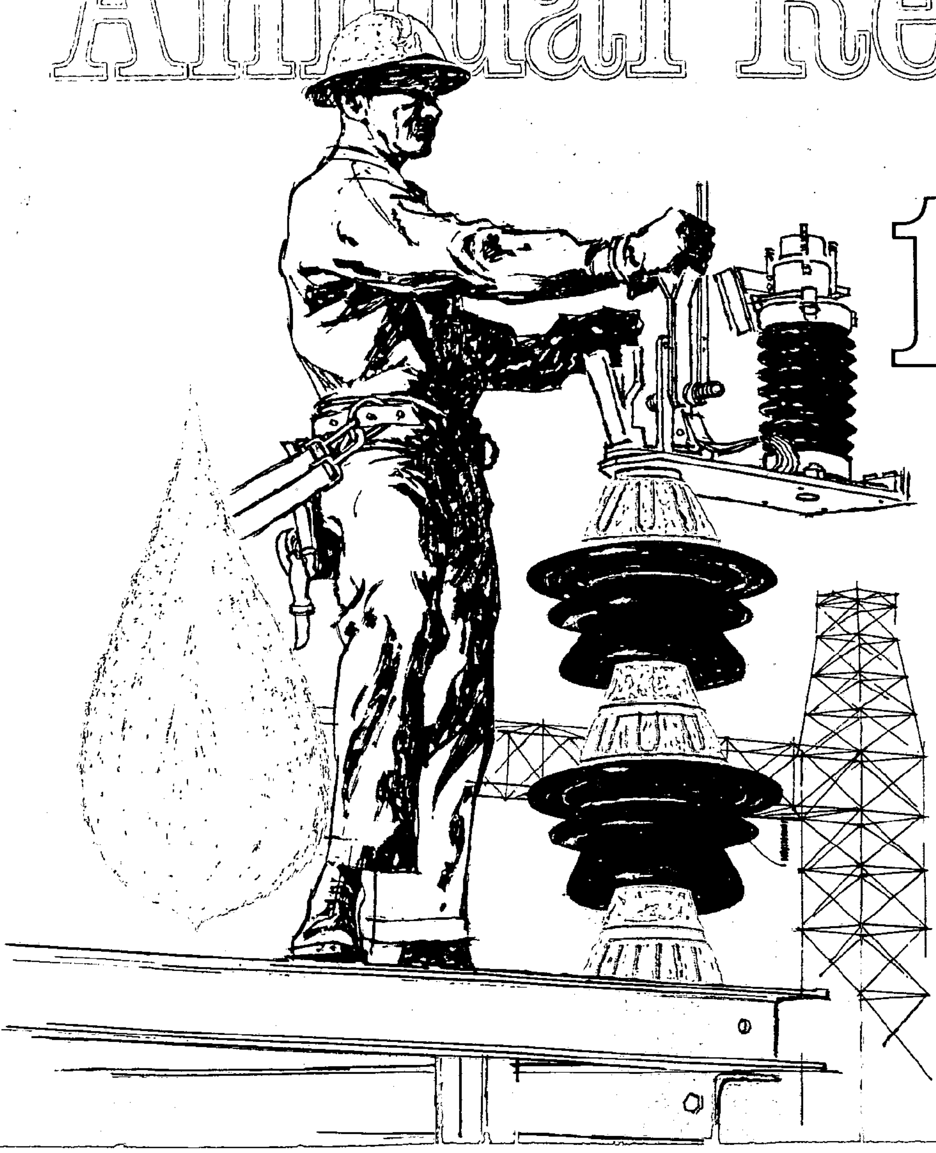
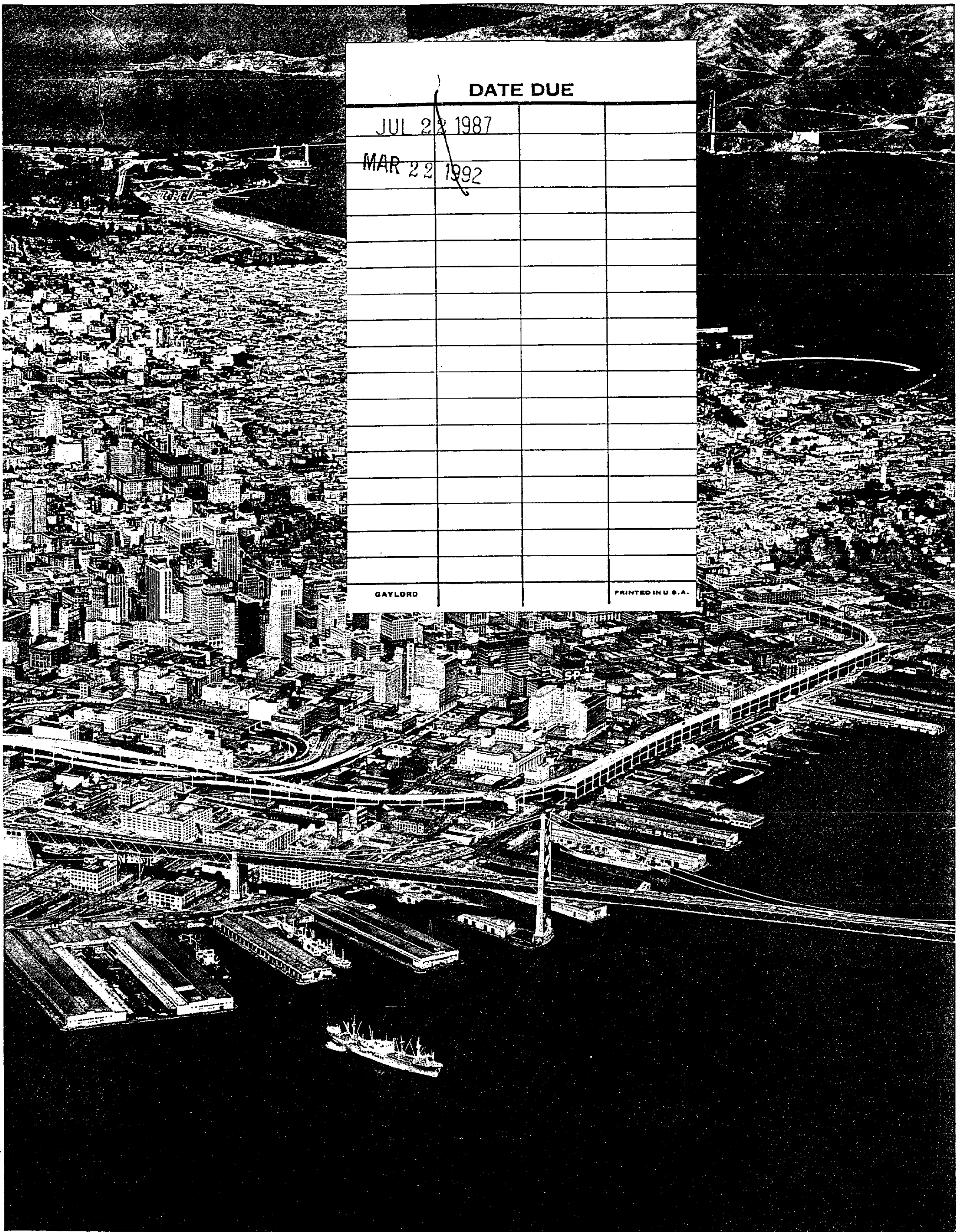
Pacific Gas and Electric Company Annual Report 1959



PG&E Operations Annual Rpt



Pacific Gas and Electric Company, 245 Market Street, San Francisco

HIGHLIGHTS OF OPERATIONS

	1959	1958
Operating Revenues and Other Income	$ 584,879,000	$ 535,644,000
Taxes and Franchise Payments	$ 141,243,000	$ 131,382,000
Natural Gas Purchased	$ 135,933,000	$ 114,590,000
Operating Payroll	$ 74,893,000	$ 68,317,000
Other Expenses and Charges	$ 148,073,000	$ 136,045,000
Net Income	$ 84,737,000	$ 85,310,000
Earned Per Common Share (on average shares)	$3.70	$3.83
Total Assets	$2,387,411,000	$2,290,957,000
Construction Expenditures	$ 158,693,000	$ 192,113,000
Sales of Electricity to Customers (KWH)	21,513,141,000	18,486,314,000
Sales of Gas to Customers (MCF)	335,926,000	323,539,000
Total Customers	3,568,388	3,440,902
Number of Employees	18,023	18,299
Number of Stockholders	225,623	226,180

CONTENTS

San Francisco, headquarters city for PG&E and hub of our fast-growing service area.

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BOARD OF DIRECTORS

JAMES B. BLACK*	San Francisco
Chairman of the Board	
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
HARRIS C. KIRK	San Francisco
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

*Member Executive Committee

EXECUTIVE OFFICERS

N. R. SUTHERLAND	*President*
ROBERT H. GERDES	*Executive Vice-President*
S. L. SIBLEY	*Vice-President and General Manager*
L. HAROLD ANDERSON	*Vice-President and Assistant General Manager*
WALTER DREYER†	*Vice-President and Chief Engineer*
J. S. MOULTON	*Vice-President and Executive Engineer*
O. R. DOERR	*Vice-President in Charge of Sales*
A. J. SWANK	*Vice-President in Charge of Electric Operations*
P. E. BECKMAN‡	*Vice-President in Charge of Gas Operations*
H. W. HABERKORN	*Vice-President in Charge of General Construction*
K. C. CHRISTENSEN	*Vice-President and Treasurer*
ROBERT R. GROS	*Vice-President*
E. E. MANHARD	*Secretary*
L. W. COUGHLAN	*Comptroller*
RICHARD H. PETERSON	*General Counsel*
	☼ ☼ ☼
H. C. NELSON	*Assistant Treasurer and Assistant Secretary*
V. D. VINCENT	*Assistant Treasurer*
D. L. BELL	*Assistant Treasurer*
J. F. TAYLOR	*Assistant Secretary*
A. H. CATHERALL	*Assistant Secretary*

†Retired December 31, 1959
‡Deceased November 21, 1959

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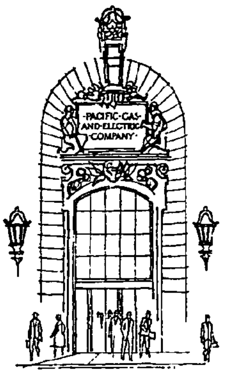


TO OUR STOCKHOLDERS

San Francisco, California, February 18, 1960

The year 1959 brought to a close a decade of exceptional growth and prosperity in the area served by our Company. The surge in population, the expansion and diversification of industry and the mechanization of agriculture all combined to increase demands for electricity and gas which required an expenditure for plant and facilities over this ten-year period of $1.7 billion.

Today our Company is the Nation's largest gas and electric operating utility from the standpoint of assets, which now total about $2.4 billion. Ten years ago the Company had 2,259,000 customers; today it has 3,568,000. Only six other corporations have more stockholders.

We have now crossed over the threshold into the Sixties. Ahead is another decade of opportunity and challenge. By any measurement—population growth, family formation, new housing, industrial expansion—the ten years which lie ahead hold promise of an ever increasing demand for the power and fuel the Company supplies.

To meet the growing demands on its system in the decade ahead, the Company must continue to make large additions to its plant. This growth will continue to be financed in a sound manner so as to preserve the investment quality of the Company's securities and to protect the interests of its customers and stockholders.

Our 1959 results are reviewed in detail on the pages that follow. However, some of the highlights of the year's operations warrant brief comment here.

Perhaps in no other year in the Company's history did climatic conditions have such a material impact on its operations. The net result was to distort our normal sales patterns, increase expenses, and reduce earnings somewhat from normal expectations.

1959 was a dry year, which reduced our hydro-electric generation, requiring us to make up that deficiency in our steam-electric plants, with consequent increases in fuel costs. On the other hand, sales of electricity for agricultural pumping were greatly stimulated by the lack of precipitation. It was also a warm year, which materially reduced gas sales for space heating with an associated loss of many millions of dollars in revenues.

Another factor that had a material bearing on our earnings in 1959, as compared with 1958, was the large reduction in the amount of interest charged to construction. In 1958, when we had under way a large program of hydro-electric construction, this credit to income amounted to about $9 million. In 1959 it was only about $3 million.

Notwithstanding these adverse influences, our net income fell only slightly below that of the previous year. Based on the 17,929,305 shares of common stock outstanding throughout the year, earnings amounted to $3.70 a share. This compares with earnings of $3.83 a share in 1958 based on an average of 17,502,415 shares outstanding during that year, and with $3.74 based on the number of shares outstanding at the end of 1958.

The slight reduction in share earnings should not be viewed with discouragement. On the contrary, considering the unfavorable factors present last year, it is encouraging that our earnings held up as well as they did. Looking at the year ahead, in the absence of any extraordinary increases in costs not now known to us and assuming more normal climatic conditions, we believe that our earnings will resume the upward trend experienced in the years immediately preceding 1959.

Expenditures for construction, amounting to $159 million in 1959, were well below the levels of the two preceding years, but nevertheless amounted to over half a million dollars each working day. No new capacity was added to our electric generating resources in 1959, due to completion in the previous year of two steam units and of a large hydro construction program. The next major increments to our electric generating resources will be two 325,000 kilowatt steam units at our Pittsburg Power Plant, one of which will be placed in operation in 1960 and the other in 1961.

The Company is continuing its activity in the nuclear power field. It plans to start construction this year on a 60,000 kilowatt nuclear plant to be located in the northwestern part of its system, near Eureka.

Of immense importance to our customers, and to the future growth and development of our service area, is an adequate supply of natural gas. To this end we have been working diligently for a period of more than three years on a project to transport natural gas from the Province of Alberta in Canada to the California market. The project has been the subject of a succession of hearings before governmental agencies in both countries, and it is hoped that all necessary authorizations will be obtained soon so that construction can get under way by the middle of this year. Few undertakings have exceeded this in long-range significance to the Company and its customers.

Summing up, we believe the past year was one of real accomplishment and that the Company now stands on the threshold of another great period of growth and development. It is a source of satisfaction to your management, as it must be to stockholders, that the Company enters the decade of the Sixties with greater financial strength than at any time in its history.

