

**1936**

**THIRTY-FIRST ANNUAL REPORT**

**OF THE**

**PACIFIC  
GAS AND ELECTRIC  
COMPANY**

**FOR THE**

**FISCAL YEAR ENDED DECEMBER 31, 1936**

Donated by Red Masbuski

# PACIFIC GAS AND ELECTRIC COMPANY

## and Subsidiary Companies

The properties of the Company and its subsidiaries constitute a well integrated system, located entirely within the State of California and operated by a single management. For almost twenty-five years operations have been subject to regulation by the California State Railroad Commission.

The territory served is situated in the northern and central sections of the State, with a population exceeding 2,900,000. It embraces a region of highly diversified resources, including the metropolitan area surrounding San Francisco Bay and fertile and highly cultivated regions of the Sacramento and San Joaquin Valleys.

The Company (including subsidiaries) operates electric generating plants with an installed capacity of 1,671,037 horsepower and is one of the largest producers and distributors of electricity in the United States. It also ranks as one of the major distributors of natural gas in the country. On December 31, 1936, electric customers numbered 811,467, gas customers 570,764 and water and steam customers 11,109. Service is supplied through approximately 86,000 miles of electric transmission and distribution lines, almost 8,000 miles of gas mains, and other distribution facilities.

### CITIES AND TOWNS SERVED

	Directly		Indirectly		Total	
	No.	Population	No.	Population	No.	Population
Electricity.....	636	1,988,965	44	161,129	680	2,150,094
Gas.....	155	1,839,672	2	16,638	157	1,856,310
Water (Domestic).....	15	28,757	12	19,940	27	48,697
Railway.....	1	93,750	.....	.....	1	93,750
Steam Heating.....	2	928,217	.....	.....	2	928,217

### Record of Recent Growth\*

Year Ended Dec. 31	Gross Operating Revenue	Sales of Electricity K. W. H.	Sales of Gas Cubic Feet	Number of Customers December 31	Number of Stockholders December 31**
1925.....	\$47,729,079	1,351,798,000	16,200,951,000	813,698	34,863
1926.....	50,960,571	1,514,981,000	17,482,206,000	874,724	39,149
1927.....	57,893,181	1,657,965,000	20,214,834,000	967,717	46,068
1928.....	61,449,592	1,774,222,000	21,058,369,000	1,004,340	49,068
1929.....	64,440,588	1,948,656,000	22,041,346,000	1,038,546	61,131
1930.....	85,633,141	3,289,255,000	23,078,036,000	1,246,210	67,430
1931.....	87,630,661	3,351,310,000	29,431,022,000	1,267,114	84,705
1932.....	85,058,617	2,932,003,000	34,594,302,000	1,251,214	95,483
1933.....	84,596,084	2,940,605,000	39,802,857,000	1,262,522	96,824
1934.....	87,555,480	3,269,116,000	41,074,683,000	1,301,406	96,225
1935.....	92,084,934	3,303,312,000	48,686,774,000	1,341,939	92,670
1936.....	95,333,336	3,696,387,000	53,439,510,000	1,393,340	90,263

\*Statistics of acquired companies included for all or some part of year in which acquired, and subsequent years.

\*\*Excluding stockholders of subsidiary companies.

# Pacific Gas and Electric Company

245 Market Street  
SAN FRANCISCO, CALIFORNIA

## BOARD OF DIRECTORS

JAMES B. BLACK . . . . .	San Francisco	D. H. FOOTE . . . . .	San Francisco
ALLEN L. CHICKERING . . . . .	San Francisco	HERBERT C. FREEMAN . . . . .	New York
JOHN P. COGHLAN . . . . .	San Francisco	NORMAN B. LIVERMORE . . . . .	San Francisco
W. H. CROCKER . . . . .	San Francisco	CHAS. K. MCINTOSH . . . . .	San Francisco
P. M. DOWNING . . . . .	San Francisco	JOHN D. MCKEE . . . . .	San Francisco
F. T. ELSEY . . . . .	San Francisco	C. O. G. MILLER . . . . .	San Francisco
JAMES F. FOGARTY . . . . .	New York	SILAS H. PALMER . . . . .	San Francisco
A. EMORY WISHON . . . . .		San Francisco	

## EXECUTIVE COMMITTEE

JAMES B. BLACK		
ALLEN L. CHICKERING		NORMAN B. LIVERMORE
F. T. ELSEY		C. O. G. MILLER

## OFFICERS

JAMES B. BLACK . . . . .	<i>President</i> . . . . .	San Francisco
P. M. DOWNING . . . . .	<i>First Vice-President and General Manager</i> . . . . .	San Francisco
JOHN P. COGHLAN . . . . .	<i>Second Vice-President and Assistant to the President</i> . . . . .	San Francisco
D. H. FOOTE . . . . .	<i>Third Vice-President and Secretary-Treasurer</i> . . . . .	San Francisco
A. EMORY WISHON . . . . .	<i>Vice-President and Assistant General Manager</i> . . . . .	San Francisco
A. H. MARKWART . . . . .	<i>Vice-President in Charge of Engineering</i> . . . . .	San Francisco
W. G. VINCENT . . . . .	<i>Vice-President and Executive Engineer</i> . . . . .	San Francisco
R. E. FISHER . . . . .	<i>Vice-President in Charge of Public Relations and Sales</i> . . . . .	San Francisco
. . . . .		
E. J. BECKETT . . . . .	<i>Assistant Treasurer</i> . . . . .	J. D. ROSIE . . . . . <i>Assistant Secretary</i>
O. H. BARTHOL . . . . .	<i>Assistant Treasurer</i> . . . . .	R. KINDIG . . . . . <i>Assistant Secretary</i>
E. W. BILLEB . . . . .	<i>Assistant Treasurer</i> . . . . .	C. L. HORNBERGER . . . . . <i>Assistant Secretary</i>

## STOCK TRANSFER AGENCIES

OFFICE OF COMPANY (C. E. HOLT, <i>Transfer Agent</i> ) . . . . .	San Francisco
BANKERS TRUST COMPANY . . . . .	New York

## REGISTRARS OF STOCK

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

*This Company makes no charge for stock transfers except as to documentary stamps or other charges that may be required by law.*

## HEADS OF DEPARTMENTS

### LAW DEPARTMENT:

Wm. B. Bosley . . . . . *General Counsel*  
 T. J. Straub . . . . . *General Attorney*

### RATE DEPARTMENT:

R. W. Duval . . . . . *Attorney*

### ACCOUNTING AND TAX DEPARTMENTS:

E. W. Hodges . . . . . *Comptroller*  
 D. G. Martin . . . . . *General Auditor*  
 H. T. Terry . . . . . *Auditor of Division Accounts*  
 M. D. Lack . . . . . *Manager Tax Department*

### CREDIT AND COLLECTIONS DEPARTMENT AND STOCK SALES DEPARTMENT:

Geo. H. Rand . . . . . *Manager*

### PURCHASES AND STORES DEPARTMENT:

Fred P. Hanson . . . . . *Manager*

### PERSONNEL DEPARTMENT:

E. G. McCann . . . . . *Manager*

### PUBLICITY DEPARTMENT:

Al C. Joy . . . . . *Manager*

### AUTOMOTIVE DEPARTMENT:

S. B. Shaw . . . . . *Automotive Engineer*

### ELECTRICAL CONSTRUCTION AND OPERATION DEPARTMENT:

F. R. George . . . . . *Engineer of Operation*  
 O. W. Peterson . . . . . *Engineer of General Construction*  
 W. G. B. Euler . . . . . *General Superintendent San Francisco and East Bay Divisions*  
 E. H. Steele . . . . . *Engineer of Line Construction*  
 Geo. H. Bragg . . . . . *Engineer of Maintenance*

### ENGINEERING DEPARTMENT:

J. P. Jollyman . . . . . *Chief of Division of Hydro-Electric and Transmission Engineering*  
 S. J. Lisberger . . . . . *Chief of Division of Electric Distribution and Steam Engineering*  
 I. C. Steele . . . . . *Chief of Division of Civil Engineering*  
 F. M. Harris . . . . . *Chief of Bureau of Specifications and Estimates*  
 O. A. Knopp . . . . . *Chief of Bureau of Tests and Inspection*

### EXECUTIVE ENGINEERING DEPARTMENT:

J. T. Ryan . . . . . *Valuation Engineer*  
 B. B. Beckett . . . . . *Rate Engineer*  
 C. H. Prouty . . . . . *Manager Land Department*

### GAS CONSTRUCTION AND OPERATION DEPARTMENT:

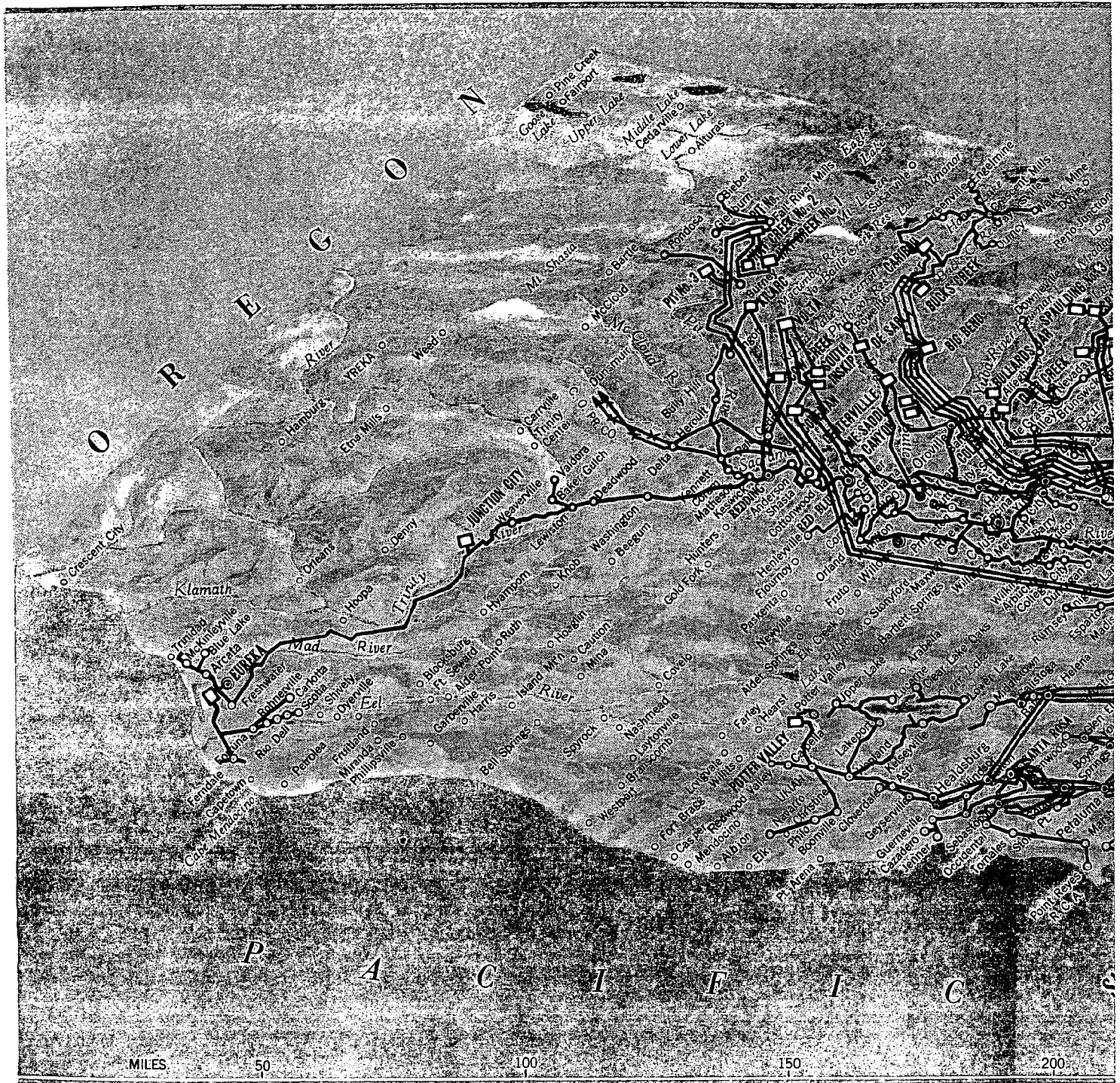
R. S. Fuller . . . . . *Engineer of Distribution*  
 Frederick F. Doyle . . . . . *Manager Natural Gas Division*  
 Frank Wills . . . . . *Engineer of Production*  
 H. J. Smith . . . . . *Engineer of Construction*

### PUBLIC RELATIONS AND SALES DEPARTMENT:















Don C. Ray . . . . . *Manager Bureau of Public Relations*  
 H. M. Crawford . . . . . *General Sales Manager*  
 N. R. Sutherland . . . . . *Manager Commercial Department*  
 H. N. Carroll . . . . . *Manager Electric Sales*  
 Forrest U. Naylor . . . . . *Manager Gas Sales*

## DIVISIONS AND MANAGERS

			<i>Headquarters</i>	
COAST VALLEYS DIVISION .....	T. W. Snell .....	<i>Division Manager</i> .....	Salinas	
	W. J. Crabbe .....	<i>District Manager</i> .....	Monterey	
COLGATE DIVISION .....	E. C. Johnson .....	<i>Division Manager</i> .....	Marysville	
	C. R. Gill .....	<i>District Manager</i> .....	Colusa	
DE SABLE DIVISION .....	J. H. Fagg .....	<i>Division Manager</i> .....	Chico	
DRUM DIVISION .....	H. M. Cooper .....	<i>Division Manager</i> .....	Auburn	
EAST BAY DIVISION .....	L. H. Newbert .....	<i>Division Manager</i> .....	Oakland	
	Berkeley District .....	H. W. Beekman .....	<i>District Manager</i> .....	Berkeley
	Richmond District .....	T. E. Ward .....	<i>District Manager</i> .....	Richmond
HUMBOLDT DIVISION .....	J. W. Coons .....	<i>Division Manager</i> .....	Eureka	
NORTH BAY DIVISION .....	H. G. Ridgway .....	<i>Division Manager</i> .....	San Rafael	
	Petaluma District .....	L. J. Peterson .....	<i>District Manager</i> .....	Petaluma
	Napa-Vallejo Districts .....	C. D. Clark .....	<i>District Manager</i> .....	Napa
SACRAMENTO DIVISION .....	E. W. Florence .....	<i>Division Manager</i> .....	Sacramento	
	Solano District .....	C. E. Sedgwick .....	<i>District Manager</i> .....	Dixon
	Yolo District .....	J. V. Kyle .....	<i>District Manager</i> .....	Woodland
SAN FRANCISCO DIVISION .....	Henry Bostwick .....	<i>Division Manager</i> .....	San Francisco	
SAN JOAQUIN DIVISION .....	H. B. Heryford .....	<i>Division Manager</i> .....	Stockton	
	Electra District .....	W. E. Eskew .....	<i>District Manager</i> .....	Jackson
	Tuolumne District .....	Chas. H. Noack .....	<i>District Manager</i> .....	Sonora
SAN JOSE DIVISION .....	I. B. Adams .....	<i>Division Manager</i> .....	San Jose	
	Redwood District .....	L. G. Owen .....	<i>District Manager</i> .....	Redwood City
SHASTA DIVISION .....	G. R. Milford .....	<i>Division Manager</i> .....	Red Bluff	
	Red Bluff District .....	Chas. Hughes .....	<i>District Manager</i> .....	Red Bluff

