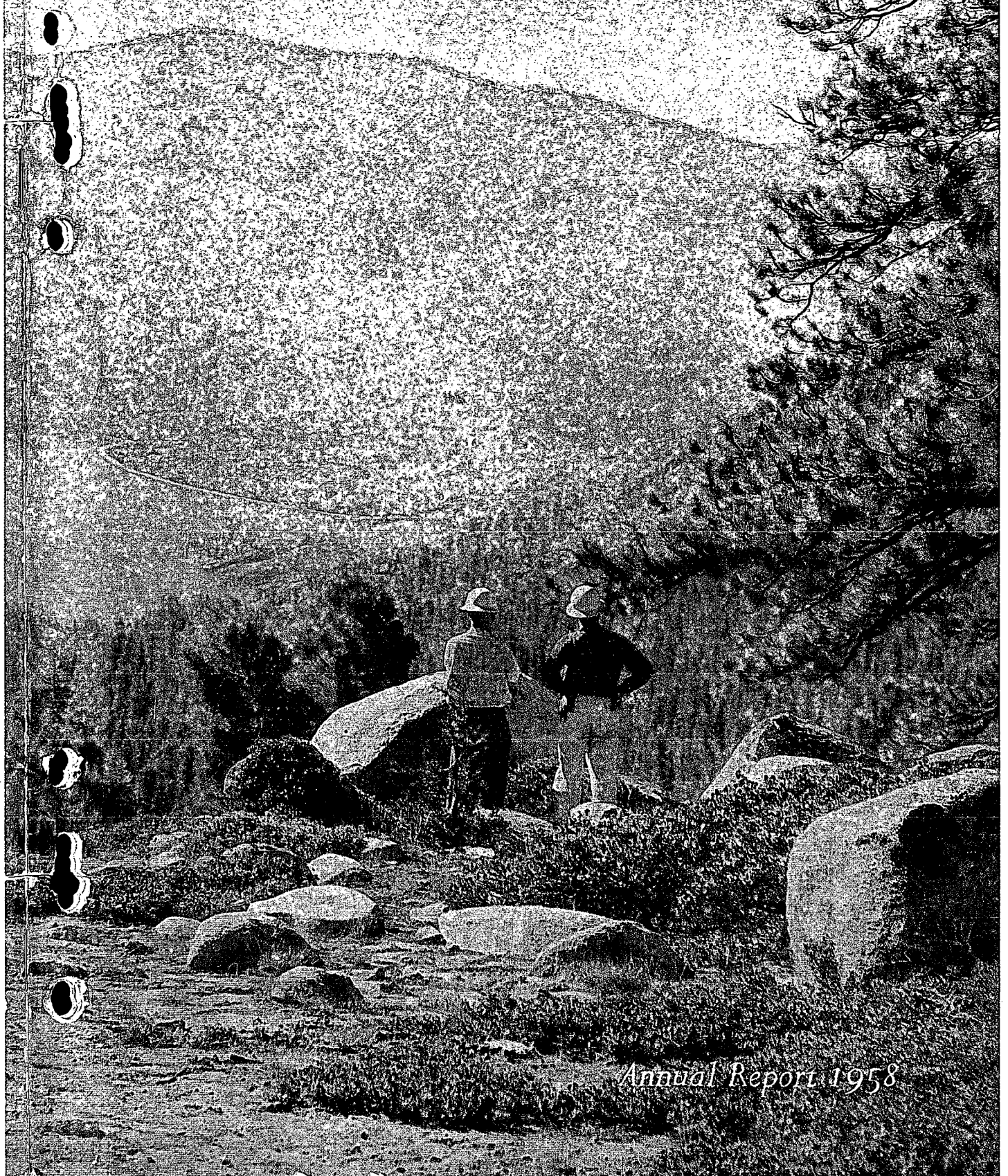


PACIFIC GAS AND ELECTRIC COMPANY



Annual Report 1958

BOARD OF DIRECTORS

JAMES B. BLACK	San Francisco
<i>Chairman of the Board</i>	
JAMES F. CRAFTS	San Francisco
WILLIAM W. CROCKER	San Francisco
PAUL L. DAVIES	San Jose
ROBERT H. GERDES	San Francisco
RUSSELL GIFFEN*	Fresno
WALTER A. HAAS	San Francisco
JAMES K. LOCHEAD	Piedmont
ELLIOTT McALLISTER	San Francisco
HENRY D. NICHOLS	San Francisco
DAVID PACKARD†	Palo Alto
SILAS H. PALMER	San Francisco
PORTER SESNON	San Francisco
N. R. SUTHERLAND	San Francisco
CARL F. WENTE	San Francisco

*Elected January 21, 1958 to succeed Allen L. Chickering, deceased.

†Elected February 18, 1959 to succeed Walter H. Sullivan, resigned.

EXECUTIVE COMMITTEE

JAMES B. BLACK
 WILLIAM W. CROCKER
 JAMES K. LOCHEAD†
 HENRY D. NICHOLS
 SILAS H. PALMER
 N. R. SUTHERLAND

†Elected October 15, 1958 to succeed Walter H. Sullivan, resigned.

EXECUTIVE OFFICERS

N. R. SUTHERLAND	<i>President</i>
ROBERT H. GERDES	<i>Executive Vice-President</i>
S. L. SIBLEY	<i>Vice-President and General Manager</i>
L. HAROLD ANDERSON	<i>Vice-President and Assistant General Manager</i>
WALTER DREYER	<i>Vice-President and Chief Engineer</i>
J. S. MOULTON	<i>Vice-President and Executive Engineer</i>
O. R. DOERR	<i>Vice-President in Charge of Sales</i>
A. J. SWANK	<i>Vice-President in Charge of Electric Operations</i>
P. E. BECKMAN	<i>Vice-President in Charge of Gas Operations</i>
H. W. HABERKORN	<i>Vice-President in Charge of General Construction</i>
K. C. CHRISTENSEN	<i>Vice-President and Treasurer</i>
J. K. HORTON§	<i>Vice-President</i>
ROBERT R. GROS	<i>Vice-President</i>
E. E. MANHARD	<i>Secretary</i>
L. W. COUGHLAN	<i>Comptroller</i>
RICHARD H. PETERSON	<i>General Counsel</i>

§ Resigned effective February 1, 1959

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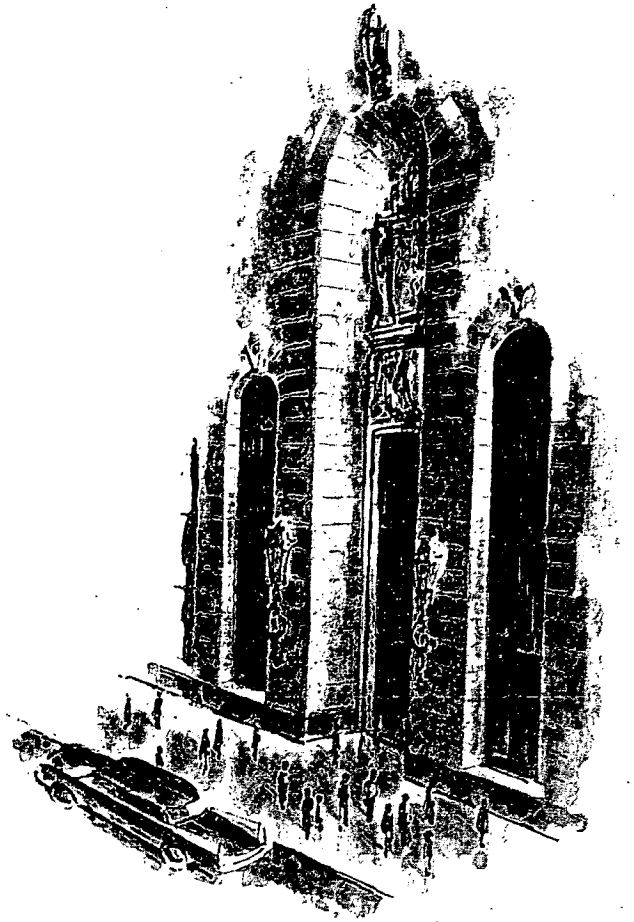
H. C. NELSON	<i>Assistant Treasurer and Assistant Secretary</i>
V. D. VINCENT	<i>Assistant Treasurer</i>
D. L. BELL	<i>Assistant Treasurer</i>
J. F. TAYLOR	<i>Assistant Secretary</i>
A. H. CATHERALL	<i>Assistant Secretary</i>

STOCK TRANSFER AGENCIES

OFFICE OF THE COMPANY (E. F. Hall, Transfer Agent),
 San Francisco; BANKERS TRUST COMPANY, New York.

REGISTRARS OF STOCK

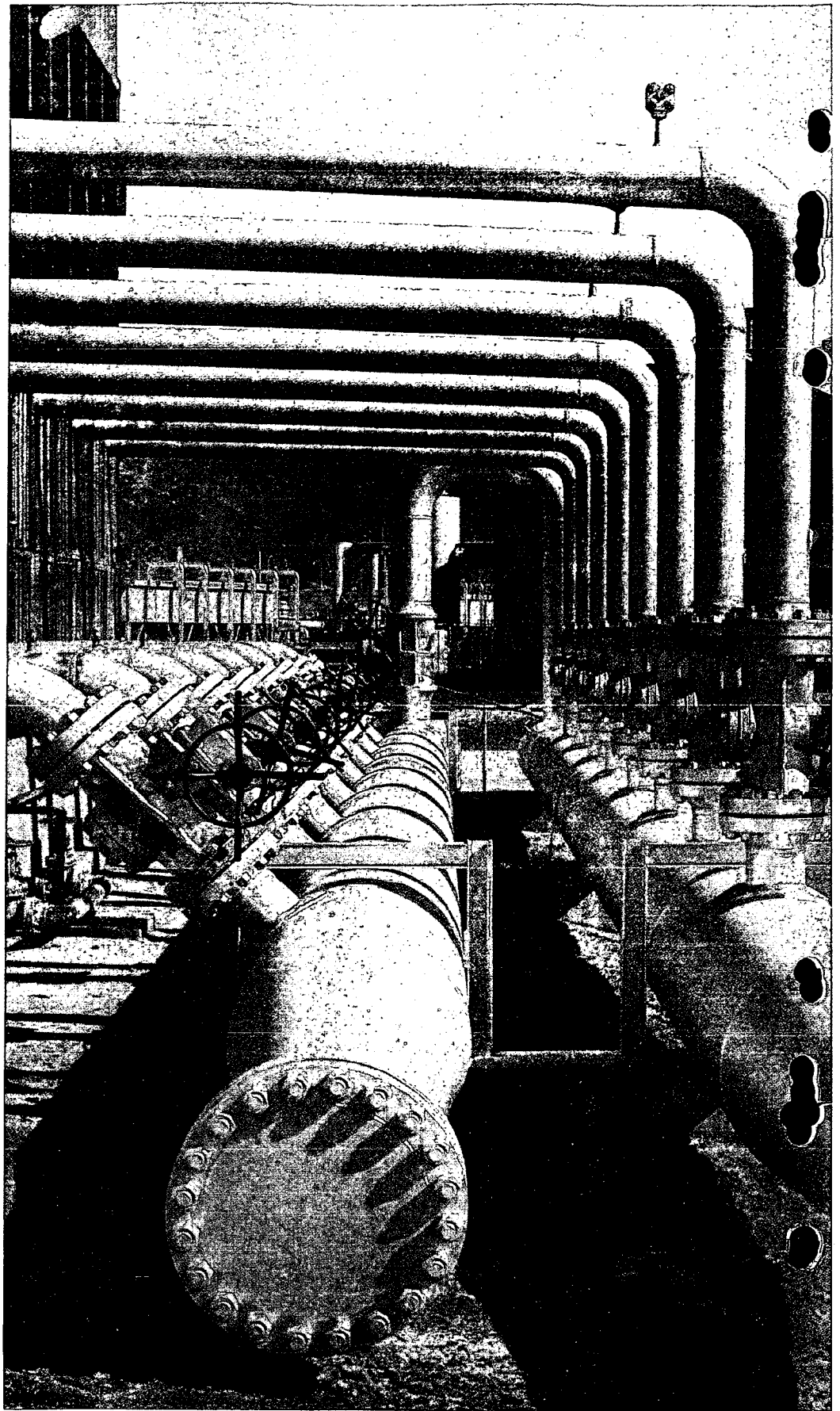
AMERICAN TRUST COMPANY, San Francisco;
 THE NEW YORK TRUST COMPANY, New York.