We would be remiss if we did not direct the attention of stockholders to some threats to the otherwise bright future we envision for our Company. One is the continuing efforts of a small but vocal group which has as its objective government ownership of the electric power industry. The fundamental issues involved in this struggle are the preservation of our personal liberties and the private enterprise system. If our industry falls to the blandishments of the socialists, other industries will almost certainly be engulfed by the same force.

Another threat is inflation that continues to debase our currency. Unless checked, inflation will gravely weaken our private enterprise system. Stockholders are urged to examine closely the positions of their elected representatives on these issues.

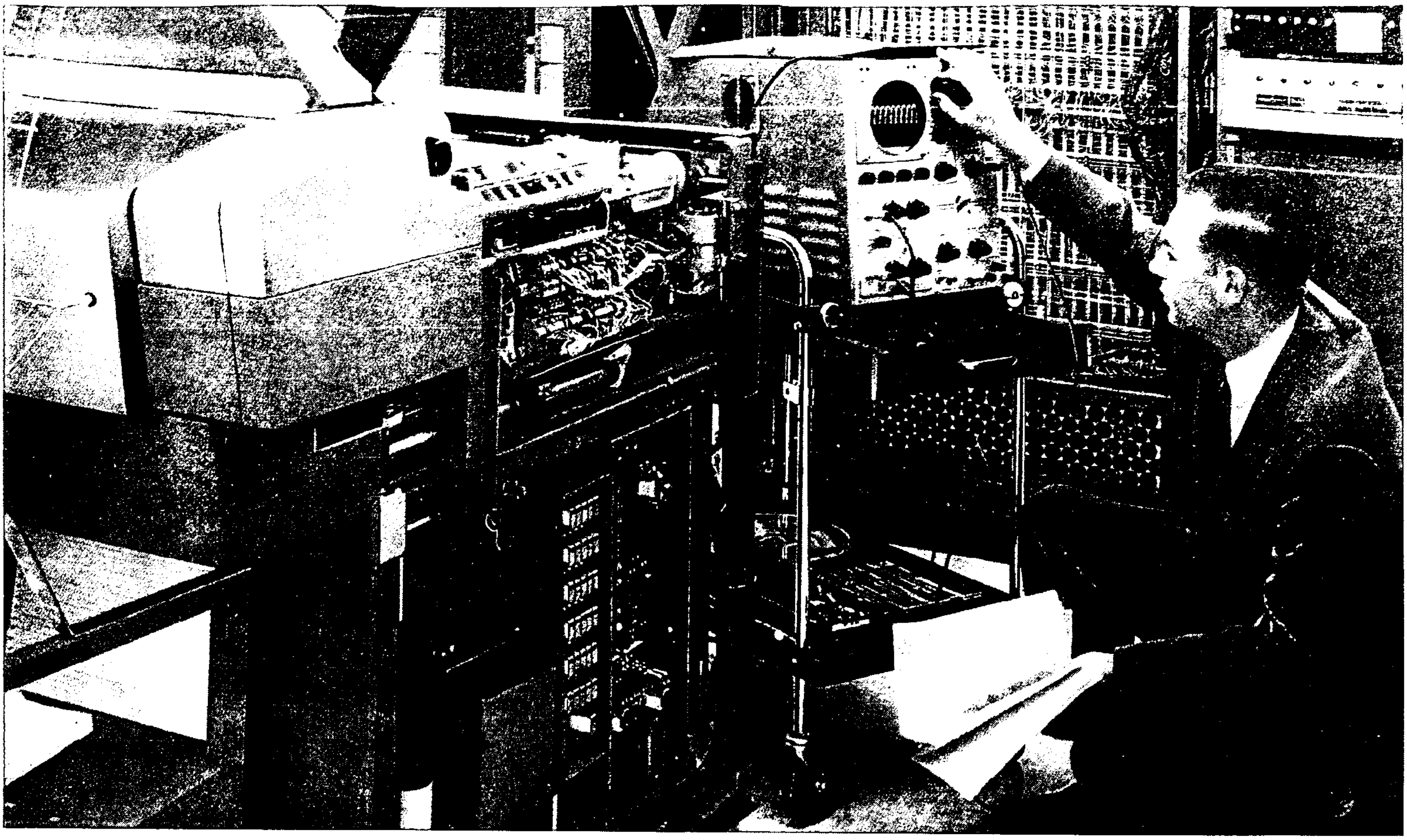
We wish on behalf of the Board of Directors to express our gratitude to employees for their many contributions to the successful conduct of our business during the past year.

For the Board of Directors

Chairman of the Board

N. R. Sutherland
President

The management will solicit proxies for the annual meeting to be held at the office of the Company, 245 Market Street, San Francisco, California, on Tuesday, April 12, 1960. 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, 1960.



Conversion to electronic billing will be completed by mid-1960. The computers will then be handling 100,000 bills per day.

THE 1959 FINANCIAL STORY

REVENUES from all sources reached $583,424,000, a gain of $48,646,000, or 9.1% over the previous year.

Sales to our electric customers produced revenues of $384,450,000, or 65.9% of the total. Revenues from sales of gas amounted to $196,356,000, or 33.7%. The balance of our revenues—$2,618,000, or .4%—was derived from sales of water and steam.

The table on page 25 shows a breakdown of revenues and unit sales by major classes of service.

The largest gain in revenues in the Electric Department, amounting to over 27%, occurred in agricultural power. The dry year required farmers to utilize abnormally large amounts of power for irrigation pumping. This gain, however, is magnified by the fact that in the previous year—a wet year—sales for agricultural pumping were abnormally low.

The revenue gain in the large light and power classification of about 11% is particularly significant. While in part due to higher business activity and factory output, this gain is in considerable part a reflection of the establishment of new plants and the expansion of existing plants.

Revenues derived from gas operations were disappointing. With the exception of industrial sales, the bulk of the revenue gain resulted from higher rates designed to offset higher costs of gas purchases rather than from an increase in unit sales. The year was one of the warmest of record, which depressed sales for space heating in both the residential and commercial categories. We estimate that the warm weather reduced the

An all-time high of more than 93,000 new residential units were connected to the Company's lines in 1959.

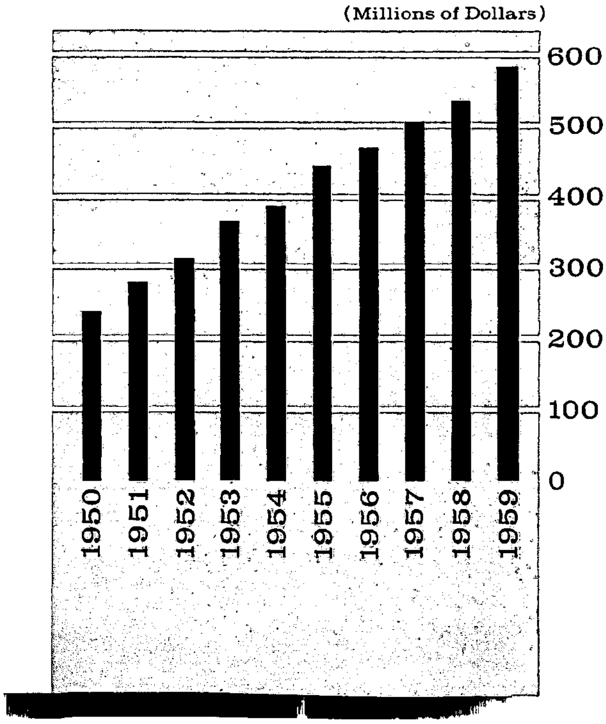
normal consumption for space heating by over 27 billion cubic feet with an associated loss in revenue of about $16½ million.

When allowance is made for climatic conditions, it is evident that the growth trend of gas sales remains strong.

EXPENSES, exclusive of depreciation and taxes, totaled $271,235,000, or 10.5% more than in the previous year. Thus our expenses increased percentagewise more than did our revenues.

As we expand our business, we are inevitably faced with increases in expenses. We must maintain and operate more property and serve more customers each year. Also in

REVENUES



some years, as in 1959, weather conditions may temporarily cause expenses to increase. In fact, a significant portion of the increase in 1959 was the direct result of the abnormally low precipitation which necessitated the burning of more fuel in our steam-electric generating plants.

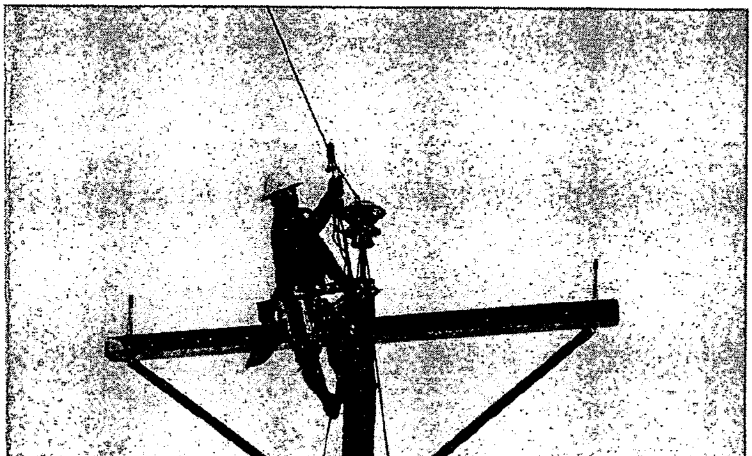
The normal increases in costs associated with an expanding volume of business, or temporary increases in costs caused by vagaries of the weather, do not present a serious problem. The real problem we face is the continued inflation in wages and other costs. The only defense that can be mustered against cost inflation is through continuing improvement in the efficiency of our operations. Fortunately, we continued to make good strides in this direction in 1959. More automation and mechanization, and improved operating methods, all contributed to this result. One index of the progress that has been made is that the Company is now serving about 300 customers per operating employee compared with only 230 per operating employee as recently as 1950.

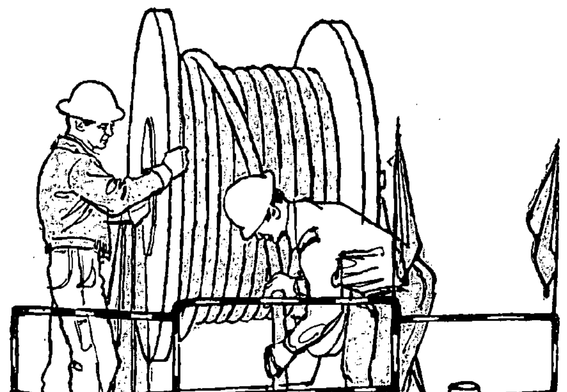
We are also making progress in reducing the costs of routine clerical work. Late in the year we took delivery of a second IBM 705 computer, the first having been installed over two years ago. By the year-end about 80% of our customer accounts were being handled by the computers and the remaining accounts will be converted by the middle of this year. We plan to utilize the computers for other applications from which we anticipate further important savings in costs.

DEPRECIATION The provision made for depreciation amounted to $55,863,000, absorbing almost 10% of the revenue dollar. We make provision for depreciation on our books by what is known as the 2% sinking fund remaining-life basis. The lives and rates are reviewed annually by the California Public Utilities Commission.

As shown on the balance sheet, the accumulated reserve for depreciation at December 31, 1959, amounted to about $544 million, equivalent to about 20% of the total investment in utility plant.

More than 1,400 miles of new electric lines and 600 miles of new gas lines were installed in 1959.





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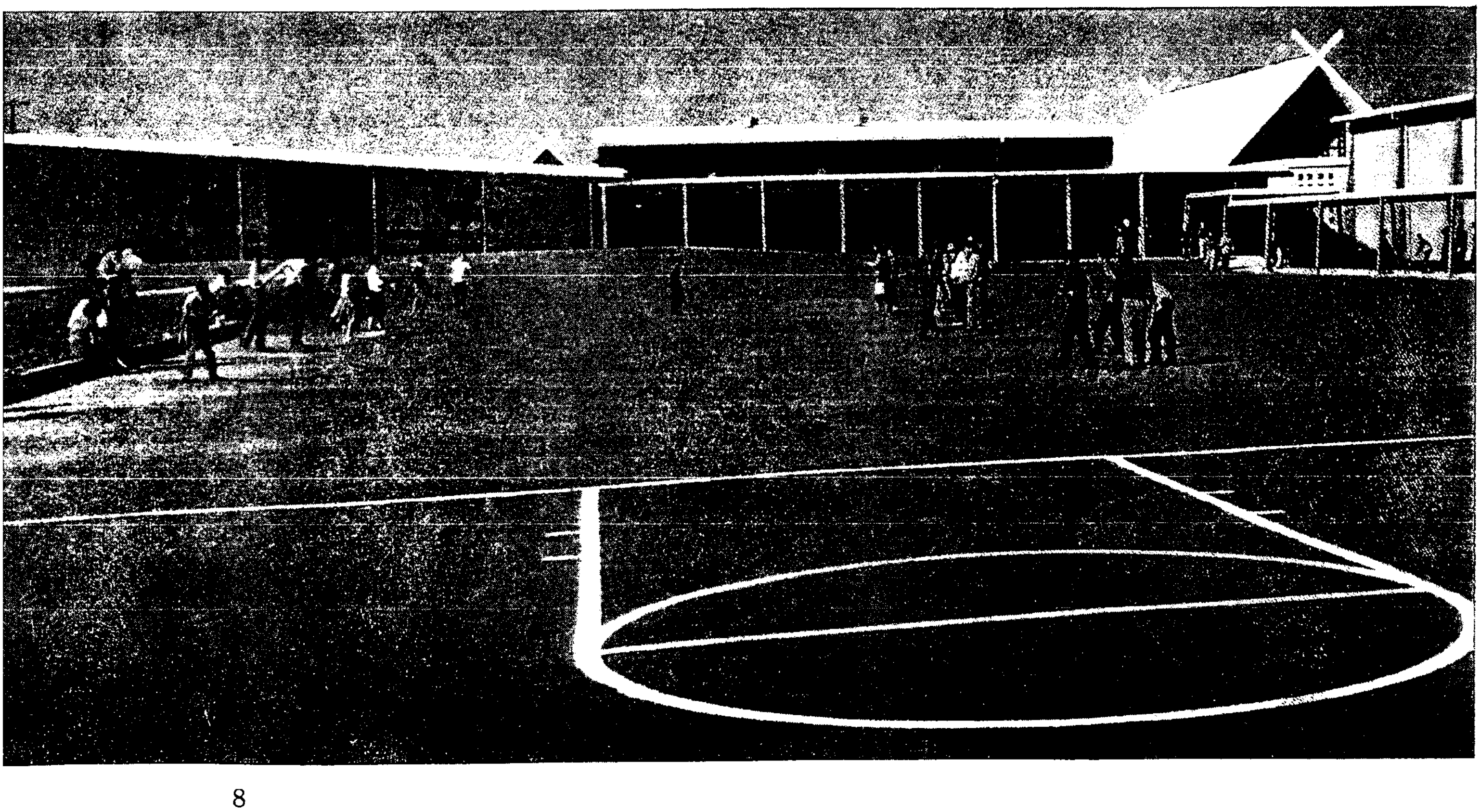
TAXES absorbed almost 24% of total revenues in 1959. This means that about three months' revenues were set aside for the tax collector.

