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PACIFIC GAS & ELECTRIC CO.

1960 ANNUAL REPORT

PACIFIC GAS AND ELECTRIC COMPANY



P. G. & E. Co.
'60

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highlights of operations

Operating Revenues and Other Income	
Taxes and Franchise Payments	
Natural Gas Purchased	
Operating Payroll	
Other Expenses and Charges	
Net Income	
Earned Per Common Share	
Total Assets	
Construction Expenditures	
Sales of Electricity to Customers (KWH)	
Sales of Gas to Customers (MCF)	
Total Customers	
Number of Employees	
Number of Stockholders	

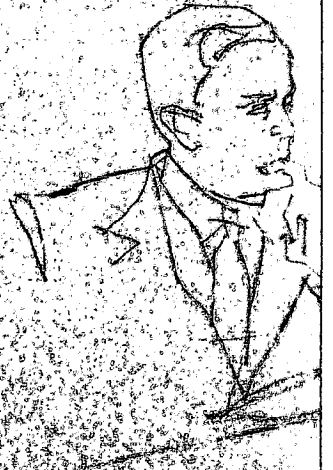
	1960	1959
Operating Revenues and Other Income	\$ 648,790,000	\$ 584,879,000
Taxes and Franchise Payments	\$ 161,209,000	\$ 141,244,000
Natural Gas Purchased	\$ 164,919,000	\$ 135,933,000
Operating Payroll	\$ 79,223,000	\$ 74,893,000
Other Expenses and Charges	\$ 150,874,000	\$ 148,072,000
Net Income	\$ 92,565,000	\$ 84,737,000
Earned Per Common Share	\$4.14	\$3.70
Total Assets	\$2,478,677,000	\$2,387,411,000
Construction Expenditures	\$ 173,126,000	\$ 158,693,000
Sales of Electricity to Customers (KWH)	23,759,293,000	21,513,141,000
Sales of Gas to Customers (MCF)	370,412,000	335,926,000
Total Customers	3,692,625	3,568,388
Number of Employees	18,342	18,023
Number of Stockholders	224,657	225,623

SAN FRANCISCO's fast growing peninsula looking north from San Jose to the Golden Gate (top right).

board of directors

JAMES E. BLACK*, *San Francisco*
 Chairman of the Board
 RANSOM M. COOK, *San Francisco*
 JAMES F. CRAFTS, *San Francisco*
 W. W. CROCKER*, *San Francisco*
 PAUL L. DAVIES, *San Jose*
 ROBERT H. GERDES, *San Francisco*
 RUSSELL GIFFEN, *Fresno*
 WALTER A. HAAS*, *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

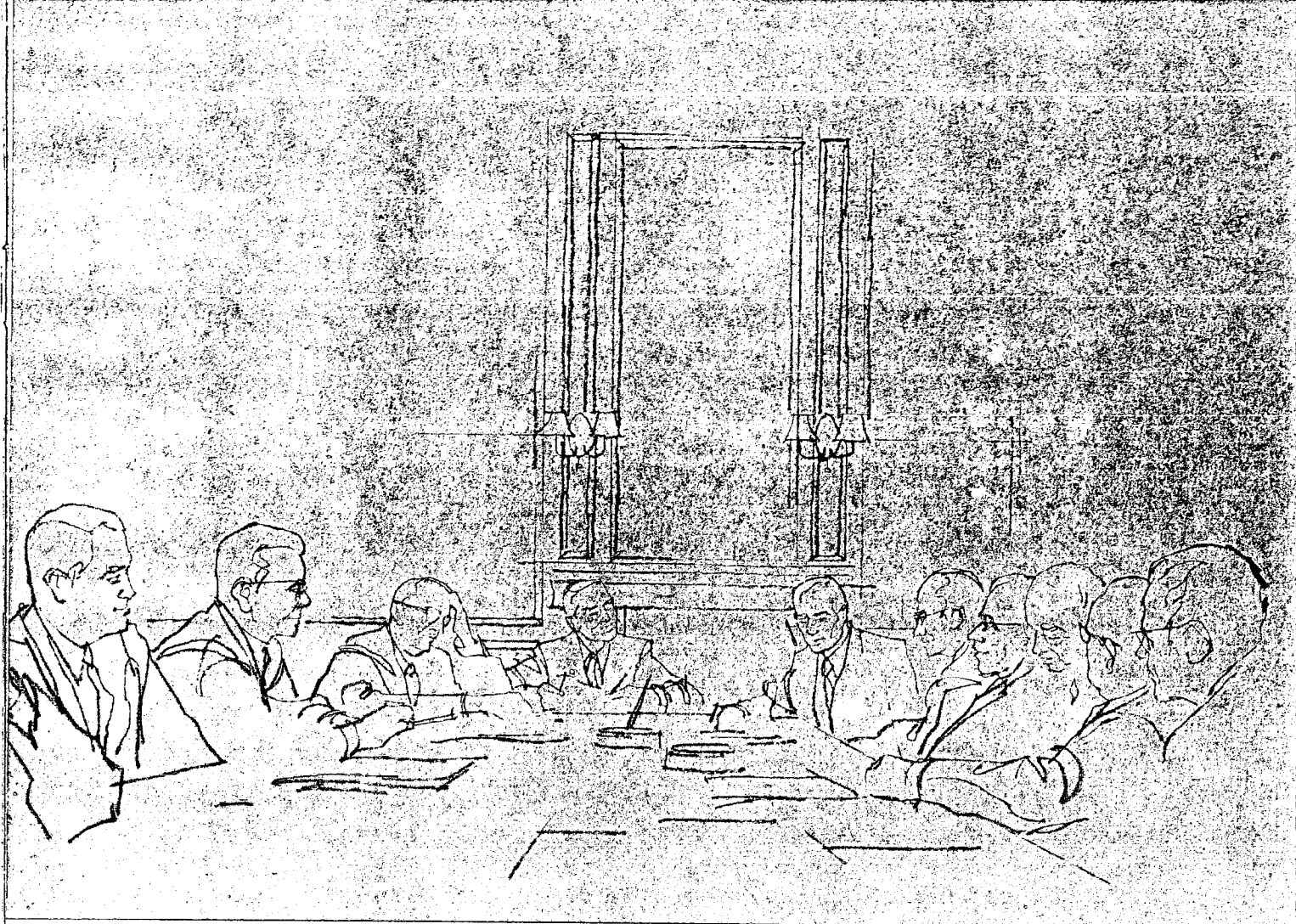


SUTHERLAND

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>
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>
E. H. FISHER	<i>Vice-President in Charge of Gas Operations</i>
H. W. HABERKORN	<i>Vice-President in Charge of General Construction</i>
J. F. BONNER	<i>Vice-President in Charge of Engineering</i>
K. C. CHRISTENSEN	<i>Vice-President and Treasurer</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>
* * *	
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>





GERDES



SIBLEY



ANDERSON



MOULTON



DOERR



SWANK



FISHER



HABERKORN



BONNER



CHRISTENSEN



GROS



MANHARD



COUGHLAN



PETERSON

REPORT OF THE DIRECTORS OF PACIFIC GAS AND ELECTRIC COMPANY

to our stockholders

San Francisco, California, February 23, 1961

The year 1960 was one of the most eventful in the Company's history.

New highs were established for sales of gas and electricity, operating revenues, and net earnings. The rate of customer growth fell only slightly below that of the previous year. For the second successive year our sales of electricity exceeded those of any other operating electric utility in the country.

Net earnings for the common stock established a new high, equivalent to \$4.14 a share compared with \$3.70 in the previous year. Part of this improvement resulted from colder weather in 1960 which substantially increased the demand for space heating. There was no change in the number of common shares outstanding.

Our earnings for 1960 have been stated on an accounting basis consistent with prior years. Effective January 1, 1961, the Company adopted "flow-through" accounting with respect to the benefits of accelerated depreciation and also commenced accruing depreciation on its books by the straight-line method rather than by the sinking fund method that it had used for many years. These accounting changes are more fully explained later in this report and in the notes to the financial statements. Their net effect is expected to increase reported earnings by approximately \$7 million in the year 1961.

In a year filled with a number of important developments, perhaps the most notable was the receipt in August of the last governmental au-

thorization required for construction of the Alberta-California project. This 1,400-mile, \$300 million natural gas pipeline, expected to be completed in late 1961, is more fully described later. Construction began in October, climaxing a four-year effort by the Company to obtain access to the natural gas reserves of Western Canada. The successful outcome is of great significance to the future growth of the California economy and to the long-range outlook for the Company.

Construction expenditures amounted to \$173 million in 1960. These are expected to rise to approximately \$230 million in 1961. The major portion of the increase will be attributable to expenditures for the California section of the Alberta-California project.

Once predominantly hydro in its electric resources, the Company now relies principally on thermal sources of power. In the past year we placed in operation or commenced construction on three different types of thermal generating facilities. At Pittsburg Power Plant we completed a 330,000-kilowatt conventional steam unit which is twice the size of the largest units previously installed on our system. Like three of similar size that are under construction, this unit uses either oil or natural gas for fuel.

The Geysers Power Plant, which we also placed in operation in 1960, is America's first electric power generating station utilizing natural steam from the earth. Although not of major size, it has attracted considerable attention as a possible forerunner of other similar plants.

Nuclear energy holds much promise as a future economic source of electric power. The Company has been extremely active in this field since 1951. Late in 1960 we received final approval from the Atomic Energy Commission to construct a 60,000-kilowatt nuclear unit at our steam plant near Eureka. Construction of this unit is now under way, to be completed in 1962. The power produced is expected to become competitive in cost with power from conventional sources in the Eureka area after about three years' operation. We are continuing our studies looking to the construction of a large-scale nuclear plant in the San Francisco Bay area.

Although relying increasingly on thermal power, we are continuing to construct hydro facilities. Additions to our hydro-electric generating capacity under construction include a 42,000-kilowatt plant on the Kings River which will be completed in 1962, and replacement of the old DeSabra and Stanislaus Powerhouses with modern plants which will increase their capacity by 47,500 kilowatts.

From the Gold Rush days to the present, water has played a unique and often controversial role in the history of California. The Company has a long history of water development in its own right and also of cooperation with other agencies in developing important water conservation works. With approval by the voters last November of a \$1¾ billion bond issue for construction of State water facilities, a new era of water development on a scale far greater than anything in the past is in prospect. The Company has offered to cooperate fully in its

development.

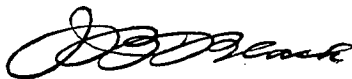
The change in our National Administration which occurred on January 20 is of great importance to all Americans. Undoubtedly the new Administration's major efforts must be directed toward maintaining our country's position of world leadership and toward keeping us militarily strong as a deterrent to potential aggressors. Neither of these objectives can be assured, however, unless we maintain a strong economy at home. Essential to a strong domestic economy is a progressive and financially strong utility industry.