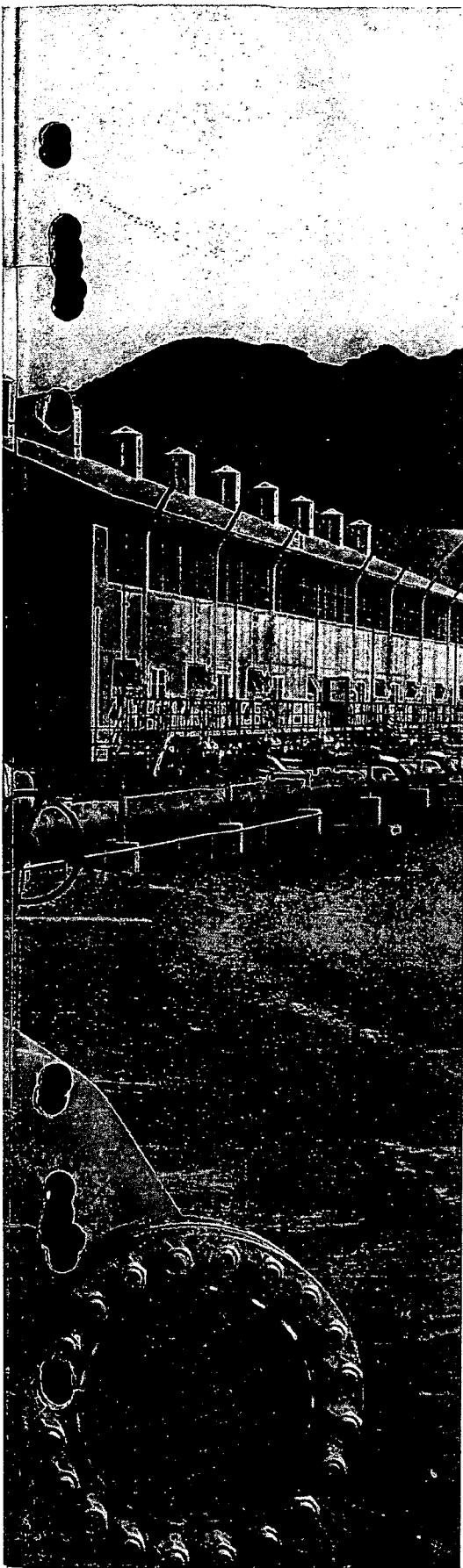


PACIFIC GAS AND ELECTRIC COMPANY

*Fifty-third Annual Report
For the Year Ended December 31, 1958*

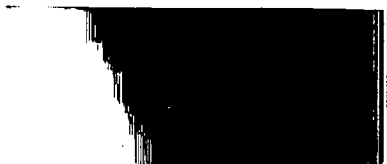
Topock Compressor Station where natural gas delivered at the California-Arizona border is compressed and started on its way 502 miles to the San Francisco Bay area.





Contents

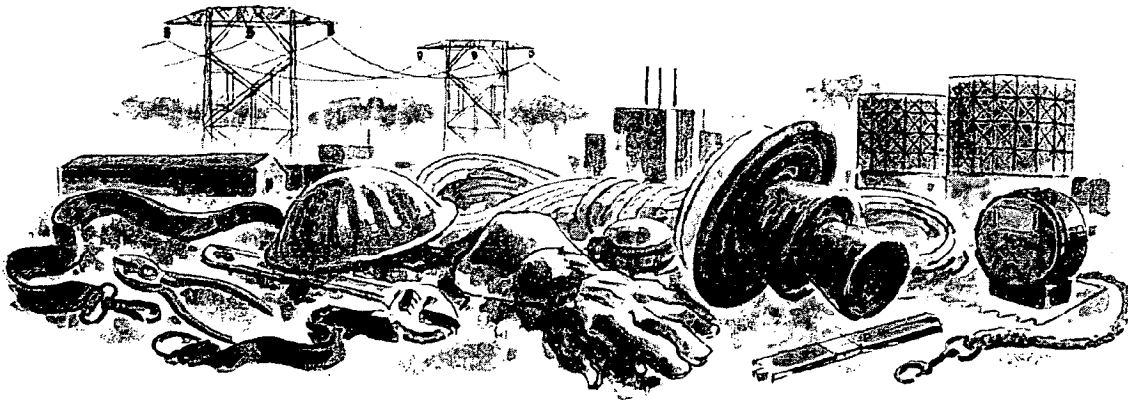
<i>Cover</i>	<i>Wishon Reservoir</i>
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HIGHLIGHTS OF OPERATIONS

	1958	1957
Operating Revenues and Other Income	\$ 535,644,000	\$ 502,748,000
Taxes and Franchise Payments	\$ 131,382,000	\$ 123,551,000
Natural Gas Purchased	\$ 114,590,000	\$ 114,227,000
Operating Payroll	\$ 68,317,000	\$ 61,766,000
Other Expenses and Charges	\$ 136,045,000	\$ 126,584,000
Net Income	\$ 85,310,000	\$ 76,620,000
Earned Per Common Share (on average shares)	\$3.83	\$3.41
Total Assets	\$2,290,957,000	\$2,146,271,000
Construction Expenditures	\$ 192,113,000	\$ 215,285,000
Electricity Generated and Received (KWH)	23,125,794,000	22,930,632,000
Sales of Electricity to Customers (KWH)	18,486,314,000	18,513,127,000
Electricity Delivered for Account of Others (KWH)	710,199,000	603,793,000
Sales of Gas to Customers (MCF)	323,539,000	322,481,000
Total Customers	3,440,902	3,344,570
Number of Employees	18,299	18,077
Number of Stockholders	226,180	225,487

Report of the Directors of Pacific Gas and Electric Company



San Francisco, California, February 20, 1959

To Our Stockholders:

The year 1958 was a particularly satisfying one for your Company, whether judged from the standpoint of share earnings, technological progress, or the resistance shown in the early months of the year to one of the sharpest declines in national business activity in the postwar period. Sales of both electricity and gas were retarded far more by climatic conditions than by economic factors.

High standards of service to our customers were maintained throughout the year, and we proceeded with confidence in formulating our long-range plans to assure abundant supplies of gas and electricity in the future for the homes, farms, and industry of Northern and Central California. Only a financially strong company can plan boldly and with confidence for the future. Adequate earnings provide the best assurance that we can do a good job for our customers and our employees, as well as for our stockholders.

Net earnings available for the common stock amounted to \$66,974,000, or \$8,690,000 greater than in the previous year. These earnings were equivalent to \$3.83 a share based on an average of 17,502,415 shares outstanding during the year. This compares with earnings of \$3.41 a

share based on the average number of shares outstanding in the previous year.

In view of the increase in earnings realized in the year 1958, and after giving careful consideration to the outlook for the year ahead, the Board of Directors on December 17, 1958, increased the quarterly dividend rate on the common stock from 60 to 65 cents a share.

Late in 1958 the two billionth dollar was spent on the Company's postwar program of expansion, and it is expected that about \$156 million will be spent for this purpose in 1959. The proceeds from securities sold to date to finance this program—bonds, preferred and common stocks—have amounted to almost \$1.4 billion.

The principal feature of our construction activities in 1958 was the completion of 685,500 kilowatts of electric generating capacity, consisting of both steam and hydro units. Our installed electric generating capacity now totals 5,219,000 kilowatts in 76 plants.

Much progress was made during the year toward the goal of producing nuclear power at a cost competitive with conventional plants. The Company has been actively engaged in this field since 1951 and, as detailed later in

this report, P G & E is now engaged in more nuclear projects than any other electric utility.

Another interesting technological development is the Company's plan to construct a small experimental geothermal electric generating plant, utilizing steam from natural geysers located about 90 miles north of San Francisco.

Stockholders have been advised from time to time of the Company's sponsorship of a project to transport natural gas from the Province of Alberta in Canada directly to the California market. Further hearings on the application of Alberta and Southern Gas Company, Ltd., our wholly-owned subsidiary, were held early this year before the Alberta Oil and Gas Conservation Board for a permit to export gas from the Province. It is hoped that a favorable decision will be forthcoming shortly. More information on this project is contained in the section on Gas Supply.

Thus, the period that has elapsed since the issuance of the last annual report has been a busy one for your Company, marked by many developments which hold great promise for its future.

Taking a realistic view of the future, however, it must be recognized that the Company's well-being as a business enterprise will depend largely upon the wisdom with which governmental policies are formulated and administered. Policies calculated to encourage further encroachment by governmental agencies into the commercial power business, or policies that would result in further inflation and erosion of the purchasing power of the dollar, would be harmful not only to investors but to our cus-

tomers and employees as well. Stockholders are urged to take a strong stand against any such policies and to make their views known to their elected representatives.

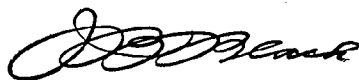
Similarly, the Company's well-being as a public utility will be affected in large degree by the wisdom with which the regulatory power is exercised at both the federal and state levels. Properly exercised, regulation provides public utility enterprises with an element of stability which protects the investor as well as the consumer.

Financial statements certified by our independent public accountants appear beginning on page 29 of this report.

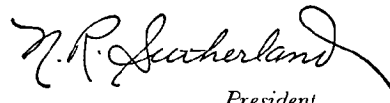
Our financial statements, however, fail to disclose many assets of great intangible value to the Company. One of these is the territory we are privileged to serve. We sincerely believe that few, if any, utility systems have a more promising service area than we enjoy in Northern and Central California. Another such asset is the confidence and trust which we believe our almost 3½ million customers have in us. Still another is the skill and high sense of responsibility which our more than 18,000 employees apply to the needs of our customers. In this connection we wish on behalf of the Board of Directors to express our deep appreciation to all employees for their splendid contribution to the year's progress.

This fifty-third annual report of the Company will be submitted at the annual meeting of stockholders to be held at the office of the Company, 245 Market Street, San Francisco, California, on Tuesday, April 14, 1959.

For the Board of Directors



Chairman of the Board



President

The management will solicit proxies for the annual meeting. In connection with such solicitation, it is expected that the proxy statement and a form of proxy will be mailed to stockholders on or about March 10, 1959.

The Year in Review



Revenues and Sales

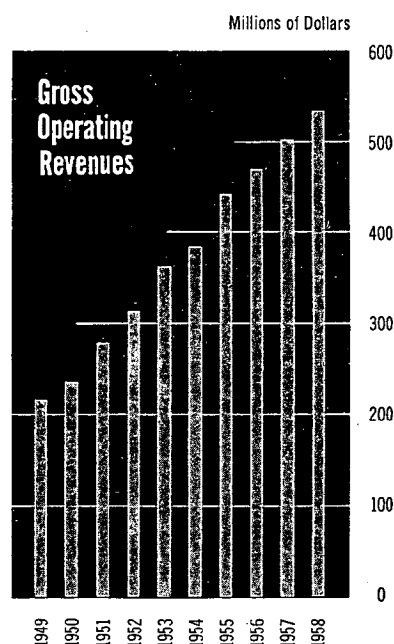
Gross operating revenues from all sources reached an all-time high of \$534,778,000 in 1958, an increase of \$33,534,000, or 6.7%, over the previous year.

The increase in revenues, however, cannot be associated with a corresponding increase in over-all sales volumes, since revenues were influenced by an electric rate increase which became effective in the latter part of 1957 and by two increases in gas rates which became effective in January and in August of 1958.

Total unit sales in both the Electric and Gas Departments were substantially the same as in the previous year, which on the surface might appear to indicate that the business recession had a material impact on the Company's business. The fact is, however, that sales in both departments were severely restricted by climatic conditions. Under normal climatic conditions both departments would have shown satisfactory over-all gains in sales.

The year 1958 was the third consecutive year during which we experienced abnormally warm weather. Such conditions depress sales of gas for space heating and have a major effect on consumption in the residential and commercial sales categories. It is estimated that if normal temperatures had prevailed in 1958 an additional 20 billion cubic feet of natural gas would have been sold. This reduction in consumption amounted to about 10% of the total expected sales to such customers. The associated loss in gross revenues was approximately \$11½ million.

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REVENUES AND SALES—Electric and Gas Departments by Classes of Service

ELECTRIC DEPARTMENT				
ELECTRIC REVENUES	1958	1957	Increase	
			Amount	Per Cent
Residential or Domestic Sales	\$ 123,846,491	\$ 111,870,135	\$ 11,976,356	10.7%
Small Light and Power Sales	66,415,127	61,652,948	4,762,179	7.7
Large Light and Power Sales	99,154,478	88,924,854	10,229,624	11.5
Agricultural Power Sales	38,138,224	39,902,460	* 1,764,236	* 4.4
Public Street and Highway Lighting	5,172,720	4,798,148	374,572	7.8
Sales to Railroads and Railways	85,106	245,997	* 160,891	*65.4
Sales to Other Electric Utilities	11,363,373	12,913,559	* 1,550,186	*12.0
Company Use (Construction)	297,107	243,436	53,671	22.0
Other Miscellaneous Revenue	6,810,964	7,758,211	* 947,247	*12.2
TOTALS	\$ 351,283,590	\$ 328,309,748	\$ 22,973,842	7.0%
ELECTRIC SALES—Kilowatt-Hours				
Residential or Domestic Sales	4,541,083,340	4,230,287,040	310,796,300	7.3%
Small Light and Power Sales	2,052,183,970	1,998,629,449	53,554,521	2.7
Large Light and Power Sales	7,798,386,422	7,401,808,685	396,577,737	5.4
Agricultural Power Sales	2,608,396,421	3,116,277,006	*507,880,585	*16.3
Public Street and Highway Lighting	142,442,788	132,066,819	10,375,969	7.9
Sales to Railroads and Railways	5,109,996	16,505,328	* 11,395,332	*69.0
Sales to Other Electric Utilities	1,323,686,869	1,605,431,499	*281,744,630	*17.5
Company Use (Construction)	15,024,689	12,120,998	2,903,691	24.0
Total Sales to Customers	18,486,314,495	18,513,126,824	* 26,812,329	* .1
Delivered for the account of others	710,199,449	603,792,524	106,406,925	17.6
TOTALS	19,196,513,944	19,116,919,348	79,594,596	.4%
GAS DEPARTMENT				
GAS REVENUES	1958	1957	Increase	
			Amount	Per Cent
Residential or Domestic Sales	\$ 95,766,342	\$ 92,015,679	\$ 3,750,663	4.1%
Commercial Sales	23,386,398	22,698,758	687,640	3.0
Industrial Sales	59,802,318	53,807,201	5,995,117	11.1
Sales to Other Gas Utilities	1,738,896	1,615,469	123,427	7.6
Company Use (Construction)	111,869	112,746	* 877	* .8
Other Miscellaneous Revenue	270,431	319,588	* 49,157	*15.4
TOTALS	\$ 181,076,254	\$ 170,569,441	\$ 10,506,813	6.2%
GAS SALES—Thousands of Cubic Feet				
Residential or Domestic Sales	131,227,628	132,115,774	* 888,146	* .7%
Commercial Sales	39,112,419	39,545,654	* 433,235	* 1.1
Industrial Sales	148,936,958	146,476,296	2,460,662	1.7
Sales to Other Gas Utilities	4,058,772	4,072,421	* 13,649	* .3
Company Use (Construction)	203,704	271,156	* 67,452	*24.9
Total Sales to Customers	323,539,481	322,481,301	1,058,180	.3
Company Use (Steam-electric plants, etc.)	67,472,494	87,578,124	* 20,105,630	*23.0
TOTALS	391,011,975	410,059,425	* 19,047,450	* 4.6%

*Denotes decrease

In the Electric Department agricultural power sales fell more than one-half billion kilowatt-hours below those of the previous year because of the extremely wet winter season which made an abundance of gravity water available and greatly reduced the need for irrigation pumping. The favorable water conditions also reduced the amount of power that normally would have been sold to the California Oregon Power Company, as it was able to produce a greater-than-normal amount of hydro power from its own system. Our resale contract with Southern California Edison Company expired on June 30, 1958, which further distorts comparison with the previous year in the resale category.