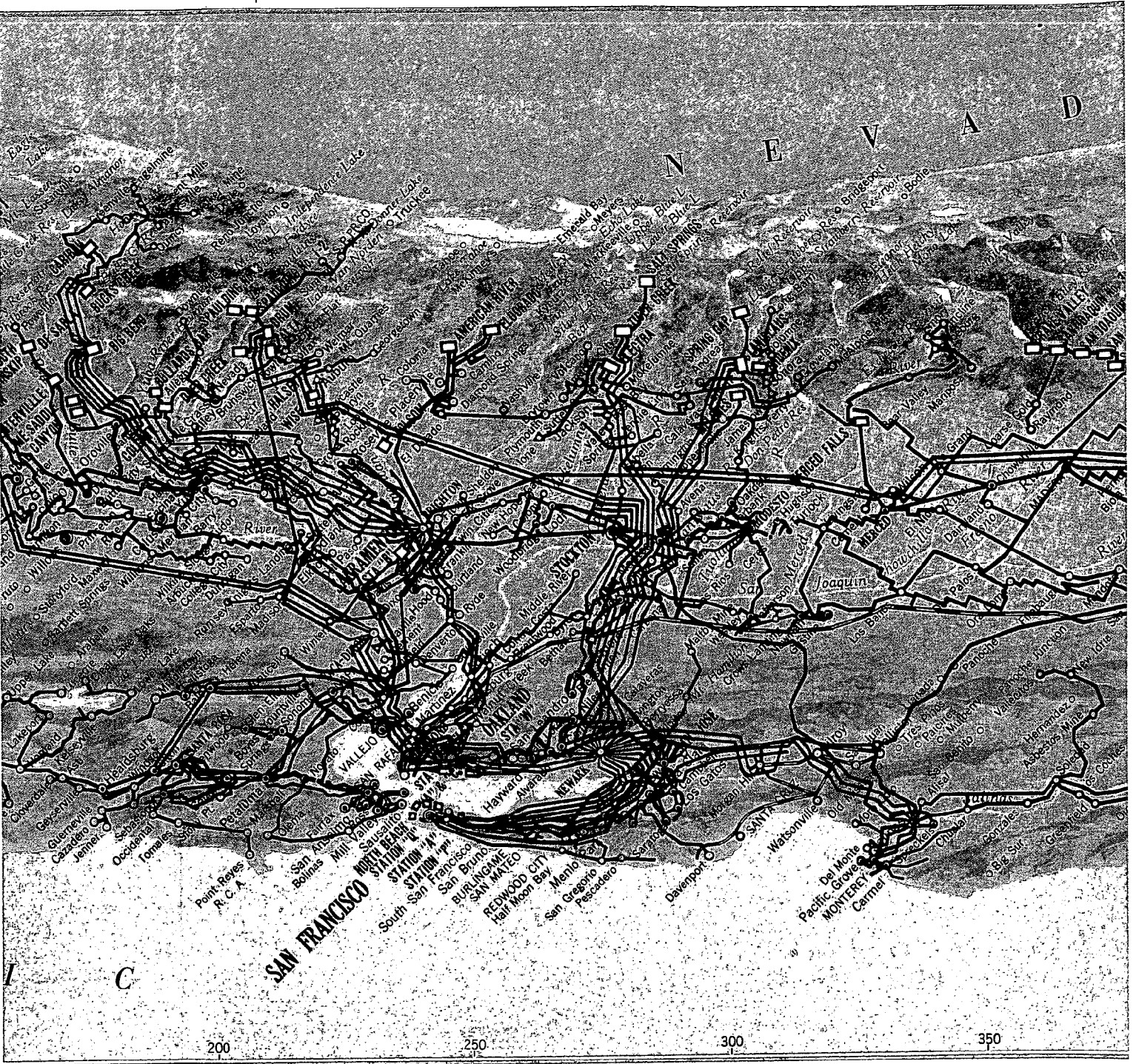


**LEGEND**

- |   |                                 |   |  |
|---|---------------------------------|---|--|
|  | Generating Plants - Electricity |  | Electricity and Gas supplied               |
|  | Generating Plants - Gas         |  | Water supplied                             |
|  | Transmission Lines - Electric   |  | Electricity, Gas and Water supplied        |
|  | Transmission Lines - Gas        |  | Electricity, Gas and Street Railways owned |
|  | Transmission Lines Projected    |  | Electricity supplied - Lines not owned     |
|  | Electricity supplied            |  | Connecting Companies                       |
|  | Gas supplied                    |  | Standard-Pacific Gas Line, Inc.            |

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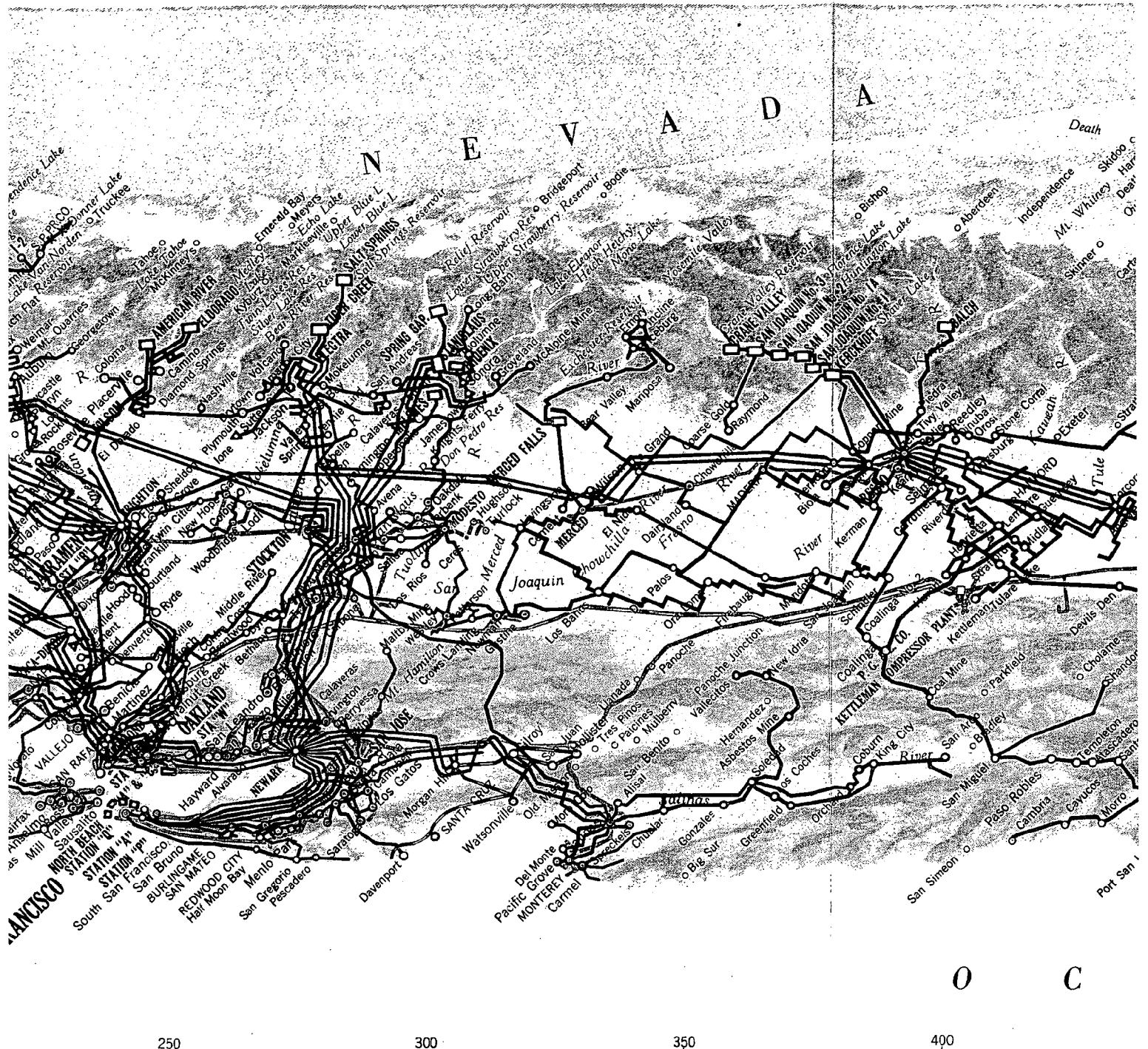


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- Electricity and Gas supplied
- Water supplied
- Electricity, Gas and Water supplied
- Electricity, Gas and Street Railways owned
- Electricity supplied - Lines not owned
- Connecting Companies
- Standard-Pacific Gas Line, Inc.

TERRITORY SERVED BY THE  
**PACIFIC GAS AND ELECTRIC COMPANY**  
 AND  
**AFFILIATED COMPANIES**  
 WITH LOCATION OF MAJOR  
**ELECTRIC GENERATING PLANTS AND TRANSMISSION LINES**  
 AND  
**NATURAL GAS PIPE LINES**  
 DECEMBER 31, 1936





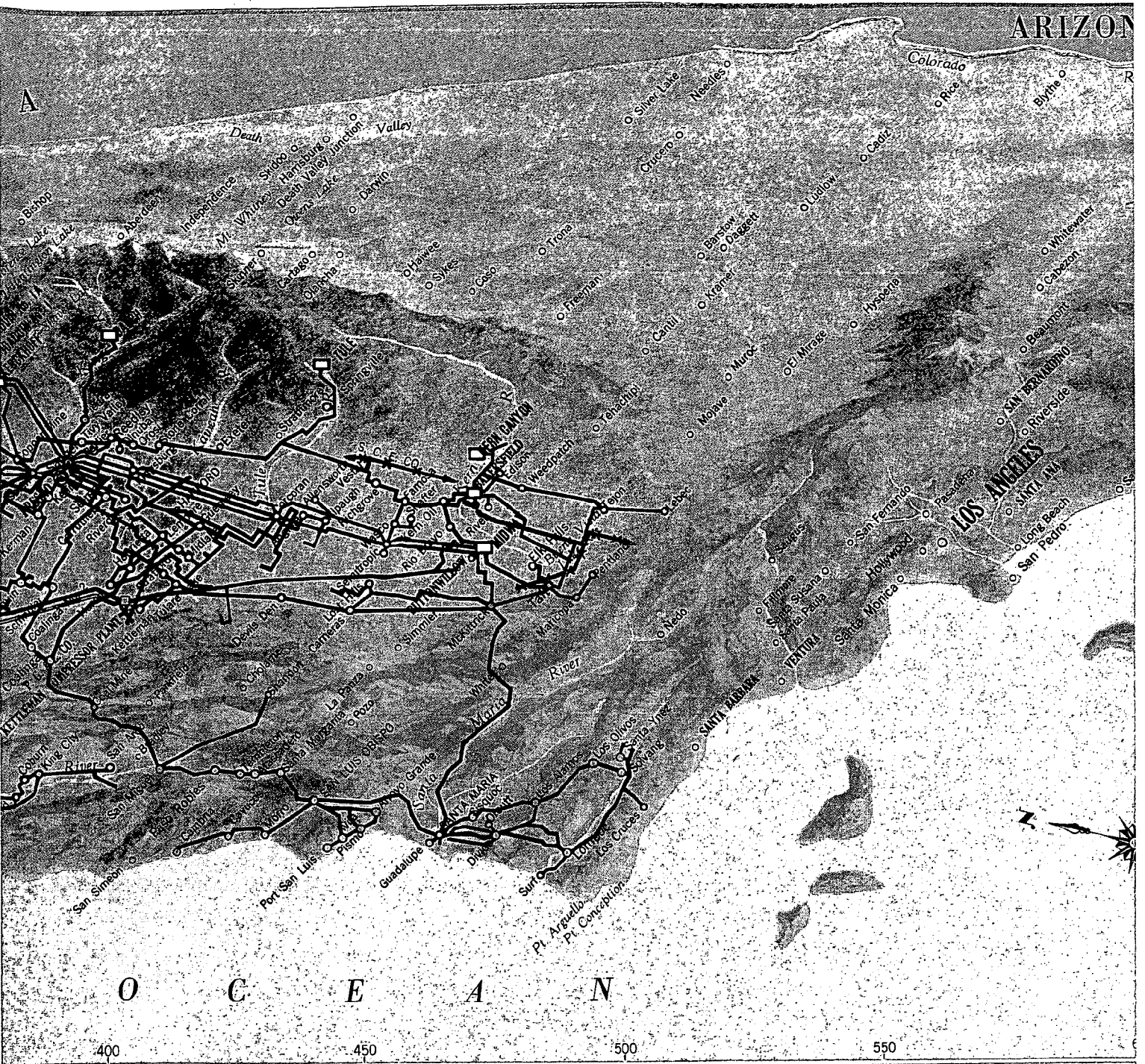
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 AND  
 NATURAL GAS PIPE LINES  
 DECEMBER 31, 1936



**ELECTRIC SYSTEM**

	Installed Capacity
49 Hydro-Electric Plants .....	1,175,327 H. P.
10 Steam Electric Plants .....	495,710 H. P.
59 Plants, Capacity .....	1,671,037 H. P.

36,000 miles of transmission and distribution lines, the largest system of its kind in the world, serving electricity directly to 636 and indirectly to 44 cities and towns

**GAS SYSTEM**

7,572 miles of interconnected natural gas lines serving 139 communities.

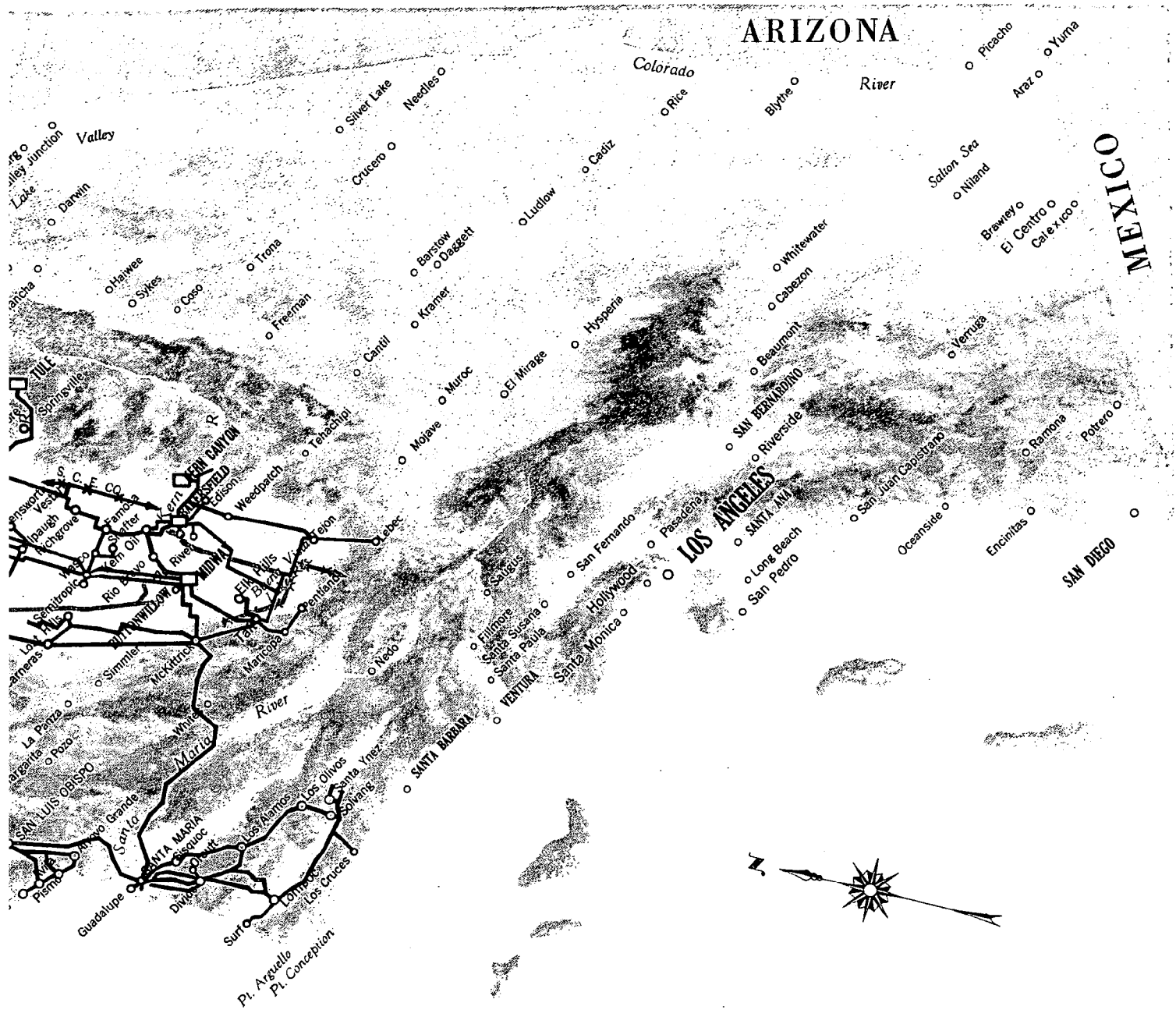
349 miles of artificial gas lines serving 16 communities.

7,921 miles of gas mains serving 155 cities and towns.

<b>Population of Territory Served .....</b>	<b>2,900,000</b>
<b>Number of Customers, December 31, 1936 .....</b>	<b>1,393,340</b>

ES

# ARIZONA



E A N

450 500 550 600 650 MILES

## ELECTRIC SYSTEM

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## GAS SYSTEM

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Population of Territory Served ..... 2,900,000  
 Number of Customers, December 31, 1936 ..... 1,393,340

REPORT OF THE DIRECTORS  
OF THE  
PACIFIC GAS AND ELECTRIC COMPANY

SAN FRANCISCO, CALIF., MARCH 20, 1937.