As widely reported in the press, a number of major suppliers of electrical equipment used in the utility business were indicted in 1960 for price fixing and other violations of the anti-trust laws of the United States and the cases were recently concluded by imposition of fines and sentences. We have been diligently investigating the question of whether these conspiracies have affected the Company and have employed special counsel to advise us. We will take such steps through negotiation or litigation as may be necessary to protect the interests of our customers and stockholders.

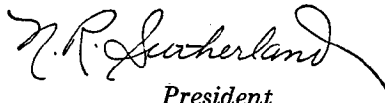
A more detailed review of the year's operations is contained in the pages that follow. Financial statements, together with the opinion of our independent public accountants, begin on page 26 of this report.

It is a privilege once again to acknowledge on behalf of the Board of Directors our appreciation of the fine performance of our employees during the past year.

For the Board of Directors



Chairman of the Board



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 11, 1961. In connection with such solicitation, it is expected that the proxy statement and form of proxy will be mailed to stockholders on or about March 10, 1961.

ELECTRONIC DATA PROCESSING

More than two million monthly bills are being issued and related accounting is being handled by the Company's 16 IBM 705 computers. In 1960 the accounting for materials handled by 185 storerooms throughout our system was converted to computer operation. Programming is now in progress for conversion to electronic processing of payroll and plant accounting. The computers have also been utilized to make numerous engineering and statistical studies. A completely transistorized computer is on order to replace the two vacuum tube computers. It is also expected that the new model will perform the daily processing work in one-third the time now required with further savings in costs.



the 1960 financial story

REVENUES

One of the important measurements of progress of a public utility is its growth in revenues. By this standard of measurement 1960 was an exceptionally good year, gross operating revenues reaching \$647,888,000, a gain of \$64,464,000, or 11% over 1959.

Our two principal sources of income, sales of electricity and gas, produced revenues of \$416,569,000 and \$228,276,000, respectively.

The gain in the Electric Department was well distributed over all major categories of service. Revenue increases of 9% in domestic and 11% in large light and power, our two principal classes of service, were particularly gratifying. Revenues from agricultural power sales were unusually high because of the dry year, which greatly increased the demand for irrigation pumping. A similar situation prevailed in the previous year.

There was an unusually large gain of 16% in the Gas Department. 1960 was a year of approximately normal temperatures whereas 1959 was one of the warmest years of record, which depressed sales for space heating.

The table on page 25 shows a breakdown of revenues and unit sales by major classes of service for both the Electric and Gas Departments.

EXPENSES

Expenses of conducting our business, exclusive of taxes and depreciation, amounted to \$304,-

171,000, compared with \$271,235,000 in the previous year.

More than 90% of this increase is attributable to increases in the cost of natural gas and fuel oil. While a portion of these increases resulted from rising unit prices, the major portion resulted from the greater quantities purchased because of our expanded volume of business.

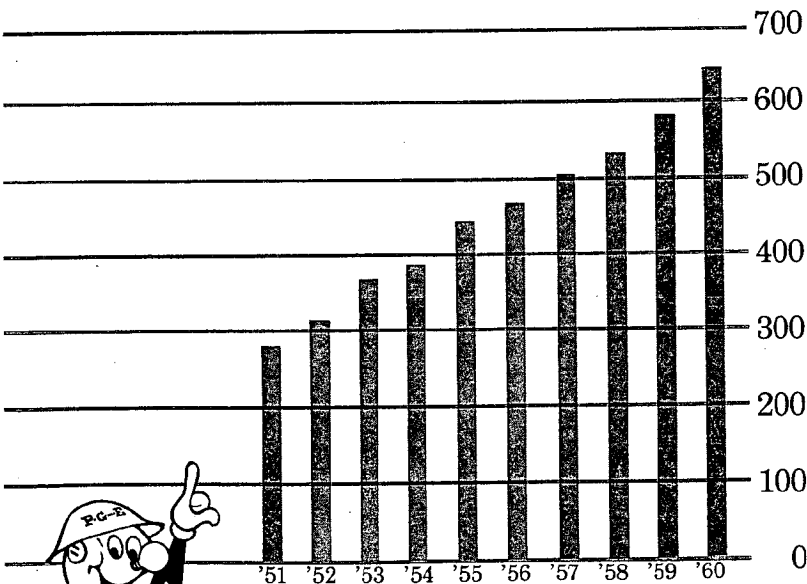
The relatively small increase in other expenses demonstrates, we believe, that notwithstanding inflationary pressures our costs are under excellent control. This reflects the progress the Company has made in improving the efficiency of its operations. Examples include the use of electronic computers to reduce routine clerical costs, and automation of many of our facilities. Of our 63 hydro-electric plants, 45 have been converted to automatic or semi-automatic operation. The search for increased efficiency is never ending. It is a source of great satisfaction to us that, according to a national survey of electric utilities, our operating costs per customer are among the lowest in our industry.

TAXES

Taxes paid or set aside for future payment reached the record total of \$167,060,000 in 1960, an increase of almost \$21 million over the previous year. The size of our tax bill will be more fully appreciated when we consider that it is nearly equal to the amount of all wages

revenues

(Millions of Dollars)



and salaries paid to our operating employees plus the entire net income available for dividends to our stockholders.

It would seem self-evident that, particularly in these critical times, every commercial enterprise should pay its fair share of taxes to support governmental functions at the local, state, and national levels. It is therefore fair to inquire why some electric systems, which are in direct commercial competition with investor-owned enterprises, are permitted to escape taxation on the ground that they are owned by government. They pay no income taxes and at best make only token payments to state and local governments. Today governmental agencies generate nearly one-quarter of all of the electricity produced in this country. From their tax-sheltered position they enjoy an enormous cost advantage. They grow and prosper principally because they are able to shift their fair share of the tax burden from their privileged customers to the rest of the taxpayers. We believe that our stockholders and all citizens should give serious consideration to this inequity.

A table showing taxes by classes and a comparison with the previous year appears on page 12 of this report.

EARNINGS AND DIVIDENDS

Net income for the year amounted to \$92,565,000. After payment of \$18,336,000 in dividends to holders of preferred stock there remained \$74,229,000 for the common stock, equivalent to \$4.14 a share.

Dividends on the common stock were paid at a quarterly rate of 65 cents a share. This was the

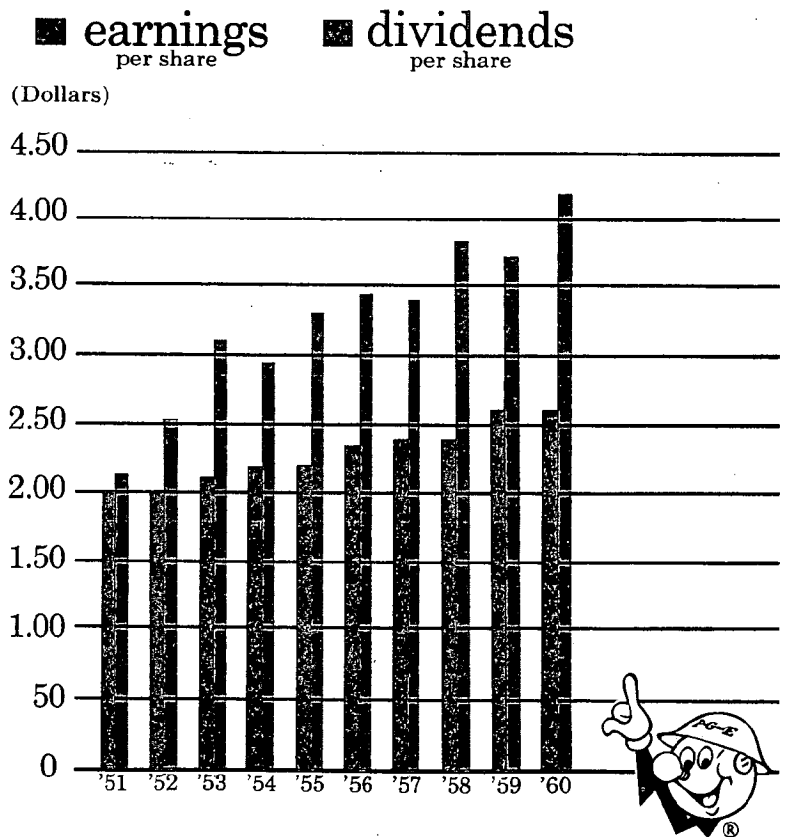
forty-second consecutive year of uninterrupted cash dividends. Dividends on the common stock aggregated \$46,616,000, representing approximately 63% of net earnings available for the common stock. Earnings not paid out in dividends were reinvested in the business, thereby strengthening the position of stockholders.

By letter dated December 21, 1960, common stockholders were advised that 7.4% of all common dividend payments in 1960 should be excluded from their taxable income in computing their Federal income tax. This is an estimated percentage subject to review by the Internal Revenue Service, but such review will not be made before stockholders are required to file their Federal income tax returns for 1960. If such review should eventually result in a substantial change from the Company's estimate, common stockholders will be so informed.

ACCOUNTING CHANGES

In previous reports we have referred to the California Public Utilities Commission's investigation of the treatment to be accorded income taxes where a utility elects to take deductions for accelerated depreciation. In April 1960 the Commission issued an order that it would allow for rate making purposes only the taxes currently payable. This decision requires that the benefits of accelerated depreciation shall "flow-through" to net income.

The Company has elected to use accelerated depreciation for each year permitted by the Internal Revenue Code, beginning with 1954. Pending establishment of Commission policy on this matter and continuing throughout 1960, the Company has "normalized" income taxes



by making provision in its accounts for the amount of taxes that would have been payable on the basis of straight-line depreciation rather than accelerated depreciation.

For the year 1961 the Company expects to elect to take accelerated depreciation and, in accordance with the Commission's order, to adopt the "flow-through" method of accounting. As a result the provision to be made on the Company's books for income tax in 1961 is expected to be approximately \$10,900,000 less than that computed by the previous method.

The excess tax accruals arising from our use of accelerated depreciation for the years 1954 through 1959 were included in the taxes accrued account on our balance sheet. On December 31, 1960, excess accruals amounting to \$35,600,000 were transferred to the reserve for depreciation.

Also effective January 1, 1961, the Company adopted the straight-line method for accruing depreciation on its books. This was the final step in a long period of transition during which the interest rate for the sinking-fund method of accruing depreciation, which we had previously used, had been progressively reduced from 6% to 2%. This change to straight-line depreciation will increase depreciation expense on our books in 1961 by about \$3,900,000.

Thus, the net effect of these accounting changes is expected to reduce expenses and concurrently increase net income by approximately \$7,000,000 in 1961. The notes to the financial statements provide further information on these accounting changes.

FINANCING

The Company's requirements for outside

financing in any year are determined by the difference between the total funds required for construction or other capital outlays and the funds available from internal sources. Internally generated funds arise principally from depreciation accruals and retained earnings.

As mentioned previously, construction expenditures totaled \$173 million for the year. In addition, the Company increased its investment in securities of, and made advances to, companies associated with the Alberta-California project in a total amount of about \$16 million. Consequently, total capital requirements for the year amounted to about \$189 million.