Other major classes of service in the Electric Department continued to show satisfactory gains. Sales to our domestic customers increased over 7%, despite the reduction in space heating caused by the warm weather, confirming the strong growth trend that has characterized this class of service for many years. Particularly gratifying was the gain in sales to our large light and power customers of more than 5%. This gain demonstrates, perhaps more than any other single index, the relatively mild impact which the business recession had on the Company's business.

Operating Expenses

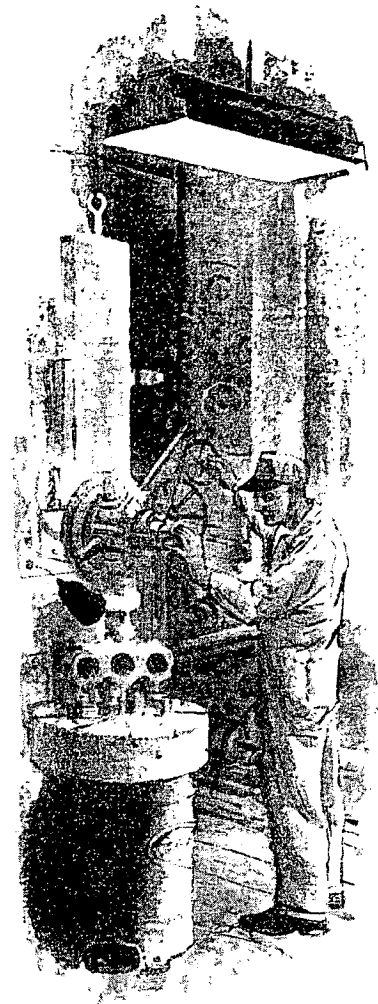
Wages and salaries paid employees engaged in maintaining and operating our properties amounted to \$68,317,000, an increase of \$6,551,000 over the previous year. The major portion of this increase resulted from wage adjustments.

Although the total volume of natural gas purchased was less than in the previous year, the average unit price paid increased by about 7%. Average unit prices paid for natural gas have risen steadily over the past several years, and there is no present indication that the upward trend in the price of natural gas will be arrested in the immediate future.

After a series of price increases commencing in 1956, the posted price of fuel oil reached a postwar peak toward the end of 1957 of \$2.95 a barrel. Three reductions were made in January, April and September of last year, as a result of which the price was reduced to \$2.20 per barrel. Also, since the prices we pay for most gas purchased from California fields escalate with the posted price of fuel oil, these prices as well moved down proportionately.

Apart from changes in average prices paid for fuel oil and natural gas, however, the aggregate cost of fueling our steam-electric generating plants fell well below that of the previous year because of the abundance of water available for hydro generation.

While we can not exercise a great deal of control over many



SUMMARY SHOWING SOURCES AND DISPOSITION OF INCOME—Years 1954–1958 Inclusive

	1958	1957	1956	1955	1954
SOURCES OF INCOME:					
Electric Department revenues	\$351,284,000	\$328,310,000	\$305,855,000	\$289,710,000	\$265,419,000
Gas Department revenues	181,076,000	170,569,000	162,560,000	151,508,000	118,846,000
Revenues from other operating departments	2,418,000	2,365,000	2,329,000	2,282,000	1,979,000
Miscellaneous income	866,000	1,504,000	1,187,000	804,000	1,035,000
Totals	\$535,644,000	\$502,748,000	\$471,931,000	\$444,304,000	\$387,279,000
DISPOSITION OF INCOME:					
Wages and salaries of operating employees	\$ 68,317,000	\$ 61,766,000	\$ 57,146,000	\$ 53,612,000	\$ 50,994,000
Power purchased from wholesale producers	9,370,000	5,684,000	6,190,000	2,917,000	6,377,000
Natural gas purchased	114,590,000	114,227,000	98,808,000	94,947,000	73,980,000
Oil and other fuel purchased	15,683,000	19,517,000	15,309,000	12,222,000	8,442,000
Material and supplies, services from others, etc.	26,983,000	21,328,000	22,165,000	19,143,000	20,345,000
Provision for pensions, insurance, etc.	10,450,000	8,779,000	7,516,000	9,114,000	7,776,000
Provision for depreciation and amortization	51,309,000	48,025,000	44,964,000	43,372,000	39,090,000
Taxes, including provision for federal taxes on income	118,501,000	110,765,000	110,526,000	108,264,000	93,186,000
Special charges in lieu of and for deferred federal and state taxes on income	9,803,000	10,020,000	8,746,000	6,284,000	4,504,000
Bond interest and other income deductions	25,328,000	26,017,000	24,787,000	23,394,000	19,546,000
Dividends declared on preferred stock	18,336,000	18,336,000	18,192,000	17,102,000	16,266,000
Dividends declared on common stock	42,902,000	40,981,000	39,989,000	35,763,000	35,553,000
Balance retained in the business	24,072,000	17,303,000	17,593,000	18,170,000	11,220,000
Totals	\$535,644,000	\$502,748,000	\$471,931,000	\$444,304,000	\$387,279,000
NUMBER OF SHARES OF COMMON STOCK					
OUTSTANDING:					
Average for the year	17,502,415	17,074,941	16,662,129	16,255,733	16,160,533
End of year	17,929,305	17,075,524	17,068,524	16,255,733	16,255,733
EARNINGS PER SHARE OF COMMON STOCK:					
On average shares outstanding	\$3.83	\$3.41	\$3.46	\$3.32	\$2.89
On end-of-year shares outstanding	3.74	3.41	3.37	3.32	2.88
DIVIDENDS PER SHARE OF COMMON STOCK:					
Declared basis	\$2.45	\$2.40	\$2.40	\$2.20	\$2.20
Paid basis	2.40	2.40	2.35	2.20	2.20

of the expenses of conducting our business, such as taxes, materials and fuel, important savings can and are being made by simplifying our procedures and by adopting mechanization wherever possible. To this end, every phase of our operations is constantly undergoing the closest scrutiny. Significant savings, for example, have been obtained by the installation of automatic controls at an increasing number of our hydro-electric plants and substations.

Savings are also being made by the progressive conversion of customer billing and related accounting to an electronic data processing system. Use of this system is permitting the reassignment of a number of clerical employees to more interesting and productive work. Progress is also being made in extending computer operations to include payroll, stores and plant accounting and certain technical applications.

Taxes

Taxes charged against income absorbed about 24% of our gross operating revenues in 1958. The significance of taxes as an element of the cost of supplying service to our customers is placed in sharp focus when it is realized that our tax bill amounts to almost twice all wages and salaries paid to our operating employees.

Taxes and franchise payments paid or accrued during 1958 totaled \$136,524,000, or \$7,636,000 greater than in 1957. A table showing taxes by classes, and a comparison with the previous year, appears on the following page.

As set forth in the notes accompanying the financial statements, the Company in determining its Federal corporation income taxes for the years 1954-1957 elected to adopt accelerated depreciation as permitted by the Internal Revenue Code of 1954. We expect to make a similar election for the taxable year 1958.

As of the date of this report, the California Public Utilities Commission had taken no action on the Company's long pending application to normalize Federal taxes on income in its accounts by charging expenses with an amount equal to the amount of such taxes deferred as a result of adopting accelerated depreciation. This is similar to the accounting treatment previously authorized with respect to accelerated amortization of defense facilities.

In the meantime, the Company has continued to state its income tax expense on a normalized basis, the difference in the amount of tax liability as stated, and the amount paid being reflected in "Accrued Taxes" in the balance sheet.

On September 24, 1958, the California Public Utilities Com-



TAXES AND FRANCHISE PAYMENTS

	1958	1957	Increase
LOCAL TAXES AND FRANCHISE PAYMENTS:			
Ad valorem property taxes	\$ 56,270,000	\$ 51,380,000	\$4,890,000
Franchise payments	3,078,000	2,766,000	312,000
Total local taxes and franchise payments	<u>59,348,000</u>	<u>54,146,000</u>	<u>5,202,000</u>
STATE TAXES:			
Bank and corporation franchise	4,395,000	4,807,000	* 412,000
Provision for state taxes on income payable following period of accelerated amortization	747,000	655,000	92,000
Unemployment insurance	56,000	172,000	* 116,000
Other	452,000	453,000	* 1,000
Total state taxes	<u>5,650,000</u>	<u>6,087,000</u>	<u>* 437,000</u>
CITY AND STATE TAXES:			
Sales and use	2,949,000	3,377,000	* 428,000
FEDERAL TAXES:			
Corporation income	57,422,000	53,845,000	3,577,000
Provision for federal taxes on income payable following period of accelerated amortization	9,056,000	9,365,000	* 309,000
Unemployment insurance	175,000	175,000	—
Old age benefits	1,740,000	1,788,000	* 48,000
Other	182,000	105,000	77,000
Total federal taxes	<u>68,575,000</u>	<u>65,278,000</u>	<u>3,297,000</u>
CANADIAN TAXES	2,000	—	2,000
<hr/>			
TOTAL TAXES AND FRANCHISE PAYMENTS	\$136,524,000	\$128,888,000	\$7,636,000
<hr/>			
CHARGED TO:			
Income account as taxes	\$128,304,000	\$120,785,000	\$7,519,000
Income account as franchise payments	3,078,000	2,766,000	312,000
Capital and other accounts	5,142,000	5,337,000	* 195,000
<hr/>			
TOTAL TAXES AND FRANCHISE PAYMENTS	\$136,524,000	\$128,888,000	\$7,636,000

*Denotes decrease

mission commenced hearings on the treatment to be accorded accelerated depreciation and accelerated amortization for rate making purposes. The Company has taken the position that normalization should be permitted, and hearings on this matter are still continuing.

Dividends

As mentioned in the opening letter of this report, the Board of Directors on December 17, 1958 increased the quarterly dividend rate on the common stock from 60 to 65 cents a share. While applicable to the last quarter of the year, the first dividend at the new rate was not paid until January 15, 1959.

By letter dated December 30, 1958, holders of the Company's common stock were notified that a portion of the last three common dividends paid in 1958 could be excluded from gross taxable income for Federal income tax purposes. The percentage of dividends which was tentatively determined to be non-taxable is subject to review by the Internal Revenue Service of the United States Treasury Department.

The estimated non-taxability of a portion of the dividends paid in 1958 results from the fact that income subject to Federal corporate income taxes is determined in accordance with the revenue laws and applicable regulations which provide for a different treatment of many items affecting the amount of net income, compared with net income as shown by the books which are required to be kept in accordance with standards prescribed by regulatory authorities.

Based on tentative estimates, it is believed that a portion of the dividends that will be paid on the Company's common stock in 1959 will also be non-taxable, and common stockholders will be notified when more definite information becomes available.

Financing

An unusually large amount of permanent financing was conducted by the Company in 1958, with net proceeds approximating \$183 million. This large volume of financing resulted principally from the fact that the Company closed the year 1957 with \$74 million of short-term bank loans outstanding. To retire these bank loans, the Company in January 1958 sold, at competitive bidding, \$75 million face amount of its First and Refunding Mortgage Bonds, Series CC, 3¾%, due December 1, 1978.

Toward the middle of the year common stockholders of record on June 17, 1958 were offered the right to subscribe for 853,781



additional shares of common stock, in the ratio of one share for each twenty shares then held, at a subscription price of \$52 a share. This offering was highly successful, with the net proceeds to the Company amounting to about \$43.7 million after underwriting and corporate costs. The last previous offering of common stock, also on a one for twenty basis, was made in 1956.

Finally, in December 1958, the Company sold at competitive bidding \$65 million face amount of its First and Refunding Mortgage Bonds, Series DD, 4½%, due June 1, 1990. The higher interest rate at which these bonds were marketed as compared with those sold in the early part of the year illustrates the volatile character of the interest rate pattern during the year.

The Company closed the year without any bank loans outstanding for the first time in five years.

Following completion of the financing noted above, the Company's total capitalization at December 31, 1958 amounted to \$2,119 million, consisting of 49.0% bonds, 16.5% preferred stock, and 34.5% common stock equity.

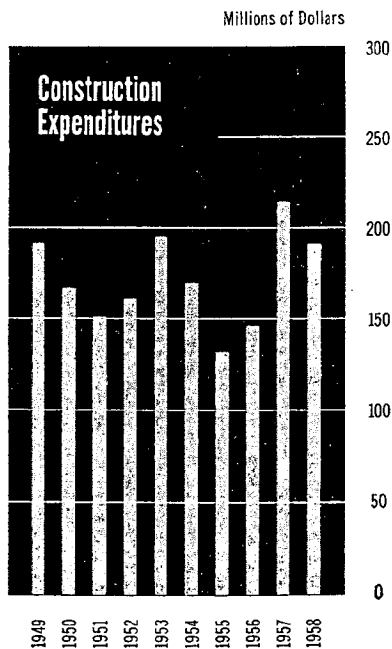
Construction Activities

As programmed, expenditures for construction totaled \$192 million in 1958, or about \$23 million below the record outlay of \$215 million in the previous year. A further reduction in construction expenditures to about \$156 million has been budgeted for 1959.

