer need for reliable energy in an environmentally-responsible and cost-effective manner
- Energy efficiency and renewables are highest priority in California “loading order”
- Solicited offers for short, intermediate and long-term resources
- Procurement cost recovery mechanisms in place



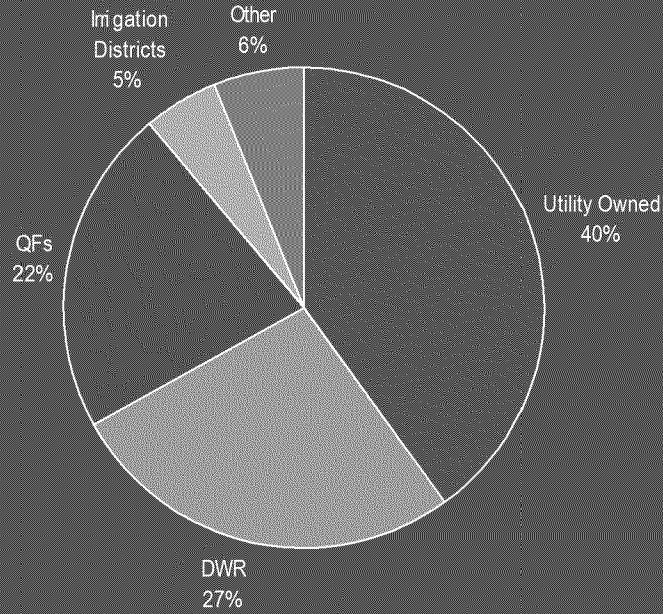
Electric Procurement Issues

- California's preferred loading order
- Growth of energy efficiency and demand response programs
- Development of renewable energy
- Efficient generation resources for the future
- Reliable energy in an environmentally-responsible and cost-effective manner

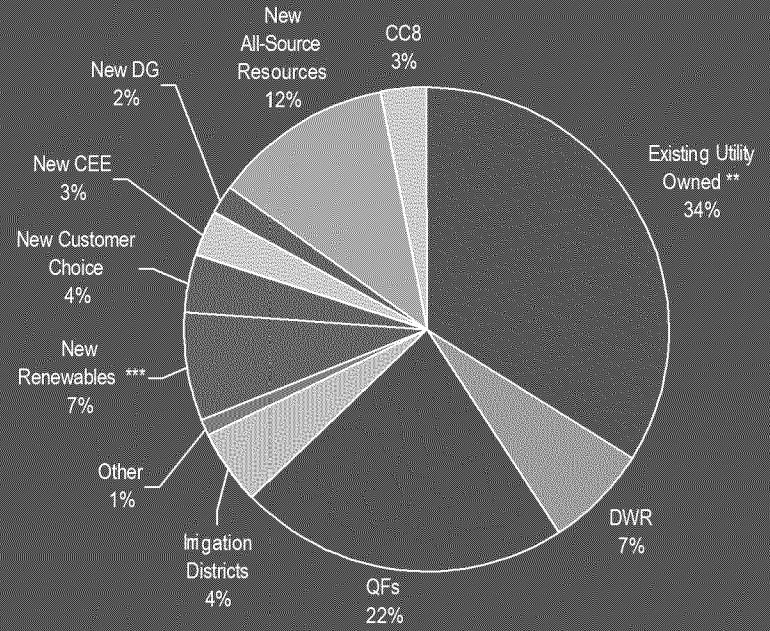


Long-Term Electric Resources

2005 Sources of Energy *
79,900 GWH



2010 Projected Sources of Energy *
88,600 GWH



* Approximately 12% of total retail sales are supplied by eligible renewable resources coming from utility-owned, QF, Irrigation District, and other sources.

