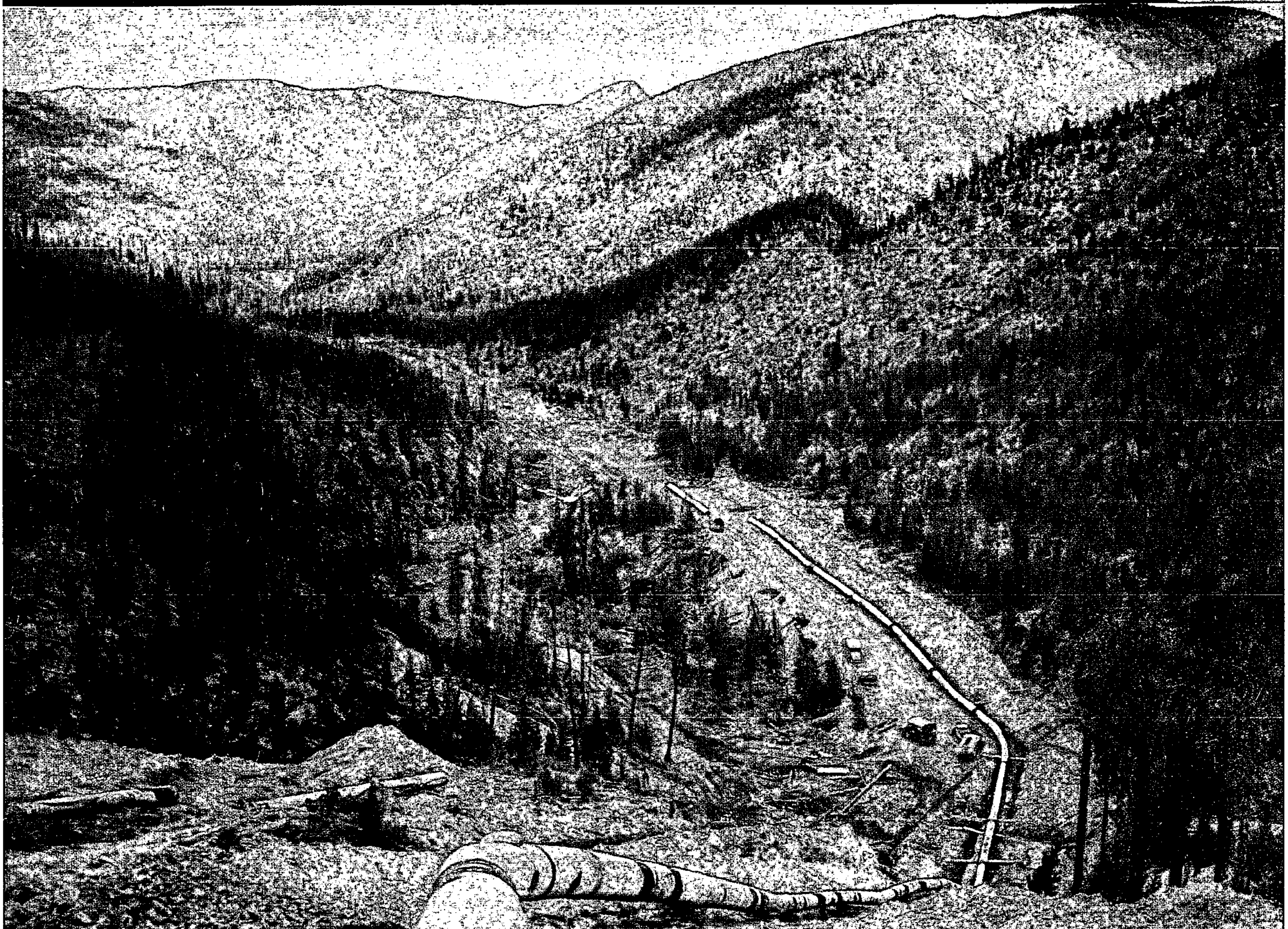
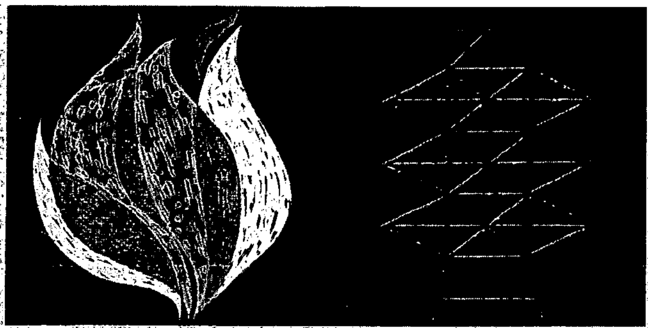
PACIFIC GAS AND ELECTRIC COMPANY 1961 ANNUAL REPORT





CONTENTS

COVER Alberta-California natural gas pipeline under construction, southeastern British Columbia

HIGHLIGHTS OF OPERATIONS

Operating Revenues and Other Income	$ 697,402,000	$ 648,790,000
Taxes and Franchise Payments	$ 159,253,000	$ 161,209,000
Natural Gas Purchased	$ 185,776,000	$ 164,919,000
Operating Payroll	$ 83,244,000	$ 79,223,000
Other Expenses and Charges	$ 166,888,000	$ 150,874,000
Net Income	$ 102,241,000	$ 92,565,000
Earned Per Common Share (on average shares) (a)	$1.52	$1.38
Total Assets	$2,644,467,000	$2,478,677,000
Construction Expenditures	$ 228,086,000	$ 173,126,000
Sales of Electricity to Customers (KWH)	25,767,858,000	23,759,293,000
Sales of Gas to Customers (MCF)	387,491,000	370,412,000
Total Customers	3,809,950	3,692,625
Number of Employees	18,383	18,342
Number of Stockholders	231,545	224,657

(a) *After giving effect to 1961 3-for-1 stock split.*

BOARD OF DIRECTORS

JAMES B. 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

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*
J. S. MOULTON *Vice-President and Executive Engineer*
A. J. SWANK *Vice-President in Charge of Electric Operations*
E. H. FISHER *Vice-President in Charge of Gas Operations*
H. W. HABERKORN *Vice-President in Charge of General Construction*
J. F. BONNER *Vice-President in Charge of Engineering*
O. R. DOERR† *Vice-President and Assistant to the General Manager*
R. W. JOYCE *Vice-President in Charge of Commercial Operations*
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*
F. T. SEARLS *General Attorney*

* * *

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, 1961

REPORT OF THE DIRECTORS OF PACIFIC GAS AND ELECTRIC COMPANY

TO OUR STOCKHOLDERS:

San Francisco, California, February 20, 1962

Accelerated economic activity in Northern and Central California in 1961 was reflected in another year of rapid growth and progress for our Company. Continuing an unbroken trend of many years, new high records were established for sales of gas and electricity and for operating revenues.

Adjusted to reflect the 3-for-1 split of the common stock, which became effective December 29, 1961, earnings per share amounted to $1.52 based on an average of 55,229,907 shares outstanding during the year, and to $1.49 a share based on the 56,477,325 shares outstanding at the year-end. Also on an adjusted basis, these compare with earnings of $1.38 a share in 1960.

As more fully set forth in the section on Earnings and Dividends and in the notes to the financial statements, a substantial portion of the increase in share earnings is attributable to certain accounting changes which became effective on January 1, 1961.

Expenditures for construction amounted to $228 million in 1961, exceeding those of any previous year. To finance this outlay the Company sold securities from which it received net proceeds of about $123 million, the balance being provided from internal sources. Construction expenditures for 1962 are estimated at $221 million.

The most notable development of the year was the receipt in December of the first Canadian gas into our system through the facilities of the Alberta-California project. Access to the vast reserves of natural gas of Western Canada has thus become a reality for our Company. The project makes available a much needed supplemental source of energy for Northern and Central California, and is of great significance in the future outlook of the Company. This $300,000,000 project represents an outstanding example of economic cooperation, based on the principles of international comity and mutual responsibility, between Canada and the United States, and substantial benefits to the economies of both countries will flow from it. A map and a description of the participating companies in the project are set forth on the inside of the back cover of this report.

Electricity, of course, continues to be our principal business. During 1961 our electric generating resources were augmented by the completion of a 330,000 kilowatt unit at Pittsburg Power Plant, which brought the total installed capacity of this plant to 1,320,000 kilowatts. In addition, we have under construction or authorized for completion before the end of 1965, 2,348,000 kilowatts of electric generating capacity in conventional steam, nuclear, geothermal, and hydro plants.

Stockholders have been advised from time to time of the Company's activities, commencing in 1951, in the field of nuclear power. Research and development during this period has, we believe, justified our early conviction that nuclear energy holds great promise as an economic source of electric power, particularly in the relatively high cost fuel area in which we operate. A 60,000 kilowatt nuclear unit is now under construction at our steam plant near Eureka, about 250 miles north of San Francisco, which will be completed this year.

In last year's report it was stated that we were continuing our studies looking to the construction of a large-scale nuclear plant close to the San Francisco Bay area. In June 1961 we announced our intention to construct a 325,000 kilowatt nuclear unit at Bodega Bay, about 50 miles north of San Francisco. Construction on this plant will start late in 1962, provided all necessary governmental approvals are obtained. We feel confident this plant will produce power at a cost substantially competitive with that from a conventional steam unit at the same location.

In recent months much comment has appeared in the public press concerning power pools and regional power interconnections. Recently a task force appointed by the Secretary of the Interior issued a report recommending alternate plans for constructing extra high voltage transmission lines between the Bonneville power system in the Pacific Northwest and Southern California. The lines would be used for the purpose, among others, of transmitting surplus northwest power to California.

Our Company for many years has had interconnections with other power systems in its service area, as well as with the major power system in Southern California and neighboring systems in Oregon and Nevada. Late last year the four principal electric companies in California entered into an agreement, subject to obtaining the necessary regulatory approval, to form a statewide electric power pool. It provides for mutual assistance during emergencies and establishes the basis for enlarging interconnections to achieve greater efficiency and economy in the use of resources whenever economically justified.

Shortly after the first of the year we agreed to construct a third interconnection with the utility which operates north of us, principally in Oregon. This extra high voltage line will extend from Klamath Falls, Oregon, to a point of connection with our Company's Pit River transmission system in Shasta County, California. Planned for initial operation at 230,000 volts, it will be constructed for conversion to not less than 500,000 volts.

In addition, the Company and other members of the California power pool have jointly offered to construct a line of not less than 500,000 volts from the southern terminus of the above mentioned line in Shasta County to Southern California, when Northwest power is available on terms which will make construction of the line economically feasible. This line will be constructed in stages as needed and existing transmission capacity of the California companies will be used to the maximum extent to avoid uneconomic duplication of facilities.

In view of the transmission lines now existing and to be constructed by the California companies, there is no need whatever for the Federal government to spend vast sums of taxpayers' money to construct the transmission facilities recommended by the task force. The lines to be built by the California companies will be at no cost to taxpayers and, furthermore, will be productive of substantial tax revenues.