The major program of hydro-electric plant construction on the Feather and Kings rivers which was begun in 1955 was completed by the year-end. Work on these plants together with the related transmission lines accounted for a substantial portion of the total expenditures for construction in 1958. On the Feather River three new plants—Poe, Caribou No. 2, and Butt Valley—were placed in operation in the closing months of the year, adding 251,000 kilowatts to our electric generating resources. On the North Fork of the Kings River we completed the Wishon and Courtright dams, a major addition to the existing Balch Powerhouse, and the unique underground Haas Powerhouse, the first major installation of its type in the United States. The combined capacity of the new generating facilities on the Kings River is 219,500 kilowatts.

Our steam generating capacity was increased during the year by the addition of a 165,000 kilowatt unit at the Hunters Point Power Plant in San Francisco and a second 50,000 kilowatt unit at the Humboldt Bay Power Plant near Eureka.

A major addition to our natural gas transmission system was



completed in August when a new 175 mile 12-inch pipeline began carrying gas from fields in the northern Sacramento Valley to Eureka. The new line has a capacity of 21 million cubic feet a day and interconnects the Humboldt County area for the first time with our main gas transmission system. Prior to the completion of the line the area was being supplied primarily from local gas wells, which were rapidly being depleted.

Construction was started in 1958 on two 325,000 kilowatt steam-electric generating units to be added to our existing Pittsburg Power Plant. These units will be twice the size of any now in service on our system. The first unit is scheduled for operation in 1960 and the second in the following year. With the installation of these two units, the total capacity of our Pittsburg Power Plant will be 1,310,000 kilowatts, which will place it among the largest steam-electric stations in the country.

Nuclear Power

While the Company will undoubtedly continue to build conventional electric generating plants for many years to come, recent advances in reactor technology suggest the possibility that competitive nuclear power plants will become a reality much sooner than was thought likely only a few years ago.

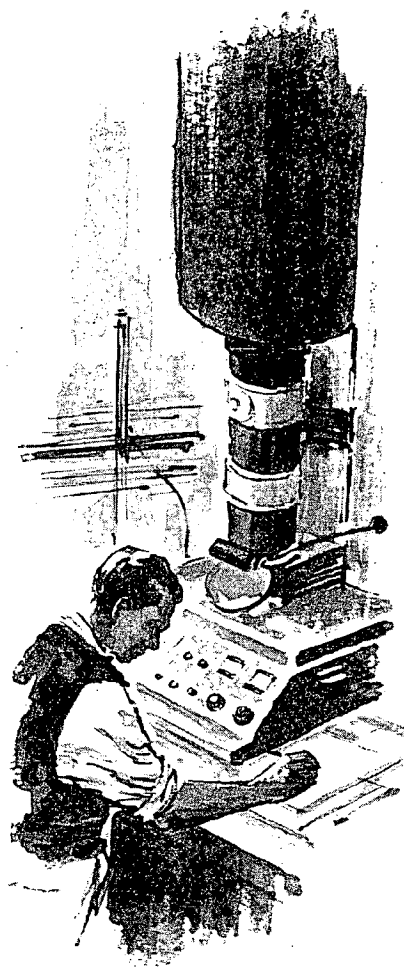
The Company intends to stay in the forefront of developments in this field and to this end is actively engaged in five nuclear projects. These are:

1. The Company is a member of Nuclear Power Group, Inc., a seven-member group which is co-sponsoring construction of the 180,000 kilowatt Dresden Atomic Station scheduled for completion in 1960. Located near Chicago, this plant will be owned and operated by Commonwealth Edison Company.

2. The Company is a partner with General Electric Company in building and operating the 5,000 kilowatt Vallecitos Atomic Power Plant located about forty miles southeast of San Francisco. When placed in operation in October 1957, it was the world's first all-privately financed nuclear-electric plant.

3. The Company has entered into a contract for construction of a 60,000 kilowatt nuclear plant to be located at our existing Humboldt Bay Power Plant near Eureka. This plant will be constructed without any subsidy of any character. The plant, which is to be located in an area of relatively high fuel costs, is expected to produce power at a cost that will approximate that from a conventional plant. The design and engineering are well advanced and completion is scheduled in 1962.

4. The Company is conducting studies looking to the con-



struction of a 200,000 kilowatt atomic electric unit which the Company has informed the Atomic Energy Commission it will install in the San Francisco bay area when cost goals for a unit of this size can be achieved.

5. The Company is also a member of High Temperature Reactor Development Associates, Inc. formed in November 1958 which has made a proposal to the Atomic Energy Commission to construct a 40,000 kilowatt gas-cooled reactor plant on the Philadelphia Electric Company system in Pennsylvania. The project will evaluate this advanced high temperature design.

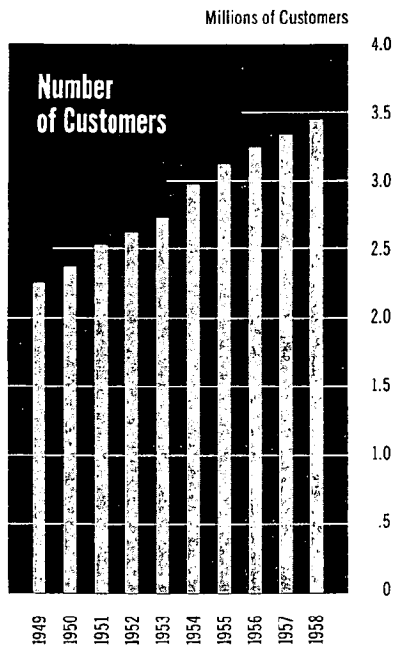
Customers

The net gain in customers in 1958 was almost identical with that of the previous year, although in neither year did the gain reach the level of most prior postwar years.

The number of new customers connected in 1958 was 96,332, and at the year-end P G & E was serving 3,440,902 customers in all branches of its operations.

The smaller number of customers connected in the past two years is largely a reflection of the noticeable decline in new housing starts which commenced in the fall of 1956. This trend was reversed, however, in the third quarter of 1958, and we are presently forecasting that a larger number of new customers will be connected to our lines in 1959.

The table at the bottom of the page sets forth the number of customers served by departments at the end of 1958 and a comparison with the previous year.



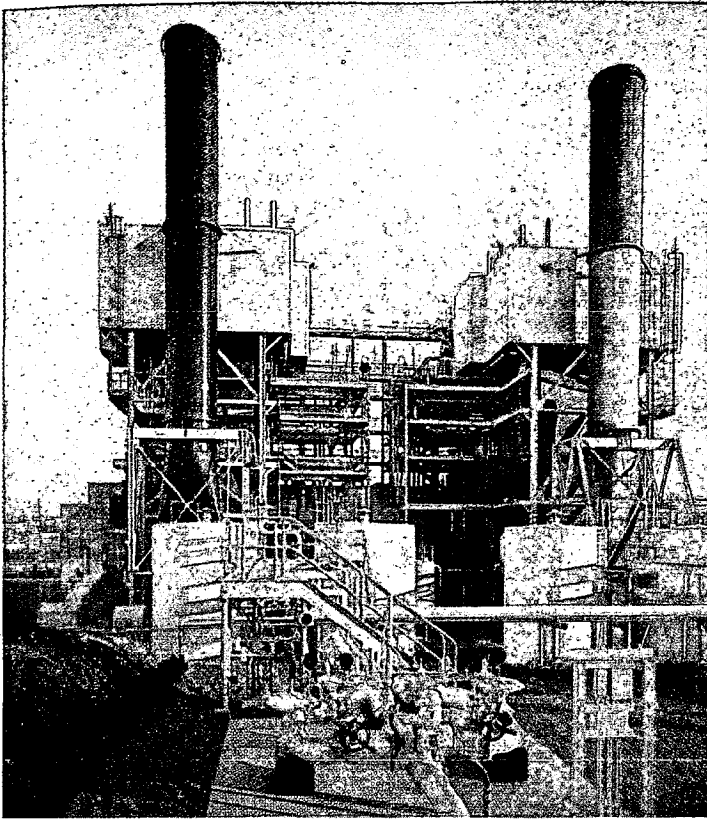
Operations

In 1958 gross system electric output reached a new peak of 23.1 billion kilowatt-hours. Of the total output our hydro plants pro-

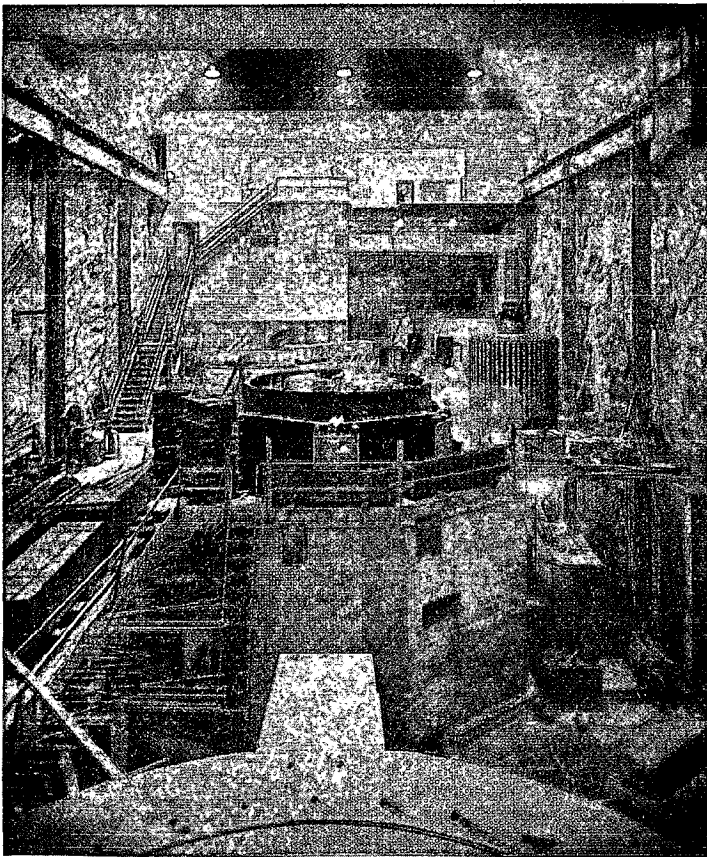
CUSTOMERS—By Departments and Increase During Year

	December 31		Increase during 1958
	1958	1957	
Electric Department	1,848,336	1,801,479	46,857
Gas Department	1,566,236	1,517,823	48,413
Water Department	25,669	24,590	1,079
Steam Sales Department	661	678	* 17
Totals	<u>3,440,902</u>	<u>3,344,570</u>	<u>96,332</u>

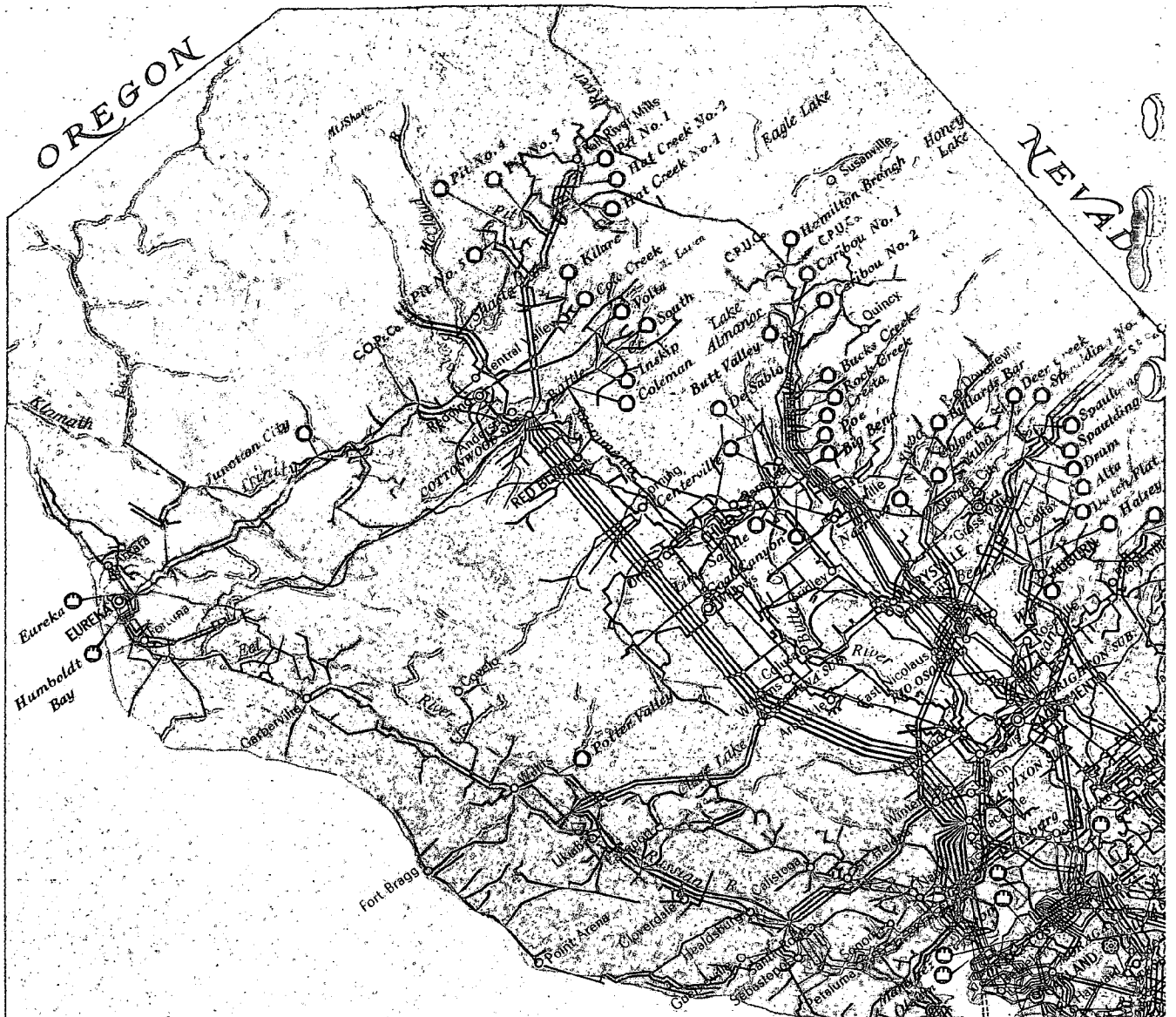
*Denotes decrease



Humboldt Bay Powerhouse. A second unit of 50,000 kilowatts capacity was completed at this plant in 1958. A third unit of 60,000 kilowatts capacity to be fueled by nuclear energy will be constructed at this site, and is scheduled for operation in 1962.