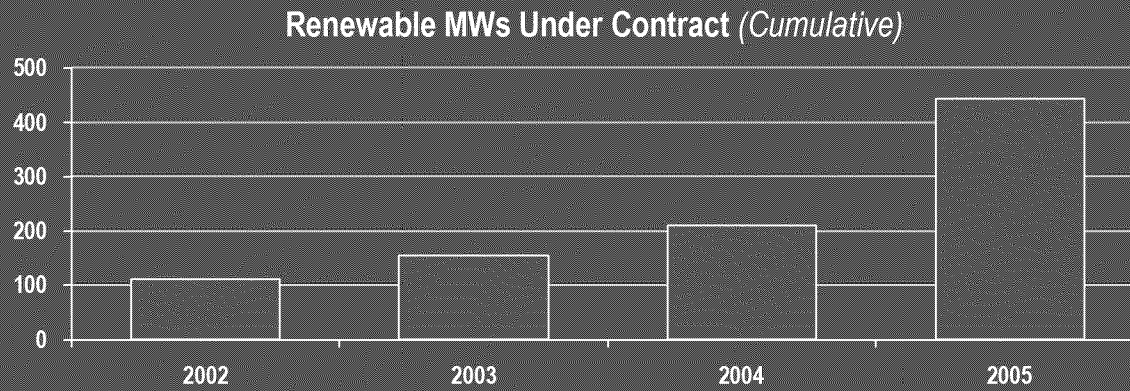
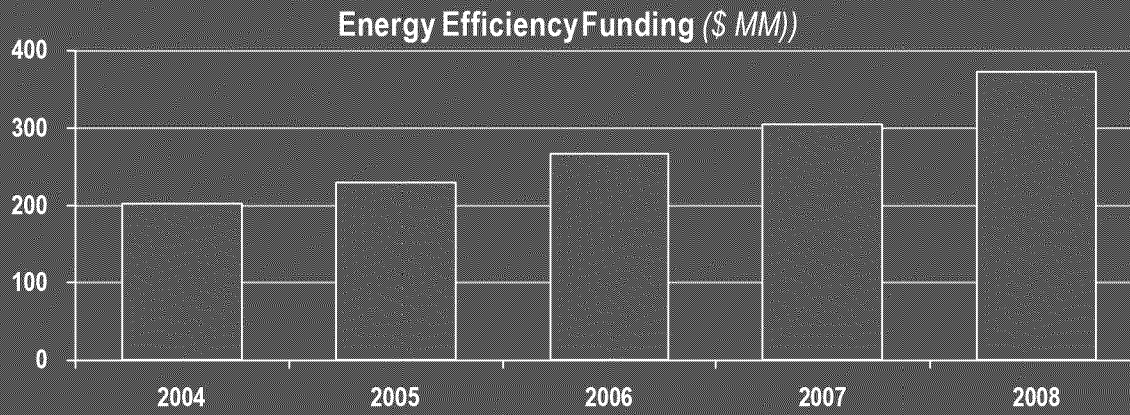
* Approximately 20% of total retail sales expected to be eligible renewable resources coming from utility-owned, QF, Irrigation District, and other sources.

** Includes 150MW Humboldt Bay repowering and utility-owned renewables.

*** May include utility-owned resources.



Energy Efficiency and Renewables



Long-Term RFO (All Source)

- CPUC has approved the acquisition or contracting of 2200 MW to meet long term needs
- Long-Term RFO is 95% complete
- Expect to execute contracts and file with CPUC by end of March
- Currently under negotiation:
 - 4 Power Purchase Agreements of 1300 MW
 - 2 Utility Ownership Agreements of 800 MW
- Complements other ownership projects
 - Contra Costa Unit 8: 530 MW
 - Humboldt Bay Power Plant repowering: 150 MW



Gas Procurement

- Current sources: Southwest U.S. and Canada
- CPIM mechanism remains intact
- Received permission to undertake a winter hedging program
- Taking a more long-term view of portfolio management