TO THE STOCKHOLDERS:

Your Directors submit herewith a report of the 1936 operations of the Pacific Gas and Electric Company and its subsidiaries.

For your convenient reference, there is presented below in summarized form a consolidated statement of earnings compared with the year 1935. More detailed income and surplus accounts together with balance sheets of the Company and various subsidiaries, as certified by Messrs. Haskins & Sells, are reproduced in the latter part of this report.

PACIFIC GAS AND ELECTRIC COMPANY AND SUBSIDIARY COMPANIES  
SUMMARY OF CONSOLIDATED INCOME AND DIVIDENDS ON CAPITAL STOCKS

	1936	1935	Increase	Decrease
Gross Operating Revenue.....	\$95,333,336	\$92,084,934	\$ 3,248,402	
<b>Deduct:</b>				
Maintenance, Operating and Administrative Expenses, Taxes (except Federal income tax) and Provision for Insurance, Casualties and Uncollectible Accounts.....	41,348,356	39,998,280	1,350,076	
Provision for Depreciation.....	13,009,810	12,281,573	728,237	
Total.....	\$54,358,166	\$52,279,853	\$ 2,078,313	
Net Operating Revenue.....	\$40,975,170	\$39,805,081	\$ 1,170,089	
Miscellaneous Income.....	358,477	313,761	44,716	
Gross Income.....	\$41,333,647	\$40,118,842	\$ 1,214,805	
Bond Interest and Discount and Other Interest.....	14,669,475	14,942,162		\$ 272,687
Net Income before provision for Federal Income Tax.....	\$26,664,172	\$25,176,680	\$ 1,487,492	
Provision for Federal Income Tax.....	1,695,644	1,654,745	40,899	
Net Income to Surplus.....	\$24,968,528	\$23,521,935	\$ 1,446,593	
Provision for Gas Revenue in Dispute.....	1,008,000	2,258,000		\$1,250,000
Balance before Dividends.....	\$23,960,528	\$21,263,935	\$ 2,696,593	
Dividends of Subsidiaries on Capital Stocks held by public.....	288,991	410,780		\$ 121,789
Remainder—Applicable to Pacific Gas and Electric Co.....	\$23,671,537	\$20,853,155	\$ 2,818,382	
Dividends on Preferred Stock.....	7,708,478	7,707,446	1,032	
Remainder—Applicable to Common Stock.....	\$15,963,059	\$13,145,709	\$ 2,817,350	
Dividends on Common Stock.....	10,174,725	9,392,137	782,588	
Balance.....	\$ 5,788,334	\$ 3,753,572	\$ 2,034,762	

## NOTES ON INCOME ACCOUNT

### GROSS OPERATING REVENUE:

The Company's business in 1936, from the standpoint of physical operations, was characterized by a definite and well sustained upturn in volume, increases being recorded in each month of the year in sales of both electricity and gas, compared with the corresponding months of 1935. Kilowatt-hour sales of electricity increased 11.90% and volume of gas sales increased 9.76%, the output of both of these major departments reaching new high levels. There was a net addition of 51,401 customers connected to our distribution systems, the total number of consumers receiving service at the end of the year being 1,393,340, also a record.

Gross operating revenues from all sources aggregated \$95,333,000\*, an increase of \$3,248,000 or 3.53% over the preceding year. The disparity between the ratios of growth in physical volume of sales and in dollars charged for our services was attributable to substantial rate reductions placed in effect during the year and to the larger proportion of our business represented by sales at low unit prices.

A systemwide reduction in electric rates, amounting to \$4,000,000 annually and benefiting approximately 690,000 electric customers, was placed in effect on January 1, 1936. Four months later (on May 1, 1936) a reduction in natural gas rates estimated to save our gas customers slightly in excess of \$2,500,000 annually was made effective. Electric rates were further reduced to the extent of \$3,000,000 a year on February 1st, 1937.

These reductions, made voluntarily without involving protracted and expensive rate proceedings, are in line with our policy of reducing rates to the lowest levels consistent with preserving the financial integrity of the Company and maintaining high standards of service to the public. They represent a continuance of a long series of reductions made possible by the growth of business, economies effected through consolidations and advances in operating technique, and savings in fixed charges, which have resulted in an almost unbroken downward trend in unit charges throughout the Company's history.

The cumulative effect of repeated rate reductions and the introduction of natural gas is reflected in savings to our customers during the past nine years alone (1928-1936) of more than \$123,000,000. Of this amount, \$68,000,000 represents savings by gas customers and \$55,000,000 by electric customers. On an annual basis, as applied merely to the volume of business at the time the reductions were placed in effect, these savings aggregate \$23,600,000 per year, exclusive of the electric rate cut made early in 1937. Applied to present business volume, the annual savings would be substantially greater.

Gross revenues from electric operations constituted 70.97% of total earnings of the consolidated system and amounted to \$67,657,000, exceeding the corresponding figure in 1935 by \$3,326,000, or 5.17%. Approximately two-thirds of this additional gross was represented by increased revenue from industrial and commercial consumers, who purchased 13.68% more electricity at an added cost of 7.07%. Sales to domestic consumers increased 10.02% in volume and 2.65% in dollars. Improved agricultural conditions and an increase in pumping load were reflected in a growth of 16.55% in kilowatt-hour sales to agricultural customers, which yielded an increase of 8.19% in revenues derived from this class of service. Other branches of our electric department revenues, with the exception of that derived from sales of power at wholesale to other electric companies, increased in varying proportions.

Gas department gross earnings, including revenues involved in gas rate litigation to which reference is made on page 8, accounted for 27.71% of operating revenues and aggregated \$26,417,000, which was \$88,000 or 0.33% less than in the preceding year. This decrease resulted from the lower gas rates in effect

\*To facilitate the reading of this report, rounded figures are used in the text. Exact amounts are given in the income statements and balance sheets, and other tables reproduced in the latter part of the report. Tables comparing the sources of gross operating revenues during each of the past two years, segregated by departments and by classes of business, appear on page 13.



during the last eight months of 1936, the volume of gas delivered at our consumers' meters during the year being, as previously stated, almost 10% more than in 1935. The largest gain was registered in sales to industrial customers, consumption through retail outlets being adversely influenced by the relatively warmer weather prevailing during the greater part of the year.

Total revenue from the operations of the street railway system in Sacramento and sales of water and steam was \$1,259,000, an increase of \$10,000. These minor activities represent in the aggregate only 1.32% of gross operating revenue.

#### OPERATING EXPENSES:

Operating costs increased 3.82%, or in about the same ratio as gross revenues. In the aggregate these charges, including maintenance, taxes (other than Federal income taxes) and appropriate reserves for casualties, uncollectible accounts and depreciation, amounted to \$54,358,000, or \$2,078,000 more than in 1935. Approximately one-half of this increased cost represented additional maintenance expenditures and provision for depreciation, which totaled \$16,870,000, or \$1,034,000 in excess of the preceding year. Measured in terms of operating revenue, the amounts thus provided for the upkeep of the properties represented 17.7% of gross earnings, compared with 17.2% in 1935 and an average of 16.8% during the past twenty years.

There was some added expense naturally incident to the larger volume of business transacted and to wage increases placed in effect during the year. Wages of employees in practically all classifications are now at or above pre-depression levels, although the five-day week, originally established as a means of spreading work during the depression, is still being maintained.

#### TAXES:

Increased taxes (exclusive of Federal income taxes) accounted for an additional one-third of the growth in operating expenses. These tax accruals amounted to \$10,292,000, or \$744,000 more than in the preceding year. In addition, income taxes payable to the United States Government increased \$41,000 to \$1,696,000. Federal taxes in each of the past two years were substantially less than normal, due to the deduction from taxable income of unamortized discount and expense and premiums on bond issues retired in these years. Except for these deductions, which are of a non-recurring character, the Company's tax bill would have been increased by \$1,746,000 in 1936 and by \$1,062,000 in 1935.

In spite of the large non-recurring deductions in 1936, which not only reduced income taxes but rendered unnecessary the payment during the year of any surtax on undistributed profits, the total provision for taxes reached a new peak of \$11,988,000, or more than one-eighth of gross revenues from all sources. In addition, a considerable sum was paid for gasoline and other special taxes, which are included in other items of operating expense.

A few simple illustrations serve to emphasize the increasing burden, both actual and relative, of the cost of government:

- (a) The amount set aside out of the Company's earnings for the payment of taxes in the past fifteen years, about \$113,000,000, would be sufficient to construct both of the giant bridges crossing San Francisco Bay, including the approaches and the cost of railroad facilities on the San Francisco-Oakland Bridge.
- (b) In 1936 alone, the amount of our tax bill was more than four-fifths of our operating payroll, being equivalent to the full-time wages of almost 7,000 men and women at average payroll rates.
- (c) Taxes per meter increased from \$1.96 in 1914 to \$5.14 in 1924 and to \$8.60 in 1936, averaging in the latter year more than 70 cents per month for each of the 1,393,000 customers receiving service.
- (d) Taxes in 1936 were equivalent to \$1.91 per share of common stock, and exceeded by upwards of \$1,800,000 the dividends paid to our 32,875 common stockholders in return for their investment in the property.

The constantly growing burden of governmental imposts is obviously a matter which deeply concerns not only the owners of the property, but also every customer receiving service. This is particularly true of domestic and commercial consumers of electricity. Including the Federal electric energy tax of 3%, the tax levies assessed against these classes of consumers are now estimated to exceed 16 cents out of every dollar paid by them for electric service.

#### FIXED CHARGES:

Annual fixed charges (including interest and amortization of bond discount and expense) aggregated \$14,669,000, or \$273,000 less than in 1935. This decrease only partially reflects the yearly savings realized from bond refunding operations, due (a) to the inclusion in 1936 of \$983,000 of duplicate interest paid that year in the intervals between the issuance of the new bonds and the redemption dates of the bonds called; and (b) to the fact that the lower coupon bonds were outstanding only during portions of the period under comparison.

Fixed charges in 1936, prior to the deduction of Federal income taxes, were earned 2.82 times, compared with 2.68 times in 1935 and 2.41 times in 1934.

#### GAS RATE LITIGATION:

As mentioned in our annual report last year, the United States District Court on March 9, 1936, ordered the issuance of a permanent injunction restraining the California Railroad Commission from placing in effect reduced rates for natural gas covered by an order promulgated by the Commission in 1933. The substantial development of our gas business in the three years subsequent to the Commission's order, the generally improved economic outlook and the final amortization of extraordinary expenditures incurred in the introduction of natural gas made it possible for the Company to place in effect on May 1, 1936, a voluntary reduction in natural gas rates somewhat in excess of \$2,500,000 annually. This reduction rendered unnecessary further provision, subsequent to April 30, 1936, for natural gas revenues in dispute. The amount provided out of surplus for this purpose in the first four months of the year, \$1,008,000, was \$1,250,000 less than the corresponding item in 1935, which covered a full twelve months' period. Altogether, a reserve of \$5,983,000 to cover disputed earnings has been provided in the balance sheet, pending final disposition of this litigation.

The Railroad Commission applied to the Federal District Court for a rehearing, which was denied on October 16th, 1936, and the Commission is now appealing the case to the Supreme Court of the United States.

#### DIVIDENDS:

There was disbursed in dividends on the stocks of subsidiary companies outstanding with the public \$289,000, or \$122,000 less than in 1935. This decrease reflects chiefly the savings in preferred dividends effected in the last nine months of the year through the dissolution of the Great Western Power Company of California and California Electric Generating Company, the outstanding preferred shares of these companies, amounting to \$245,000 and \$2,499,900, respectively, being liquidated at their par value and accrued dividends on March 31, 1936.

Dividends payable to the 57,388 holders of the Company's 6% and 5½% preferred stocks amounted to \$7,708,000.

After the deduction of all prior charges there remained a balance of \$15,963,000, equivalent to \$2.55 per share upon the 6,261,257 full shares of common stock outstanding at December 31, 1936, in the hands of 32,875 stockholders. This compares with earnings in 1935 of \$2.10 per share upon the 6,261,254 full shares outstanding at the close of that year. Dividends on the common stock were paid at the rate of 37½ cents per share for each of the first three quarters of 1936, and 50 cents per share for the fourth quarter, or a total for the year of \$1.62½.



## BALANCE SHEET ITEMS

### CONSOLIDATION OF PROPERTIES:

The physical consolidation of all operating facilities of the Company and its various subsidiaries into a single integrated system was practically completed several years ago. The actual winding up of the affairs of many of these subsidiary companies, several of which at the time of acquisition of control had large amounts of securities outstanding with the public, involved considerably more time.

Substantial progress in the simplification of the corporate structure, an end to which the management has directed its efforts throughout the history of the Company, was made in 1936, no less than fifteen subsidiaries, direct and indirect, being dissolved during the year.

The properties of Mt. Shasta Power Corporation, Modesto Gas Company, Sierra and San Francisco Power Company and Great Western Power Company of California and its subsidiaries California Electric Generating Company, Napa Valley Electric Company, Feather River Power Company, City Electric Company and Great Western Power Company, were transferred to the Pacific Company, and these companies were liquidated and dissolved. In connection with the transfer of these properties, the total amount charged to plants and properties account was approximately \$3,359,000 less than the cost to the Company of the properties of these subsidiaries and of certain other subsidiary companies dissolved prior to December 31, 1935. This amount was charged against the Company's capital surplus account. In addition, San Joaquin Light and Power Company, a subsidiary of San Joaquin Light and Power Corporation, and five former subsidiaries of the Pacific Gas and Electric Company, which were inactive and owned no physical properties, were also dissolved.

The only remaining public utility subsidiaries included in the plants and properties account in the consolidated balance sheet at the close of the year were San Joaquin Light and Power Corporation and Midland Counties Public Service Corporation.

The book value of "plants and properties" as shown in the consolidated balance sheet at the close of 1936 was \$671,480,000, a net increase of \$5,705,000 after deducting property retired and other items more fully explained in the independent auditors' statements. Approximately five-sixths of the total investment in fixed capital represents properties constructed or acquired in the twenty-five years during which the Company has operated under the jurisdiction of the California Railroad Commission.

### REFUNDING OPERATIONS:

A program of major bond refunding operations, begun in 1935, was carried to completion in 1936. In the latter year \$155,000,000 of First and Refunding Mortgage Bonds were sold, \$90,000,000 of Series "H" 3 $\frac{3}{4}$ % Bonds being disposed of in March, \$30,000,000 of the same series in April and \$35,000,000 of Series "I" 3 $\frac{1}{2}$ % Bonds in October. All of these issues were sold at net prices in excess of their par value.

With the proceeds from the sale of these bonds, supplemented by approximately \$9,300,000 of cash from the treasury, eight bond issues of the Company and its subsidiaries, with an aggregate par value of \$157,385,000, were during 1936 called for redemption. Of this total, \$155,355,000 were outstanding with the public, and \$2,030,000 represented bonds pledged with trustees of various mortgages.

In addition, a small issue of \$41,000 Battle Creek Power Company First Mortgage 5% Bonds was redeemed at maturity on February 2, 1936, and \$3,708,500 of bonds of various issues were purchased for sinking fund and other purposes.

Through the extensive program of refunding operations conducted in the past two years, the Company's entire funded debt, with the exception of two non-callable issues and a few relatively small issues maturing in the near future which could not profitably be called for redemption, has now been replaced with low-interest bonds. Altogether, \$250,000,000 of the Company's First and Refunding Mortgage Bonds bearing coupons of 4%, 3 $\frac{3}{4}$ % and 3 $\frac{1}{2}$ %, respectively, were sold for refunding purposes in this period, effecting savings in annual interest charges approximating \$2,750,000. The results of these savings have, up to the present time, only been partially reflected in earnings.

Aside from reducing fixed charges, the refunding operations of recent years have been an important factor in simplifying debt structure. Only six years ago (at the close of 1930) there were outstanding, in addition to its First and Refunding Mortgage Bonds, no less than 36 issues of the Company and its subsidiaries, with an aggregate par value of almost \$166,000,000. After giving effect to the retirement through redemption and payment at maturity, respectively, of two issues on January 1, 1937, the number of underlying and subsidiary issues has been reduced to six, with a par value of less than \$17,000,000. Five of these issues, underlying the First and Refunding Mortgage, and having an aggregate par value of only \$7,630,000, will mature prior to the close of 1939. Under the present corporate structure, therefore, the Company's First and Refunding Mortgage Bonds will, within less than three years, become a direct first lien on its entire properties. The only remaining subsidiary issue will be the non-callable 6% Bonds of the San Joaquin Light and Power Corporation, maturing in 1952, of which approximately \$9,300,000 are outstanding.