Haas Powerhouse carved out of solid granite 2,000 feet inside a mountain was completed in 1958. Together with the expansion of the existing Balch Powerhouse, this plant increased the installed capacity on the North Fork of the Kings River by 219,500 kilowatts.



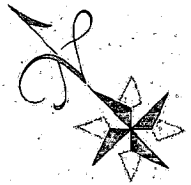
TERRITORY SERVED BY THE
Pacific Gas and Electric Company

DECEMBER 31, 1958

The Company operates an integrated system extending into 47 California counties with an estimated population of 6,310,000.

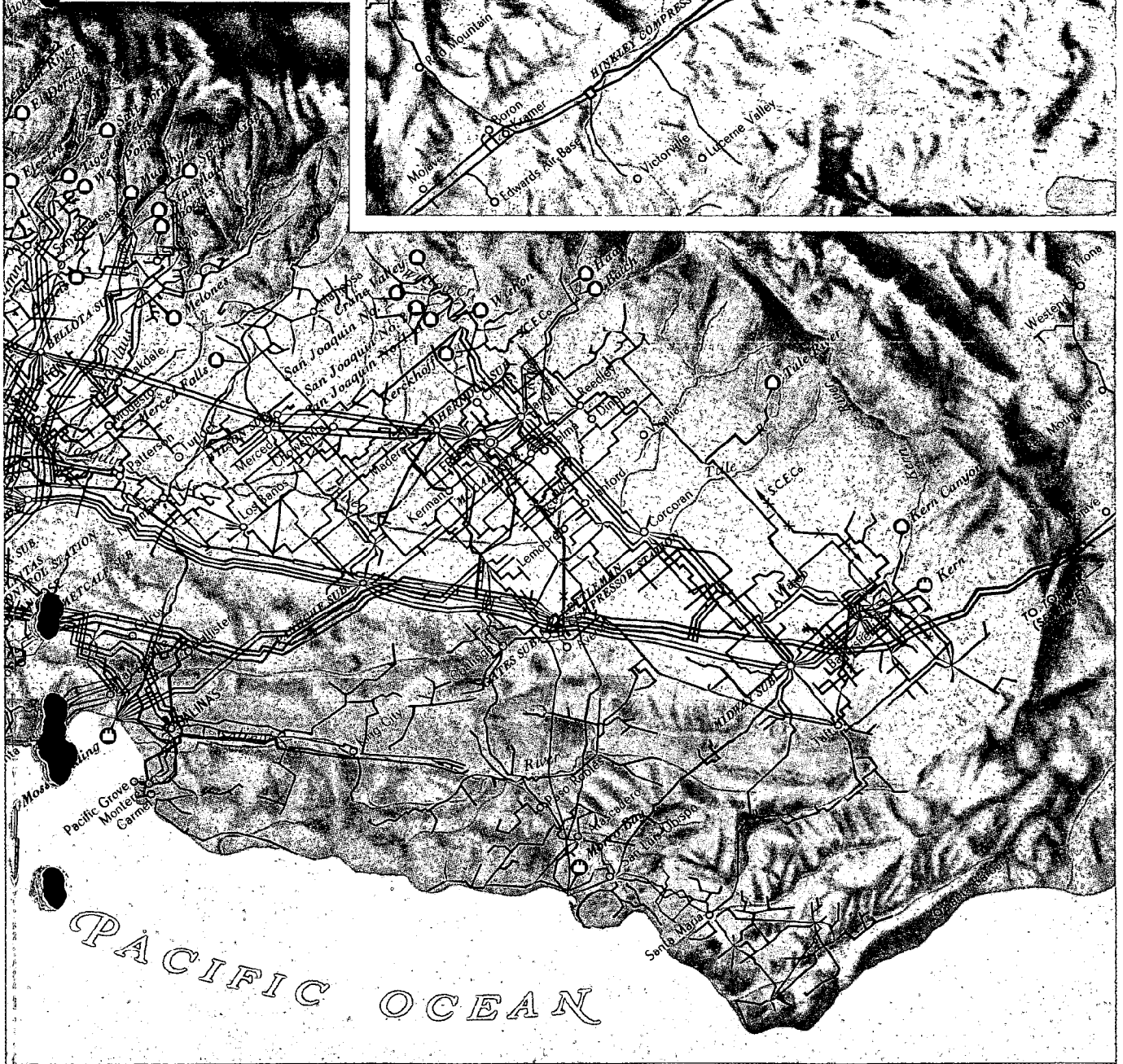
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|---|---|
| <p>ELECTRIC SYSTEM</p> <ul style="list-style-type: none"> ○ Generating Plants—Steam-electric ◐ Generating Plants—Hydro-electric ⊙ Generating Plants—Atomic-electric — Major Electric Lines — Connecting Companies | <p>GAS SYSTEM</p> <ul style="list-style-type: none"> ◻ Compressor Stations ○ Generating Plants — Major Gas Lines — Connecting Companies — Standard Pacific Gas Line, Inc. |
|---|---|

62 Hydro Plants	1,922,500 Kw.	3,800 miles gas transmission lines
14 Steam & Atomic Plants	3,296,500 Kw.	17,200 miles gas distribution lines
76 Plants Capacity	5,219,000 Kw.	21,000 miles of gas pipe lines
Capacity from others	450,000 Kw.	
71,100 miles of electric power lines		



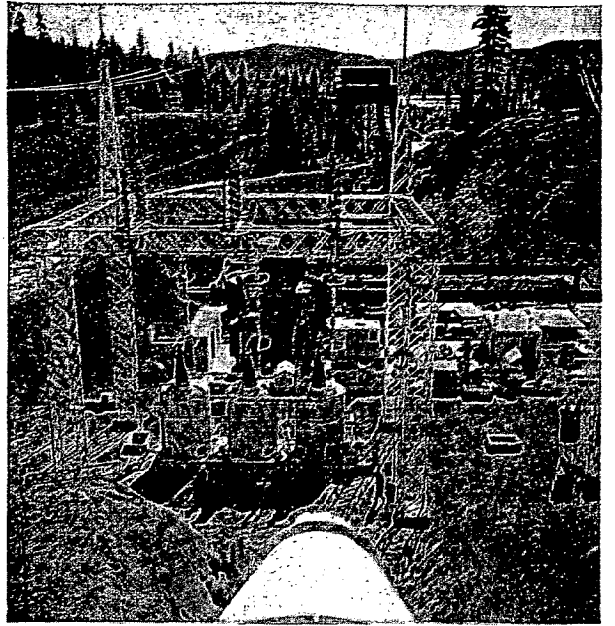
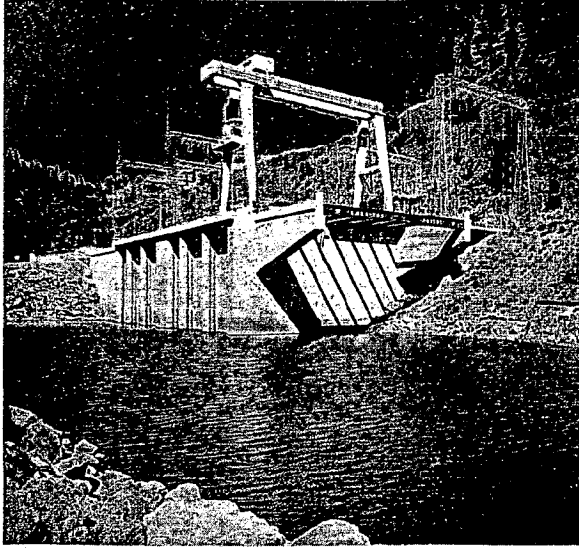
NEVADA

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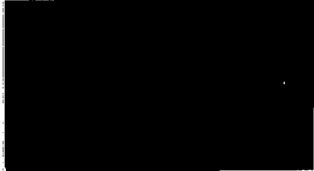
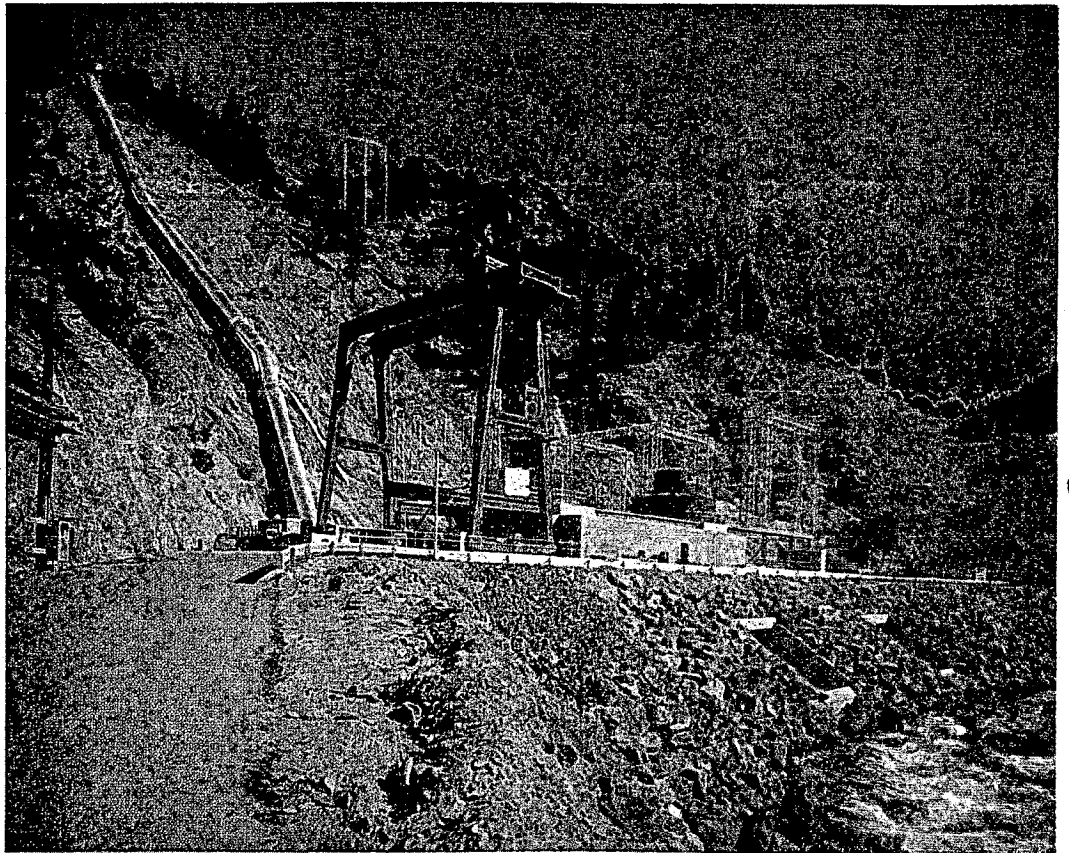


PACIFIC OCEAN

The Feather River
Stairway of Power



Completion in 1958 of the Butt Valley Powerhouse (above), Poe Powerhouse (left) and the Caribou No. 2 Powerhouse (below) increased the number of hydroelectric plants on the Feather River to nine with a total installed generating capacity of 635,800 kilowatts.



duced 10.1 billion kilowatt-hours, our steam plants 9.3 billion, and the remaining 3.7 billion was received from other sources.

Precipitation in the 1957-1958 winter season was much greater than normal, with heavy deposits of snow in the mountain areas. The runoff that followed was orderly, with the result that we had an exceptionally favorable year for hydro generation. This, coupled with the greater output from the hydro plants of other suppliers, enabled us to reduce the production of electricity in our steam generating plants by 2.8 billion kilowatt-hours as compared with the previous year, with accompanying savings in fuel cost.

We closed the year with the equivalent of approximately $1\frac{1}{2}$ billion kilowatt-hours in the form of stored water, a much greater carryover than normal. This occurred despite one of the driest fall and early winter seasons of record.

The peak demand on our electric system, which occurred on July 11, was 4,019,200 kilowatts, or slightly below that recorded in the previous year. The 1958 peak demand was about 7% less than expected, which was the result of depressed demand in certain industries and more particularly of the reduction in the agricultural pumping load caused by the extremely wet 1957-1958 winter season. Our winter peak last December substantially equaled the summer peak, whereas normally we would have expected the summer peak to exceed the winter peak by almost 300,000 kilowatts.

Late in the year the Company, through its wholly-owned subsidiary, Natural Gas Corporation of California, took the initial step in the development of a major underground natural gas storage project. Natural Gas Corporation exchanged substantially all of its mineral holdings in the Rio Vista gas field for Standard Oil Company of California's rights and interests in the McDonald Island field, located about 50 miles east of San Francisco. The latter's holdings included eleven wells and an 18" main and related equipment which connects the field to the P G & E main gas transmission system.

We are now in the process of injecting 18 billion cubic feet of foreign gas into the McDonald Island field, which, together with the native gas in place, will provide us with 48 billion cubic feet of so-called cushion gas. Above this, an additional 30 billion cubic feet of foreign gas will then be injected, which will be available for withdrawal to meet customers' peak demands.