Providing Attractive Shareholder Returns



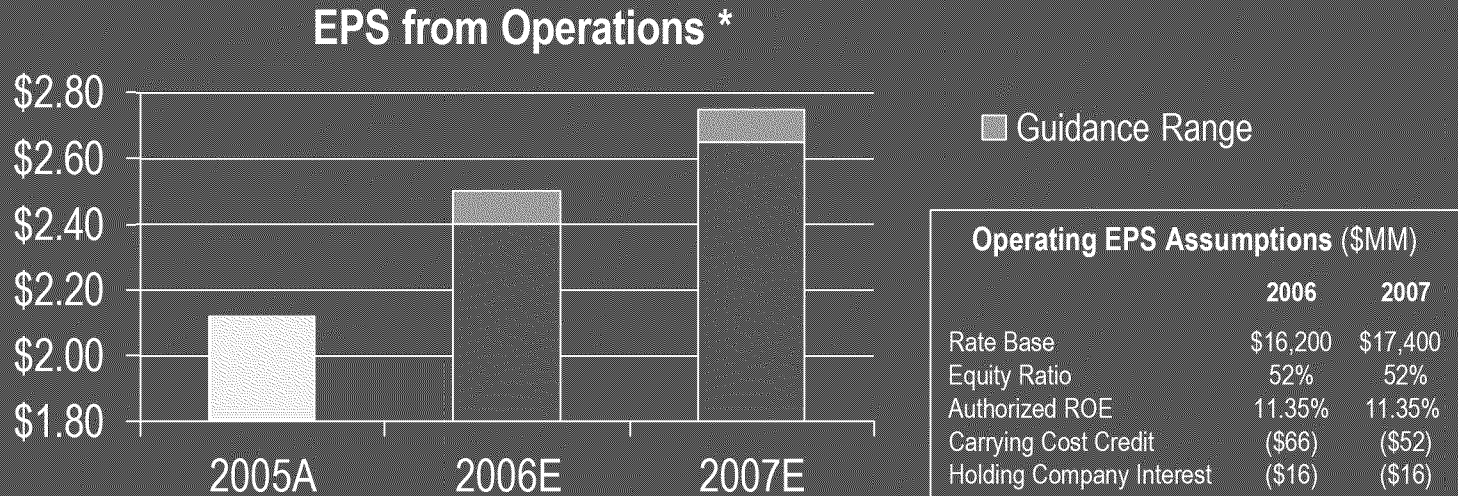
Financial Objectives

- Earn the full authorized return on equity
- Invest in needed infrastructure
- Generate strong cash flow
- Ensure adequate liquidity



EPS Guidance

EPS from Operations*: 2006 guidance of \$2.40-\$2.50 per share
2007 guidance of \$2.65-\$2.75 per share

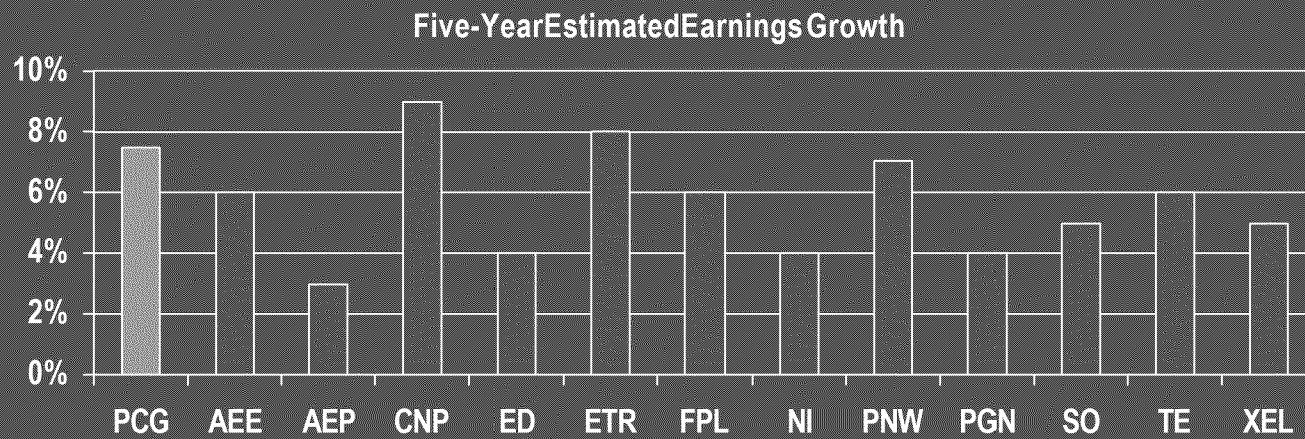


* Reg G reconciliation to GAAP for 2005 EPS from Operations and 2006 and 2007 EPS Guidance available in Appendix and at www.pge-corp.com



EPS Growth

- EPS from operations growth targeted to average approximately 7.5% annually 2006-2010
- Places PG&E near the top of comparable companies
- Actual growth rate will depend on infrastructure investments



Source: Zacks Investment Research, Inc. survey of analyst estimates (February 16, 2006).