Only about \$72 million of outside financing was necessary to meet these requirements. In November we sold at competitive bidding \$60 million of our First and Refunding Mortgage Bonds, Series FF, 4 $\frac{5}{8}$ %, due 1992. We closed the year with \$12 million of temporary bank loans outstanding. Thus, about \$117 million, or over three-fifths, of the Company's capital requirements during the year was financed from internal sources.

At year end the Company's total capitalization amounted to \$2,243 million, consisting of 51.3% of bonds and short-term bank loans, 15.6% preferred stock and 33.1% common stock equity. In this connection it should be noted that deferred taxes arising from accelerated amortization are no longer included as a part of common stock equity. Because of accounting requirements of regulatory agencies, this item was transferred during the year from restricted surplus to a special account on our balance sheet.

five years in brief

Pacific Gas and Electric Company

	1960	1959	1958	1957	1956
SOURCES OF INCOME:					
Electric Department revenues	\$416,569,000	\$384,450,000	\$351,284,000	\$328,310,000	\$305,855,000
Gas Department revenues	228,276,000	196,356,000	181,076,000	170,569,000	162,560,000
Revenues from other operating departments	3,043,000	2,618,000	2,418,000	2,365,000	2,329,000
Miscellaneous income	902,000	1,455,000	866,000	1,504,000	1,187,000
Totals	\$648,790,000	\$584,879,000	\$535,644,000	\$502,748,000	\$471,931,000
DISPOSITION OF INCOME:					
Wages and salaries	\$ 79,223,000	\$ 74,893,000	\$ 68,317,000	\$ 61,766,000	\$ 57,146,000
Power purchased	4,177,000	5,414,000	9,370,000	5,684,000	6,190,000
Natural gas purchased	164,919,000	135,933,000	114,590,000	114,227,000	98,808,000
Oil and other fuel	17,793,000	16,781,000	15,683,000	19,517,000	15,309,000
Materials and services purchased from others	28,225,000	27,867,000	26,983,000	21,328,000	22,165,000
Provision for pensions, insurance, etc.	9,834,000	10,347,000	10,450,000	8,779,000	7,516,000
Provision for depreciation and amortization	59,012,000	55,863,000	51,309,000	48,025,000	44,964,000
Taxes	148,453,000	125,096,000	118,501,000	110,765,000	110,526,000
Deferred federal and state taxes on income	9,010,000	12,923,000	9,803,000	10,020,000	8,746,000
Bond interest and other income deductions	35,579,000	35,025,000	25,328,000	26,017,000	24,787,000
Dividends declared on preferred stock	18,336,000	18,336,000	18,336,000	18,336,000	18,192,000
Dividends declared on common stock	46,616,000	46,616,000	42,902,000	40,981,000	39,989,000
Balance retained in the business	27,613,000	19,785,000	24,072,000	17,303,000	17,593,000
Totals	\$648,790,000	\$584,879,000	\$535,644,000	\$502,748,000	\$471,931,000
NUMBER OF SHARES OF COMMON STOCK					
OUTSTANDING:					
Average for the year	17,929,305	17,929,305	17,502,415	17,074,941	16,662,129
End of year	17,929,305	17,929,305	17,929,305	17,075,524	17,068,524
EARNINGS PER SHARE OF COMMON STOCK:					
On average shares outstanding	\$4.14	\$3.70	\$3.83	\$3.41	\$3.46
On end-of-year shares outstanding	4.14	3.70	3.74	3.41	3.37
DIVIDENDS PER SHARE OF COMMON STOCK:					
Declared basis	\$2.60	\$2.60	\$2.45	\$2.40	\$2.40
Paid basis	2.60	2.60	2.40	2.40	2.35

taxes and franchise payments

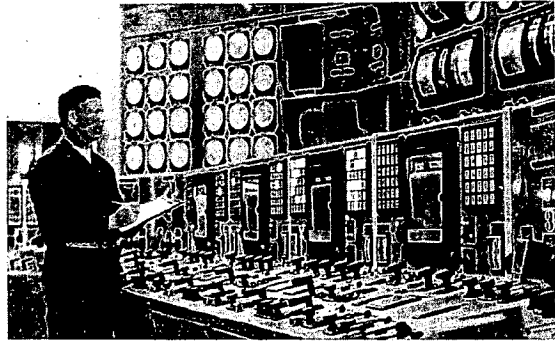
Pacific Gas and Electric Company

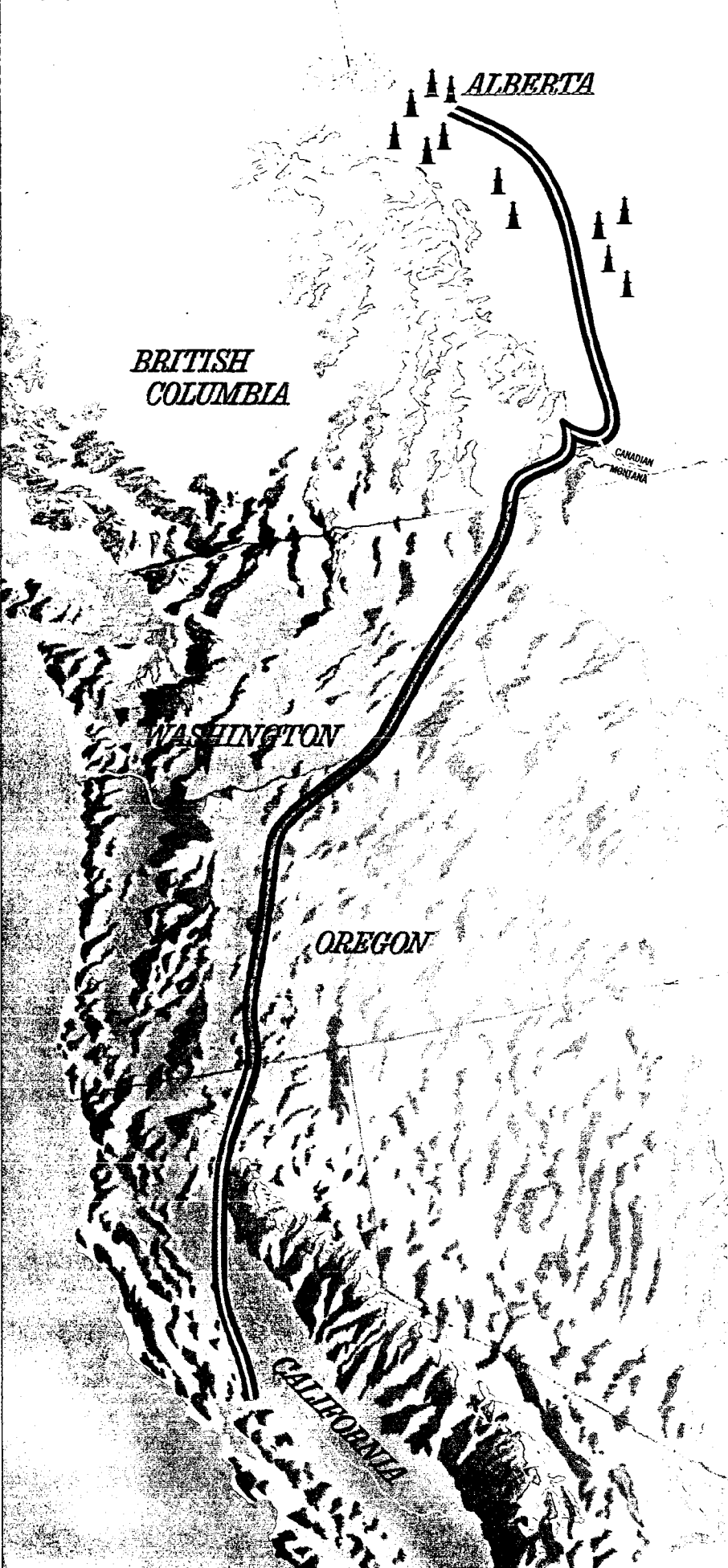
	1960	1959	Increase
LOCAL TAXES AND FRANCHISE PAYMENTS:			
Ad valorem property taxes	\$ 65,966,000	\$ 61,607,000	\$ 4,359,000
Franchise payments	3,746,000	3,225,000	521,000
Total local taxes and franchise payments	<u>69,712,000</u>	<u>64,832,000</u>	<u>4,880,000</u>
STATE TAXES:			
Bank and corporation franchise	6,582,000	4,521,000	2,061,000
Provision for deferred state taxes on income	1,339,000	727,000	612,000
Unemployment insurance	827,000	665,000	162,000
Other	460,000	446,000	14,000
Total state taxes	<u>9,208,000</u>	<u>6,359,000</u>	<u>2,849,000</u>
CITY AND STATE TAXES:			
Sales and use	<u>3,506,000</u>	<u>3,175,000</u>	<u>331,000</u>
FEDERAL TAXES:			
Corporation income	74,050,000	57,405,000	16,645,000
Provision for deferred federal taxes on income	7,671,000	12,196,000	* 4,525,000
Unemployment insurance	175,000	176,000	* 1,000
Old age benefits	2,672,000	2,182,000	490,000
Other	66,000	71,000	* 5,000
Total federal taxes	<u>84,634,000</u>	<u>72,030,000</u>	<u>12,604,000</u>
TOTAL TAXES AND FRANCHISE PAYMENTS	<u>\$167,060,000</u>	<u>\$146,396,000</u>	<u>\$20,664,000</u>
CHARGED TO:			
Income account as taxes	\$157,463,000	\$138,019,000	\$19,444,000
Income account as franchise payments	3,746,000	3,225,000	521,000
Capital and other accounts	5,851,000	5,152,000	699,000
TOTAL TAXES AND FRANCHISE PAYMENTS	<u>\$167,060,000</u>	<u>\$146,396,000</u>	<u>\$20,664,000</u>

*Denotes decrease

PITTSBURG POWER PLANT

The first of two new steam units, rated after tests at 330,000 kilowatts, was completed at Pittsburg Power Plant in 1960. Installation of the second will be completed early in 1961. Construction of two more units of the same size has begun at Morro Bay Power Plant, one for service in 1962 and the other in 1963. These units, which cost about \$40 million each, are twice the size of the largest previously in service on our system. With these additions the capacity of the Pittsburg Plant will be increased to 1,320,000 kilowatts and Morro Bay to 990,000 kilowatts.





The Alberta-

PARTICIPATING COMPANIES

ALBERTA AND SOUTHERN GAS CO. LTD.

▲ This Alberta corporation is a wholly-owned subsidiary of PG&E. Its principal function will be to purchase gas from producers in Alberta and arrange for its transportation to the international boundary. It will not own any pipeline facilities and will have only nominal capitalization.

THE ALBERTA GAS TRUNK LINE COMPANY LIMITED

▬ This company will construct, own and operate all pipeline facilities, estimated to cost about \$92 million, required by the project within the Province of Alberta. It will gather gas, including the gas purchased by Alberta and Southern, from a number of fields in western Alberta and transport it as a contract carrier to the Alberta boundary. It has no corporate connection with PG&E or any of the other participants in the project.