#### CAPITALIZATION:

The funded debt in the hands of the public at December 31, 1936, aggregated \$292,636,600 par value of bonds. This total included, however, a balance of \$7,655,000 of Pacific Gas and Electric Company General and Refunding Mortgage 5% Bonds called for payment on January 1, 1937, funds for the redemption of which were already on deposit with the mortgage trustee. In addition, \$836,000 of Snow Mountain Water and Power Company 5% Bonds matured and were paid on the latter date.

Giving effect to these retirements, total bonds outstanding subsequent to the first day of the current year were reduced to \$284,145,600, or 49.40% of present capitalization, the lowest ratio in the history of the Company. Preferred stocks aggregated \$134,362,825, and common stocks (including minority interest in common stock and surplus of San Joaquin Light and Power Corporation) \$156,668,450, representing 23.36% and 27.24%, respectively, of total outstanding capitalization of \$575,176,875 on January 2, 1937. The latter amount represents a reduction of \$8,129,791 in the aggregate amount of bonds and stocks outstanding with the public compared with the corresponding total on December 31, 1935.

This substantial reduction in outstanding capitalization was made without impairing the Company's strong position with respect to working capital, and without resort to bank loans. Current assets at the close of 1936, including \$15,031,000 cash, amounted to \$29,045,000, against current and accrued liabilities of \$15,208,000.

At the close of the year the Company's preferred and common shares were outstanding in the hands of 90,263 stockholders, including 41,515 women, 29,828 men, 16,658 joint tenancies (usually husband and wife) and 2,262 investment, charitable and religious institutions, insurance companies, partnerships and associations. The vast majority of these shareholders are people of moderate means. This is demonstrated by the fact that there were 20,386 holdings of from one to 10 shares each, 54,407 holdings of from 11 to 100 shares each, and only 15,470 holdings in excess of 100 shares each.

California stockholders, numbering 67,234, or three-fourths of the total, are located in every county and in practically every town in the State. The remaining one-fourth of the owners of the property include residents of every other state in the Union and of a number of foreign countries.

#### INSURANCE AND TAX RESERVES:

An important change was made during the year in our policy with respect to insurance, which will result in a very considerable increase in coverage, with no additional burden upon operating expenses.

With the exception of a policy in the maximum amount of \$2,000,000, covering public liability and property damage, it has in the past been the Company's policy to self-insure most of its major risks. In 1936, however, it was determined to underwrite possible catastrophic losses through established insurance institutions.

Accordingly, a \$10,000,000 blanket policy was negotiated covering losses or damages in excess of \$200,000 to all real and personal property throughout the system resulting from catastrophic hazards, plus \$2,000,000 additional insurance against earthquake losses. In addition, the Company continues to carry smaller policies covering boiler and elevator insurance, fidelity insurance and similar items, and to self-insure other relatively minor normal risks.

In view of the ample coverage now secured, the carrying of a large insurance reserve is no longer necessary or desirable. As of December 31, 1936, therefore, \$3,000,000 of the amount then in the reserve was

transferred to surplus account, leaving a balance of \$261,000 in the reserve. This, in the light of past experience, is considered adequate to provide for the remaining self-insured liabilities.

Another balance sheet adjustment of substantial proportions occurred in connection with tax accruals.

Pending final determination of the amount of income tax liability covering a period of several years, a tax reserve was accumulated to provide for the estimated liability. A final settlement was made with the Internal Revenue Department, in the latter part of 1936, covering Federal income taxes for all years up to the close of 1931. Following this final determination of the exact amount of taxes payable for the years in question, \$3,000,000 was transferred from the tax reserve to a pension reserve as of December 31, 1936.

## GENERAL

### PENSIONS:

For some time our Board has felt that a revision of the Company's pension system, placed in effect more than twenty years ago, was desirable. Experience of other companies has shown that plans which are not insured or funded do not always furnish adequate security for employees. Accordingly, after many months of intensive study and the most careful deliberation, a new co-operative retirement system, to which both the Company and employees contribute, was authorized by the Board of Directors in 1936 and placed in effect on January 1, 1937. The new plan, with respect to service beginning on the latter date, is underwritten by two of the largest and best known insurance companies in the country.

Retirement incomes based on future service provided under the new plan are independent of and in addition to the Federal Old Age benefits offered under Title II of the Social Security Act, as passed by the 74th Congress and approved August 14, 1935. The contributions to be made under the new plan are likewise in addition to taxes imposed upon employees and Company under Title VIII of the Act.

It is the object of the new plan to so co-ordinate its benefits with those contemplated under the Social Security Act that an employee joining the plan will receive an annual Retirement Income from both sources equal to approximately two per cent of his total earnings during the period in which he has been a contributor to the plan.

Men employees reaching their sixty-fifth birthday and women employees their sixtieth birthday before July 1, 1937, are not eligible to join the new plan but will be pensioned under the provisions of the old system. Pension benefits for such employees will be based on service to December 31, 1936, and will not be increased by reason of service rendered after that date.

The Company hopes and expects, at its own expense, to supplement the retirement income provided in the new plan by providing pensions based on past service for those already in its employ at January 1, 1937, who join the new plan. In order to provide in part for these past service benefits, including pensions granted to present pensioners, a \$3,000,000 pension reserve was, as already mentioned, created as of December 31, 1936, through the transfer of this amount from the reserve for Federal taxes.

### GOVERNMENT PROJECTS:

As stated in our 1935 annual report, there has been considerable discussion within recent years respecting the agency contract under which the City and County of San Francisco has, for a period of almost twelve years, consigned to this Company the output of its power plant, constructed in connection with the Hetch-Hetchy water system. Under this contract, the City delivers its power at Newark, near the southern extremity of San Francisco Bay, whence it is transmitted by the Company to San Francisco for distribution. The contract yields a revenue to the City of from \$2,000,000 to \$2,300,000 a year.

At an election held on March 9, 1937, there was submitted to San Francisco voters a proposal to issue \$50,000,000 of revenue bonds for the purpose of constructing or acquiring facilities to enable the City to undertake the municipal distribution of electrical energy. This proposal was rejected by a decisive majority, there being 77,614 negative votes cast against 65,688 affirmative. Somewhat similar proposals have been repeatedly rejected by the San Francisco electorate within the past few years.

In the territory served by the San Joaquin Light and Power Corporation, a proposal to issue \$2,990,000 of general obligation bonds of the City of Fresno to acquire the Corporation's electric properties in that City was on February 25, 1937, defeated by 12,584 votes to 6,026, or a majority of more than two to one. An affirmative vote of two-thirds would have been required to authorize the bonds.

We also advised you in our report last year that \$15,000,000 had been allotted by the Federal Government toward the cost of the Central Valley Project, to be expended under the direction of the U. S. Bureau of Reclamation. Original estimates contemplate the expenditure of upwards of \$170,000,000 to construct this project. Up to the end of 1936, no substantial proportion of the initial \$15,000,000 allotment had actually been spent, although considerable work has been done under the Reclamation Bureau's supervision in making engineering surveys and preparing plans and estimates.

Under date of February 11, 1937, I wrote Mr. Earl Lee Kelly, Director of the State Department of Public Works, Sacramento, California, advising him, in substance, that our estimates of growth within the next few years indicated the necessity of providing considerable additional electric generating capacity, and stated our willingness to co-operate in the distribution of the power generated at the Kennett plant of the Central Valley Project when it may become available. Excerpts from this letter follow:

"It is and has been the fixed policy of our Company to aid and co-operate in the development of all worthy public projects which mean the building and growth of California. As California grows, so will our Company grow and benefit. We recognize the desirability and the necessity of conserving and putting to maximum beneficial use the waters of the State and we are anxious to assist in every possible way the final realization of this worthy objective.

"We are ready and willing to take delivery of all electric power that can be produced at Kennett plant of the Central Valley Project just as fast as a market can be found for it, paying therefor a price equal to what equivalent power would cost this Company if obtained from other sources, and insofar as our present program of obtaining additional power is concerned, we will revise said program so that the entire power output of the Kennett plant can be absorbed into our power market at the earliest practicable date. In that connection we shall be glad to initiate at an early date and conduct joint studies and negotiations with your engineers for the purpose of adjusting our proposed program to fit in with the Kennett program."

#### CHANGES IN DIRECTORATE:

It is with regret that we record the death on August 7, 1936, of Mr. J. J. O'Brien, who had served as a member of the Company's Board of Directors for approximately nine years.

In order to fill the vacancy on the Board caused by Mr. O'Brien's death, and an additional vacancy existing since 1935, Messrs. Silas H. Palmer and A. Emory Wishon of San Francisco were elected directors on October 27, 1936. Mr. Wishon is President of the San Joaquin Light and Power Corporation, a subsidiary, and is also Vice President and Assistant General Manager of the Pacific Gas and Electric Company.

We also regretfully announce the resignation from the Board, on December 16, 1936, of Mr. F. W. Doolittle, who had served as one of the Company's directors for almost three years. Mr. Herbert C. Freeman was on the same date elected to the vacancy caused by Mr. Doolittle's resignation.

A brief summary showing the sources of gross operating revenue in 1936, compared with the preceding year, and chart portraying the growth of gross revenues, appear on succeeding pages, followed by the report of Mr. P. M. Downing, First Vice President and General Manager, with respect to the physical operations of the Company.

Detailed profit and loss statements, surplus accounts, balance sheets and other financial statements, as certified by our independent auditors, are reproduced in the latter part of this report.

No enterprise, however strong financially and well equipped mechanically, can continue to function effectively without the whole-hearted co-operation of the men and women who administer and operate its business. This is particularly true of a Company such as ours, engaged in rendering essential services to the public. It is, therefore, with genuine satisfaction that the Board of Directors, in concluding this report, acknowledges its sincere appreciation of the loyalty and diligence displayed by the entire personnel in the conduct of the Company's affairs during the past year.

For the Board of Directors,  
JAMES B. BLACK,  
President.

## FINANCIAL STATISTICS

### SUMMARIES SHOWING SOURCES OF GROSS EARNINGS 1936 COMPARED WITH 1935

#### I. GROSS OPERATING REVENUES BY DEPARTMENTS:

	1936	1935	Increase *Decrease	Per Cent of Whole Contributed by Each Department in 1936
Electric Department.....	\$67,657,296	\$64,331,046	\$3,326,250	70.97
Gas Department.....	26,417,348	26,505,118	*87,770	27.71
Street Railway Department.....	489,745	463,228	26,517	.51
Water and Irrigation Departments.....	427,543	403,059	24,484	.45
Steam Sales Department.....	341,404	382,483	*41,079	.33
<b>Total Gross Operating Revenue.....</b>	<b>\$95,333,336</b>	<b>\$92,084,934</b>	<b>\$3,248,402</b>	<b>100.00</b>

#### II. ELECTRIC DEPARTMENT GROSS REVENUES, BY CLASSES OF SERVICE:

	1936	1935	1936 Compared with 1935 Increase or *Decrease	
			Amount	Per Cent
Agricultural Power Service.....	\$8,374,725	\$7,740,838	\$633,887	8.19
Domestic Service.....	20,457,214	19,929,311	527,903	2.65
Commercial Service:				
Small Light and Power.....	17,562,552	30,664,595(a)	2,167,813	7.07
Large Light and Power.....	15,269,856			
Municipal Street Lighting.....	1,974,544	1,968,936	5,608	.28
Street and Interurban Railways.....	2,276,081	2,272,282	3,799	.17
Sales for Resale:				
Municipal Electric Distribution Systems.....	658,135	626,004	32,131	5.13
Other Electric Companies.....	883,381	946,212	*62,831	*6.64
Miscellaneous.....	200,808	182,868	17,940	9.81
<b>Gross Operating Revenue, Electric Department.....</b>	<b>\$67,657,296</b>	<b>\$64,331,046</b>	<b>\$3,326,250</b>	<b>5.17</b>

(a) Segregation between Small and Large Light and Power not available on a comparable basis.

#### III. GAS DEPARTMENT GROSS REVENUES, BY CLASSES OF SERVICE:

	1936	1935	1936 Compared with 1935 Increase or *Decrease	
			Amount	Per Cent
Residential Sales.....	\$16,517,032	\$17,190,273	*\$673,241	*3.92
Industrial Sales.....	4,708,670	4,223,176	485,494	11.50
Commercial Sales.....	5,015,114	4,935,750	79,364	1.61
Miscellaneous.....	176,532	155,919	20,613	13.22
<b>Total.....</b>	<b>\$26,417,348</b>	<b>\$26,505,118</b>	<b>*\$87,770</b>	<b>*.33</b>

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<b>GROSS REVENUES</b> (Including Miscellaneous Income) <b>1907 to 1936</b>	
1907	\$11,342,140
1908	12,657,305
1909	13,491,288
1910	14,044,596
1911	14,604,609
1912	14,651,786
1913	16,094,514
1914	17,100,534
1915	18,778,446
1916	18,941,427
1917	20,118,990
1918	22,870,194
1919	26,309,671
1920	34,985,791
1921	37,509,707
1922	39,204,605
1923	39,971,743
1924	44,935,419
1925	48,066,897
1926	51,125,990
1927	58,395,812
1928	61,788,079
1929	64,820,894
1930	86,503,256
1931	88,536,846
1932	85,517,495
1933	84,984,073
1934	87,895,024
1935	92,398,695
1936	95,691,813

**GROSS REVENUES**  
(Including Miscellaneous Income)  
**1907 to 1936**  
*Note: Revenues of acquired properties are included from the year of acquisition*

REPORT OF  
FIRST VICE PRESIDENT AND GENERAL MANAGER

CUSTOMERS:

New customers were added to our distribution lines during 1936 at the rate of almost one thousand per week, the net increase of 51,401 active meters in service representing one of the greatest numerical gains, uninfluenced by the acquisition of any new properties, recorded in the Company's history. The great majority of these new accounts represented, of course, the addition of domestic customers. There was, however, a satisfactory growth in the number of commercial establishments receiving our services, indicating a continued revival of retail trade and industrial activity in our territory.

The number of customers connected at the close of the year, 1,393,340, was the largest on record. Of these, 811,467, or 58.2% of the total, were electric customers, 570,764 or 41.0% were gas customers, and 11,109 or 0.8% were receiving water or steam service. Practically all of the last two classes of consumers, and about 95% of the gas customers are also receiving electric service and are included in the number of electric customers.

A summary showing in comparative form the number of customers served at the close of each of the last two years follows:

NUMBER OF CUSTOMERS

	As of Dec. 31st		
	1936	1935	Increase *Decrease
Electric Customers.....	811,467	782,155	29,312
Gas Customers.....	570,764	548,975	21,789
Water Customers.....	10,254	9,949	305
Steam Customers.....	855	860	5*
Total .....	1,393,340	1,341,939	51,401

ELECTRIC DEPARTMENT OPERATIONS:

Water conditions during the early months of 1936 were better than normal, although there was some deficiency in precipitation over the northern section of the system during the latter part of the year. However, the hydro-electric generation was nearly 10% greater than in 1935. This is of importance to the Company as by far the greater portion of its supply of electric energy is normally generated in water-power plants, the fuel-burning stations being used primarily for stand-by purposes and to take care of unusually heavy peak loads.

The consolidated system output for the year was 5,019,059,000 kilowatt hours, exceeding the 1935 output by 9.9% and the previous maximum output, which occurred in 1931, by 7.8%. Of the total output, 74.0% was generated by hydro-electric plants, 4.9% by steam plants and 21.1% was power purchased and consigned from other producers. The output during every month of the year, except April, was larger than that of any previous corresponding month.

An all-time maximum peak load of 929,700 kilowatts occurred on July 21, exceeding the previous record peak of August 13, 1935, by 8.37%.

Sales to customers aggregated 3,696,378,000 kilowatt hours, the largest volume of electric energy sold in the Company's history, and greater by 11.90% than the corresponding figure in 1935. Every branch of our electric business contributed to this increase, the most important gains being registered by sales of general power, which increased 175,264,000 kilowatt hours or 11.93%, agricultural power, which increased 86,003,000 kilowatt hours or 16.55%, and commercial lighting, which increased 68,302,000 kilowatt hours or 23.52%.