Total taxes paid or set aside for future payment amounted to $146,396,000, up $9,872,000 from the previous year. As shown in the table on page 12, about half was taken by the state and local governments and the other half by the Federal government.

The mounting burden of taxation is a matter of concern to the entire nation as well as to the Company. Government at all levels—Federal, state, and local—is plagued by the same inflationary forces with which the Company has to contend. This makes it all the more imperative that the most rigid economy be exercised at all levels of government and that all waste and extravagance be eliminated. Moreover, a renewed effort should be made to remove unjustified exemptions under which large segments of property and income now escape taxation. We refer particularly to the almost complete exemption from taxation now accorded government-owned utilities. They neither deserve nor need to be subsidized in this manner.

In previous annual reports we have referred to the practices that have been followed by the Company with respect to deferred Federal income taxes arising from accelerated amortization and accelerated depreciation. As in past years, the Company's income account reflects, through provisions for taxes currently payable and for deferred taxes, the total amount that would have been currently payable if the accelerated amortization and depreciation options had not been exercised. In the balance sheet in this report, deferred taxes resulting from accelerated amortization

Over $30 million of the Company's taxes was paid to school districts in Northern and Central California.



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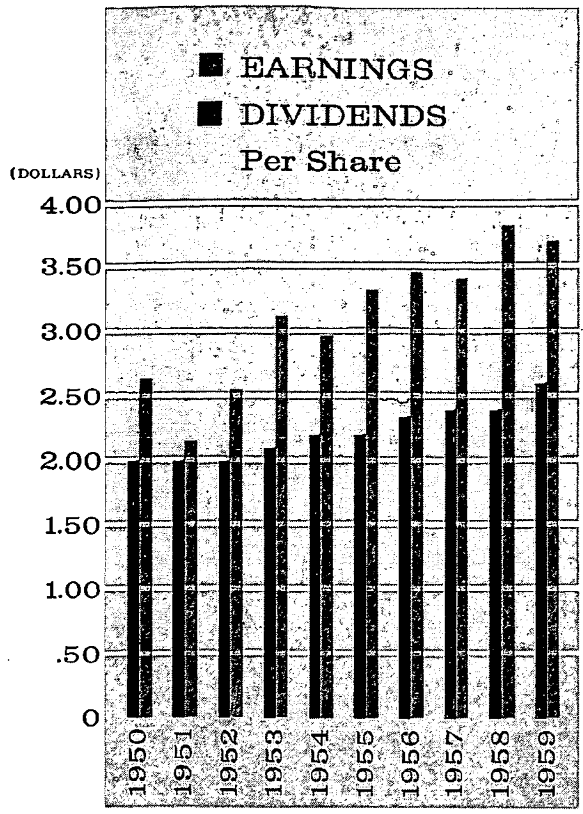
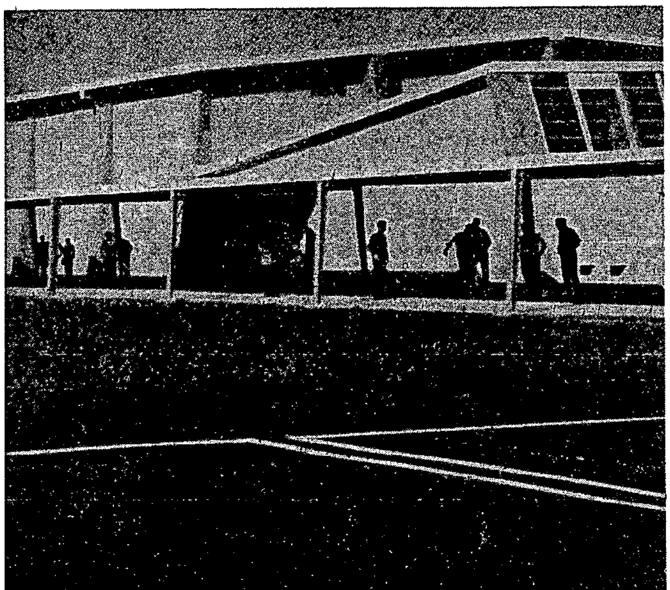




are shown in restricted earned surplus and deferred taxes resulting from accelerated depreciation are included in the accrued taxes account. A detailed explanation of the income and balance sheet treatment of these items and the conflicting requirements of regulatory commissions as to such treatment is set forth in Note 4 to the Financial Statements.

Hearings in connection with the California Public Utilities Commission's investigation on the treatment to be accorded accelerated depreciation and accelerated amortization for rate making purposes were concluded during 1959, but as of the date of this report no decision had been rendered.

EARNINGS AND DIVIDENDS Net income for the year amounted to $84,737,000. After provision for dividends on the preferred stock of $18,336,000, net earnings available for the common stock were $66,401,000.

As stated in last year's 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. The first dividend at the new rate was paid on January 15, 1959, and subsequent quarterly dividend distributions were made at the same rate.

Aggregate dividends paid on the common stock during the year were $46,616,000, which was approximately 70% of the earnings available for the common stock. The balance of the earnings was "plowed back" into the business to strengthen the stockholders' equity.

1959 was the forty-first consecutive year of uninterrupted quarterly cash dividends paid on the common stock. Dividends on the preferred stock have been earned and paid in every year since 1914, when the first preferred stock was issued.

By letter dated December 18, 1959, holders of the common stock were advised that 30.5% of all common dividend payments in 1959 should be excluded from gross taxable income for Federal income tax purposes. This was a preliminary estimate and is subject to review by the Internal Revenue Service of the United States Treasury Department.

It is expected that a portion of the dividends that will be paid on the common stock in 1960 will also be non-taxable, although it is not possible to estimate the exact portion with any degree of accuracy at this time.

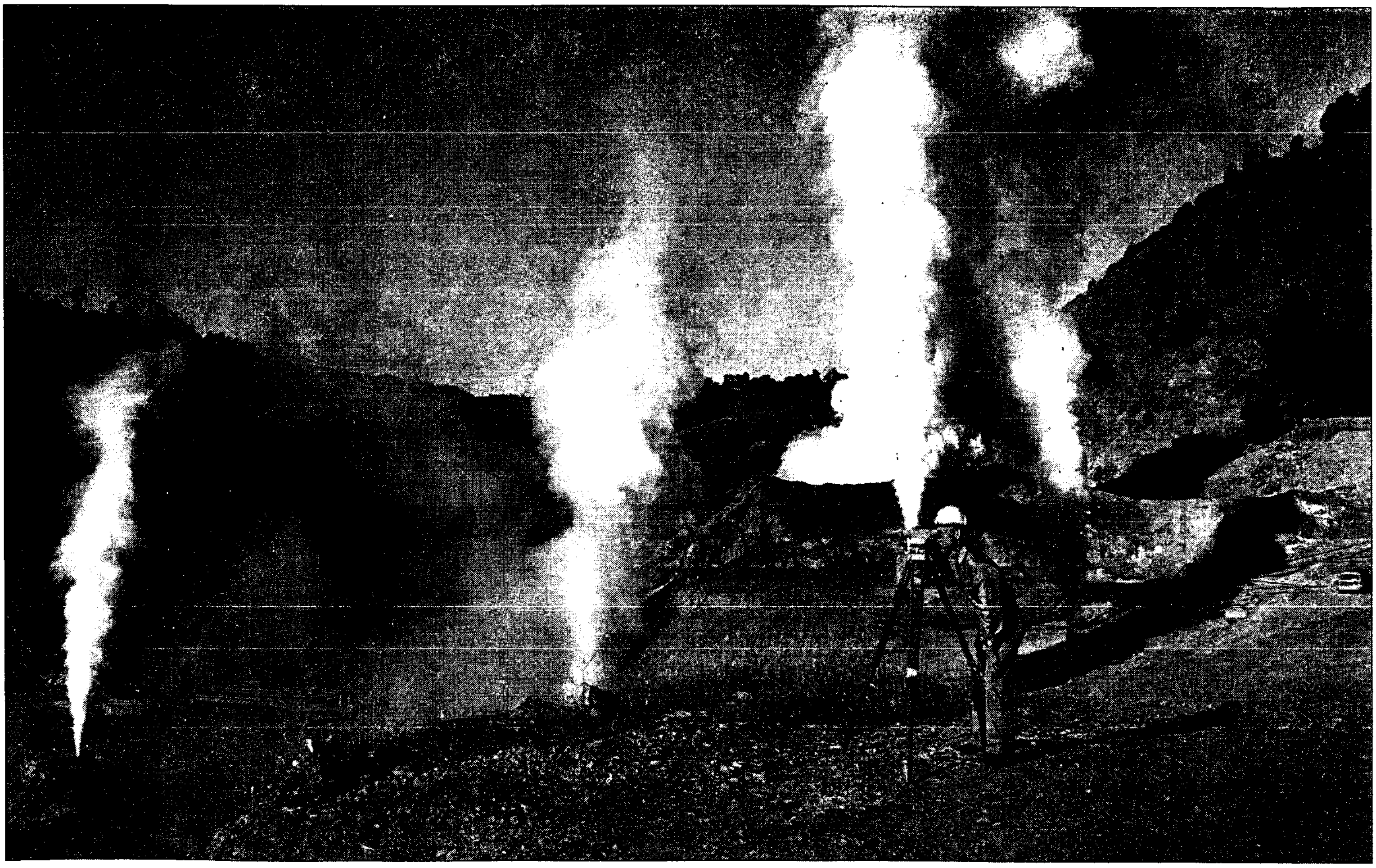
FINANCING In August the Company sold, at competitive bidding, $65 million of its First and Refunding Mortgage Bonds, Series EE, 5%, due 1991.

The proceeds from the sale of these bonds were sufficient to satisfy the Company's entire new money requirements for the year. This was the first year since 1946 that we were able to obtain our entire new money requirements from a single offering of securities.

The balance of the funds required to finance the construction program, amounting to about $94 million, was obtained from internal sources, consisting principally of the provision made for depreciation and retained earnings.

The Company closed the year with a well-balanced capital structure consisting of 49.4% mortgage bonds, 15.9% preferred stock, and 34.7% common stock equity. No bank loans were outstanding at the year-end.

A new source of energy, steam from natural geysers, is being harnessed at a 12,500 kilowatt electric plant north of San Francisco.



FIVE YEARS IN BRIEF

Pacific Gas and Electric Company

	1959	1958	1957	1956	1955
Sources of Income:					
Electric Department revenues	$384,450,000	$351,284,000	$328,310,000	$305,855,000	$289,710,000
Gas Department revenues	196,356,000	181,076,000	170,569,000	162,560,000	151,508,000
Revenues from other operating departments	2,618,000	2,418,000	2,365,000	2,329,000	2,282,000
Miscellaneous income	1,455,000	866,000	1,504,000	1,187,000	804,000
Totals	$584,879,000	$535,644,000	$502,748,000	$471,931,000	$444,304,000
Disposition of Income:					
Wages and salaries	$ 74,893,000	$ 68,317,000	$ 61,766,000	$ 57,146,000	$ 53,612,000
Power purchased	5,414,000	9,370,000	5,684,000	6,190,000	2,917,000
Natural gas purchased	135,933,000	114,590,000	114,227,000	98,808,000	94,947,000
Oil and other fuel	16,781,000	15,683,000	19,517,000	15,309,000	12,222,000
Materials and services purchased from others	27,867,000	26,983,000	21,328,000	22,165,000	19,143,000
Provision for pensions, insurance, etc.	10,347,000	10,450,000	8,779,000	7,516,000	9,114,000
Provision for depreciation and amortization	55,863,000	51,309,000	48,025,000	44,964,000	43,372,000
Taxes	125,096,000	118,501,000	110,765,000	110,526,000	108,264,000
Deferred federal and state taxes on income	12,923,000	9,803,000	10,020,000	8,746,000	6,284,000
Bond interest and other income deductions	35,025,000	25,328,000	26,017,000	24,787,000	23,394,000
Dividends declared on preferred stock	18,336,000	18,336,000	18,336,000	18,192,000	17,102,000
Dividends declared on common stock	46,616,000	42,902,000	40,981,000	39,989,000	35,763,000
Balance retained in the business	19,785,000	24,072,000	17,303,000	17,593,000	18,170,000
Totals	$584,879,000	$535,644,000	$502,748,000	$471,931,000	$444,304,000
Number of Shares of Common Stock Outstanding:					
Average for the year	17,929,305	17,502,415	17,074,941	16,662,129	16,255,733
End of year	17,929,305	17,929,305	17,075,524	17,068,524	16,255,733
Earnings per Share of Common Stock:					
On average shares outstanding	$3.70	$3.83	$3.41	$3.46	$3.32
On end-of-year shares outstanding	3.70	3.74	3.41	3.37	3.32
Dividends per Share of Common Stock:					
Declared basis	$2.60	$2.45	$2.40	$2.40	$2.20
Paid basis	2.60	2.40	2.40	2.35	2.20

TAXES AND FRANCHISE PAYMENTS

Pacific Gas and Electric Company

	1959	1958	*Increase*
LOCAL TAXES AND FRANCHISE PAYMENTS:			
Ad valorem property taxes	$ 61,607,000	$ 56,270,000	$5,337,000
Franchise payments	3,225,000	3,078,000	147,000
Total local taxes and franchise payments	64,832,000	59,348,000	5,484,000
STATE TAXES:			
Bank and corporation franchise	4,521,000	4,395,000	126,000
Provision for deferred state taxes on income	727,000	747,000	* 20,000
Unemployment insurance	665,000	56,000	609,000
Other	446,000	452,000	* 6,000
Total state taxes	6,359,000	5,650,000	709,000
CITY AND STATE TAXES:			
Sales and use	3,175,000	2,949,000	226,000
FEDERAL TAXES:			
Corporation income	57,405,000	57,422,000	* 17,000
Provision for deferred federal taxes on income	12,196,000	9,056,000	3,140,000
Unemployment insurance	176,000	175,000	1,000
Old age benefits	2,182,000	1,740,000	442,000
Other	71,000	184,000	* 113,000
Total federal taxes	72,030,000	68,577,000	3,453,000
TOTAL TAXES AND FRANCHISE PAYMENTS	$146,396,000	$136,524,000	$9,872,000
CHARGED TO:			
Income account as taxes	$138,019,000	$128,304,000	$9,715,000
Income account as franchise payments	3,225,000	3,078,000	146,000
Capital and other accounts	5,152,000	5,142,000	11,000
TOTAL TAXES AND FRANCHISE PAYMENTS	$146,396,000	$136,524,000	$9,872,000

*Denotes decrease

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SERVING—TODAY AND TOMORROW

The operation of the Company's extensive properties is an exacting task requiring the highest competency in management, engineering and operating skills. Having the responsibility for providing indispensable around-the-clock gas and electric service throughout the major part of Northern and Central California, the Company is truly a public service organization.