In January 1962 the Company filed eighteen damage actions under the antitrust laws against various manufacturers of electrical equipment. Each action relates to a category of equipment as to which the Company alleges that it was overcharged as a consequence of collusive action by the defendants. These actions are an outgrowth of the proceedings commenced in 1960 by the Philadelphia Federal Grand Jury indictments of the defendants, to which they entered pleas of guilty or *nolo contendere*. The Company's complaints seek to recover, pursuant to the treble damage provisions of the antitrust laws, three times the difference between the prices paid and the prices that would have been paid in the absence of the alleged conspiracies.

Without in any way minimizing the problems we face, there are reasonable grounds to view the outlook for the Company with optimism. We are privileged to serve a highly diversified area which is growing rapidly and in an orderly manner. We operate a modern and efficient plant which has an average dollar age of about eleven years. We have competent personnel alert to the needs of our customers. Our financial condition is sound and we enjoy the confidence of the public.

The following pages contain a more detailed review of our operations for the year. Certified financial statements are set forth beginning on page 26 of this report.

On behalf of the Board of Directors we acknowledge with deep gratitude the splendid contributions made by our employees to the successful conduct of our business during the past year.

For the Board of Directors

R. R. Black — *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 24, 1962. 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 19, 1962.

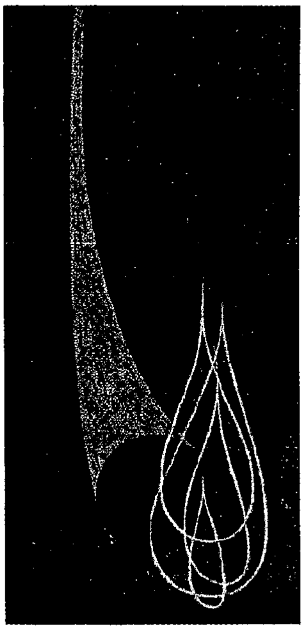
THE ALBERTA-CALIFORNIA PROJECT

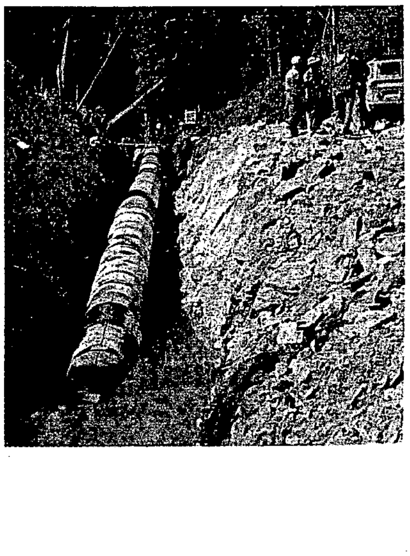
Natural gas from the Province of Alberta in Canada began moving south into PG&E's service area in December 1961. Start of operations of the 1,400 mile Alberta-California 36-inch pipeline climaxed several years of preparation and 14 months of construction. This independently controlled supplemental source of natural gas for PG&E customers is now an actuality.

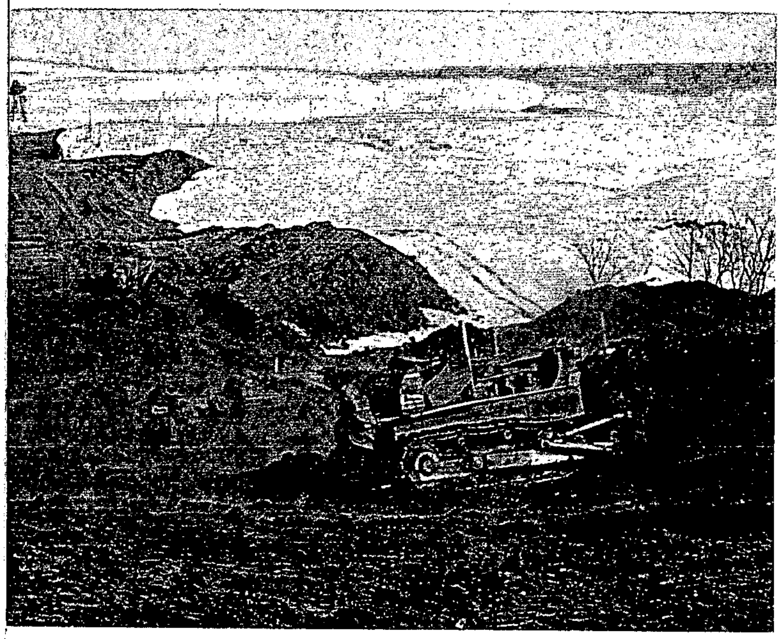
Nearly 5,000 men were at work on the pipeline at the peak of construction activity in the summer of 1961. Despite the immense distances and difficult terrain, the cost of the completed line, about $300,000,000, was well below the original estimate. Savings resulted from thorough advance planning, favorable bids from contractors, the use of new construction techniques, and a relatively mild winter in 1960-61.

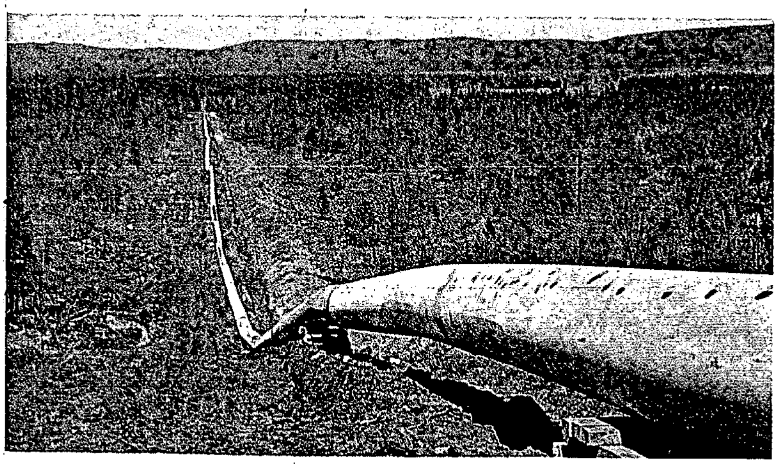
With the completion in the early months of 1962 of three compressor stations and a number of natural gas processing plants in Alberta, the line will have capacity to deliver 454 million cubic feet of gas a day to PG&E. This will represent about 20% of PG&E's total supply.

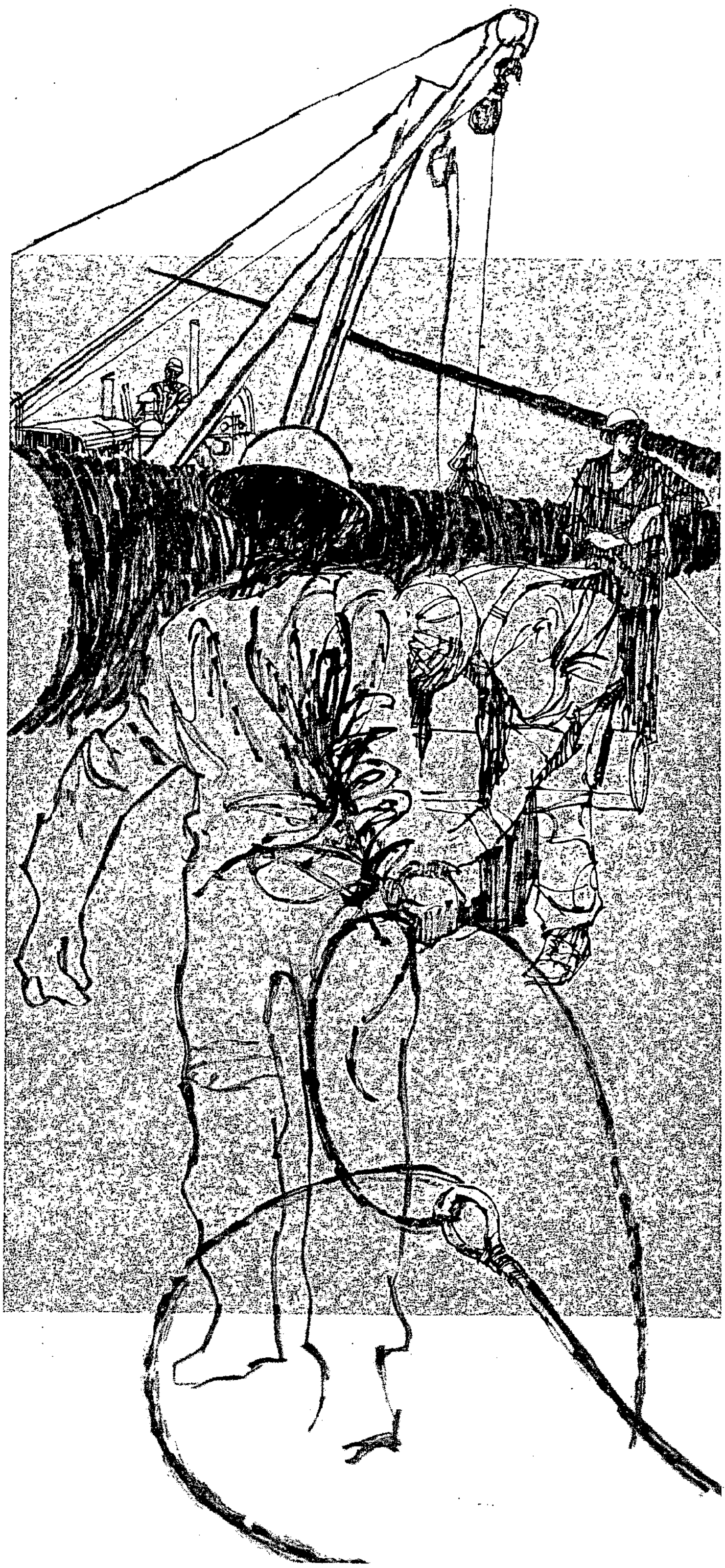
The line has been designed to transport over 800 million cubic feet a day with the installation of additional compressor facilities.