ALBERTA NATURAL GAS COMPANY

▬ This company will transport gas as a contract carrier for Alberta and Southern and also for Westcoast Transmission Company Limited through the Province of British Columbia to the international boundary. It will construct, own and operate pipeline facilities estimated to cost \$35 million.

PACIFIC GAS TRANSMISSION COMPANY

▬ This company will purchase gas from Alberta and Southern at the international boundary, transport it through Idaho, Washington, and Oregon to the California border, and sell it there to PG&E. It will also transport, as a contract carrier, gas purchased from Westcoast Transmission Company by El Paso Natural Gas Company. It will construct, own and operate pipeline facilities estimated to cost about \$121 million.

PACIFIC GAS AND ELECTRIC COMPANY

▬ PG&E will distribute the gas made available by the project to its customers in Northern and Central California. It will construct, own and operate pipeline facilities, estimated to cost \$58 million, extending from the Oregon-California border to Antioch, California, the principal point of connection with the Company's existing distribution system.



California Project

THE PROJECT IN BRIEF

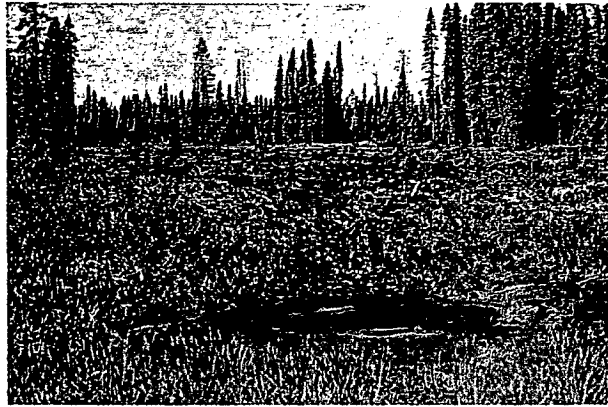
The Alberta-California Project was conceived more than four years ago to obtain an independently controlled supplemental source of natural gas for PG&E customers. Negotiations for gas purchase contracts and the design and engineering of the pipeline got under way. More than two years ago the applications for the necessary governmental approvals began to be processed through regulatory agencies in Canada and the United States. In August of 1960 the last required governmental approval was obtained, and shortly thereafter construction contracts were awarded.

The project is scheduled for completion by the end of 1961. The pipeline will extend 1,400 miles from Alberta to the San Francisco Bay area. Initial deliveries of 415 million cubic feet a day will increase PG&E's gas supply by about 20%. The line has been designed to handle twice the initial delivery by installing additional compressor facilities.

Financing arrangements completed for Pacific Gas Transmission Company included the sale of 2,210,000 shares of common stock producing net proceeds of slightly under \$20 million; the sale of \$13,260,000 of Convertible Subordinated Debentures issued pursuant to rights allotted to common stockholders; and the private placement of \$90 million 5¼% First Mortgage Pipeline Bonds. PG&E owns 50% of the common stock and purchased for investment the debentures to which it was entitled to subscribe.

Financing arrangements for Alberta Natural Gas Company have also been completed by a private placement of \$25 million (U.S.) of 5¼% First Mortgage Pipe Line Bonds, and by the sale of 852,016 shares of common stock, the proceeds from which approximated \$8½ million (Can.). The common shares are owned in equal portions by Westcoast Transmission Company Limited, Pacific Gas Transmission Company, and the public. Westcoast Transmission Company and Pacific Gas Transmission Company have entered into a voting trust agreement under which each will nominate four of the eight directors of Alberta Natural Gas Company.

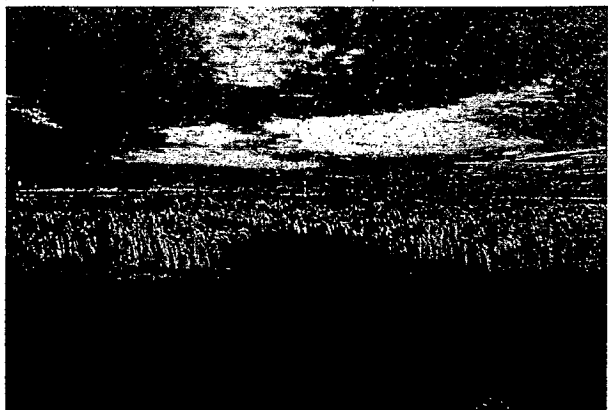
The California section of the line, estimated to cost \$58 million, will be financed as a part of PG&E's overall construction program. In addition to its direct investment, it is estimated that PG&E will have an investment of approximately \$19½ million in the securities of Alberta and Southern Gas Co. Ltd. and Pacific Gas Transmission Company at the commencement of operations.



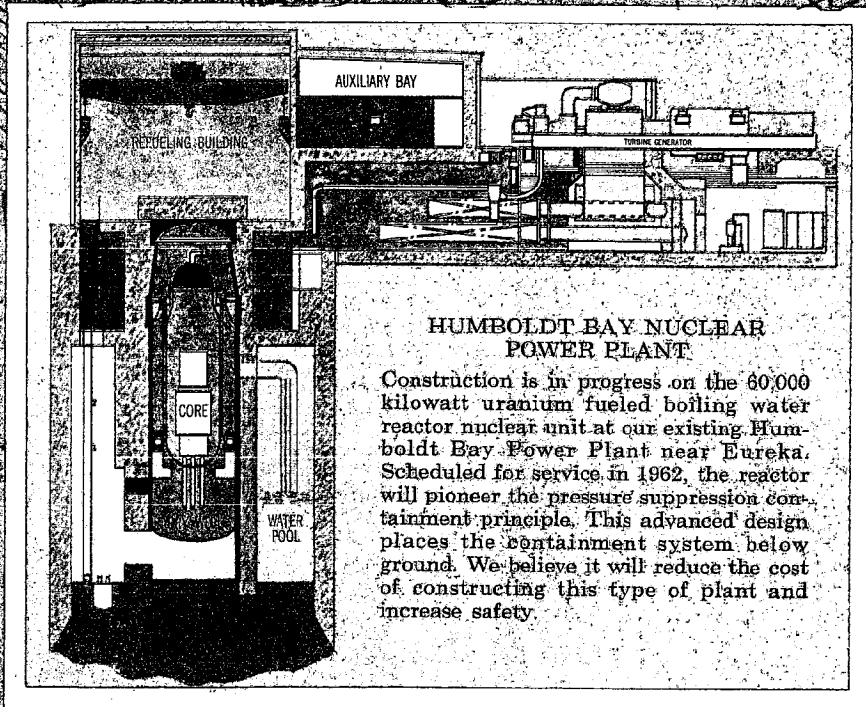
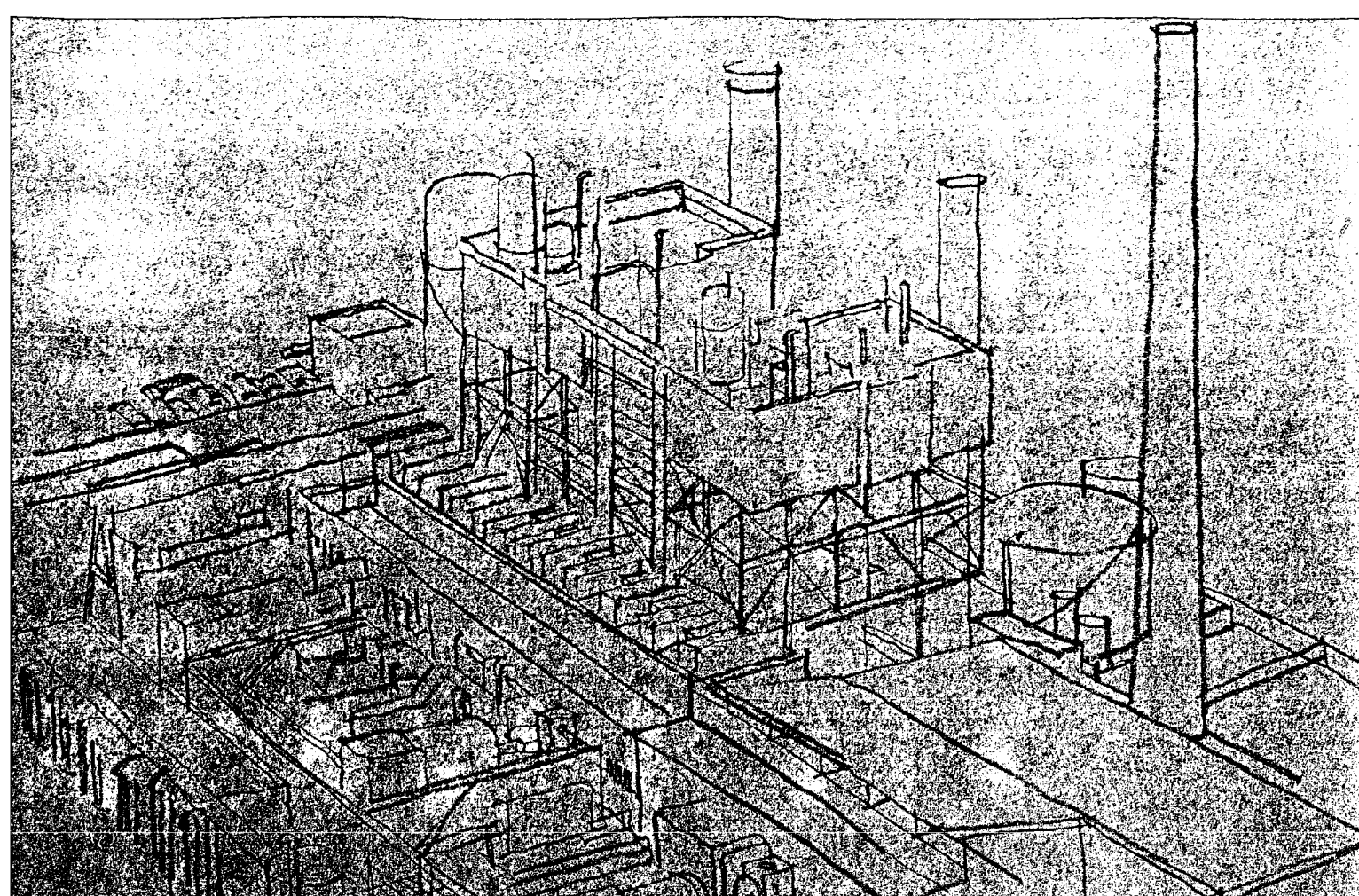
From the muskeg country of Northern Alberta...



Across the Canadian Rockies in British Columbia...