The Company is also going forward with the development of a smaller natural gas storage project at the Pleasant Creek field, some 60 miles north of San Francisco.

Such underground gas storage projects provide an economical



and efficient means of meeting winter peak-day demands, and make possible substantial savings in capital investment that would otherwise be required to augment the size of the gas transmission system and above-ground storage facilities.

Business Development

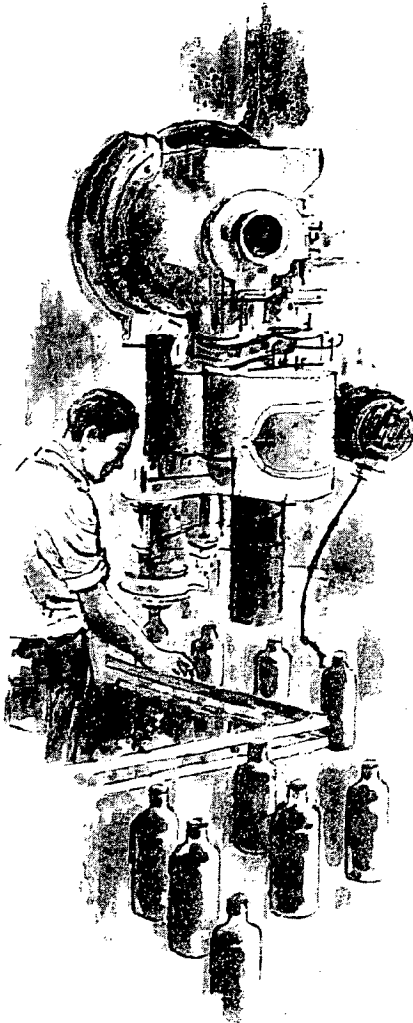
When it became apparent late in 1957 that a business recession was upon us, the Company formulated plans to intensify its sales promotion activities.

Residential sales were stimulated by a series of campaigns and activities designed to improve dealer sales of gas and electric load-building appliances. Extensive use was made of television, newspaper advertising, billboards and other media. Typical of such promotions was the "Better Buy . . . Now" campaign which was launched in cooperation with industry organizations such as the Northern California Electrical Bureau and the Gas Appliance Society of California. Some measure of the effectiveness of these promotional activities is evidenced by the fact that sales of gas and electric ranges, clothes dryers, and television sets in our service area equaled or exceeded those of 1957. Nationally, the sales of these same appliances showed declines from the previous year.

Another indication of their effectiveness was the increase in the average residential use of electricity, which rose to 3,046 kilowatt-hours in 1958, or 123 kilowatt-hours greater than in the preceding year. This level of residential use is more than twice the average consumption in 1946, reflecting the greatly expanded use of electrical appliances in the home in the postwar period.

In the commercial field, our certified lighting program was continued in 1958 with good results. This program involves the certification of customers' lighting in conformity with the standards set by the Illuminating Engineering Society. Approximately 35% of the total certifications issued in the entire country in 1958 went to our customers.

Use of electricity on the farm is an important segment of the Company's business. In no other area of the country is electricity utilized as extensively in farm operations. The Company pioneered in rural electrification and today more than 98% of the farms in its service area are electrified. New sales opportunities in this class of service have not been overlooked in the Company's effort to develop additional business, and last year our sales effort was directed principally to the promotion of sprinkler irrigation and further electrification of poultry and dairy farms.



Gas Supply

In 1958 approximately 72% of our total natural gas supply originated from out-of-state sources, principally from fields in Texas and New Mexico. This gas was delivered to us at the California-Arizona Border through the transmission system of El Paso Natural Gas Company.

Our present gas service agreement obligates the El Paso Company to deliver to us a maximum volume of 950 million cubic feet of natural gas per day. An agreement covering delivery of an additional 75 million cubic feet per day on a temporary basis until June 30, 1959, and on a regular basis thereafter has received the necessary regulatory approvals. It is anticipated that this agreement will be incorporated in the basic service contract sometime later in 1959.

To further augment our supply of gas, we have signed a letter of intent with El Paso to provide us with an additional 200 million cubic feet per day, of which 100 million will become available on November 1, 1959, and the balance on November 1, 1960, subject to obtaining the necessary regulatory approvals.

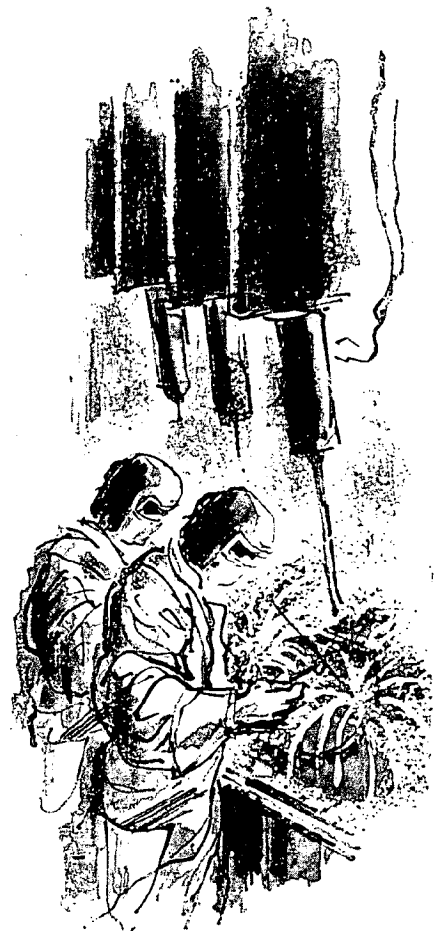
With a view to obtaining an independently controlled natural gas supply, the Company is continuing its efforts to obtain a permit through its wholly-owned subsidiary, Alberta and Southern Gas Company, Ltd., to export natural gas from the Province of Alberta in Canada. The general nature of the project, involving a 1,300-mile 36" gas transmission line, was outlined in last year's annual report. Developments during the past year were covered in our quarterly letters to stockholders.

As of the date of this report we are awaiting a decision from the Alberta Oil and Gas Conservation Board on the application of Alberta and Southern Gas Company, Ltd., for a permit to export 450 million cubic feet of gas per day from the Province over a 25-year period. We are hopeful that a decision of the Conservation Board will be announced shortly.

In the meantime, for the purpose of obtaining the additional governmental authorizations that will be required for the project, applications have been filed with the Minister of Trade and Commerce and the Board of Transport Commissioners in Ottawa, Canada, with the Federal Power Commission in Washington, D.C., and with the California Public Utilities Commission.

Rate Matters

We have previously reported that the Company on November 13, 1957, filed an application with the California Public Utilities



Commission requesting an increase in gas rates of about \$18 million annually. After extended hearings the Commission on July 9, 1958, issued its order authorizing an increase of approximately \$9½ million annually effective for service rendered on and after August 1, 1958. In its decision, the Commission took into account reductions in prices of gas purchased from California fields of almost \$5 million on an annual basis which occurred subsequent to the filing of the application. The new rates were estimated by the Commission to produce a rate of return of 6.52% on the Company's investment in gas facilities.

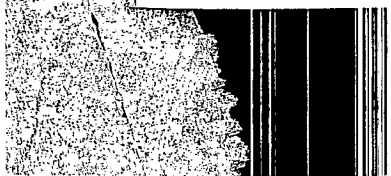
In previous reports stockholders were advised of increased rates for out-of-state gas purchased from El Paso Natural Gas Company, which were placed in effect in April 1955 and in January 1958. The Company is recovering most of these increases by offsetting rate increases to its customers, as authorized by the California Public Utilities Commission. If the offsetting charges collected exceed the increases in the El Paso rates as finally determined by the Federal Power Commission, the excess will be refunded to our customers. As of the date of this report the Federal Power Commission has not rendered its decision in either proceeding.

The El Paso Company in January 1959 filed an application with the Federal Power Commission to further increase its rates for natural gas furnished the Company by \$13,241,000 annually. It is anticipated that the rate increase will become effective under bond on August 1, 1959, subject to refund to the extent it exceeds the rate as finally determined by the Federal Power Commission. In turn, the Company intends to file an application with the California Public Utilities Commission to place offsetting charges in effect at the time the new El Paso rates become effective.

Personnel

At the close of 1958 P G & E had 18,299 employees compared with 18,077 at the close of the previous year. Wages and salary payments amounted to \$112,921,000 of which \$68,317,000 was paid to operating employees and charged against income for the year. The remainder, representing the payroll of employees engaged in construction, was charged to capital accounts.

Our labor agreements with the International Brotherhood of Electrical Workers (IBEW) and the Engineers and Scientists of California (ESC) continued in effect throughout 1958 having been amended on July 1, 1957, and August 1, 1957, respectively. A deferred general wage increase of 5%, which was negotiated



in 1957, was placed in effect on July 1, 1958 for employees represented by the IBEW, and on August 1, 1958 for employees represented by the ESC. Wages and salaries of employees not represented by a union were similarly adjusted.

Late in the year the Company announced its intention to place in effect a Savings Fund Plan for its employees. It is expected that the Plan will become effective on April 1, 1959, subject to approvals by stockholders and the Internal Revenue Service.

The Plan is designed to encourage individual savings and to assist employees in acquiring a stock interest in the Company on a continuing basis. Under its terms eligible employees may authorize contributions through payroll deductions ranging from 2% to a maximum of 6% of their regular pay, with the Company contributing 50 cents for each one dollar contributed by the employee. All of the Company contributions will be invested in P G & E common stock; the employee may elect to have his contribution invested in stock or partly or wholly in United States Savings Bonds. All contributions will be paid over to a Trustee who will keep each employee's account fully invested in accordance with his election.

This Plan represents a major addition to our employee benefit structure, and is in keeping with an accelerating nationwide trend to assist employees in obtaining a stock interest in the corporations by which they are employed. It is believed that adoption of the Plan will promote the best interests of the stockholders and the customers of the Company by assisting in the acquisition and retention of the services of qualified personnel.



SUMMARY OF PAYROLLS—And Other Employee Benefits, Year 1958

PAYROLLS:

Operating employees	\$ 68,317,000
Construction employees	44,604,000
Sub-total	<u>\$112,921,000</u>

OTHER EMPLOYEE BENEFITS PAID BY COMPANY:

Contributions to Retirement Plan	\$ 8,910,000
Pension payments made by Trustee	804,000
State unemployment insurance tax	56,000
Federal unemployment insurance tax	175,000
Federal old-age benefits tax	1,740,000
Contributions to Group Life Insurance Plan	307,000
Contributions to employee association	509,000
Sub-total	<u>\$ 12,501,000</u>
TOTAL PAYROLLS AND OTHER EMPLOYEE BENEFITS	<u><u>\$125,422,000</u></u>

DISTRIBUTION OF STOCK OWNERSHIP—By Class of Investor, December 31, 1958

CLASS OF INVESTOR	<i>Number of Stockholders</i>	<i>Number of Shares Owned</i>
Women stockholders	88,831	7,369,439
Joint and other tenancies	63,660	4,755,274
Men stockholders	51,335	4,572,709
Trustees, guardians and other fiduciaries	14,253	1,846,979
Nominees	2,371	6,556,849
Corporations, partnerships and proprietorships	1,773	871,571
Charitable and fraternal organizations and foundations	1,381	295,342
Banks, investment companies and security dealers	956	1,521,314
Insurance companies	661	3,793,405
Religious institutions	504	96,549
Educational institutions	455	259,863
TOTALS	<u>226,180</u>	<u>31,939,294</u>

Stock Ownership

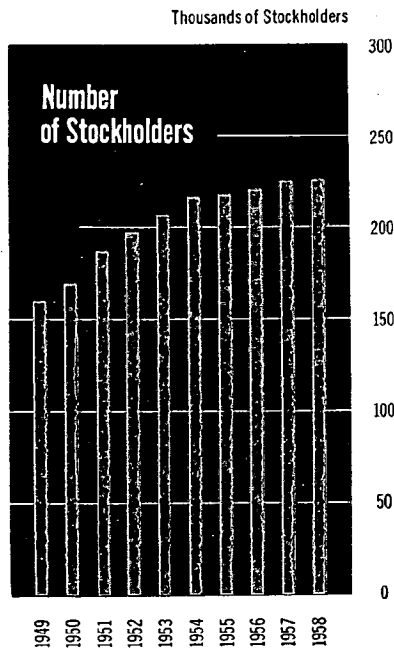
One of the most encouraging developments of recent years has been the broadening ownership of American corporations. At the close of 1958 P G & E was owned by 226,180 individual and institutional investors. While the gain in 1958 was smaller than in some previous years, it nonetheless represented the nineteenth consecutive year in which the Company has recorded an increase in its ownership.

Of the total, 86,449 were preferred stockholders and 139,731 common stockholders.

The Company continues to have the distinction of being the most widely owned electric and gas utility in the nation and ranks seventh in number of stockholders among the corporations of the country. P G & E is truly a publicly owned utility.

Our stockholders reside in every state of the union and in a number of foreign countries, but the greatest number by far—about 65.3%—have California addresses and own 44.7% of the outstanding stock.

During recent years an increasing proportion of our stock has been added to the portfolios of institutional investors. These include insurance companies, investment trusts, pension funds, educational institutions and foundations. The practical effect of this is that literally millions have come to have an interest in the equity securities of the Company, and that the number of stockholders of record falls far short of measuring the number of those who have a real, although indirect, ownership interest. An even greater indirect financial interest can be associated with



the Company's outstanding bonds, which are almost entirely owned by institutional investors.

Central Valley Power

As previously reported to stockholders, a bill was introduced in Congress early in 1957 to authorize the joint development of the Trinity River water power resources by the United States and the Company. Construction of the project was originally authorized by Congress as an addition to the Central Valley Project in 1955.