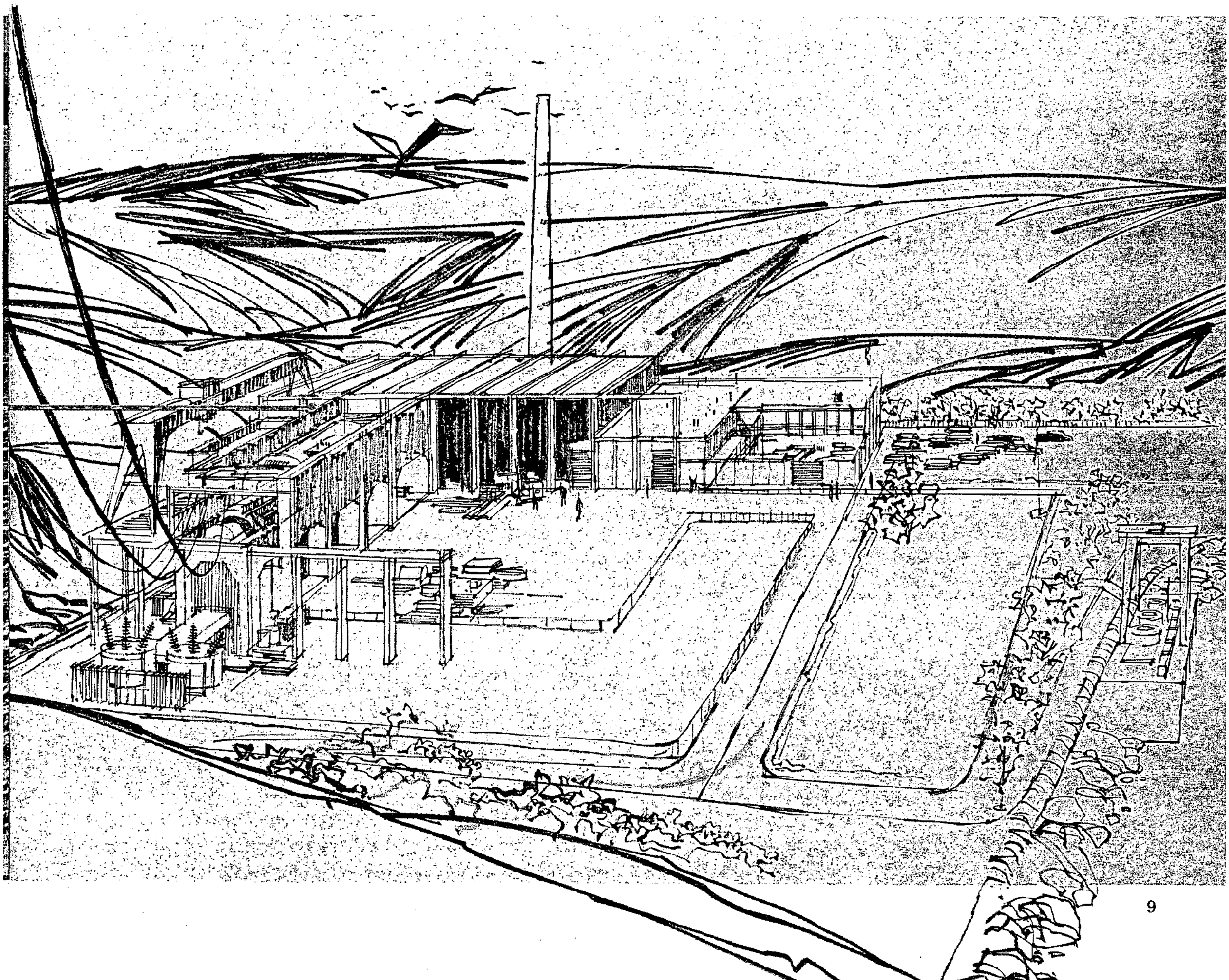
BODEGA BAY ATOMIC PARK

Bodega Head, the narrow peninsula that separates Bodega Harbor from the Pacific Ocean on California's Sonoma County coast 50 miles north of San Francisco, is the site chosen by the Company for one of the world's largest atomic power plants.

This installation will have an electric generating capacity of 325,000 kilowatts powered by a boiling water reactor, capacity enough to serve a city of half a million people.

Scheduled for operation in late 1965, the plant will cost an estimated $61 million. It is expected to produce electricity at a cost that will be competitive with generating costs in a conventional steam plant (gas or oil fueled) at the Bodega Bay location.

Since 1951 when we undertook intensive studies of atomic power, the prime objective has been the development of large economic plants. With the Bodega Bay plant in operation, we believe atomic energy will take its place in our area as an economic source of energy alongside natural gas, oil, falling water and geothermal steam to serve our customers' requirements.



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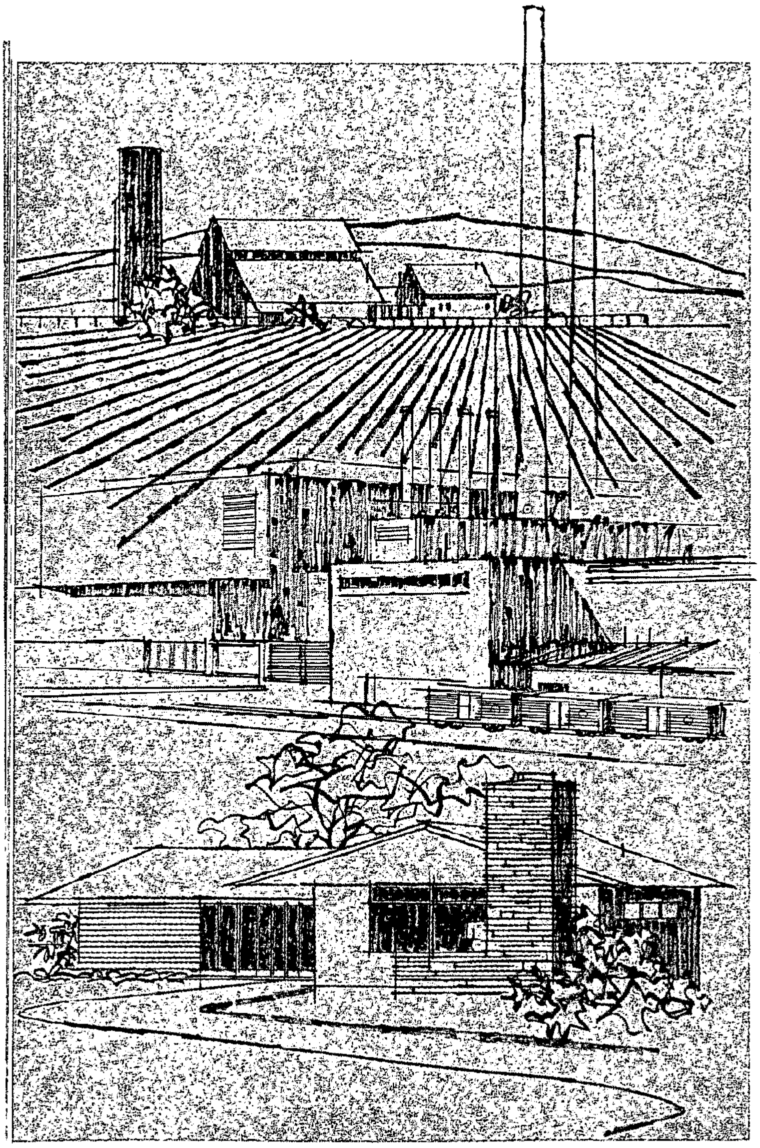


THE 1961 FINANCIAL STORY

REVENUES Growth of revenue is one important yardstick commonly used to appraise the performance of any gas and electric company. By this test, 1961 was a favorable year; operating revenues reached $695,708,000, a gain of $47,820,000 over 1960.

Our two major sources of income, sales of electricity and gas, produced revenues of $446,154,000 and $246,432,000, respectively.

In analyzing revenue growth, an examination of the distribution of the increase by major categories is important. Here again the 1961 results were encouraging. In the Electric Department the gain was well distributed over the principal classes of service. Gains of 7.4% in residential and 8.0% in large light and power, our two largest classes of revenue producers, were particularly gratifying.

In the Gas Department residential revenues climbed 10.0% and produced over half the total gas revenues. The relatively small increase of 4.2% in industrial gas revenue is in part explained by increased competition from fuel oil for this type of service.

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

EXPENSES Operating expenses for the year, exclusive of taxes and depreciation, amounted to $335,448,000, or $31,277,000 more than in 1960.

In analyzing the underlying causes of increased expenses, it is important to make a distinction between the normal increases in costs associated with an expanding volume of business, and the increases resulting from the inflationary bias long prevalent in our economy.

A large part of the increases in expenses in 1961 fell within the former category. With an expanding sales volume we naturally had to purchase more natural gas to supply our customers and more fuel to generate electricity. It is the increases in the unit costs of these items, together with higher taxes, wages and prices for materials and services used in our business, which create the real problems of cost control.

There are basically only three remedies available to the Company to offset increased costs of the latter character. The first is to aggressively promote sales, particularly to increase average consumption per customer. The second is to reduce costs by improving the efficiency of our operations. Finally, if these two remedies do not suffice, rate increases must be obtained to maintain the Company's financial integrity. Fortunately, our success in applying the first two remedies has enabled us to maintain the prices of our services at a relatively low level in relation to prices of most other services and commodities.

We are continuing to keep the costs of conducting our business under the closest scrutiny. Important savings are being made by simplifying our procedures and by adopting mechanization wherever possible. We are continuing to make many conversions from manual to automatic operation, particularly in hydro plants and substations. We are expanding the use of electronic computers which have already produced significant savings. Late in the year we took delivery of a new computer to replace the two units previously in service. The new unit is completely transistorized and performs the daily processing work in about one-third of the time required by the older vacuum type models. While the principal applications thus far have been in the fields of customers' billing and accounting, and stores accounting, a wide range of other applications are being programmed in other areas of our operations, which should produce additional savings.

TAXES Taxes charged against income absorbed about 23% of our operating revenues in 1961, and were equivalent to one and one-half times our entire net income.

Total taxes paid or set aside for future payment amounted to $166,015,000. As shown on the table on page 15, over half was paid to the state and local governments and the remaining $77 million to the Federal government.

The $5,650,000 decline in Federal income taxes charged against income in 1961 as compared to 1960 was brought about by the change in accounting more fully described under the heading Earnings and Dividends, and in the footnotes to the financial statements.

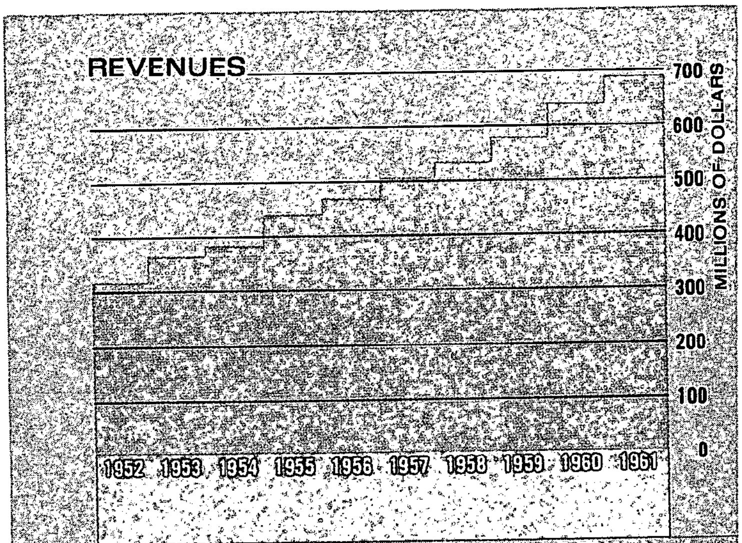
Ad valorem property taxes showed an increase of $4,427,000 for the year. This was due principally to the Company's large construction program which added new property to the local tax rolls, and to higher tax rates required to support the public schools and other services performed by local governmental units.