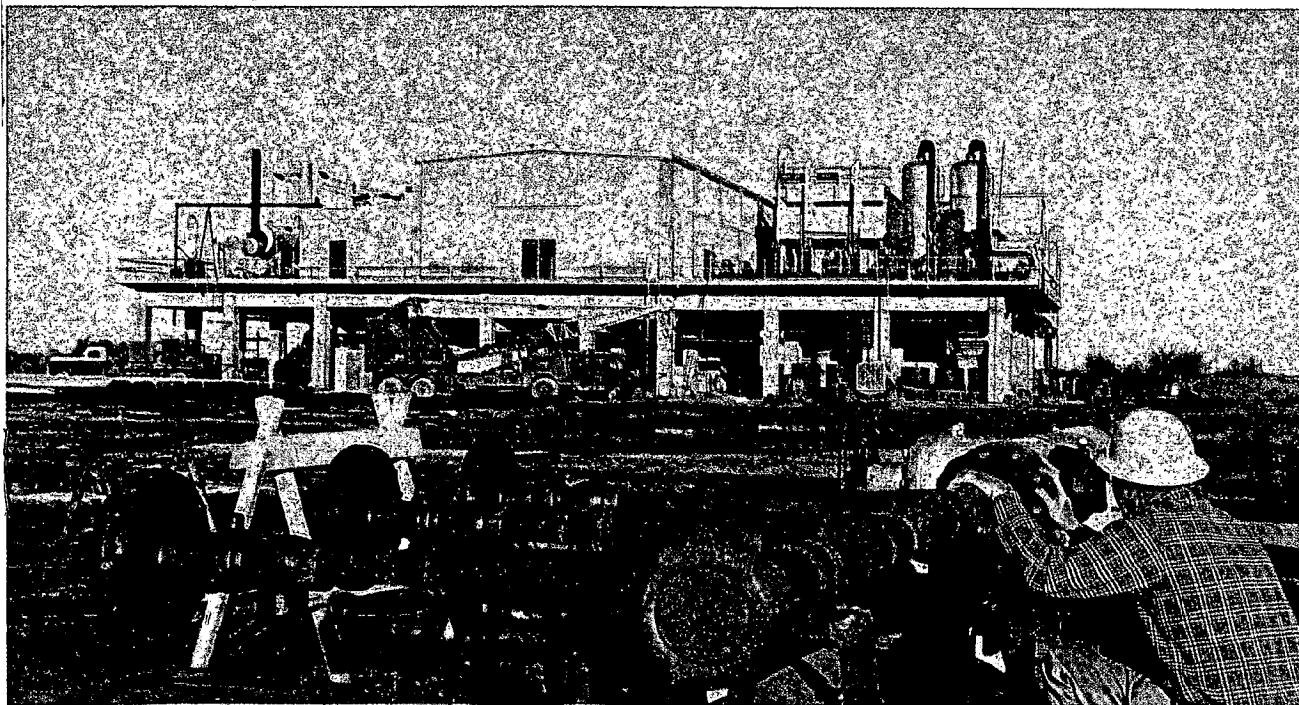
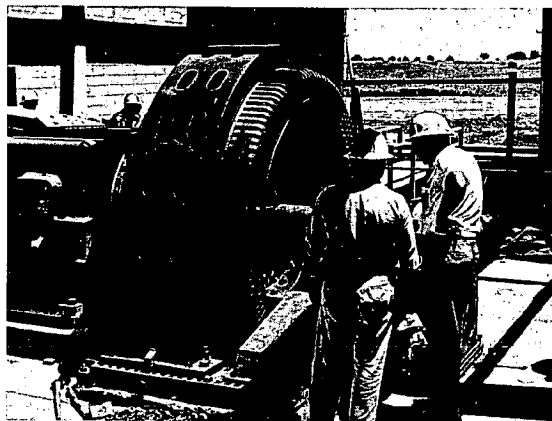


Through the Pacific Northwest to San Francisco Bay



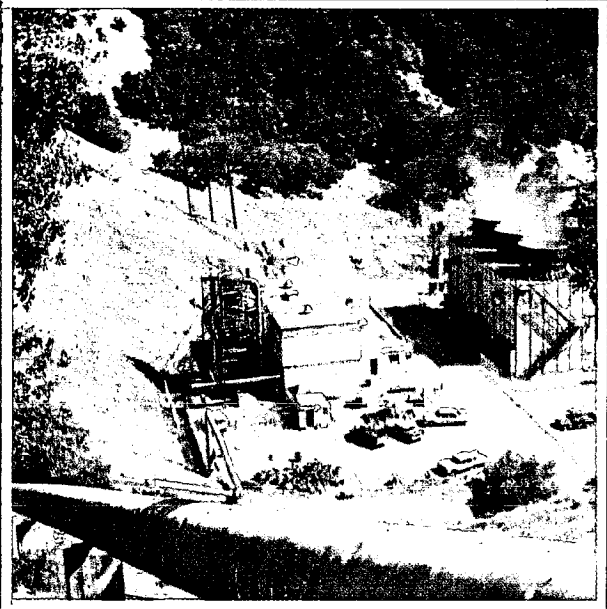
McDONALD ISLAND GAS STORAGE FIELD

Natural gas deliveries of up to 400 million cubic feet a day to serve peak demands will be available from the McDonald Island underground storage field when development is completed. When fully developed the storage reservoir will have a usable capacity of 30 billion cubic feet. To inject gas under high pressure, a compressor station, with an electric substation for power, was built on a concrete platform 17 feet above ground for protection against flooding if the island's levees should fail. Another compressor plant was built at Brentwood, 17 miles distant, to deliver gas to the field. The total cost of this project, including the acquisition and repressuring of the field and the drilling of additional wells, is approximately \$25 million.



GEOHERMAL POWER PLANT

Natural steam from the earth is being utilized successfully at The Geysers Power Plant, completed in 1960, for the generation of 12,500 kilowatts of electricity. Installation of a second generating unit is contemplated for 1963 if the required additional steam is developed. The plant is located about 90 miles north of San Francisco. It is designed for unattended operation.



operations and administration

ELECTRIC OPERATIONS

Gross system electric output for 1960 far surpassed that of any previous year, reaching a total of 28.8 billion kilowatt-hours. For the second successive year we experienced below normal precipitation, which restricted the output from our hydro plants and those of other producers which supply power to our system. The deficiency was made up by greater output from our steam plants, which produced a total of 18.6 billion kilowatt-hours, or 64.4% of the total system output. Company hydro output was virtually identical with that of the previous year, amounting to 8.8 billion kilowatt-hours, or 30.4% of the total output. Almost 95% of the Company's total requirements was generated in our own plants. The remaining 1.4 billion kilowatt-hours, or 5.2%, was obtained from other producers.

The peak demand on our electric system, which occurred on July 21, was 5,130,000 kilowatts. This is the highest demand ever carried by a single operating electric utility company in this country. It exceeded the previous year's peak by 565,000 kilowatts, which is greater than the present requirements of the entire city of San Francisco.

At the close of 1960 we were serving 1,976,575 electric customers, an increase of 61,278 for the

year. We expect to be serving our two-millionth electric customer well before the close of 1961.

GAS OPERATIONS

After a series of abnormally warm years, a return to normal temperatures in 1960 materially improved our sales of gas for space heating. Sales to all classes of gas customers exceeded 370 billion cubic feet, a 10.3% increase over 1959. A factor contributing to the increased sales volume was the addition of 62,254 new gas customers, which brought the year-end total to 1,690,523.

In addition to the gas delivered to our customers, about 140 billion cubic feet was consumed as fuel in our steam-electric generating plants. Thus our gas system transported in excess of 500 billion cubic feet during the year, without any unusual operating problems. The peak-day sendout was almost 2 billion cubic feet.

Completion of the Alberta-California project late in 1961, described elsewhere in this report, will mark a major milestone in the history of our gas operations. It may be of even greater significance than the first deliveries of natural gas to our customers from California fields in 1929 or the first deliveries of out-of-state gas from fields in Texas and New Mexico in 1950. This new supply will enter our service area from

the north, whereas our present source of out-of-state gas enters our system from the southeast. This, together with the McDonald Island underground storage reservoir, will provide us with much more flexibility in the operation of our gas system than has been available heretofore.

CUSTOMERS			
by Departments and Increase During Year			
	<i>December 31</i>		<i>Increase during 1960</i>
	1960	1959	
Electric Department	1,976,575	1,915,297	61,278
Gas Department . . .	1,690,523	1,628,269	62,254
Water Department . . .	24,928	24,199	729
Steam Sales Department . . .	599	623	* 24
Totals . . .	<u>3,692,625</u>	<u>3,568,388</u>	<u>124,237</u>

*Denotes decrease

BUSINESS DEVELOPMENT

New business connected in 1960 exceeded that of any previous year. A carefully planned and directed sales program to stimulate the use of electricity and gas contributed substantially to this result.

Through its area development department the Company intensified its efforts to attract industries into its service territory. Personal calls were made by Company representatives on industrial prospects in the East and in the Midwest. During the year an average of about one new plant and three plant expansions was completed every day in our service area.

A great potential for load growth exists in the field of commercial and industrial lighting. His-

torically, lighting levels have doubled in every decade since 1900, and the decade of the Sixties should prove no exception. The Illuminating Engineering Society has conducted research from which it has concluded that a doubling of the existing lighting level in business and industry will substantially increase productivity and sales of goods, and has established new standards based on this research. Through personal contact and a coordinated advertising program the Company is actively promoting acceptance of these new standards.

A large potential market still exists in the air conditioning field and we plan to increase our promotional efforts to expand the use of both gas and electric installations.

Our sales program, which is carried on in cooperation with manufacturers of appliances and dealers, has done much to stimulate residential use of electricity. Average annual use by our residential customers reached 3,451 kilowatt-hours in 1960, an increase of 297 kilowatt-hours over the previous year. The average use per customer has almost doubled in the past ten years.

RATE MATTERS

Early in 1960 El Paso Natural Gas Company, our principal gas supplier, filed an application with the Federal Power Commission to increase its rates for natural gas delivered to the Company by almost \$10 million annually, to become effective August 25, 1960. This action by El Paso, together with higher costs of money, materials, wages, taxes, and California gas, caused us to apply to the California Public Utilities Commission for a general increase in gas rates.

After public hearings the Commission granted an interim order authorizing the Company to increase its charges to customers for gas service, effective August 25, by approximately \$7¼ million annually, offsetting in part the higher costs of El Paso gas. Thereafter, hearings continued on the balance of the Company's requested increase and were concluded in October. As of the date of this report, the Commission had not rendered its decision, but we are hopeful that it will be forthcoming shortly.

As mentioned in last year's report, the Federal Power Commission on August 10, 1959, ordered El Paso to refund to the Company a portion of an earlier increase in effect from April 1955 to the end of 1957. We estimated that such a refund would approximate \$6 million. Upon review by the United States Court of Appeals the decision was favorable to us. The matter is now pending before the United States Supreme Court.

