

PG&E Corporation
Nominating, Compensation,
and Governance Committee
October 19, 2005

2006 OFFICER COMPENSATION PROGRAM

Action Recommended

It is recommended that the Nominating, Compensation, and Governance Committee approve the following 2006 Officer Compensation Program for PG&E Corporation and Pacific Gas and Electric Company:

- An annual salary increase budget of 3.5 percent for base pay adjustments, mid-year discretionary increases, and lump-sum payments,
- The same Short-Term Incentive Plan (STIP) target participation rates as were approved for the 2005 Officer Compensation Program (see Attachment A), and
- Long-Term Incentive Plan (LTIP) value ranges modified in some cases from those approved for the 2005 Officer Compensation Program, to be delivered through two separate vehicles: restricted stock and performance shares (see the materials behind Tab 1 of this binder, the discussion below, and Attachment B).

These recommendations are all based on data from the new comparator group of 26 companies that the Committee approved at its meeting on June 15, 2005, for use in setting officer compensation (the 2006 comparator group) (see Attachment C); all of the recommendations have been reviewed with Hewitt Associates, the Committee's independent compensation consultant.

Recommendations as to individual officer compensation changes will be presented for the Committee's action in December, based on the programs approved by the Committee at this meeting. Specific recommendations will reflect the individual officer's performance, their role in achieving corporate objectives, their compensation vis-à-vis individuals in similar positions in the 2006 comparator group of energy companies and general industry, when appropriate, and other relevant factors.

In addition, recommendations as to the 2006 STIP structure and the specific performance scales to be used to measure financial performance and the key strategic objectives for 2006 will be presented for the Committee's approval in December. Such recommendations will be based on the programs approved by the Committee at this meeting, as well as the 2006 Financial Performance Plan that will be presented to the PG&E Corporation and Pacific Gas and Electric Company Boards of Directors for approval in December.

Reasons for and Details of Recommendations

The following provides a review of, and rationale for, each of the pay component recommendations for the 2006 Officer Compensation Program, based on Hewitt Associates' analysis and management's opinions.

Salary Increase Budget

Base salary growth for executives appears likely to continue at around 3.5 to 4.0 percent.

The companies in the 2006 comparator group expect to provide officers a 3.4 percent average salary increase in 2006; their actual average salary increase in 2005 was 3.6 percent.

The market in general is expected to provide salary increases slightly above those offered by the 2006 comparator group. According to Hewitt Associates' *2005-2006 Annual Salary Increase Survey*, the average 2006 projected increase is 3.8 percent for all industries and 3.7 percent for energy companies. Similarly, WorldatWork's *2005-2006 Salary Budget Survey*¹ indicates that 2005 actual and 2006 projected increases for executives are 3.8 percent and 3.9 percent, respectively, for all companies.

STIP Participation Rates

Target annual incentive participation rates are slightly lower in the 2006 comparator group compared to data from the previous comparator group of 15 companies (the 2005 comparator group). However, our current target annual incentive levels remain competitive with comparable officer positions in the 2006 comparator group.

LTIP Guidelines

The LTIP guidelines define the minimum, midpoint, and maximum target values for each officer compensation band, and the resulting conversion from dollar values to shares. The guidelines also establish the allocation or mix of awards used.

The recommended 2006 LTIP guidelines were developed based on (1) the long-term incentive values for the 2006 comparator group, (2) the modified allocation of long-term incentive awards, as described in the materials behind Tab 1 of this binder and below, and (3) the Committee's stated compensation objective to target the long-term incentive value at the 75th percentile of the comparator group as part of our performance aspiration of being a top quartile performer.

¹ The WorldatWork survey is the largest of its kind, covering over 2,500 companies from a cross-section of industries.

LTIP Value

Target long-term incentive levels are generally flat compared to last year. In some cases, the long-term incentive values have decreased slightly, which may be due more to the change in the composition of the comparator group than actual changes in long-term incentive grant practices. However, our current target long-term incentive levels for most of our officer bands remain competitive with comparable officer positions in the 2006 comparator group, with the primary exception of our second highest officer band (Band 2A), the level of which decreased significantly. The recommendations are based on Hewitt Associates' evaluation of the 2006 comparator group data and their guidance to adjust the long-term incentive guidelines for internal equity considerations, as appropriate. As a result, the recommended LTIP guidelines reflect a decrease of 19 percent for one officer band, and no change for the other six officer bands.