ELECTRIC OPERATIONS

The Electric Department accounts for about three-fourths of our total investment in utility plant and produces about two-thirds of our operating revenues.

Electric output in 1959 far exceeded that of any previous year, reaching 26.3 billion kilowatt-hours. Because of the dry year which reduced output from our own hydro plants and from those of other producers that feed into our system, an unusually large portion of the total was generated in our steam-electric plants. Steam plant output was 15.8 billion kilowatt-hours, or 60.0% of the total. Hydro output accounted for 8.9 billion kilowatt-hours, or 33.7%, and the remaining 1.6 billion kilowatt-hours or 6.3% was obtained from other producers. 93.7% of the Company's total requirements was generated in its own plants—the highest in many years.

The year's peak demand of 4,564,900 kilowatts occurred on August 7. This peak exceeded by more than 500,000 kilowatts that recorded in the previous year, and was met with adequate margins of reserve capacity.

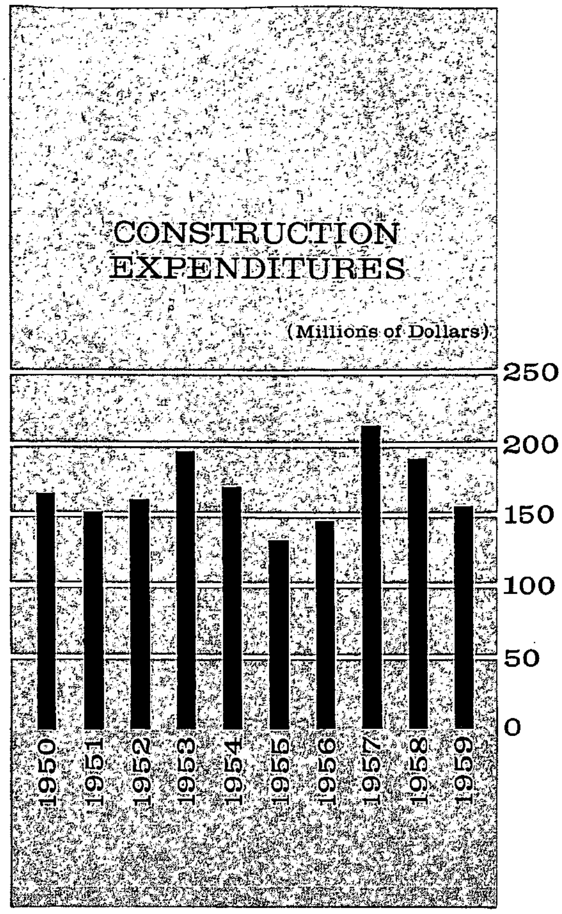
Total sales reached 21.5 billion kilowatt-hours, or 16.4% over those of the preceding year. The sales volume exceeded that of any other operating electric utility in the United States. The average revenue received was 1.76 cents per kilowatt-hour.

At the year-end we were serving 1,915,297 electric customers, or 66,961 more than at the end of the previous year. Thus we connected an average of more than 5,000 new electric customers each month, the approximate number that are served in a community of 20,000 people.

Two 325,000 kilowatt steam units are being added in our Pittsburg Power Plant at a cost of about $80 million, as previously mentioned. They will incorporate the latest advances in steam engineering and will be the most efficient on our system. These units will bring the total capacity of the Pittsburg Power Plant up to 1,310,000 kilowatts, making it the largest steam-electric generating station west of the Mississippi River.

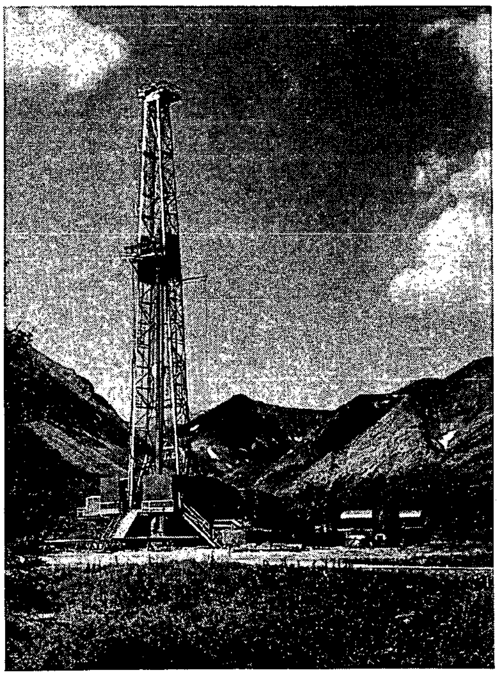
The only hydro construction we now have under way is a 42,000 kilowatt plant on the Kings, which will complete our proposed developments on that river.

As a part of its continuing effort to obtain additional economic sources of power, we began construction last year on an experimental geothermal plant of 12,500 kilowatts,



New 60,000 kilowatt Humboldt nuclear power plant scheduled for completion in 1962 takes shape on drawing board.

Exploratory drilling for natural gas in Province of Alberta, Canada.



which will utilize steam from natural geysers located about 90 miles north of San Francisco. While plants of this type are in operation in Italy and are planned in New Zealand, this will be the first such plant in the Western Hemisphere.

Looking to the future, nuclear power appears to offer the most promising new source of power. Our industry is now devoting itself to the successful harnessing of the atom for peaceful purposes. Certainly, making the atom the servant of mankind rather than the instrument of its destruction is one of the most challenging tasks facing the world.

Almost from the moment private enterprise was permitted to begin experimentation with nuclear fission for commercial power purposes, the Company has endeavored to be in the forefront of developments in this field. Its many activities in the development of nuclear power have been reviewed in previous reports to stockholders.

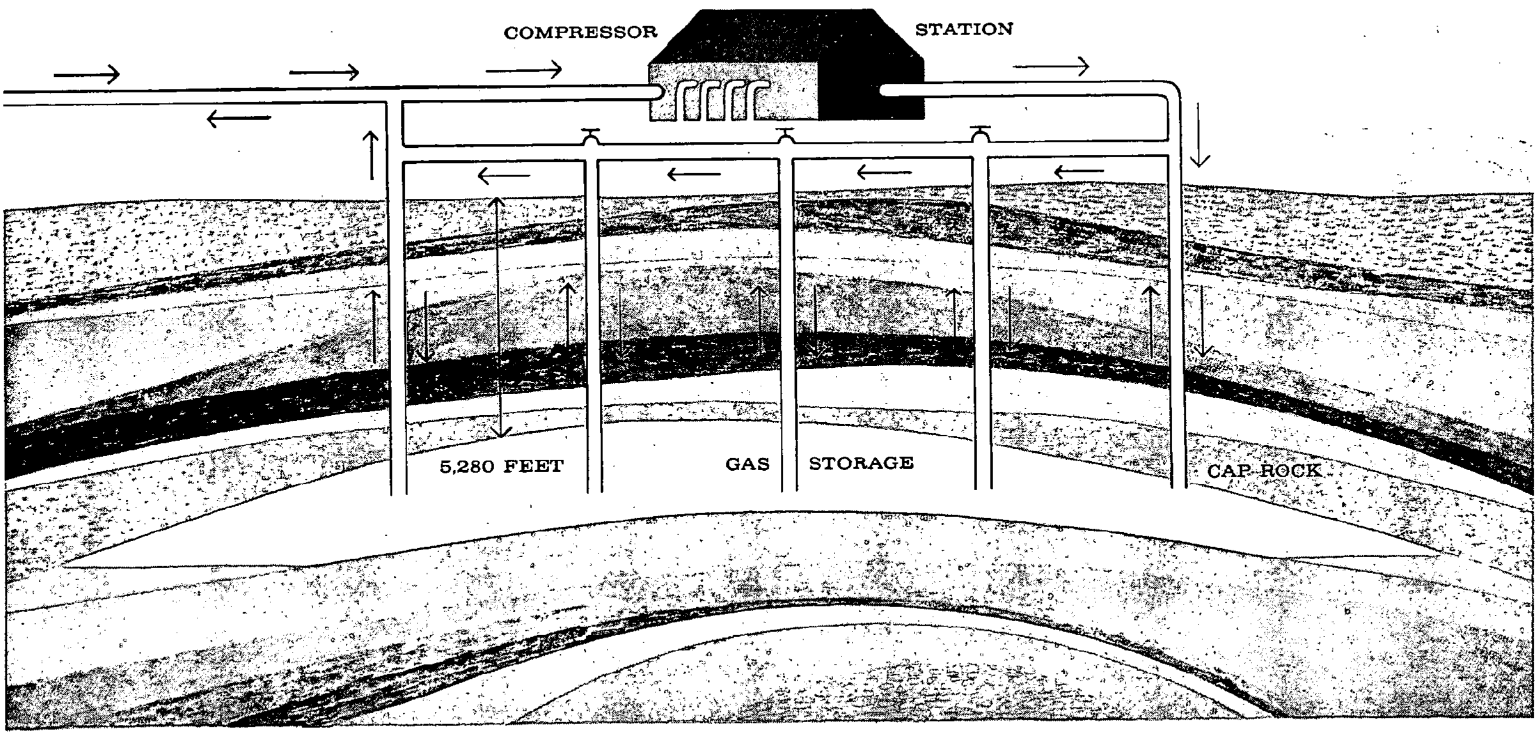
We will commence construction this summer on a 60,000 kilowatt nuclear plant to be located adjacent to our existing steam plant near Eureka. Estimated to cost about $20 million, it will be constructed without subsidies of any kind. We are confident that with the second core of uranium it will produce power competitive with conventional plants in the area in which it is located.

We also have under study a nuclear plant of at least 200,000 kilowatts for construction in the San Francisco Bay area as soon as our cost goals can be reached. With the rapid progress being made in the field, we have every expectation that this plant will become a reality within a few years.

GAS OPERATIONS

During 1959 about 477 billion cubic feet of natural gas was purchased and transported for delivery to our customers and for use in Company plants. Approximately 72% was

Cross section of McDonald Island underground storage reservoir and facilities used to inject or withdraw gas as required to meet rapidly changing demands.



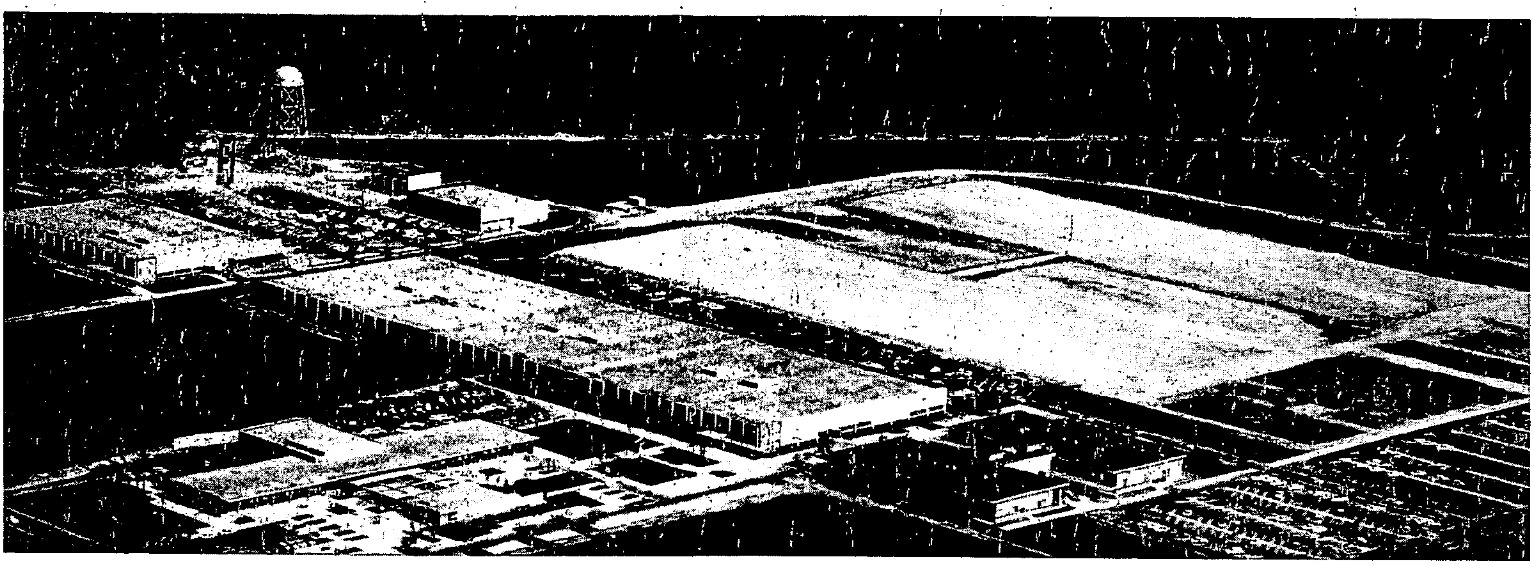
out-of-state gas delivered to us at the California-Arizona border through the facilities of El Paso Natural Gas Company.