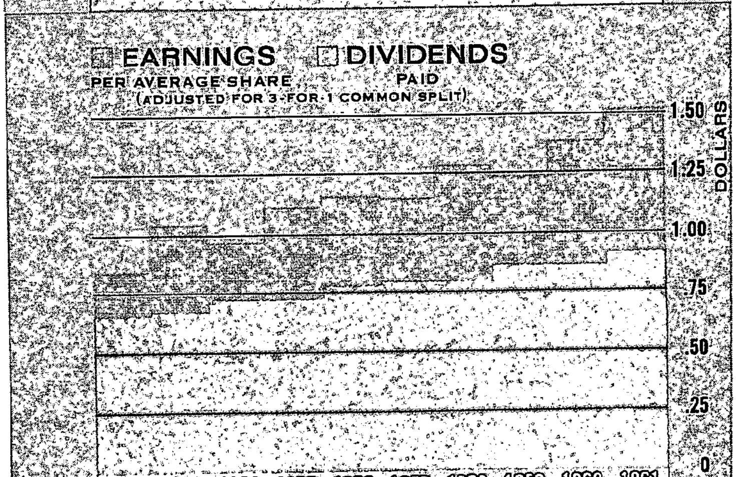
EARNINGS AND DIVIDENDS Net income for the year amounted to $102,241,000. After payment of $18,336,000 in dividends to holders of preferred stock there remained $83,905,000 of earnings for the common stock, equivalent to $1.52 a share on the average shares outstanding during the year.

This represents an increase of $9,676,000 over the earnings available for the common stock in 1960. The major portion of this increase resulted from a change, effective January 1, 1961, in the method of accounting for the benefits arising from the use of accelerated depreciation for tax purposes, as previously reported to stockholders. The net effect of this accounting change, which permits the tax savings to flow through to net income, and of a change, made concurrently, from the sinking-fund to the straight-line method of accruing depreciation on the Company's books which increased depreciation charges, was to increase net income by approximately $7,000,000 for the year.

On March 22, 1961 the Board of Directors increased the quarterly dividend on the common stock from 65 to 70 cents a share. The first dividend at the new rate was paid on April 15, 1961 to common stockholders of record on March 30, 1961. Aggregate dividends declared on the common stock during the year were $51,457,000, representing about 61% of the earnings available for the common stock. The earnings not paid out as dividends were reinvested in the business, thereby improving the equity position of common stockholders.

On December 26, 1961 a letter was sent to all common stockholders advising that 7.7% of all common dividend payments in 1961 were excludable from their taxable income in computing their Federal income tax. While this is an estimated percentage subject to review by the Internal Revenue Service, the review will not be made before stockholders are required to file their Federal income tax returns for 1961. If such review should eventually result in a substantial change from the Com-





pany's estimate, common stockholders will be informed accordingly.

In connection with the stock split (see following section) the Board of Directors has expressed its intention, subject to earnings and other factors which affect dividend policy, to declare a dividend on the new stock, applicable to the first quarter of 1962, of 25 cents a share. If this action is taken, the first dividend in this amount will be paid on April 16, 1962.

STOCK SPLIT On October 18, 1961 the Board of Directors voted to recommend to stockholders a 3-for-1 split of the common stock. The recommendation was made in the expectation that with the resulting reduction in market price, the split would produce a broadened public interest in the stock, an increase in the number of stockholders, and a greater availability of shares for purchase and sale.

At a special meeting held on December 20, 1961 the stockholders overwhelmingly approved the recommendation; 99.76% of the votes cast were recorded in favor of the action. The split was effected by amending the Company's Articles of Incorporation to change the 25,000,000 authorized shares of common stock, $25 par value, into 75,000,000 shares of common stock, $10 par value. The change in par value required a transfer from earned surplus to stated capital of about $94 million. The split became effective on December 29, 1961.

On January 19, 1962 new certificates were mailed to common stockholders representing two additional shares for each share previously held. The old certificates will be treated as evidencing, and will automatically represent, the same number of shares of the new common stock, $10 par value. Accordingly, common stockholders now have three $10 par value shares of common stock for each $25 par value share of common stock held before the split.

FINANCING Common stockholders of record on June 13, 1961 were offered the right to subscribe for 896,470 additional shares of common stock in the ratio of one share for each twenty then held at a subscription price of $71 a share. This offering was well received and the Company obtained about $62¾ million after underwriting and corporate costs. The last previous offering of common stock, also on a one for twenty basis, was made in 1958.

Additional financing was conducted in September when we sold at competitive bidding $60 million of our First and Refunding Mortgage Bonds, Series GG, 4½% due 1993.

The proceeds from these two securities offerings, together with internally generated funds (principally depreciation accruals and retained earnings), provided the $228 million required to finance our construction program.

In February the Company purchased $6,659,000 of the 5½% Convertible Subordinated Debentures of Pacific Gas Transmission Company. This investment, together with the previous purchase of $9,945,000 of common stock, brought our total investment in the securities of that company to about $16½ million.

At the year end the Company's total capitalization amounted to $2,384 million, consisting of 50.1% bonds and short-term bank loans, 14.7% preferred stock, and 35.2% common stock equity.

FIVE YEARS IN BRIEF

PACIFIC GAS AND ELECTRIC COMPANY

	1961	1960	1959	1958	1957
SOURCES OF INCOME:					
Electric revenues	$446,154,000	$416,569,000	$384,450,000	$351,284,000	$328,310,000
Gas revenues	246,432,000	228,276,000	196,356,000	181,076,000	170,569,000
Other operating revenues	3,122,000	3,043,000	2,618,000	2,418,000	2,365,000
Miscellaneous income	1,694,000	902,000	1,455,000	866,000	1,504,000
Total	$697,402,000	$648,790,000	$584,879,000	$535,644,000	$502,748,000
DISPOSITION OF INCOME:					
Wages and salaries	$ 83,244,000	$ 79,223,000	$ 74,893,000	$ 68,317,000	$ 61,766,000
Power purchased	4,048,000	4,177,000	5,414,000	9,370,000	5,684,000
Natural gas purchased	185,776,000	164,919,000	135,933,000	114,590,000	114,227,000
Oil and other fuel	18,464,000	17,793,000	16,781,000	15,683,000	19,517,000
Other operating expenses	38,216,000	33,259,000	34,314,000	33,338,000	26,447,000
Insurance, injuries and damages, etc.	5,700,000	4,800,000	3,900,000	4,095,000	3,660,000
Depreciation and amortization	66,862,000	59,012,000	55,863,000	51,309,000	48,025,000
Taxes—current	148,587,000	148,453,000	125,096,000	118,501,000	110,765,000
Taxes—deferred	6,509,000	9,010,000	12,923,000	9,803,000	10,020,000
Bond interest and other income deductions	37,755,000	35,579,000	35,025,000	25,328,000	26,017,000
Dividends declared on preferred stock	18,336,000	18,336,000	18,336,000	18,336,000	18,336,000
Dividends declared on common stock	51,457,000	46,616,000	46,616,000	42,902,000	40,981,000
Balance retained in the business	32,448,000	27,613,000	19,785,000	24,072,000	17,303,000
Total	$697,402,000	$648,790,000	$584,879,000	$535,644,000	$502,748,000
*NUMBER OF SHARES OF COMMON STOCK OUTSTANDING:					
Average for the year	55,229,907	53,787,915	53,787,915	52,507,245	51,224,823
End of year	56,477,325	53,787,915	53,787,915	53,787,915	51,226,572
*EARNINGS PER SHARE OF COMMON STOCK:					
On average shares outstanding	$1.52	$1.38	$1.23	$1.28	$1.14
On end-of-year shares outstanding	1.49	1.38	1.23	1.25	1.14
*DIVIDENDS PER SHARE OF COMMON STOCK:					
Declared basis	$ .93	$ .87	$ .87	$ .82	$ .80
Paid basis	.92	.87	.87	.80	.80

**After giving effect to 1961 3-for-1 stock split.*

TAXES AND FRANCHISE PAYMENTS
PACIFIC GAS AND ELECTRIC COMPANY

	1961	1960	Increase
LOCAL TAXES AND FRANCHISE PAYMENTS:			
Ad valorem property taxes	$ 70,393,000	$ 65,966,000	$ 4,427,000
Franchise payments	4,157,000	3,746,000	411,000
Total	74,550,000	69,712,000	4,838,000
STATE TAXES:			
Corporation franchise	7,935,000	6,582,000	1,353,000
Deferred taxes on income	932,000	1,339,000	* 407,000
Unemployment insurance	742,000	827,000	* 85,000
Other	481,000	460,000	21,000
Total	10,090,000	9,208,000	882,000
CITY AND STATE TAXES:			
Sales and use	4,262,000	3,506,000	756,000
FEDERAL TAXES:			
Corporation income	68,400,000	74,050,000	*5,650,000
Deferred taxes on income	5,577,000	7,671,000	*2,094,000
Unemployment insurance	243,000	175,000	68,000
Old age benefits	2,712,000	2,672,000	40,000
Other	152,000	66,000	86,000
Total	77,084,000	84,634,000	*7,550,000
CANADIAN TAXES	29,000	—	29,000
TOTAL TAXES AND FRANCHISE PAYMENTS	$166,015,000	$167,060,000	$*1,045,000
CHARGED TO:			
Income as taxes	$155,096,000	$157,463,000	$*2,367,000
Income as franchise payments	4,157,000	3,746,000	411,000
Capital and other accounts	6,762,000	5,851,000	911,000
TOTAL TAXES AND FRANCHISE PAYMENTS	$166,015,000	$167,060,000	$*1,045,000

*Denotes decrease

OPERATIONS AND ADMINISTRATION

ELECTRIC OPERATIONS During July the Company connected its two-millionth electric customer. At year-end the count reached 2,038,687, an increase of 62,112 for the year.

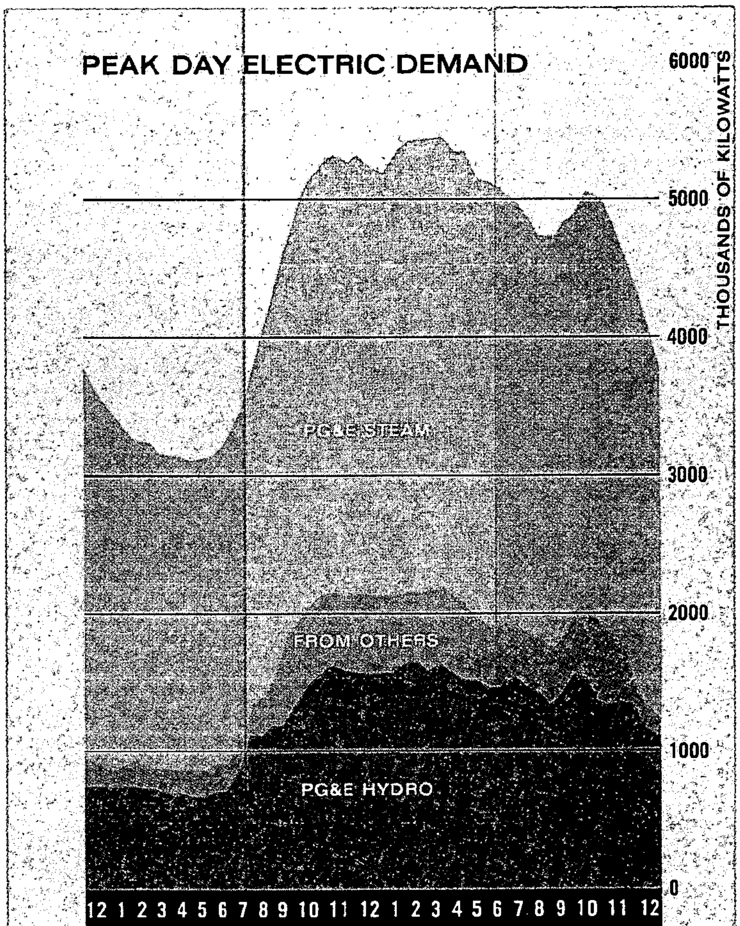
System electric output increased 8.6% over the previous year, reaching a total of 31.1 billion kilowatt-hours. For the third successive year precipitation was substantially below normal, which reduced output from our own hydro-electric generating plants and from those of other producers that deliver power to our system. The deficiency was made up by increased output from our steam-electric generating plants which produced 22.2 billion kilowatt-hours or 71% of the total. This was approximately equal to the entire system output just five years ago. Company hydro output amounted to 7.4 billion kilowatt-hours or 24% of the total. The remaining 1.5 billion kilowatt-hours, or 5%, was obtained from other producers.