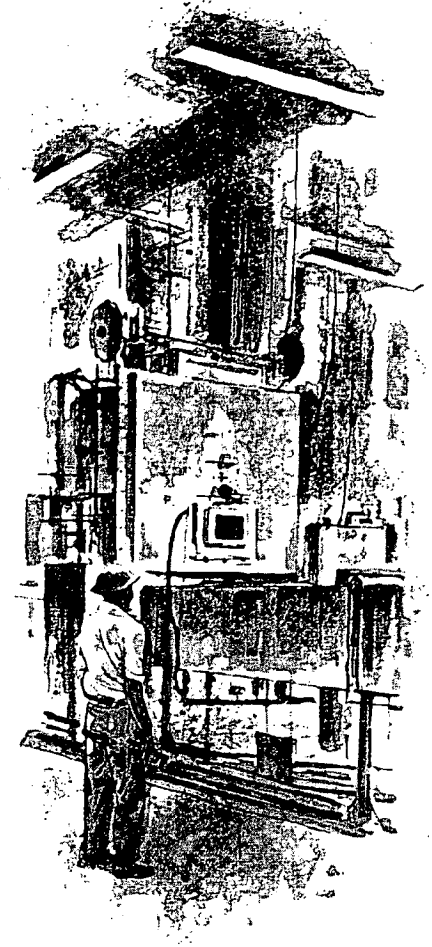
Early in 1958 a hearing on the bill was held by the House Committee on Interior and Insular Affairs. Under its proposal, the Company would construct the power facilities of the Trinity River Division of Central Valley project and would pay the United States for use of the falling water made available by the government dams. The Secretary of the Interior and representatives of the Company appeared before the Committee and presented testimony showing that the government would save almost \$56 million in project capital costs and that, during the 50-year project repayment period, (1) the project surplus would be increased by more than \$170 million, (2) \$83 million in federal tax revenues would be created and (3) state and local governments would receive \$62,500,000 in taxes. None of these benefits would be available under Federal construction and operation.

The Committee did not report on the Trinity bill. However, a majority of its members signed a statement which was sent to the Secretary of the Interior and to the House and Senate Appropriations Committees urging that no funds for Federal Trinity power facilities be requested or approved until such time as the Congress has had ample opportunity to carefully consider and act on this legislation.

Enactment of this proposed legislation would reduce Federal expenditures at a time when it is highly desirable to do so, and would make Trinity power available without discrimination to the over six million people served by the Company under rates regulated by the State of California.

Directors and Officers

As recorded in last year's report, Mr. Russell Giffen, a widely-known agriculturist and community leader of Fresno, was elected a member of the Board of Directors on January 21, 1958 to fill the vacancy caused by the death of Mr. Allen L. Chickering. At the time of his death on January 6, 1958, Mr. Chickering was





the oldest member of the Board of Directors in point of service.

Mr. Walter H. Sullivan, a member of the Board of Directors since 1945, resigned effective January 15, 1959. He had also served on the Executive Committee for a period during 1958. During his tenure on the Board, Mr. Sullivan made many contributions to the Company's welfare and his resignation was accepted with sincere regret.

On February 18, 1959, Mr. David Packard was elected a member of the Board of Directors to fill the vacancy caused by the resignation of Mr. Sullivan. Mr. Packard, a resident of Los Altos, is a co-founder and President of Hewlett-Packard Company, which is engaged in the research and manufacture of precision electronic instruments in Palo Alto. He is President of the Board of Trustees of Stanford University, a director of Crocker-Anglo National Bank, and is associated with many technical, trade and educational groups.

Mr. James K. Lohead, a member of the Board of Directors since 1948, was elected a member of the Executive Committee on October 15, 1958, succeeding Mr. Walter H. Sullivan.

On May 1, 1958 Mr. Shermer L. Sibley, whose service with the Company began in 1936, was elected Vice-President and General Manager. Mr. Sibley was Vice-President and Assistant General Manager at the time of his election, a position he had held since August 1955.

On July 1, 1958 Mr. George A. Peers, Vice-President in Charge of Electric Operations, retired after thirty-eight years of outstanding service with the Company. He was succeeded by Mr. Arthur J. Swank who had been serving as Vice-President in Charge of General Construction since July 1953. Mr. Herbert W. Haberkorn, Manager of Hydroelectric Construction, was elected Vice-President in Charge of General Construction succeeding Mr. Swank. Both Mr. Swank and Mr. Haberkorn have long records of service with the Company.

On August 20, 1958 Mr. Kenneth C. Christensen, who became Treasurer of the Company in 1952, was elected Vice-President and Treasurer.

Mr. J. K. Horton, Vice-President, resigned effective February 1, 1959 to accept the Presidency of Southern California Edison Company. Mr. Horton was appointed a Vice-President on September 1, 1954 following the acquisition and merger of Pacific Public Service Company and Coast Counties Gas and Electric Company, both of which companies Mr. Horton had been serving as President.

ACCOUNTANTS' OPINION

The Board of Directors of
Pacific Gas and Electric Company:

We have examined the balance sheet of Pacific Gas and Electric Company as of December 31, 1958 and the related statements of net income and earned surplus for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. Previously we made a similar examination for the preceding year.

In our opinion, the accompanying balance sheet and statements of net income and earned surplus present fairly the financial position of the Company at December 31, 1958 and the results of its operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Haskins & Sells

February 20, 1959.

PACIFIC GAS AND ELECTRIC COMPANY

Statement of Net Income for the Years-Ended December 31, 1958 and 1957

	1958	1957
GROSS OPERATING REVENUES:		
Electric department	\$351,283,590	\$328,309,748
Gas department	181,076,254	170,569,441
Other departments	2,418,064	2,364,347
Total	534,777,908	501,243,536
OPERATING EXPENSES:		
Maintenance and repairs	18,947,044	15,484,026
Production expenses:		
Power purchased	9,370,007	5,683,779
Natural gas purchased	114,589,710	114,227,153
Oil and other fuel	15,683,184	19,516,914
Other	11,699,806	9,799,936
Transmission expenses	4,968,179	3,672,932
Distribution expenses	22,683,132	21,348,027
Customers' accounting and collecting expenses	18,968,582	16,747,025
Sales promotion expenses	4,932,780	4,214,653
Provision for depreciation and amortization	51,308,697	48,025,298
Taxes:		
Provision for Federal income tax (Note 4)	66,470,802	63,142,012
Other taxes	61,833,075	57,643,024
Administrative and general expenses	22,306,173	19,646,976
Provision for doubtful accounts	1,245,000	960,000
Total	425,006,171	400,111,755
NET OPERATING REVENUES	109,771,737	101,131,781
MISCELLANEOUS INCOME:		
Dividends from subsidiaries	378,000	944,000
Other (net)	488,357	560,379
Total	866,357	1,504,379
Total	110,638,094	102,636,160
INCOME DEDUCTIONS:		
Interest on funded debt	32,006,861	27,760,054
Amortization of net bond discount and expense	425,724	428,166
Miscellaneous interest	1,097,738	1,374,255
Interest charged to construction	9,048,989*	4,533,758*
Other	846,903	987,903
Total	25,328,237	26,016,620
NET INCOME	\$ 85,309,857	\$ 76,619,540

*Denotes red figure

The accompanying Notes to Financial Statements are an integral part of this statement.

PACIFIC GAS AND ELECTRIC COMPANY

Statement of Earned Surplus for the Years Ended December 31, 1958 and 1957

	1958	1957
BALANCE, JANUARY 1	\$161,923,007	\$134,237,198
NET INCOME	85,309,857	76,619,540
OTHER ADDITIONS:		
Additions to restricted surplus for taxes on income payable following period of accelerated amortization (Note 4)	9,802,753	10,019,914
Purchase discount on bonds reacquired and unamortized net discount and expense applicable thereto	347,794	253,065
Surplus adjustment from merger of subsidiary		95,911*
Other—net (includes net gain on exchanges and sales of property: 1958—\$471,308; 1957—\$202,825)	429,313	206,134
Total	<u>257,812,724</u>	<u>221,239,940</u>
DIVIDENDS ON CAPITAL STOCK—CASH:		
First preferred—various series	18,335,667	18,335,675
Common	42,902,260	40,981,258
Total	<u>61,237,927</u>	<u>59,316,933</u>
BALANCE, DECEMBER 31 (restricted for taxes on income payable following period of accelerated amortization: 1958, \$38,113,862; 1957, \$28,311,109—Note 4)	<u>\$196,574,797</u>	<u>\$161,923,007</u>

*Denotes red figure

The accompanying Notes to Financial Statements are an integral part of this statement.

PACIFIC GAS AND ELECTRIC COMPANY

Balance Sheet, December 31, 1958 and 1957

A S S E T S	1958	1957
UTILITY PLANT (Note 2):		
Tangible	\$2,630,176,309	\$2,467,697,661
Intangible	1,385,443	1,353,640
Total utility plant	2,631,561,752	2,469,051,301
Less reserve for depreciation and amortization	501,481,683	470,403,481
Utility plant—net	2,130,080,069	1,998,647,820
INVESTMENTS AND NON-CURRENT RECEIVABLES:		
Capital stock of subsidiaries—at cost (Notes 1 and 3)	15,225,661	15,149,975
Advances to subsidiaries	556,129	322,417
Investment in other physical property—at cost	3,640,719	3,878,983
Other investments and non-current receivables	3,022,905	3,290,256
Total investments and non-current receivables	22,445,414	22,641,631
CURRENT ASSETS:		
Cash	29,472,141	24,665,428
Accounts receivable (less reserve for doubtful accounts: 1958, \$2,124,247; 1957, \$2,264,653)	42,453,267	42,145,680
Accounts and notes receivable from subsidiaries	2,507,129	519,539
Materials and supplies (for operations and construction)—at average cost	18,553,253	18,434,964
Gas stored underground—at average cost	224,180	68,830
Prepaid taxes and other prepaid expenses (Note 4)	33,723,176	27,338,016
Total current assets	126,933,146	113,172,457
DEFERRED CHARGES:		
Unamortized bond discount and expense (Note 3)	10,033,843	10,076,417
Other	1,464,759	1,732,857
Total deferred charges	11,498,602	11,809,274
TOTAL	<u>\$2,290,957,231</u>	<u>\$2,146,271,182</u>

The accompanying Notes to Financial Statements are an integral part of this statement.

PACIFIC GAS AND ELECTRIC COMPANY

Balance Sheet, December 31, 1958 and 1957

LIABILITIES		1958	1957
CAPITALIZATION:			
Capital stock and surplus:			
Capital stock (Schedule 1):			
First preferred		\$ 350,249,775	\$ 350,249,775
Common		448,234,575	426,890,050
Excess of premiums received over discount and expense on outstanding shares		86,995,109	64,653,994
Total capital stock		<u>885,479,459</u>	<u>841,793,819</u>
Surplus:			
Capital surplus		627,217	627,217
Earned surplus (including restricted surplus: 1958, \$38,113,862; 1957, \$28,311,109—Note 4)		196,574,797	161,923,007
Total surplus		<u>197,202,014</u>	<u>162,550,224</u>
Total capital stock and surplus		1,082,681,473	1,004,344,043
Mortgage bonds (less sinking-fund requirements) (Schedule 2)		1,036,193,680	906,799,410
Total capitalization		<u>2,118,875,153</u>	<u>1,911,143,453</u>
CURRENT LIABILITIES:			
Bank loans			74,000,000
Accounts payable		27,838,191	25,085,117
Drafts outstanding		871,535	1,047,982
Dividends payable		11,654,827	10,246,742
Current sinking-fund requirements (Note 3)		5,642,320	6,661,590
Accrued interest		3,185,460	2,738,991
Customers' deposits		2,351,081	2,110,105
Accrued taxes (Note 4)		85,259,814	78,486,745
Total current liabilities		<u>136,803,228</u>	<u>200,377,272</u>
DEFERRED CREDITS:			
Unamortized ad valorem tax credits (Note 4)		8,165,792	9,332,334
Customers' advances for construction		4,605,406	4,072,306
Unamortized premium on bonds		1,752,547	1,644,641
Other		85,632	539,815
Total deferred credits		<u>14,609,377</u>	<u>15,589,096</u>
RESERVES:			
Insurance and casualties		2,909,930	2,849,803
Contingent electric rate refund		889,918	889,918
Adjustment of plant accounts		47,928	475,600
Other		80,000	
Total reserves		<u>3,927,776</u>	<u>4,215,321</u>
CONTRIBUTIONS IN AID OF CONSTRUCTION			
		16,741,697	14,946,040
TOTAL		<u><u>\$2,290,957,231</u></u>	<u><u>\$2,146,271,182</u></u>

The accompanying Notes to Financial Statements are an integral part of this statement.