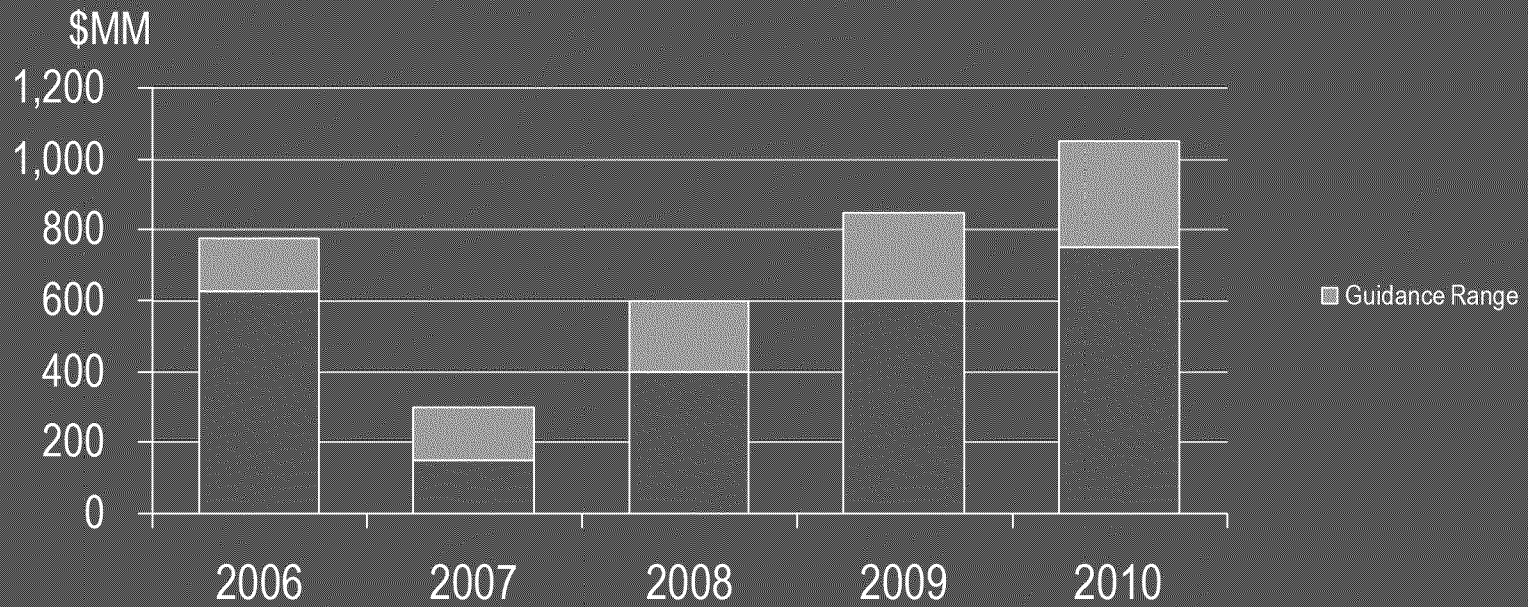
Liquidity

Liquidity targets for 2006:

- Utility: Target of zero cash balance in December with \$2 billion credit facilities retained to handle contingencies
- Holding Company: Cash to be reduced to a minimum hold of \$40 million with \$100 million of revolver to be available at all times



Cash Available for Dividends and Stock Repurchases



Reg G reconciliation to GAAP for Cash Available for Dividends and Stock Repurchases available in Appendix and at www.pge-corp.com.



Dividend Policy

- Objectives:
 - Flexibility
 - Sustainability
 - Comparability
- Payout ratio range of 50% - 70%
- Growth balanced with funding for additional investment opportunities



Outlook for Electric Rates

- Retail electric rates expected to increase on average at about the rate of inflation after 2006
 - Infrastructure investments
 - Procurement costs
- Other pressures on electric rates:
 - High natural gas prices
 - Increasing public purpose program expenses
 - California solar incentives



Summary

- Earnings per Share from Operations targeted to grow approximately 7.5% annually from 2006-2010, based on assumed ROE of 11.35%
- Transformation savings and performance incentive earnings would be accretive
- Dividend growth to be balanced by funding needs for additional investments
- No net new equity during 2006-2010: equity issuance in some years to be offset by share repurchases in other years





Evaluating the Evolving Industry



Summary

- Trends:
 - Recent industry consolidation
 - PUHCA reform
 - Restructuring
 - Renewed M&A dialogue
- Monitoring M&A and investment activity
- Primary focus is on developing good momentum in transformation





Conclusion



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Final Q&A





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