Sales to customers were about 336 billion cubic feet, or 3.8% greater than those in the previous year. Industrial gas sales, the volume of which is not influenced materially by temperature conditions, showed a satisfactory increase of about 8%. Because of abnormally warm temperatures, sales for space heating were affected adversely and sales to our residential and commercial customers were virtually unchanged from the previous year. This made available an unusually large amount of gas for electric generation with the result that about 116 billion cubic feet was used for this purpose. The Company's Electric Department is, in effect, the Gas Department's largest customer.

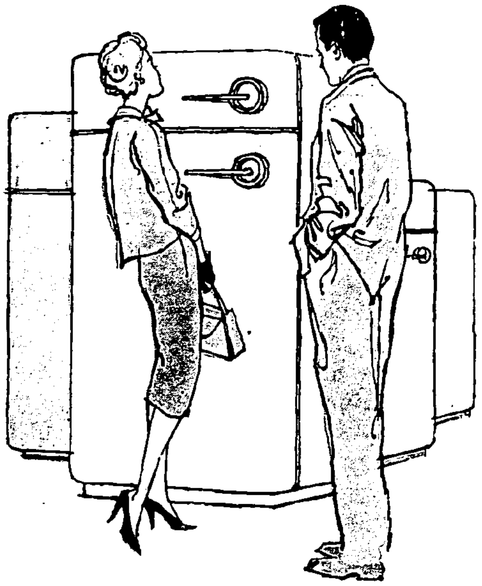
We connected 62,033 new gas customers during the year, bringing the total at the year-end to 1,628,269.

Development continued on our McDonald Island underground gas storage project. The volume of gas injected during the year amounted to 6.8 billion cubic feet. The full development contemplates the injection of 20 billion cubic feet which, together with the native gas in place, will provide 44 billion cubic feet of cushion gas. On top of this 30 billion cubic feet will be injected for withdrawal to meet peak demands.

From a long-range point of view, by far the most important development during the year was the progress made toward obtaining the necessary governmental approvals for our project to transport natural gas from the Province of Alberta in Canada to the California market. In undertaking this project the Company has been motivated by its desire to obtain direct access to the large reserves of natural gas in Western Canada in order to take care of the future growth of its gas business.



Our wholly-owned Canadian subsidiary, Alberta and Southern Gas Co. Ltd., has entered into contracts with producers to purchase the gas for the project. The estimated initial cost is about $338 million of which $106 million would represent the cost of facil-



the equity securities of Pacific Gas Transmission. The cost of constructing the California section of the line plus our investment in the stock of Pacific Gas Transmission will involve a total outlay on our part of approximately $82 million.

The project has been the subject of hearings before two governmental agencies in Canada—the Alberta Oil and Gas Conservation Board and the National Energy Board—and before the Federal Power Commission and the California Public Utilities Commission.

Early in January of this year the Alberta

Company's service area is marked by a high degree of diversification in industry and agriculture. Modern IBM plant in San Jose at left, San Joaquin Valley farming operations above.

ities in the Province of Alberta which would be financed and constructed independently by the Alberta Gas Trunk Line Company. The section of the line through the Province of British Columbia will be owned and operated by Alberta Natural Gas Company, and from the international boundary to the California-Oregon boundary by Pacific Gas Transmission Company, which will own one-third of the stock of Alberta Natural. Pacific Gas and Electric Company will own 50% of

Oil and Gas Conservation Board issued an amended permit authorizing the export of 4.2 trillion feet of gas over a 25-year period, which was the amount requested. Also, early in the year hearings were held before the National Energy Board of Canada for authorization of the project. It is hoped that favorable decisions from the various regulatory agencies will be obtained shortly so that construction can get under way by the middle of the year.

BUSINESS DEVELOPMENT

High among the many factors that must be taken into account in appraising the future outlook of a utility company is the character of the territory it serves. On this score few if any utility companies are more favorably endowed than is our Company. Its service area extends into 47 counties in Northern and Central California, embracing an area of about 94,000 square miles and with a population of about 6½ million. It is rich in natural resources, has a high degree of diversification both in agriculture and industry, with an equable climate and appealing scenery that makes it a particularly desirable place in which to live and to work.

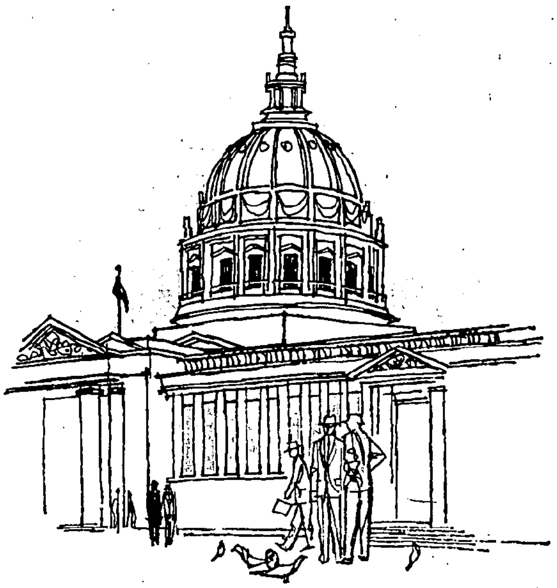
With these advantages, it is hardly surprising that the Company serves one of the most rapidly developing areas in the country. A growing industrialization, particularly since World War II, has brought a better balance to an area whose economy was formerly based largely upon agriculture.

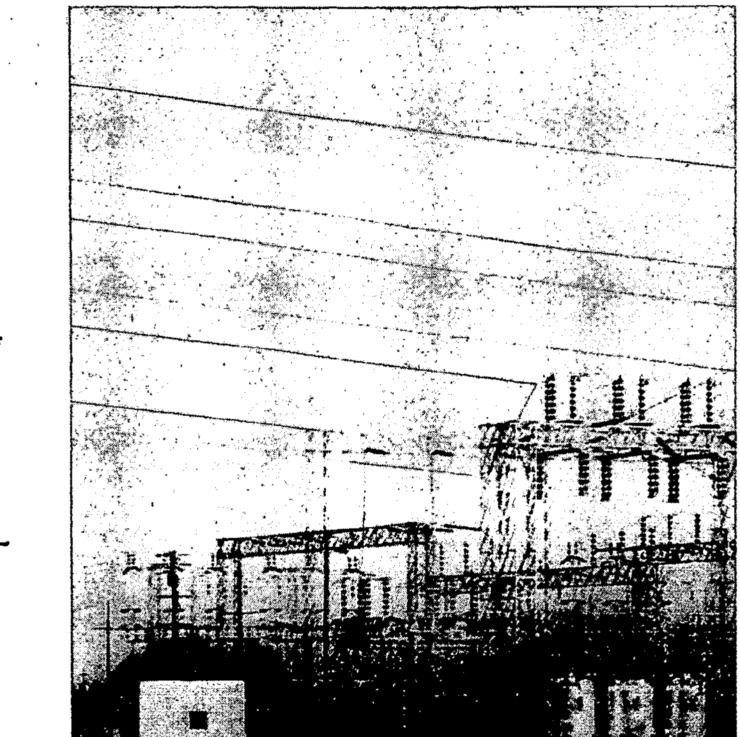
Through its area development department and working closely with other interested agencies, the Company conducts many activities to attract industries into the area. Equally important is preparing the community for industry. The Company offers guidance on matters of planning and zoning, and the establishment of industrial parks and districts.

New business connected to the Company's lines in 1959 exceeded that of any previous year. It is impossible to measure precisely what amount of the new business is a direct result of our sales promotional activities, but there is no doubt that a well-directed sales effort can have a significant effect. Our sales department conducts continuing sales programs in all major categories of service. A strenuous effort is made to promote sales of both gas and electricity on an off-peak basis, thereby permitting us to operate our facilities at a higher load factor, which benefits both the Company and its customers.

RATE MATTERS

Early in 1959 El Paso Natural Gas Company, our principal gas supplier, filed an application with the Federal Power Commission to increase its rates for natural gas furnished the Company by approximately $13 million annually. The new rates became effective on August 1, 1959, subject to refund. The Com-





pany in turn filed an application with the California Public Utilities Commission to place offsetting rate increases in effect. The California Commission issued its order authorizing the requested rate increases to become effective concurrently with the increase in El Paso rates on August 1.

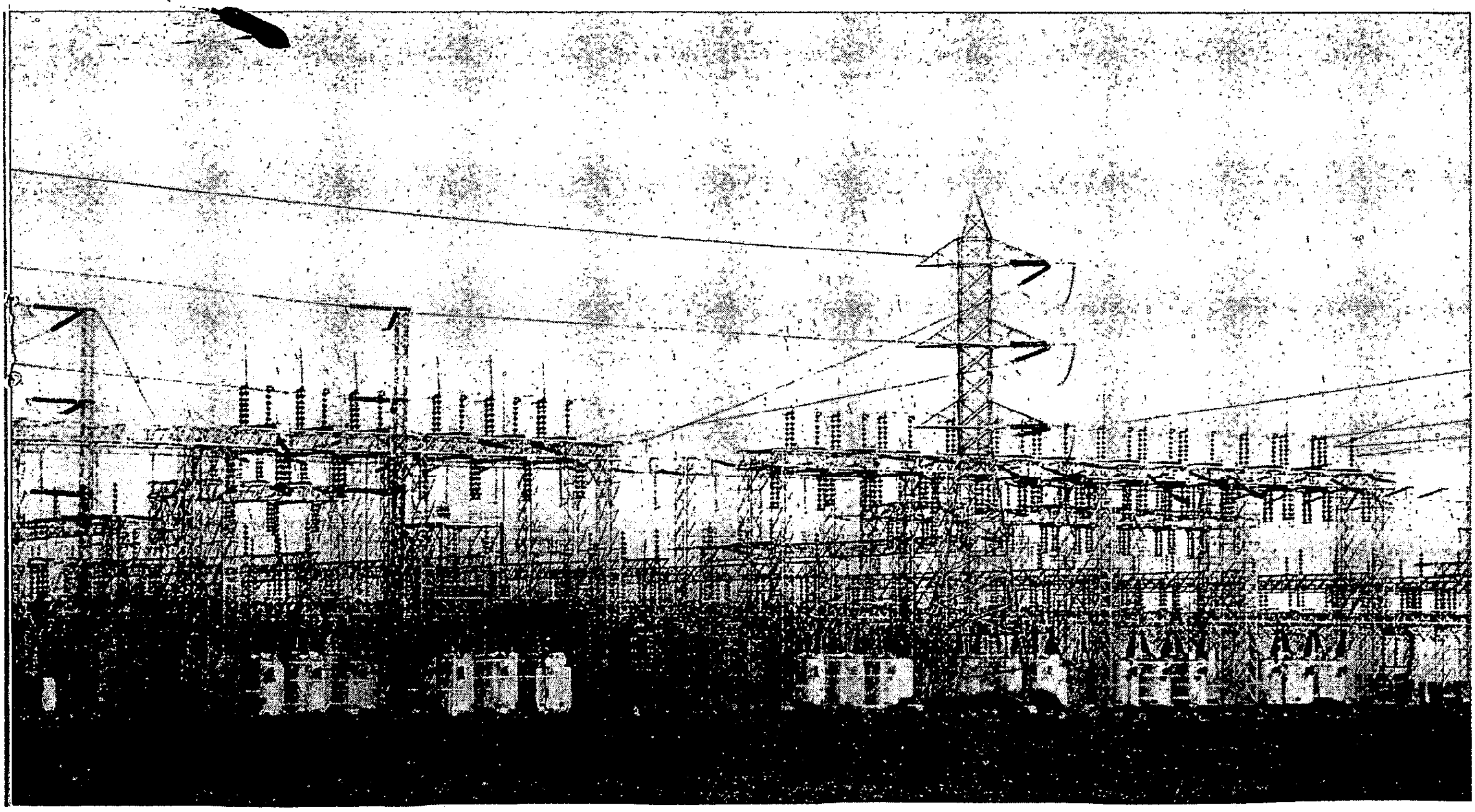
Previously, in 1955 and again in 1958, El Paso had increased rates which were similarly offset in large part by increased rates charged the Company's customers. On August 10, 1959, the Federal Power Commission rendered a decision relating to the 1955 increase and ordered lower rates than El Paso had charged for the period up to the time the 1958 increase became effective. El Paso was ordered to refund an estimated $6 million to the Company. El Paso requested and was granted a rehearing before the Federal Power Commission, which is now pending.

GOVERNMENT POWER

In September 1959 the arrangement made in 1951 for handling Central Valley Project power was extended to April 1, 1971, by amendment of the contracts between the Company and the United States Department of the Interior. Under the amended contracts the Company will continue to deliver project power to so-called preference customers over its facilities, purchase power generated by the project in excess of its needs, sell power to the project when it is unable to meet its own requirements, and interchange power to maximize the efficiency of both systems.

Last spring the Interior and Insular Affairs Committee of the House of Representatives refused to approve a bill that would have authorized the joint development of the Trinity River water power resources by the United States and the Company. Construction of the Trinity River Project was originally authorized by Congress as an addition to the Central Valley Project in 1955. Joint development, which was advocated by the Secretary of the Interior, would have saved the Federal government $56 million in project capital costs. During the 50-year project repayment period, joint development would have increased the project surplus by $170 million and would have created $83 million in Federal tax revenues and about $63 million in State and local taxes. We had appeared before the House Committee in support of the joint development plan and were naturally disappointed by the Committee's action.

Giant Panoche substation, focal point for transmission of power in San Joaquin Valley.