The average consumption of residential and commercial lighting customers of the Pacific Gas and Electric Company reached a new high level of 1,258 kilowatt hours in 1936, compared with 1,134 kilowatt hours in the preceding year. This increased consumption was accompanied by, and undoubtedly to some extent resulted from, a concurrent decrease in the average unit cost of this electric service from 3.84 cents per kilowatt hour in 1935 to 3.56 cents in 1936.

In the sixteen-year period covered by the following summary, the average annual consumption of the Company's retail consumers increased to two and one-half times the 1921 average, while unit charges for this service were practically cut in half. As a result, these customers in 1936 purchased on the average 147% more electricity than in 1921, and actually paid only 25% more for the additional service.

Summary Showing Average Consumption and Revenue Derived from Sales to Commercial and Residential Customers of Pacific Gas and Electric Company for Lighting, Heating and Cooking.\*

YEAR	KWH per Customer per Year	Revenue per KWH Cents
1921.....	510	7.02
1922.....	534	6.75
1923.....	564	6.01
1924.....	578	5.82
1925.....	605	5.70
1926.....	643	5.57
1927.....	715	5.54
1928.....	767	5.10
1929.....	852	4.75
1930.....	916	4.39
1931.....	1068	4.14
1932.....	1073	4.12
1933.....	1044	4.14
1934.....	1052	4.14
1935.....	1134	3.84
1936.....	1258	3.56

\*Note.—Customers of the San Joaquin and Midland Counties Companies are excluded from the foregoing tabulations for the reason that comparable figures are not available for the full period. Statistics of other acquired companies are included from respective years of acquisition. Sales to apartment houses served through master meters are included in the above averages.

A further comparison showing the average consumption of electricity and monthly bills during the past seven years of our domestic customers is shown below. These figures embrace the entire system for the full period, no additional properties having been acquired since 1930.

Summary Showing Average Consumption and Revenue Derived from Domestic Lighting, Heating and Cooking Customers of the Consolidated System, including sales to apartment houses served through master meters.

YEAR	Average Annual Consumption per Customer KWH	Average Monthly Bill per Domestic Customer
1930.....	745	\$2.78
1931.....	780	2.87
1932.....	780	2.86
1933.....	753	2.79
1934.....	756	2.78
1935.....	804	2.73
1936.....	859	2.73

The 1936 average residential usage was 859 kilowatt hours, which compares favorably with the national average of 725 kilowatt hours, particularly when it is remembered that in most of the territory served by this Company natural gas for heating purposes is available at low rates. In the areas not reached by our natural gas lines the average annual household consumption exceeds 1,200 kilowatt hours. Our average domestic customer throughout the system paid \$2.73 per month for his service, while the nation-wide average bill was \$2.85 for 15.6% less electricity.

**ELECTRIC PLANT CAPACITY:**

The Company and its subsidiaries operate 49 hydro-electric generating plants with a total installed capacity of 1,175,327 horsepower. Two of these, located on Hat Creek, with a combined capacity of 33,512 horsepower, are leased from the Red River Lumber Company. Including ten steam electric plants with an installed capacity of 495,710 horsepower, the aggregate installed capacity of the 59 plants in service on December 31, 1936, was 1,671,037 horsepower, as follows:

**HYDRO ELECTRIC PLANTS**

	H. P.		H. P.
Alta, Placer County.....	2,681	Kerckhoff, Fresno County.....	57,105
American River, El Dorado County.....	8,184	Kern Canyon, Kern County.....	14,209
Balch, Fresno County.....	44,236	Lime Saddle, Butte County.....	2,681
Big Bend, Butte County.....	87,131	Melones, Tuolumne County.....	36,193
Bucks Creek, Plumas County.....	67,024	Merced Falls, Merced County.....	5,362
Bullards Bar, Yuba County.....	10,891	Phoenix, Tuolumne County.....	1,608
Caribou, Plumas County.....	89,369	Pit No. 1, Shasta County.....	93,834
Centerville, Butte County.....	8,579	Pit No. 3, Shasta County.....	108,580
Coal Canyon, Butte County.....	1,340	Potter Valley, Mendocino County.....	10,054
Coleman, Shasta County.....	22,118	Salt Springs, Amador County.....	14,745
Colgate, Yuba County.....	20,878	San Joaquin No. 1, Madera County.....	21,448
Cow Creek, Shasta County.....	2,011	San Joaquin No. 1-A, Madera County.....	570
Crane Valley, Madera County.....	1,340	San Joaquin No. 2, Madera County.....	4,021
Deer Creek, Nevada County.....	9,216	San Joaquin No. 3, Madera County.....	7,708
De Sable, Butte County.....	17,426	South, Tehama County.....	5,362
Drum, Placer County.....	73,726	Spaulding No. 1, Nevada County.....	10,724
El Dorado, El Dorado County.....	33,512	Spaulding No. 2, Nevada County.....	5,027
Electra, Amador County.....	26,810	Spaulding No. 3, Nevada County.....	9,383
Folsom, Sacramento County.....	5,027	Spring Gap, Tuolumne County.....	10,054
Halsey, Placer County.....	16,756	Stanislaus, Tuolumne County.....	45,576
Hat Creek No. 1, Shasta County.....	16,756	Tiger Creek, Amador County.....	80,429
Hat Creek No. 2, Shasta County.....	16,756	Tule, Tulare County.....	8,043
Inskip, Tehama County.....	8,043	Volta, Shasta County.....	9,383
Junction City, Trinity County.....	2,641	Wise, Placer County.....	16,756
Kilare, Shasta County.....	4,021		
		Total Hydro.....	1,175,327

**STEAM ELECTRIC PLANTS**

	H. P.		H. P.
San Francisco, Station "A".....	174,263	Sacramento, Station "B".....	23,458
San Francisco, North Beach.....	36,193	Bakersfield.....	35,590
San Francisco, Station "P".....	61,997	Eureka.....	12,064
San Francisco, Station "Q".....	21,448	Midway.....	33,512
Oakland, Station "C".....	83,110		
Oakland, Station "W".....	14,075	Total Steam.....	495,710
		Total Hydro and Steam.....	1,671,037

All of the electric generating plants included in the foregoing summary are interconnected, permitting of the transmission of energy from any one part of the system to any other.

Following is a brief summary of electric transmission and distribution facilities owned or operated at the close of the year:

Miles of 220,000 volt lines.....	445.71		
Miles of 165,000 volt lines.....	398.10		
Miles of 110,000 volt lines.....	1,629.38		
Miles of 60,000 volt lines.....	3,624.97		
Total high tension lines.....		6,098.16 miles	
Miles of overhead distribution lines (less than 50,000 volts).....	29,758.56		
Miles of underground distribution lines.....	270.93		
Total distribution.....		30,029.49 miles	
Total transmission and distribution lines.....		36,127.65 miles	

#### GAS DEPARTMENT OPERATIONS:

The Company's gas business continued the unbroken upward trend which has been maintained for many years. Sales aggregated 53,439,510,000 cubic feet, an increase of 4,752,736,000 cubic feet or 9.76% within the year, and more than two and one-half times the volume of manufactured gas sold in 1929, prior to the introduction of natural gas.

In addition, 3,938,018,000 cubic feet of natural gas was consumed as boiler fuel in the Company's steam-electric generating and steam heating plants, an increase of approximately fifty per cent over the 1935 consumption, but less than sixty per cent of that of 1934, a year of deficient water supply which necessitated the generation of considerable electric energy in fuel burning plants.

The natural gas transmission system was used practically to its maximum capacity during portions of the year, the load-factor in December being 98.6% of total capacity, and the average for the entire year 84.0%.

In order to supplement the natural gas supply, in the event of interruptions of service from the gas transmission mains or excess peak demands, eight large generating plants with an aggregate capacity exceeding 145,000,000 cubic feet daily, adapted to the production of gas having a heating content closely approaching that of natural gas, are located in the area served with the latter product.

In addition, seven smaller plants with a combined capacity of 7,156,000 cubic feet daily are used to supply manufactured gas to communities which, under present conditions, can not be economically served with natural gas.

Exploration work within and adjacent to our territory is being constantly conducted by various oil and gas companies, and at least three new fields of potential importance to the Company as sources of supplementary natural gas supply were discovered during 1936 in this area. These include the Rio Vista field in Solano County, the McDonald Island field, near Stockton, and the Ten-Section field in Kern County.

#### CONSTRUCTION ACTIVITIES:

While no jobs of outstanding magnitude were undertaken during 1936, \$11,446,000 was expended for additions and betterments to the property, or about two and a half million dollars more than in the preceding year. A considerable proportion of the year's construction budget was spent in rearranging and modernizing existing plant and equipment in order to assure the increasing effectiveness and reliability of service facilities.

Probably the most important job undertaken, from an operating standpoint, was the construction of a high tension transmission line in the southern San Joaquin Valley, which will form a connecting link between the electric system of the San Joaquin Light and Power Corporation and that of the Southern California Edison Company. This line, with an initial capacity of 75,000 kilowatts, will permit delivery of surplus power from the Edison Company's system into the southern end of the San Joaquin Corporation's system, releasing a similar amount of power from the Pacific Gas and Electric Company's northern supply. Completion of the connection, tentatively set for July, 1937, will provide an outlet in Central and Northern California for a portion of the surplus created in the southern section of the State by the introduction of Boulder Dam power, and will also permit of transmitting power in the reverse direction if the necessity arises.

The business of the San Joaquin Corporation had developed to a point where added production capacity would be needed in the relatively near future, and the new interconnection will enable this subsidiary to defer for some time the construction of new electric generating plants. This interconnection well illustrates the practical advantages of an intelligent pooling of power resources.

Work was also begun in 1936 on a tunnel, almost twelve miles in length, on the middle fork of Stanislaus River to replace the 17 mile, 30 year old flume which delivers water to Stanislaus Power House. Camp was installed and actual construction started late in the year on a short adit from which the lower 3½ miles of the tunnel will be driven from two headings. The tunnel is of horse-shoe shape, 9½ ft. wide by 12 ft. high, and located in unusually hard rock which will not require lining. Its completion will eliminate the heavy annual expenditures for maintenance required for the present flume and will provide a permanent dependable waterway free from slides and other hazards. The estimated cost is \$1,800,000 and date of completion, 1940.

An unusual construction operation was the cleaning of 400,000 cubic yards of mining and other debris from Halsey Forebay, the regulating reservoir at the end of the 20 mile Bear River Canal supplying water to Halsey power plant. The cleaning work, costing \$108,000, was performed by a portable 14 inch suction dredger assembled on a steel barge 20 x 60 ft. in size. The dredged material was pumped through a 14 inch pipe line to a point on the mountain side 1½ miles distant and impounded in the basin of a storage reservoir on Bear River.

At Scott Dam on Eel River five new radial gates were installed on the crest of the dam and protective concrete work at the downstream toe at a cost of \$100,000.

A portion of the Snow Mountain power line was rerouted and reconstructed into Santa Rosa at an expenditure of \$67,000; the Colgate-Oroville power line between Wyandotte and Bangor was reconstructed at an expense of \$53,000; and the Alta-Colfax power line was reconstructed and a new line built from Colfax to supply Grass Valley at a cost of \$100,000.

Increased capacity and improvements were made at many substations, the larger of these jobs being at Stations "A," "D" and "L," Sacramento, Station "X," Oakland, and at substations in Grass Valley, Vallejo, San Mateo, Redwood City, Brighton and Tudor.

Additions and improvements were made at Redding and Willows gas plants.

The new 45 mile 22 inch gas line from Milpitas to San Francisco, costing \$1,560,000, was put into operation early in 1936. One mile of 8 inch pipe was installed connecting three wells from the new Tracy gas field to the Company's system. Several miles of 12 inch, 16 inch, and 20 inch gas main was installed in Oakland and Sacramento, and 8½ miles of 2 to 4 inch pipe was installed at Woodside and the Stockton Country Club district.

#### NEW BUSINESS ACTIVITIES:

Progressive utility operation involves the maintenance of vigorous and well directed sales programs to increase the use of all types of service. Promotional work of this character obviously benefits not only the utility furnishing service, and equipment and appliance manufacturers and dealers, but also, in even greater degree, the general public. The latter gains the advantage of the lower rates resulting from increased consumption, and profits from the stimulus to industrial and commercial activity inherent in these sales campaigns.

A well organized sales plan involves cooperative effort on the part of the utility, the manufacturer and the dealer. The utility company must normally assume leadership in this promotional work.

The success of the sales campaigns organized and conducted by the Company is evidenced by the fact that in the territory served more than a half million gas and electric appliances, having a retail value approximating \$44,000,000, were sold in 1936.

Intensive campaigns of an educational and promotional nature were carried on in the lighting field. This type of work was designed to establish better standards of lighting and to encourage dealers to sell in accordance with these standards.

Public and official acceptance of the sodium vapor lighting installation on the San Francisco-Oakland Bay Bridge has been most satisfactory and its influence is already felt in the construction of other highway lighting installations.

A new source of revenue is in the field of air conditioning equipment, which during 1936 showed an increase of 70% over the year 1935. While this development is in its infancy, the Company already has a connected load of 7,456 horsepower, and there is every indication that this type of business will increase materially during 1937.

The sales market survey work continued to be an important feature of our activities during 1936. The installations of over 350,000 domestic customers, and 60,000 commercial, industrial and agricultural customers have been surveyed during the past three years. The benefits of this work are threefold: first, an improvement in our public relations as a result of closer contact with our customers; second, the creative development of prospects for additional service; and, third, the development of an inventory record of equipment in use, which is the basis for market analysis studies. Our work in this direction affords convincing evidence that there still remains a wide and varied market with very definite possibilities of large future development.

## PERSONNEL:

The management of the Company, with a full recognition that enduring success can be realized only through the cooperative efforts of the entire organization, sincerely and consistently endeavors to cultivate and maintain a good employee morale. This involves not merely a matter of wages, nor is it associated with any suggestion of paternalism. Our aims are to provide steady employment at fair wages under safe, healthful and sanitary working conditions; to afford the fullest opportunities for self-advancement; to furnish reasonable facilities for recreation; and to insure the payment of pensions in old age.

In the accomplishment of these and similar objectives the Pacific Service Employees' Association, organized upwards of twenty years ago, has proven of very definite service. This Association, while it receives financial support from the Company, is managed entirely by the employees. Upwards of 8,000 employees, or over nine-tenths of the permanent force, are members of the Association.

The Employees' Association conducts educational, social, beneficial and recreational activities. The educational courses embrace a wide range of subjects, particularly adapted, however, to the Company's business so that employees may advance themselves in the types of work in which they are most interested. The interest manifested by employees is evidenced by the fact that almost 17,000 certificates, including 1,378 in 1936, have been issued to those completing their instruction courses in specific subjects.

About 6,800 Association members are also members of a disability plan which, at relatively nominal cost, provides benefits in case of sickness or disability.

The Employees' Welfare Committee, organized more than sixteen years ago, and composed of representatives of the management and of delegates elected by the employees themselves, represents a genuine effort to encourage full and frank discussions at periodic intervals of matters pertaining to the general welfare of the personnel.

The Company's pension payroll in 1936 aggregated in excess of \$175,000, total disbursements in the past twenty-eight years amounting to \$1,584,000. A revised pension system, supported by both Company and employees on a contributory basis, was placed in operation at the beginning of 1937. Approximately 95% of eligible employees have already joined the new plan.

At the close of 1936 there were 11,388 employees in service, the total payroll for the year aggregating \$19,493,000, or \$1,526,000 more than in the preceding year. The increase was attributable to the larger construction program, to wage increases and to some enlargement of personnel due to the increased volume of business.

Respectfully submitted,

P. M. DOWNING,

First Vice-President and General Manager.