The system peak demand of 5,414,700 kilowatts occurred on July 11. It exceeded the previous year's peak by almost 300,000 kilowatts, nearly equal to the capacity of the largest generating unit on our system.

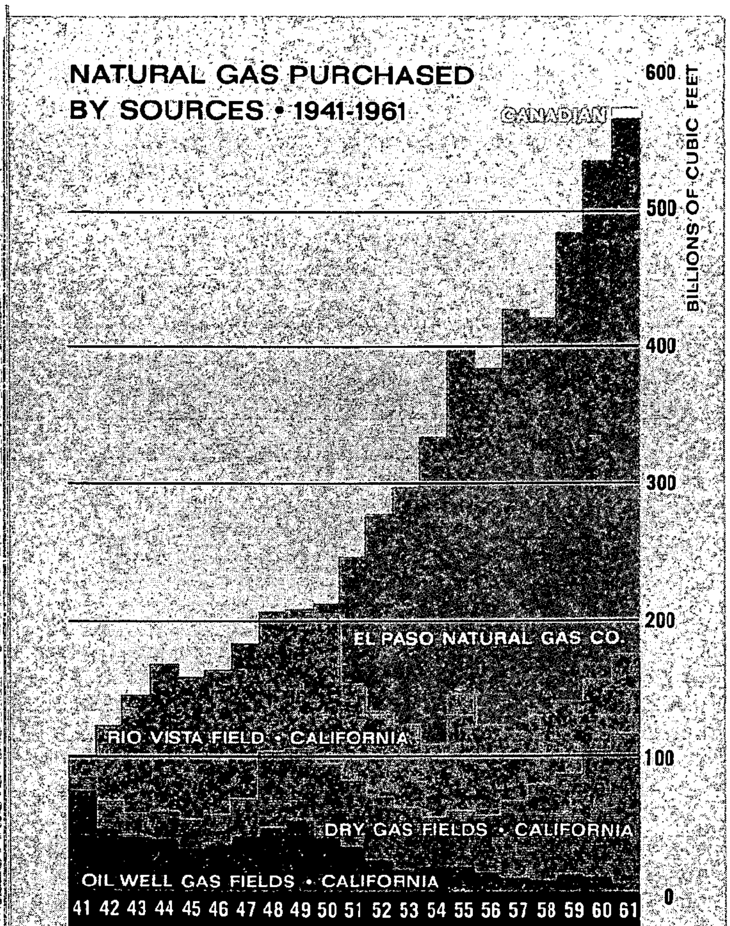
In order to meet anticipated future demands for service and to provide adequate margins of safety, it is necessary to schedule the completion of new units at least three years ahead. The following tabulation sets forth the Company's current construction program:

STEAM-ELECTRIC PLANTS:	*Estimated Completion Date*	*Estimated Capacity (KW)*
Morro Bay Unit 3	1962	330,000
Humboldt Bay Unit 3 (Nuclear)	1962	60,000
Geysers Unit 2 (Geothermal)	1963	12,500
Morro Bay Unit 4	1963	330,000
Contra Costa Unit 6	1964	330,000
Contra Costa Unit 7	1964	330,000
Potrero Unit 3	1965	165,000
Bodega Bay Atomic Park (Nuclear)	1965	325,000
Total		1,882,500
HYDRO-ELECTRIC PLANTS:		
Kings River	1962	42,000
New DeSabla*	1962	18,500
New Stanislaus*	1962	82,000
Pit No. 6	1965	69,000
Pit No. 7	1965	98,000
McCloud Pit	1965	156,000
Total		465,500

**Will replace existing plant of lesser capacity.*



The peak day electric demand was reached on July 11. The chart above shows the load pattern as it changed hour by hour and the sources of production. Minimum demand was recorded at 4:30 A.M. and the peak at 3:00 P.M.



Over a twenty year period major sources of natural gas purchased have undergone substantial changes. First receipt of Canadian gas in 1961 marked the beginning of another significant addition to the sources of gas supply.

GAS OPERATIONS For the second successive year relatively normal temperatures prevailed in our service area which produced the expected volume of gas sales for space heating associated with a "normal" year. Sales to customers were over 387 billion cubic feet, or 4.6% greater than those in the previous year.

We connected 54,507 new gas customers during the year, bringing the total at year-end to 1,745,030.

In addition to the gas delivered to our customers, almost 170 billion cubic feet was used as fuel in our steam-electric generating plants. This figure far exceeded any steam plant use previously experienced.

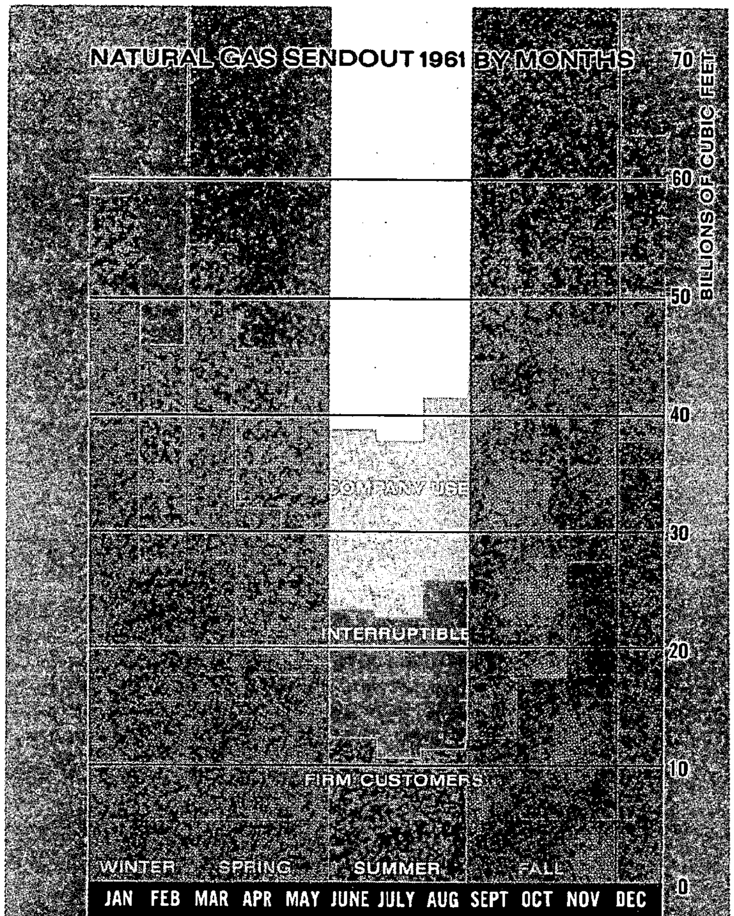
Initial deliveries of Canadian gas through the facilities of the Alberta-California project, discussed elsewhere in this report, were received in December of 1961. This new source of supply and the full operation of the McDonald Island storage reservoir will provide us with much greater flexibility in the operation of our gas system. The McDonald Island storage reservoir will become operative in 1962, with an initial working storage of 30 billion cubic feet. When fully developed, withdrawals of up to 400 million cubic feet a day can be made to serve peak demands. This will provide an additional margin of safety to insure continuity of service for our firm gas customers who have no alternate fuel supply.

BUSINESS DEVELOPMENT A well coordinated and aggressive sales program aided materially in producing a record volume of new business connections during the year.

CUSTOMERS

by Departments and Increase During Year

	December 31 1961	December 31 1960	Increase during 1961
Electric Department	2,038,687	1,976,575	62,112
Gas Department	1,745,030	1,690,523	54,507
Water Department	25,633	24,928	705
Steam Sales Department	600	599	1
Total	3,809,950	3,692,625	117,325

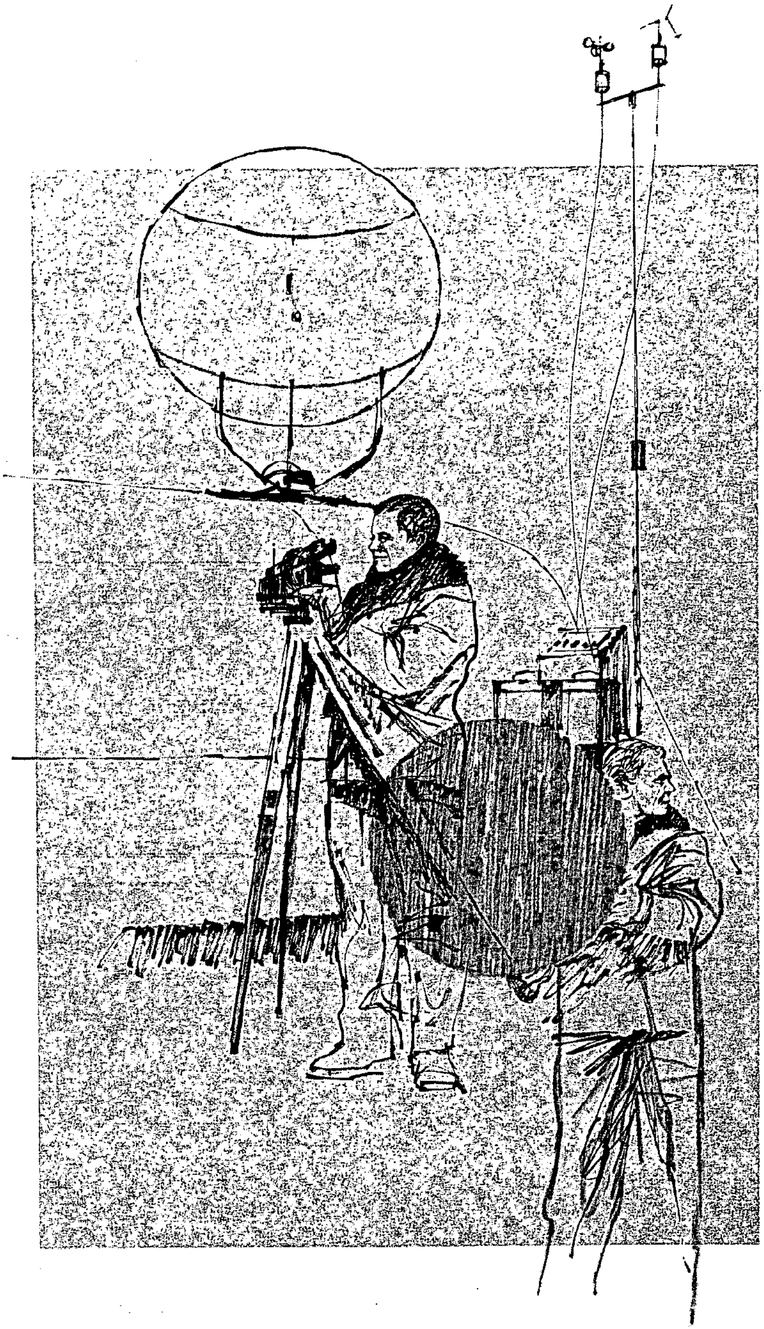


Seasonal variation in gas sendout is shown above. Reduced firm customer use for space heating in summer lowers the total requirements, but increased demands by industry and for electric generation help keep the pipelines filled.