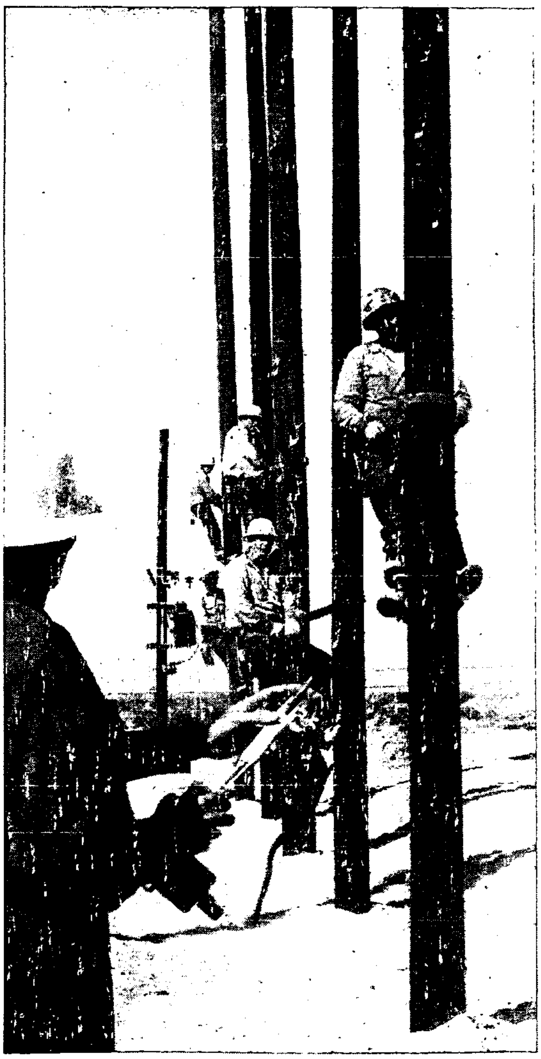


INVESTORS - CUSTOMERS - EMPLOYEES

That a strong community of interest exists between investors, customers and employees of a corporation is no longer seriously challenged. Public interest requires that one should not obtain an unfair advantage at the expense of another, and that the equitable interests of each group be fostered and protected.

The Company is the most widely owned gas and electric utility in the United States. At the year-end it had 225,623 stockholders of record, of whom 85,453 owned preferred and 140,170 owned common stock. It is therefore apparent that the Company is actually a publicly-owned corporation. It is also locally owned to a high degree. Approximately

Long years of service and a high degree of specialized training are characteristic of the Company's work force of 18,000 men and women.



two-thirds of its stockholders have California addresses and own about 45% of the outstanding stock.

It cannot be emphasized too often that the number of stockholders of record falls far short of indicating the number of persons who have a financial interest in the Company. Ownership of the Company's securities, both bonds and stocks, by insurance companies, public and private pension funds, investment companies and other similar types of institutional investors means that literally millions of people have a financial interest in the success of the Company.

One of the Company's greatest assets, not reflected on its balance sheet, is the quality and competence of its personnel. At the year-end the Company was providing employment for 18,023 men and women, a large proportion of whom have long service records. Wages and salaries for the year amounted to $118,365,000, of which $74,893,000 was paid to operating employees and charged against income. The balance was paid to employees engaged in construction activities and was charged to capital accounts. In addition, other employee benefits paid by the Company amounted to $15,427,000, the largest proportion of which represented contributions to the Company's Retirement Plan.

A major addition to our employee benefits was made during the year through the establishment of a Savings Fund Plan, which was approved overwhelmingly by stockholders at the last annual meeting. This Plan has been enthusiastically received by our employees, and 85% of all eligible employees are now participating. The Plan provides for systematic and convenient savings by employees, supplemented by Company contributions, and gives those who participate an opportunity to acquire common stock of the Company and savings bonds on a continuing basis.

The Company was serving 3,568,388 customers in all branches of its operations at the year-end, a net gain of 127,486 during the year. Many of our customers are combination customers, to whom the Company provides more than one type of utility service

CUSTOMERS
by Departments and Increase During Year

	December 31 1959	December 31 1958	Increase during 1959
Electric Department	1,915,297	1,848,336	66,961
Gas Department	1,628,269	1,566,236	62,033
Water Department	24,199	25,669	* 1,470
Steam Sales Department	623	661	* 38
Totals	3,568,388	3,440,902	127,486

*Denotes decrease

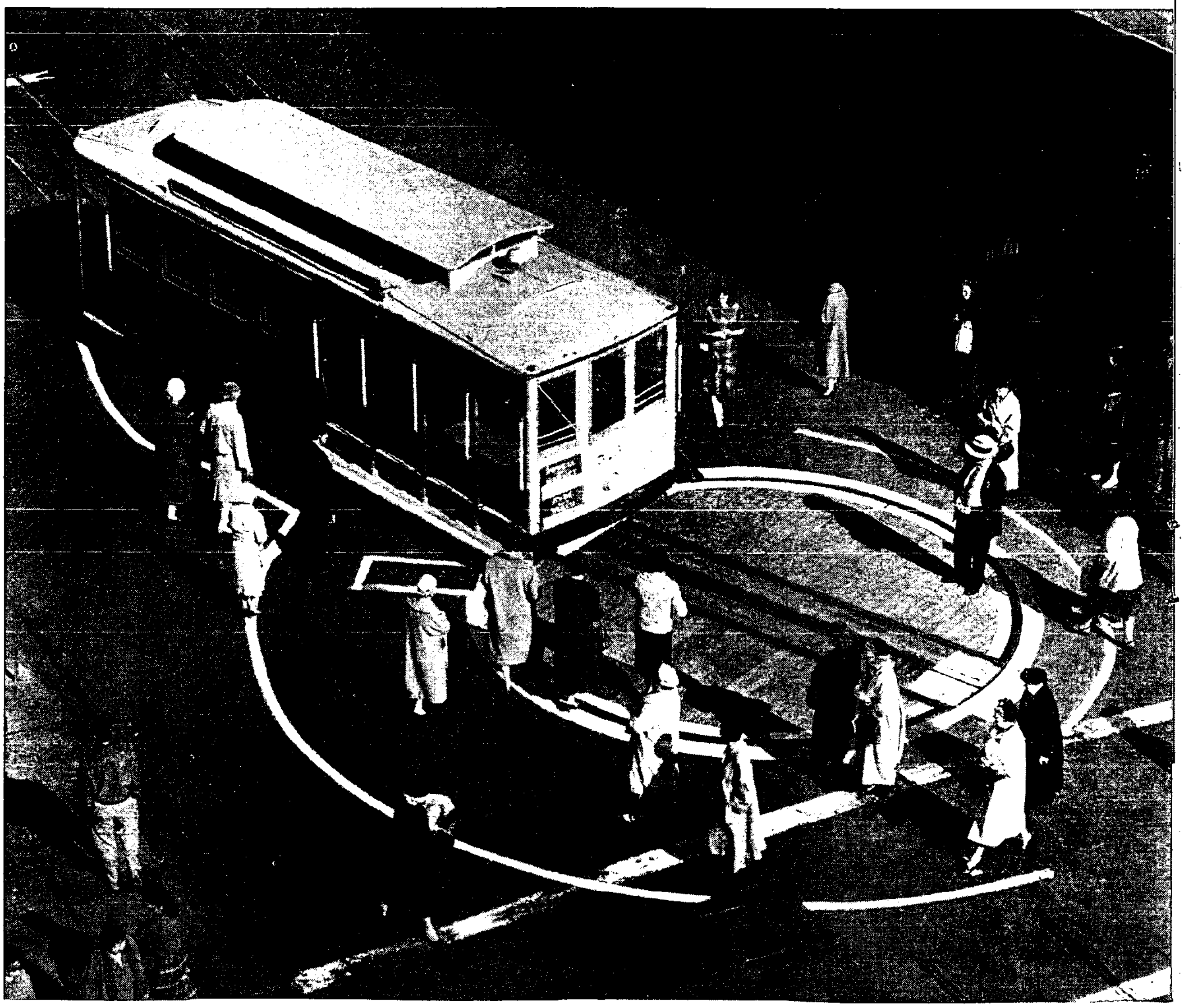
at the same premises. For example, we estimate that approximately 88% of our gas customers are also electric customers. As a practical matter, therefore, we are presently billing and doing business with slightly over two million customers in an area with a total population of about 6½ million.

On the basis of opinion polls and other information available to us, we have every reason to believe that our relations with our customers are very satisfactory. Reasonable rates, a high quality of service, and courteous treatment are the keys to good customer relations. The Company carries on extensive employee training programs and conducts periodic reviews of its service policies, with a view to maintaining good relations with its customers.

DISTRIBUTION OF STOCK OWNERSHIP
by Class of Investor, December 31, 1959

Class of Investor	*Number of Stockholders*	*Number of Shares Owned*
Women stockholders	89,403	7,388,935
Joint and other tenancies	63,075	4,769,671
Men stockholders	50,848	4,525,190
Trustees, guardians and other fiduciaries	14,033	1,768,268
Nominees	2,424	6,443,121
Corporations, partnerships and proprietorships	1,851	992,966
Charitable and fraternal organizations and foundations	1,408	281,707
Banks, investment companies and security dealers	934	1,533,082
Insurance companies	674	3,893,392
Religious institutions	523	101,826
Educational institutions	450	241,136
Totals	225,623	31,939,294

One out of every 20 San Franciscans owns P G & E stock. Seventh most widely-owned U. S. company, it has over 225,000 shareholders.



MANAGEMENT CHANGES

Mr. James K. Lochead, a member of the Board of Directors since 1948 and a member of the Executive Committee, resigned effective May 20, 1959. Mr. Lochead made many outstanding contributions to the welfare of the Company, and his resignation was accepted with sincere regret.

Mr. Harris C. Kirk was elected a member of the Board of Directors on May 20, 1959, to fill the vacancy caused by Mr. Lochead's resignation. Mr. Kirk is Chairman of the Board of Directors and chief executive officer of American Trust Company. He is a trustee of the San Francisco Bay Area Council, a member of the Advisory Council of the University of California School of Business Administration, and is associated with many banking and civic committees.

On June 3, 1959, Mr. Walter A. Haas, a member of the Board of Directors since 1949, was elected a member of the Executive Committee succeeding Mr. Lochead.

It is with deep regret that we record the death on November 21, 1959, of Mr. Philip E. Beckman, Vice President in Charge of Gas Operations since 1954. Mr. Beckman first joined the Company in 1921 and made many valuable contributions to the Company and the industry.

Effective January 1, 1960, Mr. E. Howard Fisher was appointed Vice President in Charge of Gas Operations, succeeding Mr. Beckman. Since 1954 Mr. Fisher has been general superintendent of pipeline operations and has been associated with the Company and its predecessors for thirty years.

Mr. Walter Dreyer, Vice President and Chief Engineer, retired December 31, 1959. In his distinguished 43-year engineering career with the Company, Mr. Dreyer played a major role in the development of the many hydro-electric and steam-electric plants which make up our present production facilities. He is being retained as a consultant on pending major projects.

Mr. John F. Bonner, who had served as assistant to Mr. Dreyer since 1955, was elected Vice President in Charge of Engineering effective January 1, 1960. In his twenty-three-year career with P G & E Mr. Bonner has been closely concerned with hydro-electric developments on the major watersheds of Northern and Central California.

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; CHEMICAL BANK NEW YORK TRUST COMPANY, New York

DEPARTMENTAL ORGANIZATION

DEPARTMENT OF ELECTRIC OPERATION

I. 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*
R. F. Stuart, *Substations*
C. R. Machen, *Transmission and Distribution*
R. L. Brinton, *Communications*
F. D. Beardsley, *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*
Thomas A. Bettersworth, *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 EXECUTIVE ENGINEER

Emil J. Lage, *Manager Valuation Department*
S. B. Barton, *Manager Land Department*
John F. Roberts, *Manager Rate Department*

COMPTROLLER'S DEPARTMENT

R. N. Dreiman, *Assistant Comptroller*
T. R. Salm, *General Auditor*
John Brass, Jr., *Auditor of Division Accounts*
Richard B. Luce, *Auditor of Plant Accounts*
F. P. Lallement, *Manager of Internal Auditing*

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*

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*

TAX DEPARTMENT

Francis J. Carr, *Manager*

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

A. J. Noia, *Director of Personnel Relations*
R. J. Tilson, *Director of Industrial Relations*

AUTOMOTIVE DEPARTMENT

C. R. Stanley, *Manager*

PURCHASING AND STORES DEPARTMENT

F. E. Baxter, *Manager*

ADVERTISING AND PUBLICITY DEPARTMENT

A. J. McCollum, *Manager*

DEPARTMENT ON PROCEDURES AND ORGANIZATION

J. R. Kleespies, *Manager*

*Retired December 31, 1959

DIVISION MANAGERS

Coast Valleys: T. E. Ward, Salinas
Colgate: F. Y. Kraft, Marysville
De Sabla: K. C. Porter, Chico
Drum: Walter D. Skinner, Auburn
East Bay: Harold F. Carr, Oakland
Humboldt: T. P. Jenkins, Eureka
North Bay: E. S. Day, San Rafael
Sacramento: R. L. Hayden, Sacramento
San Francisco: H. A. Lee, San Francisco
San Joaquin: V. C. Redman, Fresno
San Jose: L. J. Brundige, San Jose
Shasta: L. H. Smith, Red Bluff
Stockton: George L. Works, Stockton