## FIFTEEN-YEAR RECORD OF OPERATING STATISTICS

(Including statistics of acquired companies from respective years of acquisition)

### ELECTRIC GENERATING STATISTICS:

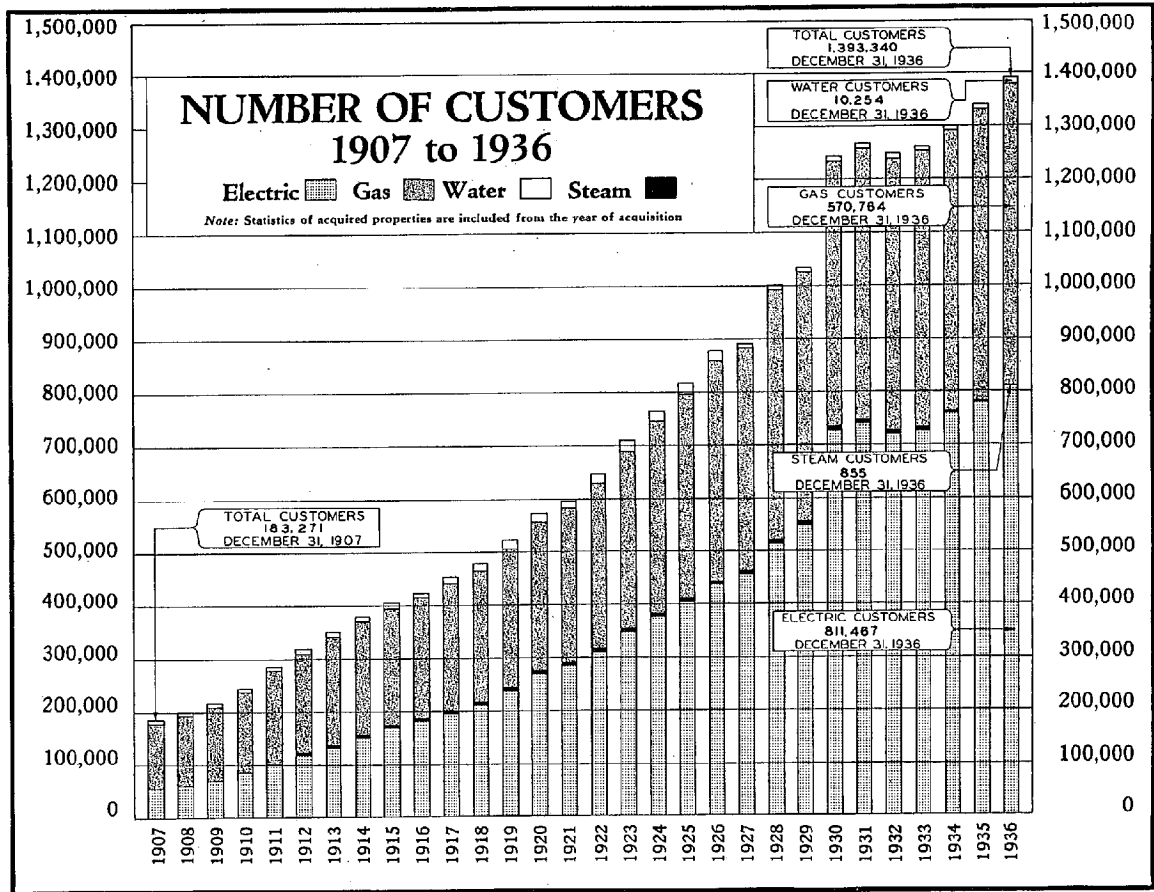
YEAR	Hydro-Electric Plants		Steam-Electric Plants		All Generating Plants		Peak Demand on System in H. P.
	Number	Installation in H. P.	Number	Installation in H. P.	Number	Installation in H. P.	
1921	28	308,244	4	173,592	32	481,836	356,468
1922	28	417,829	4	173,592	32	591,421	393,710
1923	26	415,348	4	173,592	30	588,940	411,454
1924	27	426,239	4	190,349	31	616,588	460,725
1925	28	534,818	4	190,349	32	725,167	509,496
1926	28	536,829	4	190,349	32	727,178	545,536
1927	32	621,213	9	206,266	41	827,479	589,233
1928	32	654,055	9	244,470	41	898,525	649,598
1929	34	674,597	8	244,369	42	918,966	688,740
1930	48	1,082,632	15	421,715	63	1,504,347	1,143,834
1931	50	1,178,477	15	510,187	65	1,688,664	1,146,783
1932	50	1,178,477	15	510,187	65	1,688,664	977,078
1933	50	1,175,796	13	507,774	63	1,683,570	1,011,796
1934	49	1,175,327	11	502,412	60	1,677,739	1,109,651
1935	49	1,175,327	10	495,710	59	1,671,037	1,150,000
1936	49	1,175,327	10	495,710	59	1,671,037	1,246,247

### ELECTRIC DISTRIBUTION STATISTICS:

YEAR	System Load Factor for Year (Per Cent)	Miles of Transmission and Distribution Lines	Number of Electric Customers	Sales of Electric Energy (K. W. H.)
1921	63.9	9,971	366,400	1,021,821,000
1922	62.5	10,459	405,322	1,098,123,000
1923	64.2	11,519	454,234	1,199,063,000
1924	62.5	12,186	493,765	1,334,035,000
1925	60.0	12,800	529,988	1,351,798,000
1926	60.5	13,779	570,365	1,514,981,000
1927	60.3	17,540	598,121	1,657,965,000
1928	59.8	18,367	681,882	1,774,222,000
1929	61.9	18,488	711,303	1,948,656,000
1930	61.7	33,397	729,039	3,289,255,000
1931	62.1	34,522	739,345	3,351,310,000
1932	63.6	34,902	731,506	2,931,485,000
1933	62.1	35,146	737,082	2,940,605,000
1934	61.8	35,464	759,887	3,269,116,000
1935	60.8	36,020	782,155	3,303,312,000
1936	61.5	36,128	811,467	3,696,378,000

### GAS DEPARTMENT STATISTICS:

YEAR	Number of Gas Plants	Total Daily Capacity of Generators Cubic Feet	Miles of Gas Mains	Number of Gas Customers	Cubic Feet Sold
1921	19	72,470,000	3,167.92	304,997	11,483,551,100
1922	18	73,410,000	3,339.13	324,578	12,353,849,000
1923	18	68,010,000	3,608.01	352,392	13,674,794,300
1924	17	83,840,000	3,833.13	374,421	15,277,477,500
1925	16	106,148,000	4,108.26	397,007	16,200,951,000
1926	17	112,100,000	4,468.25	428,935	17,482,206,900
1927	20	119,096,000	4,998.52	443,212	20,214,834,600
1928	19	118,668,000	5,227.45	477,645	21,058,368,700
1929	18	118,768,000	5,497.91	491,596	22,041,345,500
1930	24	122,532,000	6,930.79	506,853	23,078,035,900
1931	24	116,856,000	7,151.76	513,729	29,431,022,300
1932	23	116,366,000	7,407.00	509,270	34,594,301,900
1933	22	117,799,000	7,586.22	515,207	39,802,857,000
1934	15	152,735,000	7,645.75	531,086	41,074,682,800
1935	15	152,879,000	7,714.61	548,975	48,686,774,000
1936	15	152,879,000	7,920.98	570,764	53,439,510,000





## ACCOUNTANTS' CERTIFICATE

*Pacific Gas and Electric Company:*

We have made an examination of the consolidated balance sheet of Pacific Gas and Electric Company and its subsidiary companies as of December 31, 1936, of the related statement of consolidated net income and summary of consolidated surplus for the year 1936, of the balance sheets of Pacific Gas and Electric Company and of certain of its subsidiaries as of December 31, 1936, and, as to the subsidiaries, of the related statements of net income and summaries of surplus for the year 1936, together with supplemental schedules relating to capital stocks of the consolidated subsidiaries and to funded debt.

In connection with our examination, we made a review of the accounting methods of Pacific Gas and Electric Company and its subsidiaries and examined or tested their accounting records and other supporting evidence in a manner and to the extent which we considered appropriate in view of the systems of accounting control which have been maintained.

In our opinion, based upon such examination, the accompanying balance sheets and related statements of net income and summaries of surplus, with their foot-notes, fairly present, in accordance with accepted principles of accounting, which were consistently maintained by the companies, except for the difference in treatment of certain interest charges in connection with refinancing in 1936 as compared with the preceding year as recited in note 3 to the statement of consolidated net income, the financial condition of the companies at December 31, 1936, and the results of their operations for the year ended that date.

*Haskins & Sells.*

March 12, 1937.

PACIFIC GAS AND ELECTRIC COMPANY  
CONSOLIDATED BALANCE

ASSETS

PLANTS AND PROPERTIES (see Note 1).....		\$671,480,015.57
<b>INVESTMENTS—AT COST:</b>		
Capital stocks of unconsolidated direct and indirect subsidiaries (see Note 2)	\$	512,480.70
Other security investments (see Note 3):		
Standard Pacific Gas Line Incorporated.....	\$	4,179,000.00
Other .....	569,841.09	4,748,841.09
Total investments—At cost.....		5,261,321.79
DISCOUNT AND EXPENSE ON CAPITAL STOCK .....		380,908.41
<b>SINKING FUNDS AND SPECIAL DEPOSITS:</b>		
Cash on deposit in sinking funds.....	\$	1,710.88
Cash on deposit with trustee for bonds called for redemption as of January 1, 1937.....		7,846,375.00
Other deposits with trustees of mortgages.....		1,084,984.67
Accrued interest on bonds held in sinking funds.....		148,990.00
Total sinking funds and special deposits.....		9,082,060.55
<b>CURRENT ASSETS:</b>		
Cash and cash items:		
Cash on hand, demand deposits, and time deposits....	\$	14,671,209.18
Cash on deposit for redemption of bonds.....	360,040.00	\$ 15,031,249.18
Notes receivable—Customers and others.....	\$	172,830.15
Accounts receivable—Customers (including instalment accounts).....	9,592,027.89	
Accounts receivable—Others.....	740,218.39	
Total .....	\$	10,505,076.43
Less reserve for doubtful notes and accounts .....	1,002,920.64	
Remainder .....		9,502,155.79
Materials and supplies (for operations and construction)—At cost.....		4,508,926.38
Accrued interest on investments.....		2,548.12
Total current assets.....		29,044,879.47
<b>DEFERRED CHARGES:</b>		
Unamortized bond discount and expense (see Note 4).....	\$	23,551,864.54
Unexpired taxes.....		523,846.35
Unamortized valuation expense.....		129,547.68
Other (charges, \$713,141.31, less credits, \$160,609.35).....		552,531.96
Total deferred charges.....		24,757,790.53
TOTAL.....		<u>\$ 740,006,976.32</u>

See Notes on pages 26 and 27

EXHIBIT A

AND SUBSIDIARY COMPANIES

SHEET, DECEMBER 31, 1936

LIABILITIES

	First Preferred Number of Shares	Common Number of Shares	
<b>CAPITAL STOCKS OF PACIFIC GAS AND ELECTRIC COMPANY:</b>			
Authorized, \$25.00 par value each.....	8,000,000	8,000,000	
First preferred capital stock issued and outstanding.....	5,234,625		\$130,865,625.00
Common capital stock issued and outstanding.....		6,261,357	156,533,925.00
Total capital stocks of Pacific Gas and Electric Company.....			\$287,399,550.00
<b>PREFERRED CAPITAL STOCKS OF SUBSIDIARY COMPANIES HELD BY PUBLIC—</b>			
Schedule 1.....			3,497,200.00
<b>MINORITY INTEREST IN COMMON CAPITAL STOCK AND SURPLUS OF SUBSIDIARY COMPANIES—Schedule 1.....</b>			
			134,525.31
<b>FUNDED DEBT—Schedule 2:</b>			
Issued (see Note 5).....			\$313,035,000.00
Less:			
In treasury.....	\$ 738,500.00		
Pledged under mortgages.....	3,169,000.00		
In sinking funds.....	16,490,900.00	20,398,400.00	
Remainder—Funded debt (held by public) (see Note 5).....			292,636,600.00
<b>CURRENT LIABILITIES:</b>			
Bonds called but not redeemed.....	\$ 361,040.00		
Accounts payable.....	2,710,302.32		
Drafts outstanding.....	231,759.42		
Customers' meter and line deposits.....	1,368,737.29		
Dividends payable.....	3,167,036.65		
Bond interest due.....	424,848.16		
Accrued bond interest—Not due.....	1,523,510.82		
Accrued taxes for current and prior years.....	5,421,086.73		
Total current liabilities.....			15,208,321.39
<b>RESERVES:</b>			
For depreciation.....	\$89,865,583.77		
For pensions (see Note 6).....	3,000,000.00		
For insurance, casualty, and other.....	965,173.44		
For amortization of investment in Standard Pacific Gas Line Incorporated.....	859,681.31		
For amounts charged gas consumers in excess of rates established by Decision No. 26512 of the Railroad Commission of the State of California (see Note 6).....	5,983,000.00		
Total reserves.....			100,673,438.52
<b>SURPLUS, PER EXHIBIT C:</b>			
Capital surplus.....	\$ 919,315.03		
Earned surplus.....	39,538,026.07		
Total surplus.....			40,457,341.10
<b>TOTAL.....</b>			<b>\$ 740,006,976.32</b>

See Notes on pages 26 and 27

EXHIBIT A

PACIFIC GAS AND ELECTRIC COMPANY  
AND SUBSIDIARY COMPANIES

CONSOLIDATED BALANCE SHEET, Etc.

- NOTE: 1. The amount at which the plants and properties are carried does not purport to represent their present sale value, replacement cost, or reproduction cost. Such amount is the aggregate of the amounts shown on the books of the parent company and its subsidiaries on December 31, 1935 (less certain adjustments in 1936, as ordered by the Railroad Commission of the State of California in connection with the liquidation and dissolution of certain subsidiaries), plus additions since that date at cost (including, in addition to interest and taxes during construction and direct engineering and supervision, proportions of general and administrative expenses determined by the companies to be properly applicable to construction), and less retirements since that date at actual or estimated cost, from which aggregate amount \$7,874,681.38 has been deducted, representing the excess of the net worth of the subsidiaries at the respective dates of acquisition as shown by their books over the investment in such subsidiaries as shown by the books of the parent company. The plants and properties include both tangibles and intangibles, as a complete segregation of intangibles is impracticable for the reason that no subdivision of accounts for such capital was maintained prior to January 1, 1913.
2. The accompanying consolidated statements do not include Western Canal Company (86.1% of the total outstanding stock of which is owned by the parent company and Arlington Properties Company, Ltd., one of its wholly-owned consolidated subsidiaries) and Valley Exploration Company, Ltd. (53.75% of the total outstanding stock of which is owned by Arlington Properties Company, Ltd.).

Western Canal Company was organized in 1915 as a mutual water company and operated as such until the action of the Railroad Commission of the State of California on December 21, 1931, declaring it to be a public utility, was sustained by the Supreme Court of the State of California. Subsequent to this decision certain minority purchasers and holders of Canal Company stock commenced suits to recover amounts paid for such stock, and damages; the suits are still pending. Of the Canal Company stock owned, 168,681 shares (84.69% of the total outstanding stock) are pledged with the trustee of the parent company's supplementary mortgage dated November 1, 1907.

Controlling interest in Valley Exploration Company, Ltd., was not acquired by Arlington Properties Company, Ltd. until December, 1935.

Equities in these unconsolidated subsidiaries have not been increased or diminished since the dates of acquisition of controlling interests as a result of profits, losses, or distributions. The equity in Valley Exploration Company, Ltd. has been diminished during the period of ownership of its stock (50% until December, 1935) \$147,481.56 as a result of net losses.

3. The stock of Standard Pacific Gas Line Incorporated is held by the trustee of the parent company's supplementary mortgage dated November 1, 1907. The "Other" investments include \$20,000 face value United States of America Treasury bonds deposited with the Division of Industrial Accidents and Safety of the State of California under the provisions of the Workmen's Compensation Insurance and Safety Act, and 4,579.33 shares of capital stock of Vallejo Electric Light and Power Company held by the trustee of the parent company's supplementary mortgage dated November 1, 1907.
4. In general, bond discount and expense is being written off over the lives of the various issues to which it pertains or of refunding issues, and discount and expense applicable to bonds reacquired, or retired other than through refunding operations, is charged off to earned surplus at time of purchase or retirement. Certain bond issues of the parent company and of its subsidiaries have been redeemed prior to maturity through refunding operations, and the balances of unamortized discount and expense applicable thereto, the premiums paid upon retirement, and, as to certain issues of the parent company in 1935, interest on new bonds for periods prior to redemption of old bonds (see Note 3 to Exhibit B), are being amortized over the lives of the new issues.
5. The funded debt issued and that held by the public include bonds in the principal amount of \$6,912,000, which mature in the year 1937 and bonds in the principal amount of \$7,655,000, which were called for redemption as of January 1, 1937; funds sufficient for the redemption as of January 1, 1937, have been deposited with the trustee under the mortgage securing the bonds.

EXHIBIT A

6. Collateral to a new retirement plan for employees of Pacific Gas and Electric Company and its subsidiaries, which became effective as of January 1, 1937, the parent company, at December 31, 1936, created a pension reserve by transferring thereto an amount of \$3,000,000 from Federal tax reserves found to be excessive. This reserve is considered by the company to be an initial provision for pensions which it hopes and expects to grant to members of the new retirement plan, independently of such plan, for services rendered by them prior to January 1, 1937. The reserve is more than sufficient to provide for future payments to present pensioners.