EMPLOYEES

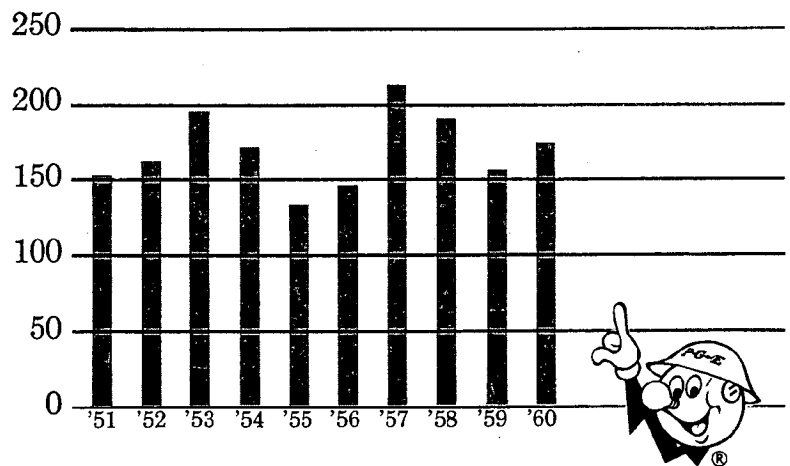
During the past decade the increase in the number of our employees has been small. At the end of 1960 the Company had 18,342 employees, or less than 10% more than it had ten years ago. In this same period we added 1,300,000 new customers and more than doubled our electric generating capacity.

This has been accomplished by taking advantage of every opportunity to apply new operating techniques and installing the most modern and efficient equipment.

The character of our work force has undergone a marked change. Employees in our professional classifications have doubled, and the

construction expenditures

(Millions of Dollars)



number of subprofessional, technical specialists and skilled employees has increased substantially. New classifications of technicians have developed in the fields of communications, electronics, and instrumentation that did not exist ten years ago. This has been accompanied by a drop in the number of unskilled and semi-skilled jobs.

Looking ahead, there is little doubt that this trend will continue and that our business will require an increasing number of employees with scientific, technical, and business training. Good recruitment, on-the-job training, and management development programs are becoming increasingly important to the success of our business, but they are not enough in themselves to assure us of competent and creative personnel. This can only be assured by providing the proper environment in which our employees can develop to their full potential, and we believe that such an environment exists in our Company.

STOCK OWNERSHIP

Although the number of our stockholders of record declined slightly during the year, the Company continues to be the most widely owned gas and electric utility in the country. Of our 224,657 stockholders at the close of 1960, 84,586 own preferred and 140,071 own common stock.

We are truly a publicly-owned corporation, with stockholders residing in every state of the Union and in a number of foreign countries. We also take pride in the fact that we are locally owned to a high degree, approximately two thirds of our stockholders having California

addresses. It has been the policy of the Company since 1914 to encourage local ownership of its stock.

The number of stockholders of record is becoming less meaningful year by year. Many stockholders are leaving their stock in their brokers' names. For example, we have almost 6,000 beneficial owners whose stock is registered in the name of a single security dealer. Almost 12,000 of our employees own common stock in our Savings Fund Plan, yet they are counted as a single stockholder because their stock is all

DISTRIBUTION OF STOCK OWNERSHIP by Class of Investor, December 31, 1960

CLASS OF INVESTOR	<i>Number of Stock- holders</i>	<i>Number of Shares Owned</i>
Women stockholders	89,810	7,426,089
Joint and other tenancies	62,110	4,692,168
Men stockholders	50,167	4,423,566
Trustees, guardians and other fiduciaries	14,202	1,626,771
Nominees	2,473	6,577,701
Corporations, partnerships and proprietorships	1,913	1,094,024
Charitable and fraternal organizations and foundations	1,381	275,752
Banks, investment companies and security dealers	938	1,553,549
Insurance companies	666	3,924,208
Religious institutions	524	98,196
Educational institutions	444	241,842
Labor organizations	29	5,428
TOTALS	<u>224,657</u>	<u>31,939,294</u>

registered in the name of a nominee of the Trustee under the Plan.

Also our stock ownership records fail to measure the indirect ownership which literally millions of people have in our Company. This results from the large investments in our securities by insurance companies, investment trusts, pension funds, and other similar institutional investors.

DIRECTORS AND OFFICERS

It is with deep regret that we record the death on March 14, 1960, of Mr. Harris Kirk, a member of the Company's Board of Directors since May 1959. At the time of his death Mr. Kirk

was Chairman of the Board of Directors and Chief Executive Officer of the then American Trust Company.

Mr. Ransom M. Cook was elected a member of the Board of Directors on April 6, 1960, to fill the vacancy caused by Mr. Kirk's death. Mr. Cook is President and Chief Executive Officer and a member of the Board of Directors of Wells Fargo Bank American Trust Company. He is closely associated with many important local and national banking committees and is a director of Cutter Laboratories, Inc. and Reserve Oil and Gas Company.

There were no changes in the staff of Executive Officers during the year.

STOCK TRANSFER AGENCIES

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

REGISTRARS OF STOCK

WELLS FARGO BANK AMERICAN TRUST COMPANY, San Francisco;
CHEMICAL BANK NEW YORK TRUST COMPANY, New York

departmental organization

ELECTRIC OPERATIONS

I. W. Collins, *Assistant to Vice-President in Charge of Electric Operations*

MANAGERS:

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*

GAS OPERATIONS

MANAGERS:

R. D. Smith, *Gas System Design*
M. A. Richford, *Gas Utilization*
R. T. Peterson, *Gas Control*
K. B. Anderson, *Pipe Line Operations*
E. F. Sibley, *Gas Distribution*
S. A. Haavik, *Director Natural Gas Production*
J. J. Pugh, *Director Gas System Planning*

ENGINEERING

C. C. Wheelchel, *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 Engineering Services*
F. G. Rothganger, *Chief Engineering Research*

EXECUTIVE ENGINEER

MANAGERS:

Emil J. Lage, *Valuation Department*
S. B. Barton, *Land Department*
John F. Roberts, *Rate Department*
N. H. Neel, *Gas Purchase Department*

COMPTROLLER

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*

GENERAL CONSTRUCTION

MANAGERS:

Joe Pirtz, Jr., *Civil and Hydro Construction*
C. H. Sedam, *Station Construction*
H. D. Wright, *Line Construction*
M. H. Chandler, *Gas Construction*
R. B. Thompson, *Field Office Operations and Personnel*
V. Hugo Irons, *General Construction Services*

SALES AND COMMERCIAL

MANAGERS:

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

TAX DEPARTMENT

Francis J. Carr, *Manager*

LAW DEPARTMENT

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

CREDIT AND COLLECTIONS DEPARTMENT

F. U. Naylor, *Manager*

PERSONNEL DEPARTMENT

MANAGERS:

A. J. Noia, *Personnel Relations*
E. J. Tilson, *Industrial Relations*

AUTOMOTIVE DEPARTMENT

C. R. Stanley, *Manager*

DIRECTOR OF INVESTIGATIONS

R. E. Lawrance

PURCHASING AND STORES DEPARTMENT

F. E. Baxter, *Manager*

ADVERTISING AND PUBLICITY DEPARTMENT

A. J. McCollum, *Manager*
W. A. Hynes, *Manager Public Activities*

DEPARTMENT ON PROCEDURES AND ORGANIZATION

J. R. Kleespies, *Manager*

division managers

COAST VALLEYS: Howard H. Weile, 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

	1960	1959	Increase	
			Amount	Per Cent
ELECTRIC DEPARTMENT				
ELECTRIC REVENUES				
Residential or Domestic Sales	\$ 143,040,733	\$ 130,940,345	\$ 12,100,388	9.2%
Small Light and Power Sales	73,026,487	69,091,373	3,935,114	5.7
Large Light and Power Sales	122,703,879	110,434,499	12,269,380	11.1
Agricultural Power Sales	49,719,442	48,586,588	1,132,854	2.3
Public Street and Highway Lighting	6,109,633	5,639,500	470,133	8.3
Sales to Other Electric Utilities	15,410,470	13,391,113	2,019,357	15.1
Other Miscellaneous Revenue	6,558,443	6,366,993	191,450	3.0
TOTALS	\$ 416,569,087	\$ 384,450,411	\$ 32,118,676	8.4%
ELECTRIC SALES - Kilowatt-Hours				
Residential or Domestic Sales	5,518,829,157	4,863,959,106	654,870,051	13.5%
Small Light and Power Sales	2,263,707,341	2,141,840,878	121,866,463	5.7
Large Light and Power Sales	9,872,429,101	8,796,360,387	1,076,068,714	12.2
Agricultural Power Sales	3,737,255,434	3,665,740,892	71,514,542	2.0
Public Street and Highway Lighting	173,077,939	158,713,797	14,364,142	9.1
Sales to Other Electric Utilities	2,193,993,740	1,886,525,709	307,468,031	16.3
Total Sales to Customers	23,759,292,712	21,513,140,769	2,246,151,943	10.4
Delivered for the account of others	443,562,903	405,082,491	38,480,412	9.5
TOTALS	24,202,855,615	21,918,223,260	2,284,632,355	10.4%
GAS DEPARTMENT				
GAS REVENUES				
Residential or Domestic Sales	\$ 123,121,127	\$ 102,072,489	\$ 21,048,638	20.6%
Commercial Sales	30,743,393	24,965,938	5,777,455	23.1
Industrial Sales	71,461,642	67,058,039	4,403,603	6.6
Sales to Other Gas Utilities	2,416,906	1,878,566	538,340	28.7
Other Miscellaneous Revenue	533,189	381,021	152,168	39.9
TOTALS	\$ 228,276,257	\$ 196,356,053	\$ 31,920,204	16.3%
GAS SALES - Thousands of Cubic Feet				
Residential or Domestic Sales	154,557,868	131,121,445	23,436,423	17.9%
Commercial Sales	46,549,797	39,694,885	6,854,912	17.3
Industrial Sales	164,458,032	160,970,793	3,487,239	2.2
Sales to Other Gas Utilities	4,845,829	4,138,609	707,220	17.1
Total Sales to Customers	370,411,526	335,925,732	34,485,794	10.3
Company Use (Steam-electric plants, etc.)	139,694,223	116,529,028	23,165,195	19.9
TOTALS	510,105,749	452,454,760	57,650,989	12.7%

Statement of earned surplus

Pacific Gas and Electric Company

For the Years Ended December 31, 1960 and 1959

	1960	1959
BALANCE, JANUARY 1	\$178,146,130	\$158,460,934
NET INCOME	92,564,747	84,737,102
OTHER ADDITIONS:		
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—\$1,034,407)	399,963	616,396*
Other—net (includes net gain on exchanges and sales of property: 1960, \$337,077; 1959, \$544,377)	346,325	516,342
Total	<u>271,957,665</u>	<u>243,097,982</u>
DIVIDENDS ON CAPITAL STOCK—Cash:		
First preferred—various series	13,335,655	13,335,659
Common	46,616,193	46,616,193
Total	<u>64,951,848</u>	<u>64,951,852</u>
BALANCE, DECEMBER 31	<u>\$207,005,817</u>	<u>\$178,146,130</u>

*Denotes red figure.

The accompanying notes to financial statements are an integral part of this statement.

ACCOUNTANTS' OPINION

The Shareholders and Board of Directors of Pacific Gas and Electric Company:

We have examined the accompanying financial statements and schedules of Pacific Gas and Electric Company for the year ended December 31, 1960. 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.