REVENUES AND SALES

Electric and Gas Departments by Classes of Service

	1959	1958	Increase Amount	Increase Per Cent
ELECTRIC DEPARTMENT				
ELECTRIC REVENUES				
Residential or Domestic Sales	$ 130,940,345	$ 123,846,491	$ 7,093,854	5.7%
Small Light and Power Sales	68,804,303	66,415,127	2,389,176	3.6
Large Light and Power Sales	110,434,499	99,239,584	11,194,915	11.3
Agricultural Power Sales	48,586,588	38,138,224	10,448,364	27.4
Public Street and Highway Lighting	5,639,500	5,172,720	466,780	9.0
Sales to Other Electric Utilities	13,391,113	11,363,373	2,027,740	17.8
Company Use (Construction)	287,070	297,107	* 10,037	* 3.4
Other Miscellaneous Revenue	6,366,993	6,810,964	* 443,971	* 6.5
TOTALS	$ 384,450,411	$ 351,283,590	$ 33,166,821	9.4%
ELECTRIC SALES—Kilowatt-Hours				
Residential or Domestic Sales	4,863,959,106	4,541,083,340	322,875,766	7.1%
Small Light and Power Sales	2,126,270,429	2,052,183,970	74,086,459	3.6
Large Light and Power Sales	8,796,360,387	7,803,496,418	992,863,969	12.7
Agricultural Power Sales	3,665,740,892	2,608,396,421	1,057,344,471	40.5
Public Street and Highway Lighting	158,713,797	142,442,788	16,271,009	11.4
Sales to Other Electric Utilities	1,886,525,709	1,323,686,869	562,838,840	42.5
Company Use (Construction)	15,570,449	15,024,689	545,760	3.6
Total Sales to Customers	21,513,140,769	18,486,314,495	3,026,826,274	16.4
Delivered for the account of others	405,082,491	710,199,449	* 305,116,958	*43.0
TOTALS	21,918,223,260	19,196,513,944	2,721,709,316	14.2%
GAS DEPARTMENT				
GAS REVENUES				
Residential or Domestic Sales	$ 102,072,489	$ 95,766,342	$ 6,306,147	6.6%
Commercial Sales	24,864,711	23,386,398	1,478,313	6.3
Industrial Sales	67,058,039	59,802,318	7,255,721	12.1
Sales to Other Gas Utilities	1,878,566	1,738,896	139,670	8.0
Company Use (Construction)	101,227	111,869	* 10,642	* 9.5
Other Miscellaneous Revenue	381,021	270,431	110,590	40.9
TOTALS	$ 196,356,053	$ 181,076,254	$ 15,279,799	8.4%
GAS SALES—Thousands of Cubic Feet				
Residential or Domestic Sales	131,121,445	131,227,628	* 106,183	* .1%
Commercial Sales	39,587,428	39,112,419	475,009	1.2
Industrial Sales	160,970,793	148,936,958	12,033,835	8.1
Sales to Other Gas Utilities	4,138,609	4,058,772	79,837	2.0
Company Use (Construction)	107,457	203,704	* 96,247	*47.2
Total Sales to Customers	335,925,732	323,539,481	12,386,251	3.8
Company Use (Steam-electric plants, etc.)	116,529,028	67,472,494	49,056,534	72.7
TOTALS	452,454,760	391,011,975	61,442,785	15.7%

*Denotes decrease

STATEMENT OF INCOME

Pacific Gas and Electric Company
For the Years Ended December 31, 1959 and 1958

	1959	1958
Gross Operating Revenues:		
Electric department	$384,450,411	$351,283,590
Gas department	196,356,053	181,076,254
Other departments	2,618,318	2,418,064
Total	583,424,782	534,777,908
Operating Expenses:		
Maintenance and repairs	21,033,620	18,947,044
Production:		
Power purchased	5,413,610	9,370,007
Natural gas purchased	135,933,049	114,589,710
Oil and other fuel	16,781,378	15,683,184
Other	11,126,846	11,699,806
Transmission	5,523,811	4,968,179
Distribution	24,057,735	22,683,132
Customers' accounting and collecting	20,377,762	18,968,582
Sales promotion	5,298,139	4,932,780
Provision for depreciation and amortization	55,862,589	51,308,697
Taxes:		
Provision for Federal income tax (Note 4)	69,574,734	66,470,802
Other	68,443,822	61,833,075
Administrative and general	24,390,171	22,306,173
Provision for doubtful accounts	1,300,000	1,245,000
Total	465,117,266	425,006,171
Net Operating Revenues	118,307,516	109,771,737
Miscellaneous Income:		
Dividends from subsidiaries	612,712	378,000
Other (net)	842,021	488,357
Total	1,454,733	866,357
Total	119,762,249	110,638,094
Income Deductions:		
Interest on funded debt	35,636,576	32,006,861
Amortization of net bond discount and expense	446,568	425,724
Miscellaneous interest	827,420	1,097,738
Interest charged to construction	2,935,536*	9,048,989*
Other	1,050,119	846,903
Total	35,025,147	25,328,237
Net Income	$ 84,737,102	$ 85,309,857

*Denotes red figure

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

STATEMENT OF EARNED SURPLUS

Pacific Gas and Electric Company
For the Years Ended December 31, 1959 and 1958

	1959	1958
BALANCE, JANUARY 1	$196,574,797	$161,923,007
NET INCOME	84,737,102	85,309,857
OTHER ADDITIONS:		
Additions to restricted surplus for taxes on income payable following period of accelerated amortization (Note 4)	12,922,525	9,802,753
Purchase discount on bonds reacquired and unamortized net discount and expense applicable thereto (1959 includes write-off of unamortized net redemption premium on Series V Bonds—$1,064,407)	616,896*	347,794
Other—net (includes net gain on exchanges and sales of property: 1959—$544,877; 1958—$471,308)	516,842	429,313
Total	294,134,370	257,812,724
DIVIDENDS ON CAPITAL STOCK—Cash:		
First preferred—various series	18,335,659	18,335,667
Common	46,616,193	42,902,260
Total	64,951,852	61,237,927
BALANCE, DECEMBER 31 (restricted for taxes on income payable following period of accelerated amortization: 1959, $51,036,388; 1958, $38,113,862—Note 4)	$229,182,518	$196,574,797

*Denotes red figure

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

ACCOUNTANTS' OPINION

The Board of Directors of
Pacific Gas and Electric Company:

We have examined the balance sheet and schedules of capital stock and mortgage bonds of Pacific Gas and Electric Company as of December 31, 1959 and the related statements of 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 financial statements and schedules with their notes present fairly the financial position of the Company at December 31, 1959 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.

San Francisco,
February 18, 1960.

Haskins & Sells

BALANCE SHEET

Pacific Gas and Electric Company
December 31, 1959 and 1958

ASSETS

	1959	1958
UTILITY PLANT (Note 2):		
Tangible	$2,774,715,239	$2,630,176,309
Intangible	1,395,719	1,385,443
Total utility plant	2,776,110,958	2,631,561,752
Less reserve for depreciation and amortization	544,039,875	501,481,683
Utility plant—net	2,232,071,083	2,130,080,069
INVESTMENTS AND NON-CURRENT RECEIVABLES:		
Capital stock of subsidiaries—at cost (Notes 1 and 3)	7,968,926	15,225,661
Investment in other physical property—at cost	4,427,597	3,640,719
Other investments and non-current receivables	2,729,154	3,022,905
Total investments and non-current receivables	15,125,677	21,889,285
CURRENT ASSETS:		
Cash	28,770,746	29,472,141
Accounts receivable (less reserve for doubtful accounts: 1959, $1,332,145; 1958, $2,124,247)	48,279,466	42,453,267
Notes and accounts receivable from subsidiaries	3,450,706	3,063,258
Materials and supplies (for operations and construction)—at average cost	16,768,381	18,553,253
Gas stored underground—at average cost	159,879	224,180
Prepaid taxes and other prepaid expenses	32,972,071	33,723,176
Total current assets	130,401,249	127,489,275
DEFERRED CHARGES:		
Unamortized bond discount and expense (Note 3)	9,027,630	10,033,843
Other	785,835	1,464,759
Total deferred charges	9,813,465	11,498,602
TOTAL	$2,387,411,474	$2,290,957,231

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

BALANCE SHEET

Pacific Gas and Electric Company
December 31, 1959 and 1958

LIABILITIES

	1959	1958
CAPITALIZATION:		
Capital stock and surplus:		
Capital stock (Schedule 1):		
First preferred	$ 350,249,775	$ 350,249,775
Common	448,234,575	448,234,575
Excess of premiums received over discount and expense on outstanding shares and discount on shares reacquired	87,622,051	87,622,326
Total capital stock	886,106,401	886,106,676
Earned surplus (including restricted surplus: 1959, $51,036,388; 1958, $38,113,862—Note 4)	229,182,518	196,574,797
Total capital stock and surplus	1,115,288,919	1,082,681,473
Mortgage bonds (less sinking-fund requirements) (Schedule 2)	1,089,586,080	1,036,193,680
Total capitalization	2,204,874,999	2,118,875,153
CURRENT LIABILITIES:		
Accounts payable	25,090,450	27,838,191
Drafts outstanding	2,185,822	871,535
Dividends payable	11,654,952	11,654,827
Current sinking-fund requirements (Note 3)	7,500,920	5,642,320
Accrued interest	3,592,229	3,185,460
Customers' deposits	2,397,757	2,351,081
Accrued taxes (Note 4)	92,645,062	85,259,814
Total current liabilities	145,067,192	136,803,228
DEFERRED CREDITS:		
Unamortized ad valorem tax credits	6,999,250	8,165,792
Customers' advances for construction	5,299,927	4,605,406
Unamortized premium on bonds (Note 3)	1,655,375	1,752,547
Other	317,315	85,632
Total deferred credits	14,271,867	14,609,377
RESERVES:		
Insurance and casualties	3,231,041	2,909,930
Contingent electric rate refund		889,918
Other	122,664	127,928
Total reserves	3,353,705	3,927,776
CONTRIBUTIONS IN AID OF CONSTRUCTION	19,843,711	16,741,697
TOTAL	$2,387,411,474	$2,290,957,231

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

CAPITAL STOCK, December 31, 1959

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 and Discount on Shares Reacquired			87,622,051
Total			$886,106,401

MORTGAGE BONDS, December 31, 1959

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	18,644,000	
Series K	3	June 1, 1971	23,789,000	
Series L	3	June 1, 1974	109,101,000	
Series M	3	Dec. 1, 1979	77,376,000	
Series N	3	Dec. 1, 1977	47,962,000	
Series O	3	Dec. 1, 1975	7,500,000	
Series P	2¾	June 1, 1981	23,773,000	
Series Q	2⅞	Dec. 1, 1980	64,818,000	
Series R	3⅛	June 1, 1982	69,072,000	
Series S	3	June 1, 1983	72,828,000	
Series T	2⅞	June 1, 1976	77,083,000	
Series U	3⅜	Dec. 1, 1985	45,321,000	
Series W	3⅛	Dec. 1, 1984	54,625,000	
Series X	3⅛	June 1, 1984	59,459,000	
Series Y	3⅜	Dec. 1, 1987	43,705,000	
Series Z	3⅜	Dec. 1, 1988	19,216,000	
Series AA	4½	Dec. 1, 1986	32,100,000	
Series BB	5	June 1, 1989	58,000,000	
Series CC	3¾	Dec. 1, 1978	70,563,000	$ 127,000
Series DD	4½	June 1, 1990	60,925,000	
Series EE	5	June 1, 1991	60,300,000	3,378,000
Total			1,097,087,000	$3,505,000
Less current sinking-fund requirements			7,500,920	
Mortgage Bonds			$1,089,586,080	

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

NOTES TO FINANCIAL STATEMENTS

Pacific Gas and Electric Company
December 31, 1959

NOTE 1—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.

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:

Sinking-fund payments due under the terms of the first and refunding mortgage during the year ending December 31, 1960 are shown among the current liabilities net of the treasury bonds held by the Company at December 31, 1959.

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. 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—Deferred Taxes on Income:

The cost of plant construction completed as emergency facilities under Certificates of Necessity is being depreciated at normal rates for purposes of general accounting whereas for purposes of taxes on income such cost is being amortized on a five year basis.

For California Public Utilities Commission accounting purposes and pursuant to authorization of that Commission, the Company is normalizing the effect of this accelerated amortization on income and is carrying the resultant deferred tax credit in a restricted earned surplus account. As of December 31, 1959 the balance in this account was $51,036,388.

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." Subsequently, on October 22, 1959, the Commission issued a further order on this subject, Order No. 216. Pursuant to these orders the Company is, for Federal Power Commission purposes, accounting for and reporting the amounts of these deferred income taxes under Account No. 266—Accumulated Deferred Taxes on Income, which is a classification outside the equity section of the balance sheet.

With respect to property not subject to accelerated amortization but eligible for accelerated depreciation under Section 167 of the Internal Revenue Code, the Company for general accounting purposes is calculating its provision for Federal income tax using straight-line depreciation. In filing its tax returns, however, the Company since 1954 has deducted depreciation at accelerated rates. Consequently taxes currently being paid are less than the amounts provided, resulting in excess accruals. Such excess accruals, which aggregated approximately $26,000,000 at December 31, 1959, 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. The California Public Utilities Commission also is engaged in a State-wide investigation, instituted on its own motion, to determine the proper rate-making treatment to be accorded tax normalization in relation to accelerated amortization and accelerated depreciation.

For Federal Power Commission purposes, the Company is accounting for and reporting under balance sheet Account No. 266 the amounts accrued on its books for Federal income taxes in excess of the amounts paid for the years 1954 to 1958, inclusive, that resulted from deducting depreciation at accelerated rates in its tax returns for those years.

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, under which the Company would be required to show the amounts of deferred income taxes in a classification outside the equity section of the balance sheet. Hearings have been held in this matter but no decision has yet been announced. On July 9, 1959, the American Institute of Certified Public Accountants issued a letter of its Committee on Accounting Procedure, supplementing Accounting Research Bulletin 44 Revised (issued in July 1958), and indicating that accumulated deferred income taxes should be classified as a liability, reserve, or deferred credit, not as restricted earned surplus or otherwise as a part of the equity section of the balance sheet.

The staff of the Federal Power Commission has taken the position that published financial statements of utilities subject to its accounting jurisdiction should conform to the requirements of its Uniform System of Accounts, amended as above described, and the Commission has instituted a number of proceedings against utilities which have not complied.

In the opinion of the Company and its independent certified public accountants, no one accounting treatment of accumulated deferred income taxes has become generally accepted in the public utility industry. Under the circumstances and pending clarification of these issues, the accumulated deferred taxes in respect of amortization of the cost of construction completed under Certificates of Necessity are designated as restricted earned surplus in the accompanying balance sheet while the amount of excess accruals resulting from accelerated depreciation is included in the "Accrued Taxes" account. The treatment of these items conforms to specific accounting requirements of the California Public Utilities Commission and, in the opinion of counsel for the Company, is in accordance with applicable law.