The reserve for amounts charged gas consumers in excess of rates established by Decision No. 26512 of the Railroad Commission of the State of California does not include any provision for interest, as the amount of interest, if any, which may be payable in the event of refund is not determinable.

In connection with refunding operations undertaken by the parent company in 1935 and 1936, it entered into underwriting agreements in which it indemnified the several underwriters against certain claims and liabilities which such underwriters might incur under the Securities Act of 1933, as amended.

Aside from the suits referred to in Note 2, the matters covered in the preceding paragraphs of this Note, and other matters involved in litigation amounts for which are not definitely determinable, there are no known contingent liabilities not provided for by reserves.

7. In the accompanying consolidated balance sheet all intercompany accounts, so far as determinable, have been eliminated, and the investments in subsidiaries, as shown by the books of the parent company, have been eliminated against the net worth of the subsidiaries at the respective dates of acquisition as shown by their books, the excess of the latter over the former, \$7,874,681.38, as stated under Note 1, being deducted from the consolidated plants and properties. For pledges of capital stocks of subsidiaries eliminated in consolidation, see Schedule 1.
8. The capital stock accounts of one of the subsidiaries were reduced in 1936 by the cancellation, without formal retirement, of reacquired preferred shares. The cost of these shares has been charged to earned surplus, pursuant to the California General Corporation law, and the par values have been transferred from capital stock accounts to capital surplus, the latter account having been charged with the net discount and premium applicable to such shares (see Exhibit C).
9. The companies close their accounts promptly as of the end of each month, with the result that there are always overlapping items of expenses from month to month and year to year. The unrecorded liabilities and accruals for expenses at any date are more than offset by the unrecorded and unbilled revenues accrued at that date.

#### EXHIBIT A

**PACIFIC GAS AND ELECTRIC COMPANY AND SUBSIDIARY COMPANIES**  
**PREFERRED CAPITAL STOCKS OF SUBSIDIARY COMPANIES, DECEMBER 31, 1936**

	Shares Authorized	Par Value Each	Par Value Held by Public	Shares Issued		
				Held By Public	Owned by Pacific Gas and Electric Company Pledged Under Mortgage	Total
<b>SAN JOAQUIN LIGHT AND POWER CORPORATION:</b>						
7% prior cumulative.....	250,000	\$100.00	\$2,507,300.00	25,073	91,862	116,935
6% prior series A cumulative.....	500,000	100.00	598,800.00	5,988	19,668	25,656
7% series A cumulative.....	185,000	100.00	362,500.00	3,625	60,309	63,934
6% series B cumulative.....	65,000	100.00	28,600.00	286	30	316
<b>MIDLAND COUNTIES PUBLIC SERVICE CORPORATION—7% CUMULATIVE.....</b>	<b>10,000</b>	<b>100.00</b>			<b>5</b>	<b>5</b>
<b>TOTAL.....</b>			<b>\$3,497,200.00</b>	<b>34,972</b>	<b>171,874</b>	<b>206,846</b>

**COMMON CAPITAL STOCKS OF SUBSIDIARY COMPANIES, AND MINORITY INTEREST IN SURPLUS, DECEMBER 31, 1936**

	Shares Authorized	Par Value Each	Amount of Minority Interest	Shares Issued				Total
				Held By Public	Owned by Pacific Gas and Electric Company		Owned by Subsidiary Company	
					In Treasury	Pledged Under Mortgage	In Treasury	
<b>COMMON CAPITAL STOCKS:</b>								
Operating subsidiary companies:								
Arlington Properties Company, Ltd.....	50,000	No par				5,000	5,000	
San Joaquin Light and Power Corporation.....	500,000	\$100.00	\$ 70,200.00	702	13	128,854	129,569	
Valley Electrical Supply Company.....	500	100.00	900.00	9		171	180	
Midland Counties Public Service Corporation.....	20,000	100.00			9	9,991	10,000	
<b>Total.....</b>			<b>\$ 71,100.00</b>	<b>711</b>	<b>22</b>	<b>143,845</b>	<b>144,749</b>	
Non-operating predecessor company—								
Blue Lakes Water Company.....	100,000	100.00			15	90,945	90,960	
<b>Total.....</b>			<b>\$ 71,100.00</b>	<b>711</b>	<b>37</b>	<b>243,790</b>	<b>244,709</b>	
<b>MINORITY INTEREST IN SURPLUS OF SUBSIDIARY COMPANIES.....</b>			<b>63,425.31</b>					
<b>TOTAL MINORITY INTEREST IN COMMON CAPITAL STOCK AND SURPLUS OF SUBSIDIARY COMPANIES.....</b>			<b>\$134,525.31</b>					

SCHEDULE 1

[ 28 ]

PACIFIC GAS AND ELECTRIC COMPANY AND SUBSIDIARY COMPANIES

FUNDED DEBT, DECEMBER 31, 1936

TITLE OF ISSUE	Rate	Maturity	Amount Authorized by Indenture	Amount Outstanding Exclusive of Amount Held in Treasuries of Company and Consolidated Subsidiaries	Amount Outstanding as per Consolidated Balance Sheet	Amount in Treasuries of Company and Consolidated Subsidiaries	Amount Pledged by Company and Consolidated Subsidiaries	Amount Held by Trustees in Sinking Funds of Company and Consolidated Subsidiaries
<b>PACIFIC GAS AND ELECTRIC COMPANY:</b>								
First and refunding mortgage.....			\$500,000,000					
Series B.....	6%	Dec. 1, 1941		\$ 20,000,000	\$ 20,000,000			
Series G.....	4%	Dec. 1, 1964		93,705,000	93,305,000	\$ 90,000	A \$ 400,000	
Series H.....	3 3/4%	Dec. 1, 1961		119,015,000	118,848,000	582,000	A 167,000	
Series I.....	3 1/2%	June 1, 1966		35,000,000	35,000,000			
General and refunding mortgage (see Note E).....	5%	Jan. 1, 1942	150,000,000	7,655,000	7,655,000			
Total.....			\$ 650,000,000	\$ 275,375,000	\$ 274,808,000	\$ 672,000	\$ 567,000	
<b>PREDECESSOR COMPANIES OF PACIFIC GAS AND ELECTRIC COMPANY:</b>								
California Gas and Electric Corporation—Unifying and refunding mortgage.....	5%	Nov. 1, 1937	\$ 45,000,000	\$ 20,465,000	F \$ 5,361,000	\$ 48,000	B \$ 1,000	\$ 15,103,000
Blue Lakes Water Company—First mortgage.....	6%	Mar. 15, 1938	5,000,000	443,000	443,000			
Snow Mountain Water and Power Company—First mortgage.....	5%	Jan. 1, 1937	1,250,000	836,000	F 836,000			
Suburban Light and Power Company—First mortgage.....	6%	Aug. 1, 1938	250,000	201,000	201,000			
The Standard Electric Company of California—First mortgage.....	5%	Sept. 1, 1939	5,000,000	4,899,000	910,100	1,000	C 2,601,000	D 1,387,900
City Electric Company—First mortgage.....	5%	July 1, 1937	5,000,000	715,000	F 715,000			
Total.....			\$ 61,500,000	\$ 27,559,000	\$ 8,466,100	\$ 49,000	\$ 2,602,000	\$ 16,490,900
Total funded debt Pacific Gas and Electric Company and predecessor companies.....			\$ 711,500,000	\$ 302,934,000	\$ 283,274,100	\$ 721,000	\$ 3,169,000	\$ 16,490,900
<b>SAN JOAQUIN LIGHT AND POWER CORPORATION—UNIFYING AND REFUNDING MORTGAGE:</b>								
Series B.....	6%	Mar. 1, 1932	\$ 150,000,000	\$ 9,362,500	\$ 9,362,500	\$ 17,500		
TOTAL FUNDED DEBT.....			\$ 312,296,500	\$ 202,636,600	\$ 202,636,600	\$ 738,500	\$ 3,169,000	\$ 16,490,900

NOTE: A Pledged with trustee of Blue Lakes Water Company mortgage.  
 B Pledged with trustee of Pacific Gas and Electric Company general and refunding mortgage.  
 C \$2,599,000 pledged with trustee of California Gas and Electric Corporation unifying and refunding mortgage; \$2,000 pledged with trustee of Pacific Gas and Electric Company general and refunding mortgage.  
 D Held alive in sinking fund of California Gas and Electric Corporation unifying and refunding mortgage.  
 E This issue has been called for redemption on January 1, 1937.  
 F These issues mature in 1937.

SCHEDULE 2

[ 29 ]



**PACIFIC GAS AND ELECTRIC COMPANY  
AND SUBSIDIARY COMPANIES**

STATEMENT OF CONSOLIDATED NET INCOME FOR THE YEAR ENDED  
DECEMBER 31, 1936

<b>GROSS OPERATING REVENUE:</b>			
Electric department.....		\$67,657,295.64	
Gas department (see Note 2).....		26,417,347.56	
Other.....		<u>1,258,692.91</u>	
Total.....			\$95,333,336.11
<b>OPERATING EXPENSES:</b>			
Maintenance and repairs.....			\$ 3,860,137.04
Production expenses:			
Purchased power.....	\$ 4,677,581.19		
Natural gas purchased.....	5,129,910.69		
Other production expenses.....	<u>2,605,000.22</u>		
		12,412,492.10	
Transmission expenses.....		788,164.21	
Distribution expenses.....		4,732,745.53	
Street railway department expenses, other than maintenance and repairs.....		256,170.21	
Commercial expenses.....		3,283,333.93	
New business expenses.....		1,806,638.57	
Provision for depreciation.....		13,009,810.01	
Taxes other than Federal taxes on income.....		10,291,929.60	
General and administrative expenses.....		2,949,515.09	
Provision for doubtful accounts.....		302,054.85	
Provision for insurance and casualties.....		474,137.81	
Other.....		<u>191,037.43</u>	
Total.....			54,358,166.28
<b>NET OPERATING REVENUE.....</b>			<b>\$40,975,169.83</b>
<b>MISCELLANEOUS INCOME:</b>			
Dividends.....	\$ 39,979.64		
Interest on bank balances and notes and accounts receivable.....		182,862.04	
Cash discounts on material and supplies.....		53,250.83	
Other miscellaneous income.....		<u>82,384.37</u>	
Total.....			358,476.88
<b>GROSS INCOME.....</b>			<b>\$41,333,646.71</b>
<b>DEDUCT:</b>			
Interest on funded debt (see Note 3).....		\$13,769,768.25	
Amortization of bond discount and expense.....		1,014,701.61	
Miscellaneous interest.....		36,622.39	
Total.....		<u>\$14,821,092.25</u>	
Less interest charged to construction.....		151,617.22	
Net deductions.....			14,669,475.03
<b>NET INCOME BEFORE PROVISION FOR FEDERAL TAXES ON INCOME.....</b>			<b>\$26,664,171.68</b>
<b>PROVISION FOR FEDERAL TAXES ON INCOME (see Note 1).....</b>			<b>1,695,644.06</b>
<b>NET INCOME CARRIED TO SUMMARY OF CONSOLIDATED SURPLUS (see Notes).....</b>			<b>\$24,968,527.62</b>

- NOTE: 1.** During the year 1936 the parent company retired certain bond issues, prior to their maturity, through refunding operations. The balances of unamortized discount and expense and the premiums applicable to the retired issues are being written off over the lives of the new issues. However, for purposes of Federal taxes on income, the Company is required to deduct these amounts in 1936. Accordingly, the provision for Federal taxes on income made by the Company is less than would have been required had the related refunding operations not been consummated, and the consolidated net income for the year 1936 is correspondingly greater, by approximately \$1,746,000.
- 2.** The net income for the year includes certain gas revenue in dispute, in a rate proceeding, the computed amount of which is \$1,008,000 (to April 30, 1936, when the necessity for further provision was removed by a reduction in rates). Provision for possible refund of this amount has been charged to earned surplus as shown in Exhibit C. Should it become necessary to refund this amount, the net income as stated above would be shown to have been overstated by such amount less income taxes thereon which would be recoverable.
- 3.** In 1935, in connection with refunding operations, interest was paid on both old and new bonds for certain periods. The interest on the new bonds for such periods, amounting to approximately \$500,000, was treated in the accounts as part of the expense applicable to the new bonds, to be amortized over their lives. During 1936, similar interest payments amounting to approximately \$983,000 were made, and were charged against income in accordance with a ruling of the Railroad Commission of the State of California promulgated subsequent to the 1935 financing.
- 4.** Minority interests of \$289,113.35 in net income of subsidiaries (represented substantially by dividends on stocks of the subsidiaries held by the public) are charged to earned surplus (see Exhibit C).

**EXHIBIT B**

**PACIFIC GAS AND ELECTRIC COMPANY  
AND SUBSIDIARY COMPANIES**

**SUMMARY OF CONSOLIDATED SURPLUS FOR THE YEAR ENDED  
DECEMBER 31, 1936**

<b>EARNED SURPLUS:</b>		
Balance, January 1, 1936.....	\$31,708,008.09	
Net income from statement of consolidated net income.....	24,968,527.62	
Other additions to earned surplus:		
Transfers from insurance reserves.....	3,000,000.00	
Adjustments and refunds of taxes applicable to prior years.....	92,177.77	
Other—Net.....	7,491.51	
<b>Total.....</b>		<b>\$59,776,204.99</b>
Charges to earned surplus:		
Provision for gas revenue in dispute.....	\$ 1,008,000.00	
Excess of cost over face value of bonds reacquired, and premium on issue of a subsidiary retired prior to maturity.....	559,737.90	
Cost of capital stocks reacquired and canceled (see Note 8 to consolidated balance sheet).....	17,817.00	
Write-offs incident to liquidation and dissolution of Great Western Power Company of California:		
Unamortized valuation expenses.....	399,133.17	
Discount on preferred capital stock.....	11,174.53	
Compromise settlement of litigation relating to water rights, applicable to prior year.....	70,000.00	
<b>Total.....</b>		<b>\$ 2,065,862.60</b>
Dividends on capital stocks held by public—Cash:		
Pacific Gas and Electric Company:		
Preferred—6% cumulative.....	\$ 6,128,059.72	
Preferred—5½% cumulative.....	1,580,418.43	
Common—6½%.....	10,174,724.82	
Subsidiary companies:		
Great Western Power Company of California:		
Preferred—7% cumulative (1¼% to date of dissolution).....	3,834.25	
Preferred—6% cumulative (1½% to date of dissolution).....	387.00	
California Electric Generating Company preferred—6% cumulative (1½% to date of dissolution).....	37,498.50	
San Joaquin Light and Power Corporation:		
Prior preferred—7% cumulative.....	175,530.25	
Prior preferred—6% series A cumulative.....	36,364.50	
Preferred—7% series A cumulative.....	25,704.00	
Preferred—6% series B cumulative.....	1,716.00	
Common—\$10.50 per share.....	7,371.00	
Valley Electrical Supply Company common—\$65.00 per share.....	585.00	
<b>Total.....</b>		<b>18,172,193.47</b>
Minority interest in surplus of subsidiaries after dividends.....		122.85
<b>Total charges to earned surplus.....</b>		<b>\$20,238,178.92</b>
<b>Balance, December 31, 1936.....</b>		<b>\$39,538,026.07</b>
<b>CAPITAL SURPLUS:</b>		
Balance, January 1, 1936.....		\$ 4,260,819.35
Additions to capital surplus:		
Par value of capital stocks reacquired and canceled, \$16,600.00, less net un-amortized discount and expense, \$726.03 (see Note 8 to consolidated balance sheet)	\$ 15,873.97	
Scrip for preferred stock of Great Western Power Company of California canceled	62.34	
Miscellaneous adjustments applicable to properties previously acquired.....	1,784.61	
<b>Total.....</b>	<b>\$ 17,720.92</b>	
Less minority interest in San Joaquin Light and Power Corporation, set up separately.....	86.01	17,634.91
<b>Total.....</b>		<b>\$ 4,278,454.26</b>
Charges to capital surplus—Adjustments of capital surplus of parent company pursuant to orders of the California Railroad Commission in connection with the liquidation and dissolution of certain subsidiaries.....		
		3,359,139.23
<b>Balance, December 31, 1936.....</b>		<b>\$ 919,315.03</b>
<b>TOTAL SURPLUS, December 31, 1936.....</b>		<b>\$40,457,341.10</b>