PACIFIC GAS AND ELECTRIC COMPANY

Capital Stock, December 31, 1958

SCHEDULE 1	Description	Shares Authorized	Issued and Outstanding — Held by Public	
			Shares	Amount
FIRST PREFERRED, CUMULATIVE, PAR VALUE \$25 PER SHARE:				
	6%	4,211,662	4,211,662	\$105,291,550
	5½%	1,173,163	1,173,163	29,329,075
	5%	400,000	400,000	10,000,000
	5% redeemable	2,860,977	2,860,977	71,524,425
	5% redeemable—Series A	1,750,000	1,719,388	42,984,700
	4.80% redeemable	1,517,375	1,517,375	37,934,375
	4.50% redeemable	1,127,426	1,127,426	28,185,650
	4.36% redeemable	1,000,000	1,000,000	25,000,000
	Redeemable (unclassified in series)	5,959,397		
	TOTAL	20,000,000	14,009,991	350,249,775
	COMMON, PAR VALUE \$25 PER SHARE	25,000,000	17,929,383	448,234,575
	TOTAL	45,000,000	31,939,374	798,484,350
	EXCESS OF PREMIUMS RECEIVED OVER DISCOUNT AND EXPENSE ON OUTSTANDING SHARES			86,995,109
	TOTAL			\$885,479,459

Mortgage Bonds, December 31, 1958

SCHEDULE 2	Title of Issue	Interest Rate %	Maturity	Amount Outstanding — Held by Public	Amount Held in Treasury
FIRST AND REFUNDING MORTGAGE (see Note):					
	Series I	3½	June 1, 1966	\$ 927,000	
	Series J	3	Dec. 1, 1970	18,669,000	
	Series K	3	June 1, 1971	23,789,000	
	Series L	3	June 1, 1974	109,101,000	\$ 175,000
	Series M	3	Dec. 1, 1979	77,790,000	100,000
	Series N	3	Dec. 1, 1977	48,073,000	74,000
	Series O	3	Dec. 1, 1975	8,050,000	200,000
	Series P	2¾	June 1, 1981	24,013,000	40,000
	Series Q	2⅞	Dec. 1, 1980	65,318,000	42,000
	Series R	3⅞	June 1, 1982	69,072,000	
	Series S	3	June 1, 1983	72,866,000	20,000
	Series T	2⅞	June 1, 1976	77,120,000	70,000
	Series U	3⅞	Dec. 1, 1985	45,731,000	80,000
	Series W	3⅞	Dec. 1, 1984	55,467,000	25,000
	Series X	3⅞	June 1, 1984	59,489,000	128,000
	Series Y	3⅞	Dec. 1, 1987	43,755,000	25,000
	Series Z	3⅞	Dec. 1, 1988	19,216,000	29,000
	Series AA	4½	Dec. 1, 1986	32,200,000	
	Series BB	5	June 1, 1989	58,000,000	
	Series CC	3¾	Dec. 1, 1978	70,690,000	988,000
	Series DD	4½	June 1, 1990	62,500,000	2,500,000
	TOTAL			1,041,836,000	\$4,496,000
	Less current sinking-fund requirements			5,642,320	
	MORTGAGE BONDS			\$1,036,193,680	

NOTE: Additional amounts may be issued under the terms of the indentures relating to these bonds.

**NOTE 1—Financial Statements;
Subsidiary Companies:**

In this report the financial statements presented relate to the Company only, by reason of the fact that the net assets and earnings of the subsidiaries are relatively insignificant. As of December 31, 1958 and 1957 the Company's investment in subsidiaries (\$15,225,661 and \$15,149,975 at the respective dates) exceeded its equities in the net assets of the subsidiaries by \$11,681,010 and \$12,058,301, respectively. The excess represents principally the investment in Natural Gas Corporation of California as to which it is believed, based on engineering estimates, that the value of producing gas wells and reserves and its recently acquired underground gas storage reservoir is at least equivalent to the Company's investment.

NOTE 2—Utility Plant:

The major portion of the Company's utility plant consists of plant constructed by the Company and is recorded in the accounts at cost to the Company (such cost includes interest and taxes during construction, direct engineering and supervision expenses, and proportions of administrative and general expenses determined by the Company to be applicable to construction). The remainder of its utility plant, consisting of acquisitions of operating units or systems, is recorded at "original cost" (defined as cost to the person first devoting the property to public service). The principal accruals to the reserve for depreciation and amortization are computed on the sinking-fund method for book purposes.

NOTE 3—Mortgage Bonds:

Under the terms of the first and refunding mortgage the Company is required to make semi-annual sinking-fund payments based upon the aggregate bonded indebtedness outstanding; such sinking-fund payments due during the year ending December 31, 1959 are shown among the current liabilities net of the treasury bonds held by the Company at December 31, 1958.

In general, bond discount and expense, redemption premiums on refunded issues, and sale premiums are being written off over the lives of the various issues to which they pertain, or refunding issues, and such items applicable to bonds reacquired other than through refunding operations are cleared to earned surplus at time of reacquisition.

All fixed properties and certain personal properties of the Company are subject to the lien of the mortgage

bonds. Substantially all of the capital stocks of subsidiaries are on deposit and pledged with the California Trustee of the first and refunding mortgage.

NOTE 4—Federal Income and Other Taxes:

The cost of plant construction completed as emergency facilities under Certificates of Necessity is being amortized on a five-year basis for purposes of taxes on income whereas for general accounting purposes such cost is being depreciated at normal rates. Because the benefits produced by the deferral of taxes are temporary, the Company, pursuant to authorization of the California Public Utilities Commission, has offset the effect on income by recording in its accounts provisions for deferred taxes on income and an earned surplus account restricted for taxes on income payable following the period of accelerated amortization.

In the Company's accounts, Federal income taxes for the years 1954 through 1957 were accrued by deducting normal straight-line depreciation in lieu of accelerated depreciation as reported in the tax returns. The resulting excess accruals amounting to \$731,700, \$2,488,200, \$4,425,700, and \$6,636,610, respectively, for the years 1954 through 1957 are being carried in the "Accrued Taxes" account, pending decision of the California Public Utilities Commission on the Company's application to establish appropriate accounting procedures. However, because of adjustments to accelerated depreciation rates, which are presently being negotiated with the Internal Revenue Service, it now appears that these excess accruals for this period will be subject to reduction by approximately \$4,000,000, of which \$2,500,000 has been paid in the form of a deposit. Election for the year 1958 will not be made for Federal income tax purposes until the tax return is filed in 1959; pending such election the Company has determined its provision for 1958 Federal income tax using a straight-line basis for depreciation.

See Note 5 for recent actions taken by regulatory authorities in regard to deferred Federal income tax.

Effective January 1, 1956 the Company was authorized by the California Public Utilities Commission to change its method of charging income for ad valorem taxes from a calendar to a fiscal year basis. The related credit arising because of the change in method was applied to write off the unamortized balance of Plant Acquisition Adjustments accounts and other items aggregating about \$10,400,000, leaving a deferred credit of about \$11,600,000 which is being amortized as a credit to ad valorem tax expense over a ten-year period.

NOTE 5—Regulation Regarding Deferred Federal Income Tax:

The California Public Utilities Commission authorized the Company to make electric rate increases effective November 15, 1957. In determining the allowable amount of Federal and State income tax expense, for rate-making purposes, the Commission normalized the provisions for these taxes with respect to accelerated amortization in a manner consistent with the Company's accounting described in Note 4.

Similarly, the Commission authorized the Company to place in effect on October 15, 1957 increases in certain rates for interruptible gas service, and on July 9, 1958 authorized the Company to make additional increases in its gas rates effective August 1, 1958. In its decision authorizing this latter increase the Commission in determining allowable expense for Federal and State taxes on income did not normalize these taxes with respect to accelerated amortization in a manner consistent with the Company's accounting, but instead, excluded from the tax provision an amount equal to the allowed rate of return (6.52%) as applied to the amount of the accumulated deferred taxes arising from accelerated amortization.

With respect to property not subject to accelerated amortization but eligible for accelerated depreciation under Section 167 of the Internal Revenue Code, the Commission in both its electric and gas rate decisions adopted tax expense calculations based on straight-line depreciation and held in abeyance its decision on normalization with respect to accelerated depreciation. If the Company elects to continue to use accelerated depreciation in determining its taxable income for any year following 1957 the orders require the Company to report such elections to the Commission for its consideration in determining appropriate rate adjustments, if any. The Commission is presently holding hearings in connection with a State-wide investigation instituted on its own motion to determine the proper rate making treatment to be accorded accelerated amortization and accelerated depreciation.

Regarding the balance-sheet presentation of deferred income taxes (as described in Note 4), on December 30, 1958 the Securities and Exchange Commission issued a Notice of Intention to Announce an Interpretation of Administrative Policy concerning the balance-sheet classification of deferred income taxes, which, if adopted by the Commission, would have the effect of causing the Company to reclassify the amounts of deferred income

taxes included in restricted earned surplus to a classification outside the equity section of the balance sheet; and the Federal Power Commission by order No. 204, effective as of January 1, 1958, amended the "Uniform System of Accounts Prescribed for Public Utilities and Licensees" to provide a special account titled "Accumulated Deferred Taxes on Income," which account is likewise outside the equity section of the balance sheet.

NOTE 6—Commitments and Contingent Liabilities:

At December 31, 1958 the Company had firm commitments in the aggregate amount of about \$222,000,000 in connection with its plant construction program. This amount includes \$121,000,000 for 550,000 tons of steel pipe for the Company's proposed project to import natural gas from Canada. A substantial portion of this tonnage was assigned to a subsidiary company early in 1958.

The Company closes its accounts promptly as of the end of each month with the result that there are always unrecorded items of expense from month to month and year to year; at December 31, 1958 the unrecorded liabilities and accruals for expenses were more than offset by the unrecorded and unbilled revenues accrued at that date.

The Company has been named as a defendant, along with others, in five related law suits arising from the production and sale of gas from the Rio Vista, Thornton, and Beehive Bend gas fields in California. In two of these suits, in which damages totaling \$39,500,000 are sought, it is charged that the producers at the Rio Vista field have wrongfully sold to the Company and others gas belonging to the plaintiffs. In the other three suits, in which damages of approximately \$159,000,000, \$19,600,000, and \$55,200,000, respectively, are sought, it is alleged that activities of the defendants with respect to the Rio Vista, Thornton, and Beehive Bend fields violate California antitrust law. In two of these suits Natural Gas Corporation of California, a wholly-owned subsidiary of the Company, has also been named as a defendant. In the opinion of counsel for the Company none of these suits against the Company or its wholly-owned subsidiary, Natural Gas Corporation of California, is meritorious.

Except as to the above mentioned litigation and certain other litigation which is considered routine to the Company's operations, and certain indemnities given in the normal course of business, there are no known contingent liabilities not provided for by reserves or insurance.

PACIFIC GAS AND ELECTRIC COMPANY, 245 Market Street, San Francisco 6, California

DEPARTMENTAL ORGANIZATION

DEPARTMENT OF ELECTRIC OPERATION

W. Collins, *Assistant to Vice-President in Charge of Electric Operations*
General Superintendents: J. H. Martin, *Power Control*;
V. F. Estcourt, *Steam Generation*; J. N. Spaulding, *Water Systems*; H. R. Daniels, *Hydro Generation*; H. T. Sutcliffe,*
Substations; C. R. Machen, *Transmission and Distribution*;
R. L. Brinton, *Communications*; Earl Whiteley, *System Protection*

DEPARTMENT OF GAS OPERATION

General Superintendents: R. D. Smith, *Transmission and Distribution*; M. A. Richford, *Production and Utilization*;
R. T. Peterson, *Gas Control*; K. B. Anderson, *Technical Services*; E. H. Fisher, *Pipe Line Operations*

DEPARTMENT OF ENGINEERING

C. C. Whelchel, *Chief Mechanical Engineer*
J. D. Worthington, *Chief Civil Engineer*
W. R. Johnson, *Chief Electric Generation and Transmission Engineer*
C. E. Baugh, *Chief Electric Distribution Engineer*
E. V. Noe, *Chief of Bureau of Specifications and Estimates*
F. G. Rothganger, *Chief of Bureau of Tests and Inspections*
John F. Bonner, *Assistant to Vice-President and Chief Engineer*

DEPARTMENT OF GENERAL CONSTRUCTION

Joe Pirtz, Jr., *Manager of Hydroelectric Construction*
Charles H. Sedam, *Manager of Station Construction*
H. D. Wright, *Manager of Line Construction*
J. A. Love, *Manager of Gas Construction*
George C. Grubb, *Superintendent of Office and Service Group Construction*

DEPARTMENT OF EXECUTIVE ENGINEER

Emil J. Lagc, *Manager Valuation Department*
S. B. Barton, *Manager Land Department*
Rudolph Jenny, *Manager Rate Department*

DIVISION MANAGERS

COAST VALLEYS: T. E. Ward, Salinas
COLGATE: F. Y. Kraft, Marysville
DE SABLE: K. C. Porter, Chico
DRUM: R. A. Cayot, Auburn
EAST BAY: W. F. Pape,* Oakland
HUMBOLDT: T. P. Jenkins, Eureka
*Retired December 31, 1958

ACCOUNTING AND TAX DEPARTMENTS

R. N. Dreiman, *Assistant Comptroller*
T. R. Salm, *General Auditor*
John Brass, Jr., *Auditor of Division Accounts*
Richard B. Luce, *Auditor of Plant Accounts*
Francis J. Carr, *Manager Tax Department*

SALES AND COMMERCIAL DEPARTMENT

R. W. Joyce, *Manager Commercial Department*
Walter D. Howell, *Manager of Commercial, Industrial and Agricultural Sales*
J. S. C. Ross, *Manager Residential Sales*
R. I. Mendes, *Manager Market Research and Sales Control*
J. S. Walsh, *Manager of Area Development*

LAW DEPARTMENT

F. T. Searls, *General Attorney*
R. W. White, *Manager Claims and Safety Department*

CREDIT AND COLLECTION DEPARTMENT

F. U. Naylor, *Manager*

PERSONNEL DEPARTMENT

H. F. Carr, *Manager*

AUTOMOTIVE DEPARTMENT

C. R. Stanley, *Manager*

PURCHASING AND STORES DEPARTMENT

F. E. Baxter, *Manager*

ADVERTISING AND PUBLICITY DEPARTMENT

A. J. McCollum, *Manager*

DEPARTMENT OF PROCEDURES AND ORGANIZATION

J. R. Kleespics, *Manager*

NORTH BAY: E. S. Day, San Rafael
SACRAMENTO: R. L. Hayden, Sacramento
SAN FRANCISCO: H. A. Lee, San Francisco
SAN JOAQUIN: A. D. Church,* Fresno
SAN JOSE: L. J. Brundige, San Jose
SHASTA: L. H. Smith, Red Bluff
STOCKTON: George L. Works, Stockton