LTIP Allocation

The recommended LTIP grant allocation consists of one-half restricted stock and one-half performance shares, as described in the materials behind Tab 1 of this binder.

Alignment with Compensation Objectives

The recommended 2006 officer pay program fully aligns with the Committee's stated officer compensation objectives, which the Committee reaffirmed at its June 15, 2005, meeting (see Attachment D).

Background

Officer compensation bands were established in 1997 for all officers of PG&E Corporation and its subsidiaries to aid in compensation management. The bands balance external market practices tied to each business area with internal equity relationships as defined by impact and scope of responsibility across the Corporation and its subsidiaries. Most of the officer compensation program recommendations are implemented through these bands.

At its meeting on June 15, 2005, the Committee approved the 2006 officer compensation framework by (1) reaffirming the existing officer compensation objectives and targets (see Attachment D), (2) modifying the comparator group of companies for assessing officer compensation and corporate performance (see Attachment C), and (3) reaffirming the same general framework for 2006 officer compensation as was used in 2005.

Based on that approved framework, Hewitt Associates (the Committee's independent compensation consultant) conducted (1) a detailed position-by-position review of market data this year to assess PG&E Corporation's overall compensation program (i.e., base salary and short- and long-term incentives) vis-à-vis our new comparator group, and (2) a review of salary-related budget projections to support a specific recommendation for 2006. Attachment E provides a summary of the market observations for officers in Bands 1 through 4.

Estimated Costs

The total estimated 2006 Officer Compensation Program cash costs (base salary and STIP at target) are \$15.0 million. Attachment F contains detailed cost data.

ATTACHMENT B

Recommended 2006 Long-Term Incentive Program Guidelines¹

Executive Population	Estimated Long-Term Market Value			Restricted Stock Suggested Grant Range (One Half of Award)			Performance Share Suggested Grant Range (One Half of Award)			
	Min	75th %ile	Max	Min	Midpoint	Max	Min	Midpoint	Max	
Band 1										
Dollar Value	2006	\$3,500,000	\$4,500,000	\$5,500,000	\$1,750,000	\$2,250,000	\$2,750,000	\$1,750,000	\$2,250,000	\$2,750,000
	2005	\$3,500,000	\$4,500,000	\$5,500,000						
# of Restricted Stock/Shares					45,450	58,440	71,425	45,450	58,440	71,425
Band 2A										
Dollar Value	2006	\$900,000	\$1,250,000	\$1,550,000	\$450,000	\$625,000	\$775,000	\$450,000	\$625,000	\$775,000
	2005	\$1,200,000	\$1,600,000	\$2,000,000						
# of Restricted Stock/Shares					11,685	16,230	20,125	11,685	16,230	20,125
Band 2										
Dollar Value	2006	\$600,000	\$800,000	\$1,000,000	\$300,000	\$400,000	\$500,000	\$300,000	\$400,000	\$500,000
	2005	\$600,000	\$800,000	\$1,000,000						
# of Restricted Stock/Shares					7,790	10,385	12,985	7,790	10,385	12,985
Band 3										
Dollar Value	2006	\$300,000	\$400,000	\$500,000	\$150,000	\$200,000	\$250,000	\$150,000	\$200,000	\$250,000
	2005	\$300,000	\$400,000	\$500,000						
# of Restricted Stock/Shares					3,895	5,190	6,490	3,895	5,190	6,490
Band 4										
Dollar Value	2006	\$190,000	\$250,000	\$310,000	\$95,000	\$125,000	\$155,000	\$95,000	\$125,000	\$155,000
	2005	\$190,000	\$250,000	\$310,000						
# of Restricted Stock/Shares					2,465	3,245	4,025	2,465	3,245	4,025
Band 5										
Dollar Value	2006	\$130,000	\$175,000	\$210,000	\$65,000	\$87,500	\$105,000	\$65,000	\$87,500	\$105,000
	2005	\$130,000	\$175,000	\$210,000						
# of Restricted Stock/Shares					1,685	2,270	2,725	1,685	2,270	2,725
Band 6										
Dollar Value	2006	\$80,000	\$115,000	\$150,000	\$40,000	\$57,500	\$75,000	\$40,000	\$57,500	\$75,000
	2005	\$80,000	\$115,000	\$150,000						
# of Restricted Stock/Shares					1,035	1,490	1,945	1,035	1,490	1,945

¹ The following assumptions were used in determining values: (1) stock value: \$38.50, (2) restricted stock value: \$38.50 (100% of fair market value), and (3) performance share value: \$38.50 (100% of fair market value). Revised values will be determined in December 2005, based on the average daily trading prices of PG&E Corporation common stock for the month of November 2005. For both restricted stock and performance shares, the number of shares is rounded down to the nearest 5 shares. Actual grants will be made on the first business day of January 2006.