The Company's promotional program on Medallion electric homes and Blue Star gas homes was influential in maintaining appliance sales at a level well above the national average. For example, sales of electric ranges and dishwashers exceeded those of 1960 by 15% and 22% respectively. Our sales efforts received national recognition when the Company was presented with the Edison Electric Institute Class A Residential Sales Award for the second time in three years in competition with utility companies throughout the United States.

Through its area development department the Company continued to promote, in cooperation with other agencies, the location of industrial plants within its service territory. During the year commitments were made by various industries for the expenditure of $250 million for over 300 new plants and expansions of 900 existing plants.

The pattern of continually increasing lighting levels to satisfy the need for increased office production, greater store sales, higher school classroom efficiency, and improved employee morale and comfort, has created the necessity for integrating the air conditioning system with the lighting installation. The rapid acceptance of these two compatible loads indicates a great potential



of new business for the Company.

The concept of all-year comfort through winter heating and summer cooling by means of one unit is gaining general acceptance. The Company is actively promoting the sale of gas and electricity for this purpose.

Average annual use of electricity by our residential customers reached 3,664 kilowatt-hours in 1961, an increase of 213 kilowatt-hours over the previous year. The average use per customer has about doubled in the last twelve years.

RATE MATTERS Effective April 16, 1961 the California Public Utilities Commission authorized the Company to increase its rates for firm gas service to produce an additional annual revenue of about $4,819,000 on the basis of estimated sales for 1961. The rate of return allowed on the Company's investment in gas facilities was 6.25%, and was computed on the basis of the use of accelerated depreciation for tax purposes with the resulting tax savings "flowing through" to net income.

As previously reported to stockholders, the Commission on March 21 issued an order which purported to require the Company to charge income and credit depreciation reserve accounts with amounts equal to the tax differentials, or savings, resulting from the use of accelerated depreciation for Federal income taxes, until such time as the Company's rates were fixed on that basis. After hearings on the matter, the Commission decided on September 20 that the Company's rates and the resulting rate of return for its Electric Department were not unreasonable on the "flow-through" accounting basis. As mentioned above, rates for the Company's gas service had previously been fixed on that basis. Accordingly, the Commission modified the order to make it inapplicable to the Company.

In April 1955 and on three occasions thereafter in 1958, 1959 and 1960 El Paso Natural Gas Company increased the price of gas sold to the Company. Under authorizations of the California Public Utilities Commission the Company placed four gas rate increases in effect which offset in part the higher price of gas. In 1961 all of the El Paso increases were consolidated into one case on which hearings before the Federal Power Commission are continuing into 1962.

EMPLOYEES The continuous strengthening of a competent and creative work force is one of our prime objectives. Recruiting practices, management development programs, organizational realignments and on-the-job training are receiving new emphasis each year. Employees are encouraged to submit time and money saving ideas through our Employee Suggestion Plan and suitable cash awards are given for all suggestions adopted.

At the end of 1961 we had 18,383 employees, or only 6% more than were employed ten years ago. During this same decade electric generating capacity has more than doubled; over 9,000 miles of gas lines have been added, and 1,200,000 new customers have been connected. While the number of employees has remained relatively static, the character of the work force has changed markedly. The number of professional, subprofessional, and technical specialists has increased substantially and the unskilled and semiskilled jobs have declined in number. The signs are unmistakable that this trend will continue.

The Company will continue to give closest attention to providing an environment in which each employee may develop his full potential to assure continuity of an efficient service organization and provide job interest and incentive for the individual.

STOCK OWNERSHIP At the close of 1961 PG&E was owned by 231,545 individual and institutional investors, a gain of 6,888 for the year. Of the total, 83,183 were preferred and 148,362 common stockholders.

The Company continues to be the most widely owned gas and electric utility in the country. While ownership extends into every state and many foreign countries, the Company has long encouraged by various means local ownership of its stock. The success of this effort is evidenced by the fact that about two-thirds of our stockholders have California addresses.

Through the continued operation of the Savings Fund Plan our employees have acquired a significant amount of the Company's common stock. Over 600,000 shares (after giving effect to the stock split) have been purchased by the Trustee for the account of nearly 12,000 employees since the Plan's inception in April of 1959.

As we have repeatedly pointed out in previous annual reports, the number of stockholders of record represents only a fraction of those who have a beneficial financial interest in the Company. This is so because of the large holdings of our securities by institutional investors. For example, over 800 insurance companies of all types have a present investment in the bonds, preferred and common stocks of the Company of about $650 million, or about one-quarter of all the capital committed to our business. Thus indirectly tens of millions of policy holders of these insurance companies have a financial interest in the Company. It is therefore a mistake to refer to utilities, such as PG&E, as privately owned for they are truly publicly owned corporations.

DISTRIBUTION OF STOCK OWNERSHIP

by Class of Investor, December 31, 1961

	Number of Stock-holders	*Number of Shares Owned*
Women stockholders	93,032	17,980,335
Joint and other tenancies	63,028	10,886,338
Men stockholders	51,469	11,101,478
Trustees, guardians and other fiduciaries	15,332	3,539,049
Nominees	2,579	13,713,790
Corporations, partnerships and proprietorships	2,093	2,253,959
Charitable and fraternal organizations and foundations	1,348	504,816
Banks, investment companies and security dealers	1,019	4,362,719
Insurance companies	652	5,469,506
Religious institutions	534	181,976
Educational institutions	429	475,675
Labor organizations	30	17,674
Total	231,545	70,487,315

DIRECTORS AND OFFICERS Mr. O. R. Doerr, for many years Vice-President in Charge of Sales, retired on December 31, 1961, after a distinguished career with the Company extending over 40 years. For a period of six months preceding his retirement, Mr. Doerr served as Vice-President and Assistant to the General Manager.

Mr. R. W. Joyce was elected to the new position of Vice-President in Charge of Commercial Operations, effective July 1, 1961. In this capacity Mr. Joyce will be responsible for all commercial and sales operations of the Company. Prior to his election Mr. Joyce had been manager of the Company's Commercial Department.

There were no changes in the membership of the Board of Directors 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, San Francisco

CHEMICAL BANK NEW YORK TRUST COMPANY, New York

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. 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 Engineering Services*
William O. Cheney, *Chief Engineering Research*
W. M. Pickslay, *Chief Computer Application Engineer*

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*
N. M. Scofield, *Line Construction*
M. H. Chandler, *Gas Construction*
R. B. Thompson, *Field Office Operations and Personnel*
V. Hugo Irons, *General Construction Services*

COMMERCIAL OPERATIONS

MANAGERS:

Walter D. Howell, *General Sales*
Albert B. Cook, *Commercial Department*
J. S. C. Ross, *Residential Sales*
R. I. Mendes, *Market Research and Sales Control*
J. S. Walsh, *Area Development*
F. G. Rothganger, *Commercial, Industrial and Agricultural Sales*

TAX DEPARTMENT

Francis J. Carr, *Manager*

LAW DEPARTMENT

SENIOR ATTORNEYS:

William B. Kuder
William E. Johns
Richard A. Raftery
Charles T. Van Deusen
Malcolm A. MacKillop
John C. Morrissey
Frederick W. Mielke, Jr.
Malcolm H. Furbush
John A. Sproul

CLAIMS AND SAFETY DEPARTMENT

R. W. White, *Manager*

CREDIT AND COLLECTIONS DEPARTMENT

F. U. Naylor, *Manager*

PERSONNEL DEPARTMENT

MANAGERS:

A. J. Noia, *Personnel Relations*
V. J. Thompson, *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*

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

ELECTRIC DEPARTMENT

	1961	1960	Increase Amount	Per Cent
Revenues				
Residential	$ 153,581,465	$ 143,040,733	$ 10,540,732	7.4%
Small Light and Power	75,614,479	73,026,487	2,587,992	3.5
Large Light and Power	132,510,526	122,703,879	9,806,647	8.0
Agricultural Power	52,752,447	49,719,442	3,033,005	6.1
Public Street and Highway Lighting	7,048,848	6,109,633	939,215	15.4
Other Electric Utilities	17,675,026	15,410,470	2,264,556	14.7
Miscellaneous	6,971,091	6,558,443	412,648	6.3
Total	$ 446,153,882	$ 416,569,087	$ 29,584,795	7.1%
Sales — Kilowatt Hours				
Residential	6,061,015,931	5,518,829,157	542,186,774	9.8%
Small Light and Power	2,344,502,510	2,263,707,341	80,795,169	3.6
Large Light and Power	10,582,805,027	9,872,429,101	710,375,926	7.2
Agricultural Power	4,016,131,802	3,737,255,434	278,876,368	7.5
Public Street and Highway Lighting	200,810,872	173,077,939	27,732,933	16.0
Other Electric Utilities	2,562,591,708	2,193,993,740	368,597,968	16.8
Total Sales to Customers	25,767,857,850	23,759,292,712	2,008,565,138	8.5
Delivered for the Account of Others	615,587,572	443,562,903	172,024,669	38.8
Total	26,383,445,422	24,202,855,615	2,180,589,807	9.0%

GAS DEPARTMENT

	1961	1960	Increase Amount	Per Cent
Revenues				
Residential	$ 135,407,029	$ 123,121,127	$ 12,285,902	10.0%
Commercial	33,504,964	30,743,393	2,761,571	9.0
Industrial	74,454,750	71,461,642	2,993,108	4.2
Other Gas Utilities	2,584,862	2,416,906	167,956	6.9
Miscellaneous	480,521	533,189	* 52,668	*9.9
Total	$ 246,432,126	$ 228,276,257	$ 18,155,869	8.0%
Sales — Thousands of Cubic Feet				
Residential	164,994,923	154,557,868	10,437,055	6.8%
Commercial	49,349,103	46,549,797	2,799,306	6.0
Industrial	168,137,418	164,458,032	3,679,386	2.2
Other Gas Utilities	5,009,327	4,845,829	163,498	3.4
Total Sales to Customers	387,490,771	370,411,526	17,079,245	4.6
Company Use (Steam-electric plants, etc.)	169,831,307	139,694,223	30,137,084	21.6
Total	557,322,078	510,105,749	47,216,329	9.3%