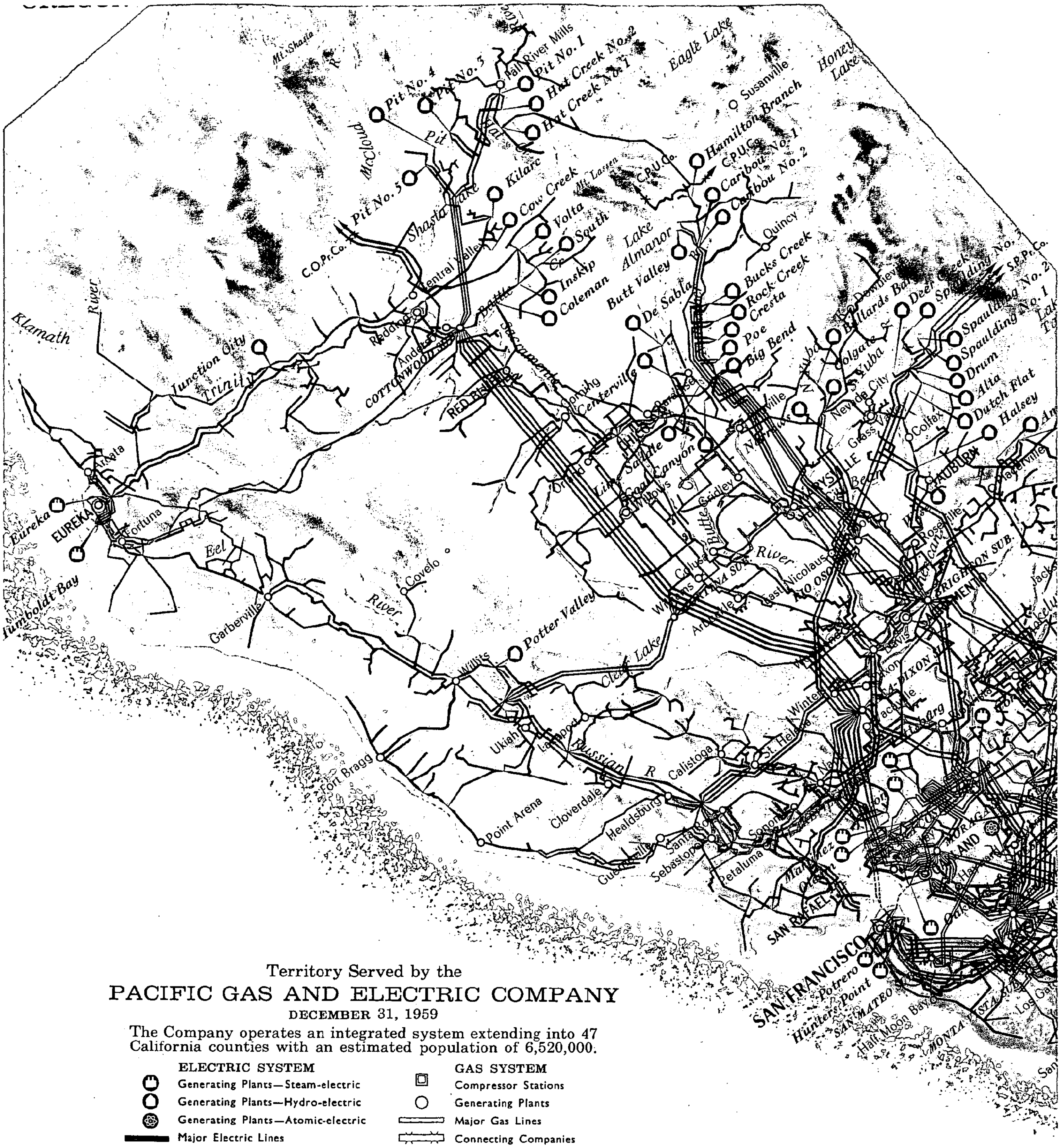
NOTE 5—Commitments and Contingent Liabilities:

At December 31, 1959 the Company had firm commitments in the aggregate amount of about $200,000,000 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, 1959 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 lawsuits arising from the production and sale of gas from certain California fields. In two of these suits damages totaling $39,500,000 are sought on the theory that the producers have wrongfully sold to the Company and others gas belonging to the plaintiffs. In the other suits damages of approximately $159,000,000, $19,600,000 and $55,200,000, respectively, are sought on the theory that the Company is not buying as much gas as it should from these fields nor paying high enough prices for it. In the opinion of counsel for the Company none of these suits 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.



Territory Served by the

PACIFIC GAS AND ELECTRIC COMPANY

DECEMBER 31, 1959

The Company operates an integrated system extending into 47 California counties with an estimated population of 6,520,000.

ELECTRIC SYSTEM

- Generating Plants—Steam-electric
- Generating Plants—Hydro-electric
- Generating Plants—Atomic-electric
- Major Electric Lines
- Connecting Companies

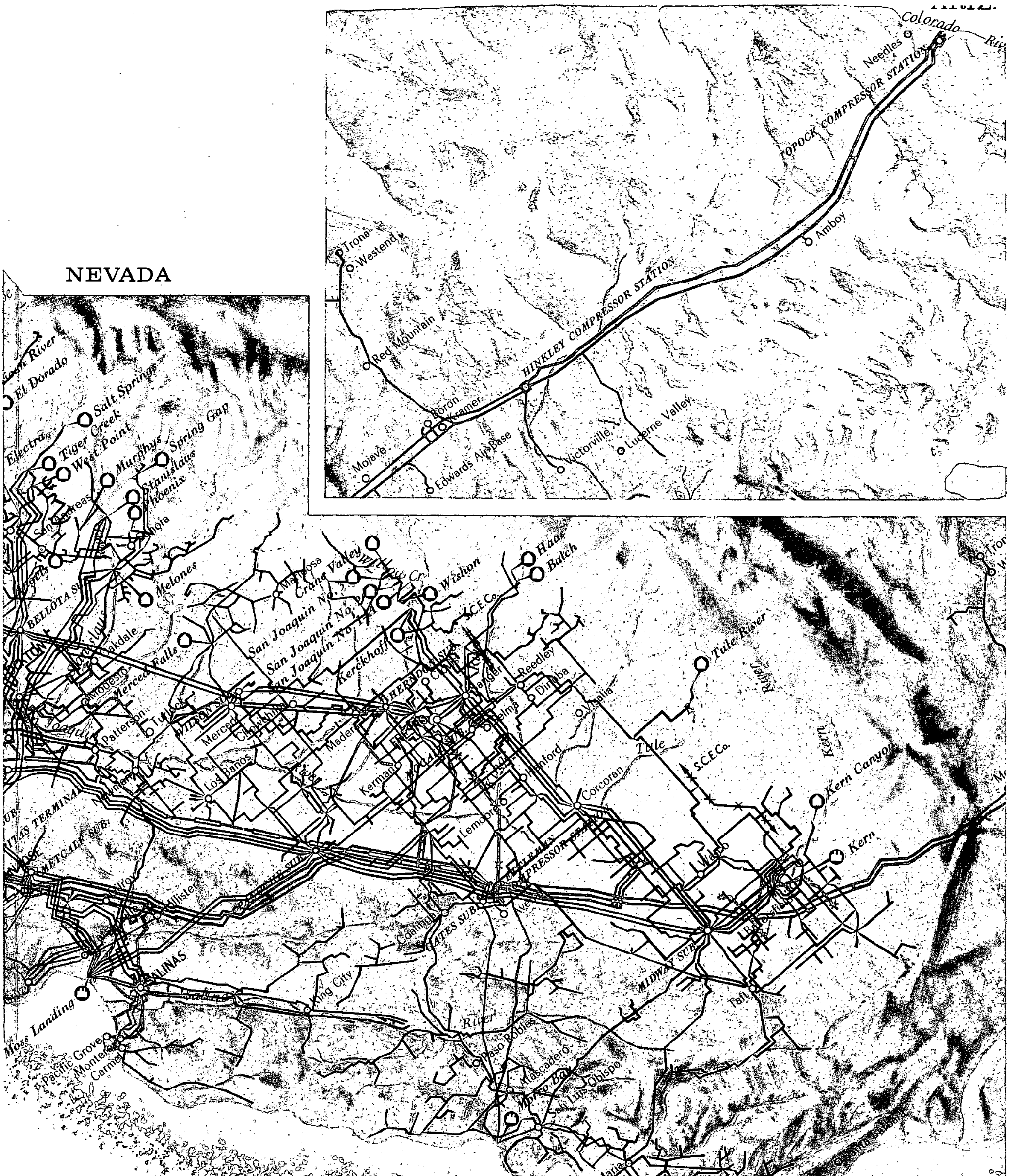
GAS SYSTEM

- Compressor Stations
- Generating Plants
- Major Gas Lines
- Connecting Companies
- Standard Pacific Gas Line, Inc.

63 Hydro Plants	1,922,500 Kw
14 Steam & Atomic Plants	3,296,500 Kw
77 Plants Capacity	5,219,000 Kw
Capacity from others	400,000 Kw

72,500 miles of electric power lines

3,800 miles gas transmission lines
17,800 miles gas distribution lines
21,600 miles of gas pipe lines


NEVADA
Colorado
Needles
TOPOCK COMPRESSOR STATION
Amboy
Trona
Westend
HINKLEY COMPRESSOR STATION
Red Mountain
Boron
Kramer
Mojave
Edwards Air Base
Victorville
Lucerne Valley
El Dorado
Salt Springs
Tiger Creek
West Point
Electra
Murphys
Spring Gap
Stanislaus
Phoenix
Melones
BELLOTA SUB.
Oakdale
Modesto
Merced Falls
Turlock
Patterson
Mariposa
Crane Valley
Wishon
Haas
Balch
San Joaquin No. 2
San Joaquin No. 1
Kerckhoff
Reedley
Dinuba
Visalia
Tule River
Merced
Los Banos
Madera
Kerman
Hanford
Lemoore
Corcoran
Tule
S.C.E.Co.
Kern Canyon
Kern
River
Waco
Coalinga
MIDWAY SUB.
Taft
SALINAS
Moss Landing
Hollister
King City
Salinas
Paso Robles
Atascadero
San Luis Obispo
Morro Bay
Pacific Grove
Monterey
Carmel
Santa Maria
METCALF SUB.

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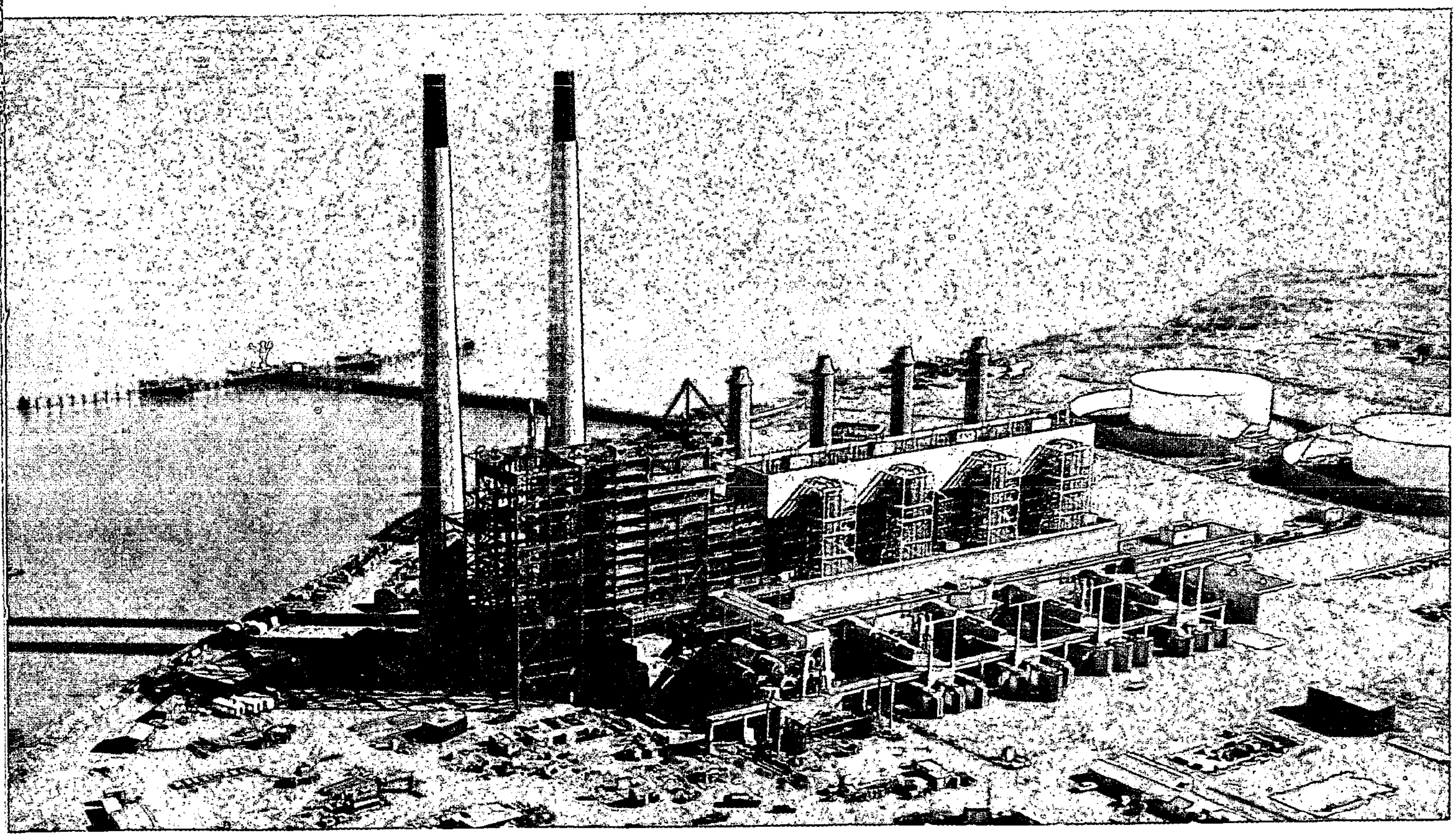

Addition of two 325,000 kilowatt units at our Pittsburg Power Plant will bring the total capacity of this plant to 1,310,000 kilowatts by mid-1961. It will then be the largest steam-electric generating station west of the Mississippi River.