In our opinion, the accompanying balance sheet and schedules of capital stock and mortgage bonds, and the statements of income and earned surplus, with their notes, present fairly the financial position of the Company at December 31, 1960 and the results of its operations for the year then ended, in conformity with generally accepted accounting principles. Effective December 31, 1960 the Company changed its classification of accumulated deferred taxes arising from the use of accelerated depreciation, as explained in Notes 2 and 4 to financial statements; with this exception, in our opinion the financial statements have been prepared on a basis consistent with that of the preceding year.

San Francisco,
February 17, 1961

Haskins & Sells

statement of income

Pacific Gas and Electric Company
For the Years Ended December 31, 1960 and 1959

	1960	1959
OPERATING REVENUES:		
Electric	\$416,569,087	\$384,450,411
Gas	228,276,257	196,356,053
Other	3,042,744	2,618,318
Total	<u>647,888,088</u>	<u>583,424,782</u>
OPERATING EXPENSES:		
Production:		
Power purchased	4,177,205	5,413,610
Natural gas purchased	164,918,696	135,933,049
Oil and other fuel	17,792,581	16,781,378
Other	11,231,792	11,126,846
Transmission	5,597,993	5,523,811
Distribution	25,374,488	24,057,735
Maintenance and repairs	21,673,271	21,033,620
Customer accounts	20,885,203	20,377,762
Sales promotion	5,672,918	5,298,139
Administrative and general	25,196,882	24,390,171
Uncollectible accounts	1,650,000	1,300,000
Depreciation and amortization (Notes 2 and 4)	59,011,567	55,862,589
Taxes:		
Federal income (Note 4)	81,586,505	69,574,734
Other	75,876,938	68,443,822
Total	<u>520,646,039</u>	<u>465,117,266</u>
OPERATING INCOME	127,242,049	118,307,516
OTHER INCOME	902,111	1,454,733
Total	<u>128,144,160</u>	<u>119,762,249</u>
INCOME DEDUCTIONS:		
Interest on bonds	37,729,706	35,636,576
Other (net)	1,635,884	2,324,107
Interest charged to construction	3,786,177*	2,935,536*
Total	<u>35,579,413</u>	<u>35,025,147</u>
NET INCOME	<u>\$ 92,564,747</u>	<u>\$ 84,737,102</u>

*Denotes red figure.

The accompanying notes to financial statements are an integral part of this statement.

balance sheet

Pacific Gas and Electric Company
December 31, 1960 and 1959

assets

	1960	1959
UTILITY PLANT—At original cost	\$2,919,196,961	\$2,776,110,958
Less accumulated depreciation and amortization (Note 2)	<u>617,420,141</u>	<u>544,039,875</u>
Utility plant—net	<u>2,301,776,820</u>	<u>2,232,071,083</u>
 INVESTMENTS AND NON-CURRENT RECEIVABLES:		
Investments in subsidiaries—at cost (Notes 1 and 3)	19,695,058	7,968,926
Nonutility property—at cost	4,529,383	4,427,597
Other	<u>3,289,249</u>	<u>2,729,154</u>
Total investments and non-current receivables	<u>27,513,690</u>	<u>15,125,677</u>
 CURRENT ASSETS:		
Cash	26,438,942	28,770,746
Accounts receivable (less allowance for uncollectible accounts: 1960, \$1,337,549; 1959, \$1,332,145)	52,152,762	48,279,466
Notes and accounts receivable from subsidiaries	7,225,288	3,450,706
Materials and supplies—at average cost	18,124,906	16,768,381
Gas stored underground—at average cost	475,246	159,879
Prepayments	<u>34,528,922</u>	<u>32,972,071</u>
Total current assets	<u>138,946,066</u>	<u>130,401,249</u>
 DEFERRED DEBITS:		
Unamortized bond discount and expense (Note 3)	8,987,978	9,027,630
Other	<u>1,452,554</u>	<u>785,835</u>
Total deferred debits	10,440,532	9,813,465
 TOTAL	 <u><u>\$2,478,677,108</u></u>	 <u><u>\$2,387,411,474</u></u>

The accompanying notes to financial statements are an integral part of this statement.

balance sheet

Pacific Gas and Electric Company
December 31, 1960 and 1959

liabilities

	1960	1959
CAPITALIZATION:		
Capital stock (Schedule 1)	\$ 886,106,401	\$ 886,106,401
Earned surplus	207,005,817	178,146,130
Total capital stock and surplus	<u>1,093,112,218</u>	<u>1,064,252,531</u>
Mortgage bonds (Schedule 2)	1,138,029,750	1,089,586,080
Total capitalization	<u>2,231,141,968</u>	<u>2,153,838,611</u>
CURRENT LIABILITIES:		
Bank loans	12,000,000	
Accounts payable	33,772,510	27,276,272
Dividends payable	11,655,041	11,654,952
Current sinking-fund requirements (Note 3)	5,515,250	7,500,920
Customer deposits	2,589,901	2,397,757
Taxes accrued (Note 4)	77,470,858	92,645,062
Interest accrued	3,337,807	3,592,229
Total current liabilities	<u>146,341,367</u>	<u>145,067,192</u>
DEFERRED CREDITS:		
Customer advances for construction	5,986,672	5,299,927
Unamortized ad valorem tax credit	5,832,709	6,999,250
Unamortized premium on bonds (Note 3)	1,556,988	1,655,375
Other	820,619	317,315
Total deferred credits	<u>14,196,988</u>	<u>14,271,867</u>
RESERVES FOR INSURANCE, CASUALTIES, AND OTHER	<u>3,974,527</u>	<u>3,353,705</u>
CONTRIBUTIONS IN AID OF CONSTRUCTION	<u>22,975,572</u>	<u>19,843,711</u>
ACCUMULATED DEFERRED TAXES ON INCOME (Note 4)	<u>60,046,686</u>	<u>51,036,388</u>
TOTAL	<u>\$2,478,677,108</u>	<u>\$2,387,411,474</u>

The accompanying notes to financial statements are an integral part of this statement.

capital stock December 31, 1960

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
5 1/2%	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	1,719,333	42,934,700
4-80% redeemable	1,517,375	1,517,375	37,934,375
4-50% redeemable	1,127,426	1,127,426	28,135,650
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	17,929,333	448,234,575
TOTAL	45,000,000	31,939,324	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, 1960

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	3 1/2%	June 1, 1966	\$ 927,000	
Series J	3	Dec. 1, 1970	13,534,000	
Series K	3	June 1, 1971	23,739,000	
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	6,950,000	
Series P	2 3/4	June 1, 1981	23,773,000	
Series Q	2 3/8	Dec. 1, 1980	64,330,000	\$ 138,000
Series R	3 1/8	June 1, 1982	68,972,000	40,000
Series S	3	June 1, 1983	72,773,000	
Series T	2 3/8	June 1, 1976	76,435,000	348,000
Series U	3 3/8	Dec. 1, 1985	45,321,000	
Series W	3 3/8	Dec. 1, 1984	54,553,000	27,000
Series X	3 1/8	June 1, 1984	59,459,000	
Series Y	3 3/8	Dec. 1, 1987	43,513,000	137,000
Series Z	3 3/8	Dec. 1, 1988	19,216,000	
Series AA	4 1/2	Dec. 1, 1986	31,570,000	140,000
Series BB	5	June 1, 1989	53,000,000	
Series CC	3 3/4	Dec. 1, 1978	70,171,000	
Series DD	4 1/2	June 1, 1990	54,930,000	900,000
Series EE	5	June 1, 1991	60,025,000	
Series FF	4 5/8	June 1, 1992	55,730,000	4,250,000
TOTAL			1,143,545,000	\$5,980,000
Less current sinking fund requirements			5,515,250	
MORTGAGE BONDS			\$1,138,029,750	

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

notes to financial statements

Pacific Gas and Electric Company

December 31, 1960

NOTE 1—Subsidiary Companies:

In this report, the financial statements presented relate to the Company only by reason of the fact that the assets and revenues of the subsidiaries are presently not significant in relation to those of the Company.

NOTE 2—Accumulated Depreciation and Amortization:

The accruals to accumulated depreciation and amortization through the year 1960 were computed on the sinking-fund method for book purposes. Pursuant to authorization of the California Public Utilities Commission, effective January 1, 1961 the Company changed its method of accruing depreciation to the straight-line remaining life basis, with revised remaining lives for some plant accounts. It is estimated that these changes will result in an increase of approximately \$3,868,000 in depreciation expense for 1961. In connection with the change in method and in accordance with authorization of the California Public Utilities Commission and the Federal Power Commission, as of December 31, 1960 the Company transferred excess accrued taxes on income, as described in Note 4, in the amount of \$35,635,611, to accumulated depreciation and amortization.

NOTE 3—Mortgage Bonds:

Sinking-fund payments due under the terms of the first and refunding mortgage during the year ending December 31, 1961 are shown among the current liabilities net of the treasury bonds held by the Company at December 31, 1960.

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 an accelerated five-year basis. The Company is normalizing the tax effect of the accelerated amortization and at December 31, 1960 the resultant accumulated deferred taxes on income amounted to \$60,046,686. The subject of balance sheet classification of such deferred taxes has been discussed at length in previous reports. In balance sheets released to the public before February 29, 1960 the Company classified accumulated deferred taxes on income as restricted earned surplus. In the accompanying balance sheet the Company has classified such taxes outside of the equity capital section.

With respect to accelerated depreciation, the California Public Utilities Commission issued an order in April 1960, stating, in effect, that it would adopt the "flow-through" method (and accordingly not permit tax normalization) in determining allowable income tax expense in rate proceedings. Since 1954 the Company has elected accelerated depreciation for Federal income tax purposes, and in 1960 for California franchise tax purposes, for all property eligible therefor and not subject to accelerated amortization. For general accounting purposes, however, the Company during the period 1954 to 1960 accrued its provision for taxes on income on the basis of straight-line depreciation, resulting in excess accruals considered by the Company to represent the amount of taxes deferred by the use of accelerated depreciation.

Since the California Public Utilities Commis-

sion does not authorize deferred tax accounting with respect to accelerated depreciation and such accounting would be inconsistent with the "flow-through" rate-making policy of the Commission, the Company has changed its method of accounting. Accordingly, effective January 1, 1961, the Company discontinued accruing taxes on income on the basis of straight-line depreciation and commenced accruing such taxes on the basis of accelerated depreciation. It is estimated that this change will reduce the provision for taxes on income in 1961 by \$10,893,000. The excess accruals as of December 31, 1960 amounting to \$35,635,611 (of which \$9,638,298 was provided during 1960) were transferred to accumulated depreciation and amortization on that date (see Note 2).

**NOTE 5 – Commitments and
Contingent Liabilities:**

At December 31, 1960 the Company had firm commitments in the aggregate amount of about \$135,000,000 in connection with its plant construction program. This amount includes commitments of approximately \$60,000,000 for steel pipe for use in the Company's project to import natural gas from Canada. A substantial portion of the commitments for steel pipe has been assigned to a subsidiary company.