ATTACHMENT CPG&E Corporation Comparator Group
(Approved for 2006)

The comparator group for the 2006 officer compensation program consists of all companies listed in the Dow Jones Utility Index and the Standard & Poor's Electric Utilities Index, and all investor-owned California utilities, currently the 26 companies listed below. Companies identified with an asterisk (*) represent the companies in the 2005 comparator group.

AES Corporation	FPL Group, Inc.
Allegheny Energy, Inc.	FirstEnergy Corp.
Ameren Corporation	NiSource Inc. *
American Electric Power Company, Inc. *	PPL Corporation
CenterPoint Energy, Inc. *	Pinnacle West Capital Corporation
Cinergy Corp. *	Progress Energy, Inc.
Consolidated Edison, Inc. *	Public Service Enterprise Group *
DTE Energy Company	Sempra Energy *
Dominion Resources, Inc. *	Southern Company *
Duke Energy Group *	TECO Energy, Inc.
Edison International *	TXU Corp. *
Entergy Corporation *	Williams Companies
Exelon Corporation *	Xcel Energy Inc. *

Corporate Performance Comparator Subgroup

The subgroup for corporate performance comparisons consists of the following 12 companies:

Ameren Corporation	NiSource Inc.
American Electric Power Company, Inc.	Pinnacle West Capital Corporation
CenterPoint Energy, Inc.	Progress Energy, Inc.
Consolidated Edison, Inc.	Southern Company
Entergy Corporation	TECO Energy, Inc.
FPL Group, Inc.	Xcel Energy Inc.

Like PG&E Corporation, these companies have placed an emphasis on their core rate-regulated utility activities and have either a distribution focus or an integrated-utility focus.

ATTACHMENT D

Current Compensation Program Objectives and Compensation Objectives for Officers
(As Stated in the 2005 Proxy Statement and Approved for 2006)

The Committee established compensation programs for 2004 to meet three objectives:

- To emphasize long-term incentives to further align shareholders' and officers' interests, and focus employees on enhancing total return for shareholders.
- To attract, retain, and motivate employees with the necessary mix of skills and experience for the development and successful operation of PG&E Corporation's businesses.
- To minimize short-term and long-term costs and reduce corporate exposure to longer-term financial risk.

In addition, the Committee defined the following specific compensation objectives for officers as follows:

- A significant component of every officer's compensation should be tied directly to PG&E Corporation's performance for shareholders.
- Target cash compensation (base salary and target short-term incentive) should be equal to the average target cash compensation for comparable officers in the comparator group.
- Consistent with the Corporation's performance aspiration of being a top quartile performer, it is the Committee's objective to set long-term incentive targets for officers at this performance level that are equal to the 75th percentile target compensation for comparable officers in the comparator group.

Detailed Market Observations

The following charts summarize the competitive analyses conducted by Hewitt Associates for officers in Bands 1 through 4. The charts compare *current* compensation paid to specific officers based on their positions as of January 2006, with the compensation paid to similar positions in our 2006 and 2005 comparator groups (i.e., market), unless otherwise noted. Definitions of variance are as follows:

For base salary, target short-term incentive, and target total cash compensation (base salary plus target short-term incentive):

- On market:* within +/- approximately 15 percent of market average
- Below market:* more than approximately 15 percent below market average
- Above market:* more than approximately 15 percent above market average

For long-term incentives (based on the 75th percentile) and target total direct compensation (target total cash compensation plus long-term incentives):

- On market:* within +/- approximately 20 percent of market
- Below market:* more than approximately 20 percent below market
- Above market:* more than approximately 20 percent above market

PG&E Corporation

Position	Band	Comparator Group	Base Salary	Target Incentive	Target Total Cash	Long-Term	Target Total Direct
Chairman, CEO, and President		2006	Below	Below	Below	Below	Below
		2005	Below	Below	Below	Below	Below