*Denotes decrease

STATEMENT OF EARNED SURPLUS

PACIFIC GAS AND ELECTRIC COMPANY
FOR THE YEARS ENDED DECEMBER 31, 1961 AND 1960

	1961	1960
BALANCE, JANUARY 1	$207,005,817	$178,146,130
NET INCOME	102,241,100	92,564,747
OTHER ADDITIONS:		
Net gain on exchanges and sales of properties	358,287	887,077
Purchase discount on bonds reacquired and unamortized net discount and expense applicable thereto	455,815	399,963
Total	310,061,019	271,997,917
DEDUCTIONS OTHER THAN DIVIDENDS:		
Transfer to capital stock account in connection with three-for-one stock split	93,502,048	
Other—net	6,486*	40,252
Total	93,495,562	40,252
Remainder	216,565,457	271,957,665
DIVIDENDS DECLARED—Cash:		
First preferred—various series	18,335,647	18,335,655
Common	51,457,112	46,616,193
Total	69,792,759	64,951,848
BALANCE, DECEMBER 31	$146,772,698	$207,005,817

*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 financial statements and schedules of Pacific Gas and Electric Company for the year ended December 31, 1961. 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, 1961 and the results of its operations for the year then ended, in conformity with generally accepted accounting principles. Effective January 1, 1961 the Company changed its accounting for tax reductions arising from the use of liberalized depreciation (in order to conform with the rate-making policy of the California Public Utilities Commission) and changed from the sinking-fund to the straight-line method of providing for depreciation, as explained in Notes 2 and 5 to financial statements; with these exceptions, in our opinion, the financial statements have been prepared on a basis consistent with that of the preceding year.

San Francisco
February 15, 1962

Haskins & Sells

STATEMENT OF INCOME

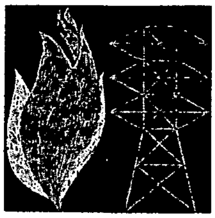
PACIFIC GAS AND ELECTRIC COMPANY
FOR THE YEARS ENDED DECEMBER 31, 1961 AND 1960

	1961	1960
OPERATING REVENUES:		
Electric	$446,153,882	$416,569,087
Gas	246,432,126	228,276,257
Other	3,121,809	3,042,744
Total	695,707,817	647,888,088
OPERATING EXPENSES:		
Production:		
Power purchased	4,048,044	4,177,205
Natural gas purchased	185,776,011	164,918,696
Oil and other fuel	18,464,154	17,792,581
Other	10,440,493	11,231,792
Transmission	5,033,988	5,597,993
Distribution	26,249,521	25,374,488
Maintenance and repairs	27,728,685	21,673,271
Customer accounts	21,532,735	20,885,203
Sales promotion	6,175,508	5,672,918
Administrative and general	27,899,063	25,196,882
Uncollectible accounts	2,100,000	1,650,000
Depreciation and amortization (Notes 2 and 5)	66,861,815	59,011,567
Taxes (Note 5):		
Federal income	73,914,289	81,586,505
Other	81,181,787	75,876,938
Total	557,406,093	520,646,039
OPERATING INCOME	138,301,724	127,242,049
OTHER INCOME	1,694,007	902,111
Total	139,995,731	128,144,160
INCOME DEDUCTIONS:		
Interest on bonds	40,246,012	37,729,706
Other—net	2,514,308	1,635,884
Interest charged to construction	5,005,689*	3,786,177*
Total	37,754,631	35,579,413
NET INCOME	$102,241,100	$ 92,564,747

*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, 1961 AND 1960



ASSETS	1961	1960
UTILITY PLANT—At original cost	$3,125,557,420	$2,919,196,961
Less accumulated depreciation and amortization (Note 2)	667,766,026	617,420,141
Utility plant—net	2,457,791,394	2,301,776,820
INVESTMENTS AND NONCURRENT RECEIVABLES:		
Investments in subsidiaries—at cost (Notes 1 and 4)	26,530,068	19,695,058
Nonutility property—at cost	4,622,400	4,529,383
Other	2,822,158	3,289,249
Total investments and noncurrent receivables	33,974,626	27,513,690
CURRENT ASSETS:		
Cash	27,576,537	26,438,942
Accounts receivable (less allowance for uncollectible accounts: 1961, $1,425,787; 1960, $1,337,549)	59,981,769	52,152,762
Notes and accounts receivable from subsidiaries	335,464	7,225,288
Materials and supplies—at average cost	17,281,951	18,124,906
Gas stored underground—at average cost	231,619	475,246
Prepayments	37,514,883	34,528,922
Total current assets	142,922,223	138,946,066
DEFERRED DEBITS:		
Unamortized bond discount and expense (Note 4)	8,961,306	8,987,978
Other	817,250	1,452,554
Total deferred debits	9,778,556	10,440,532
TOTAL	$2,644,466,799	$2,478,677,108

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

BALANCE SHEET
PACIFIC GAS AND ELECTRIC COMPANY
DECEMBER 31, 1961 AND 1960

LIABILITIES	1961	1960
CAPITALIZATION:		
Capital stock (Schedule 1) (Note 3)	$1,042,270,589	$ 886,106,401
Earned surplus (Note 3)	146,772,698	207,005,817
Total capital stock and surplus	1,189,043,287	1,093,112,218
Mortgage bonds (Schedule 2)	1,185,595,290	1,138,029,750
Total capitalization	2,374,638,577	2,231,141,968
CURRENT LIABILITIES:		
Bank loans	9,000,000	12,000,000
Accounts payable	38,106,024	33,772,510
Dividends payable	13,178,503	11,655,041
Current sinking-fund requirements (Note 4)	7,061,710	5,515,250
Customer deposits	3,575,976	2,589,901
Taxes accrued (Note 5)	83,655,956	77,470,858
Interest accrued	3,526,664	3,337,807
Total current liabilities	158,104,833	146,341,367
DEFERRED CREDITS	7,438,572	8,210,316
CUSTOMER ADVANCES FOR CONSTRUCTION	6,133,712	5,986,672
RESERVES FOR INSURANCE, CASUALTIES, AND OTHER	5,732,869	3,974,527
CONTRIBUTIONS IN AID OF CONSTRUCTION	25,862,341	22,975,572
ACCUMULATED DEFERRED TAXES ON INCOME (Note 5)	66,555,895	60,046,686
TOTAL	$2,644,466,799	$2,478,677,108

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

CAPITAL STOCK

DECEMBER 31, 1961

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 $10 PER SHARE	75,000,000	56,477,559	564,775,590
TOTAL			915,025,365
EXCESS OF PREMIUMS RECEIVED OVER DISCOUNT AND EXPENSE ON OUTSTANDING SHARES			127,245,224
TOTAL			$1,042,270,589

MORTGAGE BONDS

DECEMBER 31, 1961

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	18,484,000	
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	6,400,000	
Series P	2¾	June 1, 1981	23,374,000	$ 157,000
Series Q	2⅞	Dec. 1, 1980	63,573,000	50,000
Series R	3⅛	June 1, 1982	68,972,000	
Series S	3	June 1, 1983	72,477,000	58,000
Series T	2⅞	June 1, 1976	75,935,000	
Series U	3⅜	Dec. 1, 1985	44,824,000	
Series W	3⅛	Dec. 1, 1984	54,349,000	
Series X	3⅛	June 1, 1984	59,459,000	
Series Y	3⅜	Dec. 1, 1987	43,408,000	
Series Z	3⅜	Dec. 1, 1988	19,178,000	
Series AA	4½	Dec. 1, 1986	30,969,000	314,000
Series BB	5	June 1, 1989	58,000,000	
Series CC	3¾	Dec. 1, 1978	69,296,000	
Series DD	4½	June 1, 1990	53,887,000	93,000
Series EE	5	June 1, 1991	60,025,000	
Series FF	4⅝	June 1, 1992	54,135,000	999,000
Series GG	4½	June 1, 1993	56,757,000	3,243,000
TOTAL			1,192,657,000	$4,914,000
Less current sinking-fund requirements			7,061,710	
MORTGAGE BONDS			$1,185,595,290	

NOTE: Additional amounts may be issued under the terms of the indenture relating to these bonds. The Company proposes to sell $65,000,000 face amount of First and Refunding Mortgage Bonds in March 1962.

NOTES TO FINANCIAL STATEMENTS

PACIFIC GAS AND ELECTRIC COMPANY
DECEMBER 31, 1961 AND 1960

NOTE 1—Subsidiary Companies:

The financial statements presented herein 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. These changes resulted in an increase of approximately $3,842,000 in depreciation expense for 1961.

NOTE 3—Capital Stock:

Effective December 29, 1961 the Company, by amendment of its Articles of Incorporation, increased the number of common shares authorized from 25,000,000 to 75,000,000 and reduced the par value of its common stock from $25 per share to $10 per share. Also effective that date, issued and outstanding shares of the Company's common stock were split into three shares of $10 par value for each outstanding share of $25 par value. In effecting the three-for-one stock split, the amount of $627,217 (represented principally by discount on shares of capital stock reacquired) and earned surplus in the amount of $93,502,048 were transferred to the common stock account.

NOTE 4—Mortgage Bonds:

Sinking-fund payments due under the terms of the first and refunding mortgage during the year ending December 31, 1962 are shown among the current liabilities net of the treasury bonds held by the Company at December 31, 1961.

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 securities representing the Company's investments in subsidiaries are on deposit and pledged with the California Trustee of the first and refunding mortgage.

NOTE 5—Taxes on Income:

The cost of plant construction completed 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, 1961 the resultant accumulated deferred taxes on income amounted to $66,555,895.

Since 1954 the Company has elected liberalized depreciation for Federal income tax purposes, and beginning in 1960 for purposes of the California tax on income, for all property eligible therefor and not subject to accelerated amortization. For general accounting purposes, however, the Company during the period 1954 through 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 liberalized depreciation. The excess accrual for 1960 was approximately $9,488,700.

In April 1960 the California Public Utilities Commission issued an order stating, in effect, that it would adopt the "flow-through" method with respect to liberalized depreciation (and accordingly not permit tax normalization) in determining allowable income tax expense in rate proceedings. Since the Commission does not authorize deferred tax accounting with respect to liberalized depreciation and such accounting would be inconsistent with the "flow-through" rate-making policy of the Commission, the Company transferred its total excess accruals, amounting to $35,635,611 (reduced by an adjustment of $435,368 in 1961) to accumulated depreciation and amortization on December 31, 1960, and effective January 1, 1961, discontinued accruing taxes on income on the basis of straight-line depreciation and commenced accruing such taxes on the basis of liberalized depreciation. Also effective January 1, 1961, the Company changed its method of providing for depreciation expense as explained in Note 2. The net effect of these changes, which have received California Public Utilities Commission authorization, was a reduction in expense of approximately $7,000,000 during 1961.