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, 1960 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 totaling approximately \$99,800,000 are sought on the theory that the Company is neither 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, 1960

The Company operates an integrated system extending into 47 California counties with an estimated population of 6,750,000.

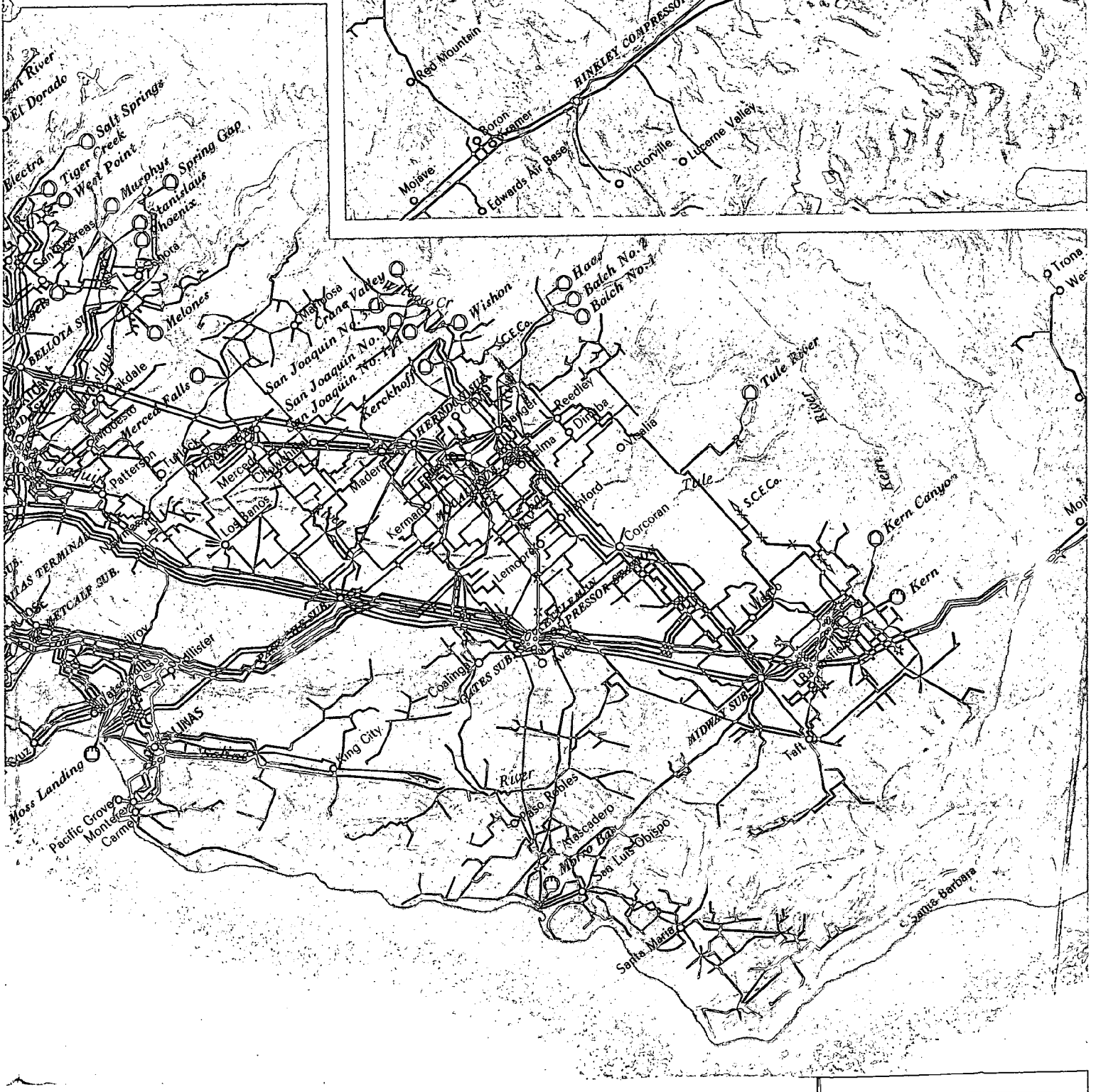
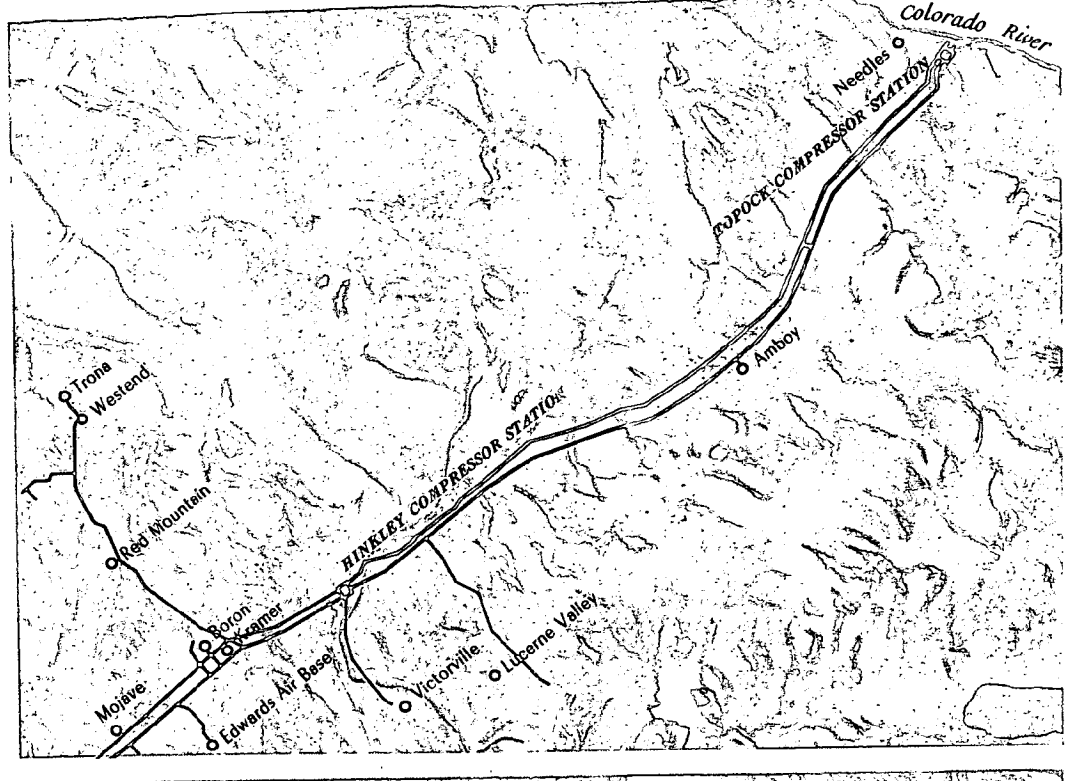
ELECTRIC SYSTEM		GAS SYSTEM	
	Generating Plants—Steam-electric		Compressor Stations
	Generating Plants—Hydro-electric		Generating Plants
	Generating Plants—Atomic-electric		Underground Storage
	Generating Plants—Geothermal		Major Gas Lines
	Major Electric Lines		Connecting Companies
	Connecting Companies		Standard Pacific Gas Line, Inc.

63 Hydro Plants	1,972,500 Kw	3,850 miles gas transmission lines
14 Steam & Atomic Plants	3,635,500 Kw	18,500 miles gas distribution lines
77 Plants Capacity	5,608,000 Kw	22,350 miles of gas pipe lines
Capacity from others	470,000 Kw	
74,000 miles of electric power lines		

SAN FRANCISCO
 Potrero Point
 Hunters Point
 SAN MATEO
 Half Moon Bay
 MONTECALM
 Los Gatos



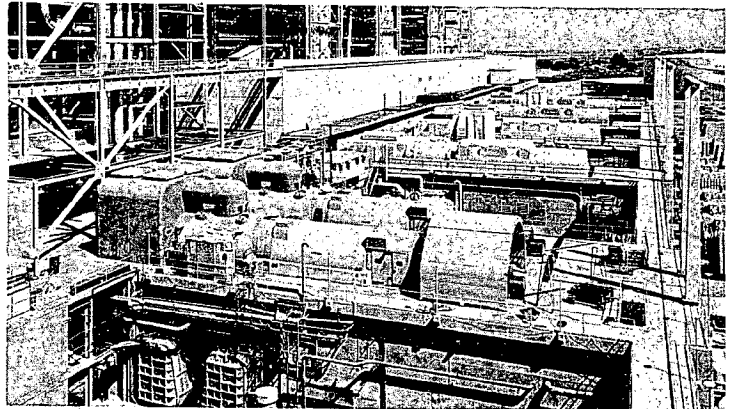
NEVADA



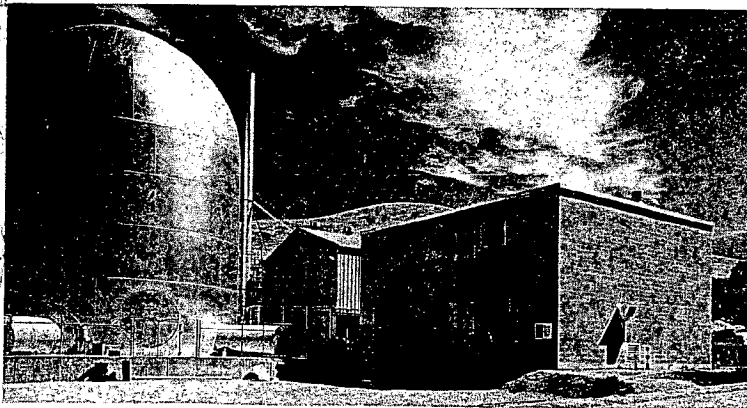
from these varied sources—power for millions



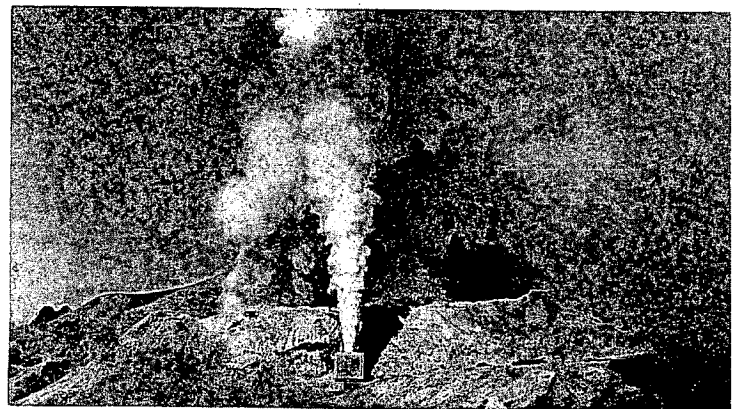
HYDRO



STEAM



NUCLEAR



GEOTHERMAL

RUGGED BEAUTY of Feather River Canyon forms a backdrop as truck is hoisted by aerial ferry across river at Big Bend Powerhouse. (Photo courtesy LIFE Magazine. Copr. 1960 Time Inc.)