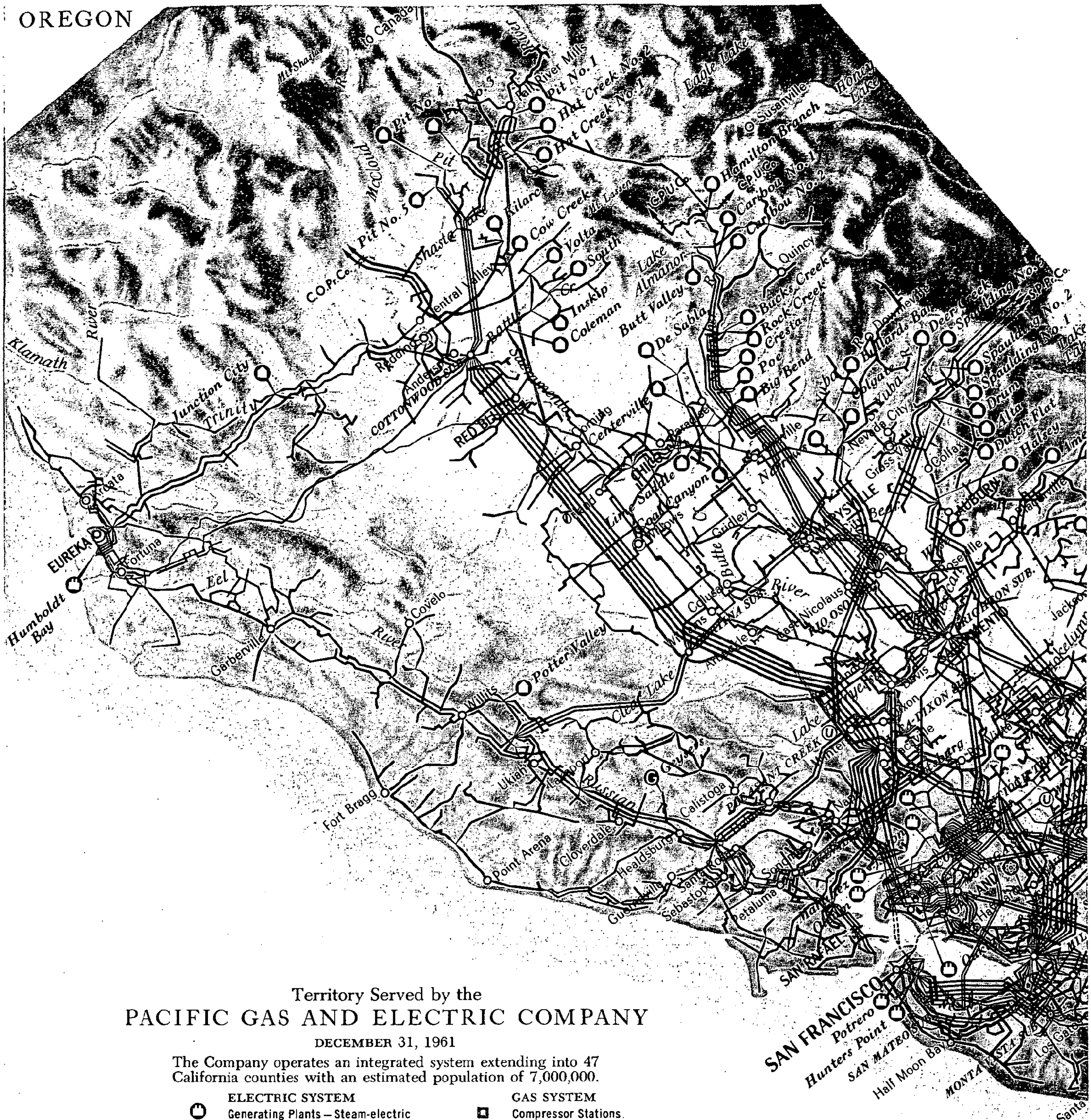
NOTE 6—Commitments and Contingent Liabilities:

At December 31, 1961 the Company had firm commitments in the aggregate amount of about $48,000,000 in connection with its plant construction program.

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, 1961 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 three related lawsuits arising from the production and sale of gas from certain California gas fields. Damages totaling approximately $99,800,000 are sought on the charge 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

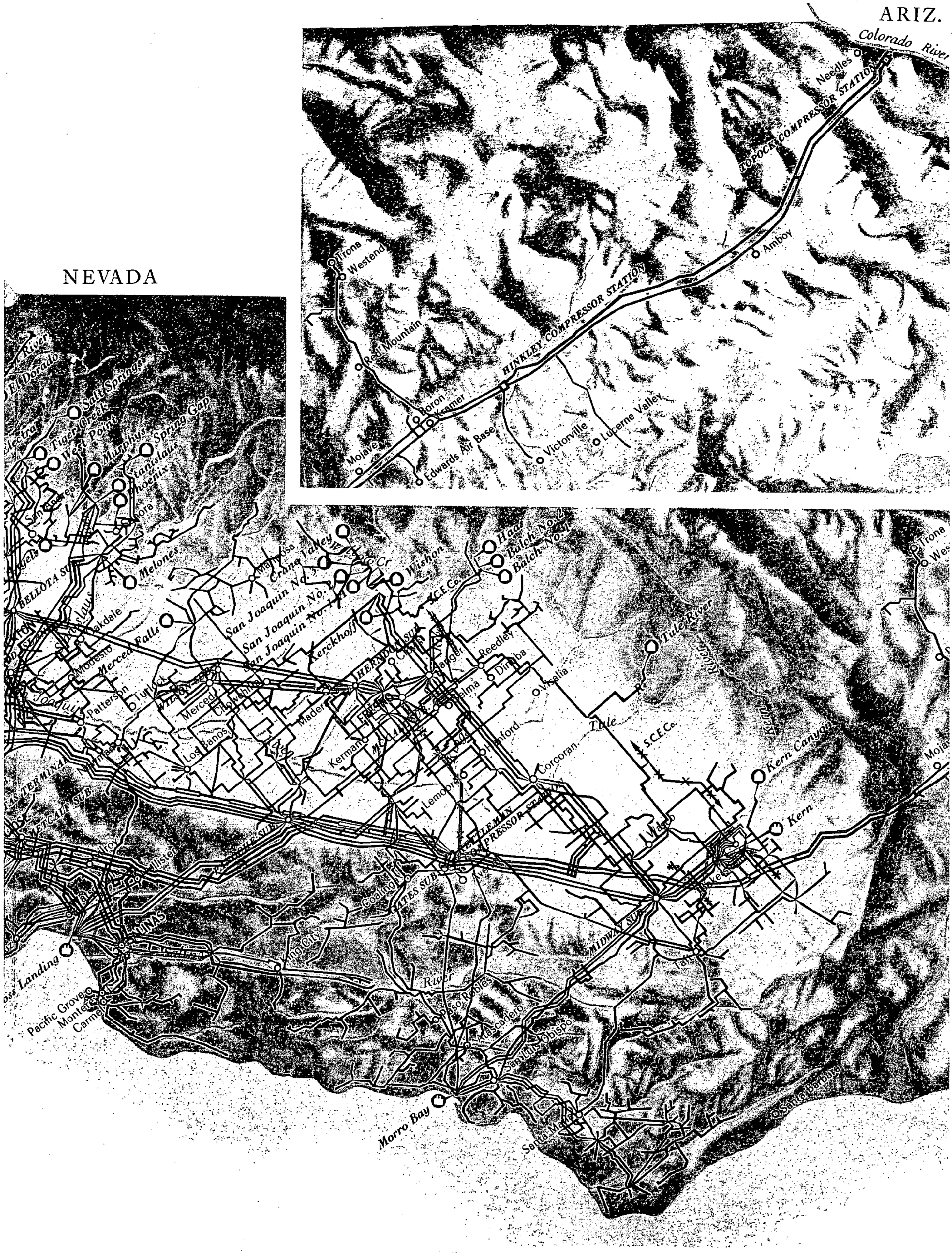
PACIFIC GAS AND ELECTRIC COMPANY

DECEMBER 31, 1961

The Company operates an integrated system extending into 47 California counties with an estimated population of 7,000,000.

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.

62 Hydro Plants	1,959,500 Kw	4,250 miles gas transmission lines
14 Steam & Atomic Plants .	4,063,000 Kw	19,100 miles gas distribution lines
76 Plants Capacity . . .	6,022,500 Kw	23,350 miles of gas pipe lines
Capacity from others . .	530,000 Kw	
75,600 miles of electric power lines		


NEVADA
ARIZ.
Colorado River
Needles
TOPOCK COMPRESSOR STATION
Amboy
HINKLEY COMPRESSOR STATION
Trona
Westend
Red Mountain
Boron
Kramer
Mojave
Edwards Air Base
Victorville
Lucerne Valley
El Dorado
Salt Springs
Tiger Creek
West Point
Murphys
Spring Gap
Stanislaus
Phoenix
Melones
BELLOTA SUB
Crane Valley
Haas
Balch No. 2
Balch No. 1
Wishon
San Joaquin No. 3
San Joaquin No. 2
San Joaquin No. 1-A
Kerckhoff
S.C.E. Co.
Merced Falls
Oakdale
Modesto
Turlock
Patterson
Merced
Chowchilla
Madera
Los Banos
Kerman
Clovis
Sanger
Reedley
Dinuba
Visalia
Hanford
Lemoore
Corcoran
Tule
Tule River
S.C.E. Co.
Kern Canyon
Kern
Wasco
METCALF SUB
Coalinga
King City
River
MIDWAY SUB
Pacific Grove
Monterey
Carmel
Paso Robles
Atascadero
San Luis Obispo
Morro Bay
Santa Maria
Santa Barbara

THE ALBERTA-CALIFORNIA PROJECT

PARTICIPATING COMPANIES

ALBERTA AND SOUTHERN GAS CO., LTD.

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

THE ALBERTA GAS TRUNK LINE COMPANY LIMITED

This company owns and operates approximately $83 million of pipeline facilities required by the project within the Province of Alberta. It gathers gas, including the gas purchased by Alberta and Southern, from numerous fields in western Alberta and transports 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 transports gas as a contract carrier for Alberta and Southern and Westcoast Transmission Company Limited through the Province of British Columbia to the international boundary. It owns and operates pipeline facilities costing about $32 million. Its common shares are owned in equal portions by Westcoast Transmission Company Limited, Pacific Gas Transmission Company, and the public. Westcoast and Pacific Gas Transmission have entered into a voting trust agreement under which each nominates four of its eight directors.

PACIFIC GAS TRANSMISSION COMPANY

This company purchases gas from Alberta and Southern at the international boundary, transports it through Idaho, Washington and Oregon to the California border, and sells it there to PG&E. It also transports gas bought from Westcoast Transmission Company by El Paso Natural Gas Company as a contract carrier. It owns and operates pipeline facilities costing about $118 million. PG&E owns about 50% of the outstanding common stock and convertible subordinated debentures of this company and the balance is owned by the public and some of the original sponsors.

PACIFIC GAS AND ELECTRIC COMPANY

PG&E owns and operates a $55 million pipeline facility to transport the gas from the Oregon-California border to Antioch, California, the principal point of connection with its distribution system. It distributes the gas made available by the project to its customers in Northern and Central California.