**EXHIBIT C**

PACIFIC GAS AND  
BALANCE SHEETS, DECEMBER 31, 1936,

ASSETS

	San Joaquin Light and Power Corporation and Subsidiary Company	Midland Counties Public Service Corporation
PLANTS AND PROPERTIES (see Note 1).....	\$ 91,220,359.42	\$7,915,788.41
INVESTMENTS—AT COST (miscellaneous securities and long-term note)....	\$ 66,253.66	
DISCOUNT AND EXPENSE ON CAPITAL STOCK.....	\$ 1,903,214.24	
INTERCOMPANY ACCOUNTS RECEIVABLE.....	\$ 2,533,944.12	
CASH ON DEPOSIT IN SINKING FUND.....	\$ 188.75	
<b>CURRENT ASSETS:</b>		
Cash—Demand deposits.....	\$ 209,974.63	\$ 17,671.40
Accounts receivable—Customers (including instalment accounts).....	\$ 1,414,289.52	\$ 147,625.07
Accounts receivable—Others.....	26,733.18	2,165.35
Total.....	\$ 1,441,022.70	\$ 149,790.42
Less reserve for doubtful accounts.....	102,408.72	22,197.58
Remainder.....	\$ 1,338,613.98	\$ 127,592.84
Materials and supplies (for operations and construction)—At cost.....	956,807.24	95,677.79
Total current assets.....	\$ 2,505,395.85	\$ 240,942.03
<b>DEFERRED CHARGES:</b>		
Unamortized bond discount and expense (see Note 2).....	\$ 3,553,910.46	\$ 340,367.62
Unexpired taxes.....	353,056.13	45,920.22
Unamortized valuation expense.....	118,393.21	11,154.47
Other.....	23,449.19	2,984.00
Total deferred charges.....	\$ 4,048,808.99	\$ 400,426.31
<b>TOTAL.....</b>	<b>\$102,278,165.03</b>	<b>\$8,557,156.75</b>

EXHIBIT D

[ 32 ]

ELECTRIC COMPANY  
OF CERTAIN SUBSIDIARY COMPANIES

LIABILITIES

	San Joaquin Light and Power Corporation and Subsidiary Company	Midland Counties Public Service Corporation
<b>CAPITAL STOCKS (see Note 3):</b>		
Preferred.....	\$ 20,684,100.00	\$ 500.00
Common.....	12,956,900.00	1,000,000.00
Total capital stocks.....	\$ 33,641,000.00	\$1,000,500.00
<b>MINORITY INTEREST IN COMMON CAPITAL STOCK AND SURPLUS OF VALLEY ELECTRICAL SUPPLY COMPANY.....</b>	\$ 17,492.29	
<b>FUNDED DEBT—Schedule 2.....</b>	\$ 9,362,500.00	
<b>INTERCOMPANY ACCOUNTS PAYABLE.....</b>	\$ 30,065,354.12	\$4,841,364.04
<b>CURRENT LIABILITIES:</b>		
Accounts payable.....	\$ 946,271.28	\$ 33,962.01
Customers' meter and line deposits.....	306,984.29	78,798.16
Dividends payable.....	101,943.28	
Accrued bond interest—not due.....	187,250.00	
Accrued taxes for current and prior years.....	1,265,299.29	39,555.76
Total current liabilities.....	\$ 2,807,748.14	\$ 152,315.93
<b>RESERVES:</b>		
For depreciation.....	\$ 17,611,576.19	\$1,746,664.36
For insurance and casualties.....	128,467.75	10,504.81
Total reserves.....	\$ 17,740,043.94	\$1,757,169.17
<b>SURPLUS:</b>		
Capital surplus.....	\$ 3,455,029.39	\$ 200,100.00
Earned surplus.....	5,188,997.15	605,707.61
Total surplus.....	\$ 8,644,026.54	\$ 805,807.61
<b>TOTAL.....</b>	<b>\$102,278,165.03</b>	<b>\$8,557,156.75</b>

- NOTE: 1. See Note 1 to consolidated balance sheet which is, in general, applicable here except as to the elimination of \$7,874,681.38 and as to the adjustments referred to in connection with dissolution and liquidation of subsidiaries.
2. See Note 4 to consolidated balance sheet.
3. See Note 8 to consolidated balance sheet and refer to Exhibit F.
4. Aside from matters involved in litigation, amounts for which are not definitely determinable there are no known contingent liabilities not provided for by reserves.

EXHIBIT D

# PACIFIC GAS AND ELECTRIC COMPANY

STATEMENTS OF NET INCOME FOR THE YEAR ENDED DECEMBER 31, 1936,  
OF CERTAIN SUBSIDIARY COMPANIES

	San Joaquin Light and Power Corporation and Subsidiary Company	Midland Counties Public Service Corporation
<b>GROSS OPERATING REVENUE:</b>		
Electric department.....	\$11,646,098.06	\$1,814,038.45
Gas department.....	1,760,393.11	.....
Other.....	28,306.74	.....
Total.....	\$13,434,797.91	\$1,814,038.45
<b>OPERATING EXPENSES:</b>		
Maintenance and repairs.....	\$ 433,903.49	\$ 38,457.21
Production expenses:		845,759.28
Purchased power.....	1,921,821.23	.....
Natural gas purchased.....	554,638.81	.....
Other production expenses.....	246,911.52	.....
Transmission expenses.....	76,609.23	12,500.86
Distribution expenses.....	509,696.87	77,529.23
Commercial expenses.....	477,062.22	79,304.07
New business expenses.....	282,516.08	52,878.30
Provision for depreciation.....	2,116,278.05	223,200.84
Taxes other than Federal taxes on income.....	1,068,551.92	124,501.38
General and administrative expenses.....	308,412.53	43,406.03
Provision for doubtful accounts.....	64,172.26	7,572.18
Provision for insurance and casualties.....	75,957.44	2,747.77
Rents.....	288,192.16	.....
Total.....	\$ 8,514,723.81	\$1,507,857.15
<b>NET OPERATING REVENUE.....</b>	<b>\$ 4,920,074.10</b>	<b>\$ 306,181.30</b>
<b>MISCELLANEOUS INCOME:</b>		
Interest on securities of and advances to affiliated companies.....	\$ 149,594.70	.....
Interest on accounts receivable, etc.....	14,643.72	\$ 83.58
Other miscellaneous income.....	35,615.79	1,796.90
Total.....	\$ 199,854.21	\$ 1,880.48
<b>GROSS INCOME.....</b>	<b>\$ 5,119,928.31</b>	<b>\$ 308,061.78</b>
<b>DEDUCT:</b>		
Interest on advances from affiliated company.....	\$ 1,147,123.58	\$ 236,346.65
Interest on funded debt.....	644,909.52	.....
Amortization of bond discount and expense.....	136,587.59	12,182.58
Miscellaneous interest.....	4,039.98	1,523.78
Total.....	\$ 1,932,660.67	\$ 250,053.01
Less interest charged to construction.....	9,241.71	7,136.11
Net deductions.....	\$ 1,923,418.96	\$ 242,916.90
<b>NET INCOME BEFORE PROVISION FOR FEDERAL TAXES ON INCOME</b>	<b>\$ 3,196,509.35</b>	<b>\$ 65,144.88</b>
<b>PROVISION FOR FEDERAL TAXES ON INCOME.....</b>	<b>469,010.39</b>	<b>6,400.00</b>
<b>NET INCOME CARRIED TO SUMMARY OF SURPLUS.....</b>	<b>\$ 2,727,498.96</b>	<b>\$ 58,744.88</b>

EXHIBIT E

# PACIFIC GAS AND ELECTRIC COMPANY

## SUMMARIES OF SURPLUS FOR THE YEAR ENDED DECEMBER 31, 1936, OF CERTAIN SUBSIDIARY COMPANIES

	San Joaquin Light and Power Corporation and Subsidiary Company	Midland Counties Public Service Corporation
<b>EARNED SURPLUS:</b>		
Balance, January 1, 1936.....	\$5,181,068.47	\$548,875.25
Net income from statement of net income.....	2,727,498.96	58,744.88
Other additions to earned surplus:		
Taxes applicable to prior years—Net.....		23,022.48
Transfer from fire insurance reserve.....	300,000.00	
Other.....	3,993.64	100.00
Total.....	\$8,212,561.07	\$630,742.61
Charges to earned surplus:		
Cost of capital stocks reacquired and canceled (see note 8 to consolidated balance sheet).....	\$ 17,817.00	
Premium on bond issue retired prior to maturity and excess of cost over face value of other bonds reacquired.....	217,175.37	
Other.....	4,732.41	
Total.....	\$ 239,724.78	
Dividends on capital stocks:		
San Joaquin Light and Power Corporation:		
Prior preferred—7% cumulative.....	\$ 818,564.25	
Prior preferred—6% series A cumulative.....	154,372.50	
Preferred—7% series A cumulative.....	447,867.00	
Preferred—6% series B cumulative.....	1,896.00	
Common—\$10.50 per share.....	1,360,474.50	
Minority interest in dividends on common capital stock of Valley Electrical Supply Company—\$65.00 per share.....	585.00	
Midland Counties Public Service Corporation:		
Preferred—7% cumulative.....		\$ 35.00
Common—\$2.50 per share.....		25,000.00
Total.....	\$2,783,759.25	\$ 25,035.00
Minority interest in surplus of subsidiary.....	\$ 79.89	
Total charges to earned surplus.....	\$3,023,563.92	\$ 25,035.00
Balance, December 31, 1936.....	\$5,188,997.15	\$605,707.61
<b>CAPITAL SURPLUS:</b>		
Balance, January 1, 1936.....	\$3,439,155.42	\$200,100.00
Addition to capital surplus—Capital stocks reacquired and canceled (par value \$16,600.00, less net discount applicable thereto, \$726.03) (see note 8 to consolidated balance sheet).....	15,873.97	
Balance, December 31, 1936.....	\$3,455,029.39	\$200,100.00
<b>TOTAL SURPLUS, December 31, 1936.....</b>	<b>\$8,644,026.54</b>	<b>\$805,807.61</b>

EXHIBIT F

PACIFIC GAS AND  
BALANCE SHEET,

**ASSETS**

PLANTS AND PROPERTIES (see Note 1).....		\$579,932,841.15
<b>INVESTMENTS:</b>		
Securities—At cost:		
Investments in capital stocks of subsidiary companies (see Note 2):		
Consolidated in consolidated balance sheet.....	\$30,620,372.45	
Not consolidated in consolidated balance sheet.....	312,392.92	\$30,932,765.37
Other security investments (see Note 3):		
Standard Pacific Gas Line Incorporated.....	\$ 4,179,000.00	
Other.....	493,336.47	4,672,336.47
Due from subsidiary companies consolidated in consolidated balance sheet—Not current.....		32,455,904.28
Total investments.....		68,061,006.12
DISCOUNT AND EXPENSE ON CAPITAL STOCK.....		243,512.36
<b>SINKING FUNDS AND SPECIAL DEPOSITS:</b>		
Cash on deposit in sinking funds.....	\$ 1,522.13	
Cash on deposit with trustee for bonds called for redemption as of January 1, 1937..	7,846,375.00	
Other deposits with trustees of mortgages.....	1,084,984.67	
Accrued interest on bonds held in sinking funds.....	148,990.00	
Total sinking funds and special deposits.....		9,081,871.80
<b>CURRENT ASSETS:</b>		
Cash and cash items:		
Cash on hand, demand deposits, and time deposits.....	\$14,378,496.40	
Cash on deposit for redemption of bonds.....	360,040.00	\$14,738,536.40
Notes receivable—Customers and others.....	\$ 110,980.15	
Accounts receivable—Customers (including instalment accounts)....	8,028,567.89	
Accounts receivable—Others.....	711,669.86	
Total.....	\$ 8,851,217.90	
Less reserve for doubtful notes and accounts.....	878,314.34	
Remainder.....		7,972,903.56
Materials and supplies (for operations and construction)—At cost.....	3,456,441.35	
Accrued dividends and interest on investments in subsidiary companies.....	98,615.42	
Accrued interest on other investments.....	2,548.12	
Total current assets.....		26,269,044.85
<b>DEFERRED CHARGES:</b>		
Unamortized bond discount and expense (see Note 4).....	\$19,657,586.46	
Unexpired taxes.....	124,800.00	
Other (charges, \$686,700.01, less credits, \$158,927.05).....	527,772.96	
Total deferred charges.....		20,310,159.42
<b>TOTAL</b> .....		<u>\$703,898,435.70</u>

See Notes on page 38.

**EXHIBIT G**

ELECTRIC COMPANY

DECEMBER 31, 1936

LIABILITIES

	First Preferred No. of Shares	Common No. of Shares	
<b>CAPITAL STOCKS:</b>			
Authorized, \$25.00 par value each.....	8,000,000	8,000,000	
First preferred capital stock issued and outstanding.....	<u>5,234,625</u>		\$130,865,625.00
Common capital stock issued and outstanding.....		<u>6,261,357</u>	150,533,925.00
Total capital stocks.....			<u>\$287,399,550.00</u>
<b>FUNDED DEBT—Schedule 2:</b>			
Issued (see Note 5).....			\$303,655,000.00
Less:			
In treasury.....	\$ 721,000.00		
Pledged under mortgages.....	3,169,000.00		
In sinking funds.....	<u>16,490,900.00</u>	<u>20,380,900.00</u>	
Remainder—Funded debt (held by public) (see Note 5).....			283,274,100.00
<b>CURRENT LIABILITIES:</b>			
Bonds called but not redeemed.....	\$ 361,040.00		
Accounts payable.....	1,730,069.03		
Drafts outstanding.....	231,759.42		
Customers' meter and line deposits.....	982,954.84		
Dividends payable.....	3,163,708.79		
Bond interest due.....	424,848.16		
Accrued bond interest—Not due.....	1,336,260.82		
Accrued taxes for current and prior years.....	<u>4,114,489.50</u>		
Total current liabilities.....			12,345,130.56
<b>RESERVES:</b>			
For depreciation.....	\$ 70,500,501.09		
For pensions (see Note 6).....	3,000,000.00		
For insurance, casualty, and other.....	826,200.88		
For amortization of investment in Standard Pacific Gas Line Incorporated.....	859,681.31		
For amounts charged gas consumers in excess of rates established by Decision No. 26512 of the Railroad Commission of the State of California (see Note 6).....	<u>5,983,000.00</u>		
Total reserves.....			81,169,383.28
<b>SURPLUS:</b>			
Capital surplus.....	\$ 606,401.16		
Earned surplus.....	<u>39,103,870.70</u>		
Total surplus.....			39,710,271.86
<b>TOTAL</b> .....			<u>\$703,898,435.70</u>

See Notes on page 38.

EXHIBIT G



PACIFIC GAS AND ELECTRIC COMPANY BALANCE SHEET  
DECEMBER 31, 1936

- NOTE: 1. The amount at which the plants and properties are carried does not purport to represent their present sale value, replacement cost, or reproduction cost, but is the amount shown on the books of the company on December 31, 1935, plus additions since that date at cost (including, in addition to interest and taxes during construction and direct engineering and supervision, proportions of general and administrative expenses determined by the company to be properly applicable to construction) or, in the case of properties acquired from certain subsidiaries upon their liquidation and dissolution in 1936, at lesser amounts as ordered by the Railroad Commission of the State of California, and less retirements since that date at actual or estimated cost. It has been the general policy of the company to take up properties on its books at cost to it, taking as cost, in the case of acquisitions through the issuance of securities, the par value of such securities. The plants and properties include both tangibles and intangibles as a complete segregation of intangibles is impracticable for the reason that no subdivision of accounts for such capital was maintained prior to January 1, 1913.
2. For pledges of capital stocks of consolidated subsidiaries see Schedule 1. See also Note 2 to consolidated balance sheet with reference to unconsolidated direct subsidiary, Western Canal Company.
3. The stock of Standard Pacific Gas Line Incorporated is held by the trustee of the company's supplementary mortgage dated November 1, 1907. The "Other" investments include \$20,000 face value United States of America Treasury bonds deposited with the Division of Industrial Accidents and Safety of the State of California under the provisions of the Workmen's Compensation Insurance and Safety Act, and 4,579.33 shares of capital stock of Vallejo Electric Light and Power Company held by the trustee of the company's supplementary mortgage dated November 1, 1907.
4. In general, bond discount and expense is being written off over the lives of the various issues to which it pertains or of refunding issues, and discount and expense applicable to bonds reacquired is charged off to earned surplus at time of retirement. Certain bond issues of the company have been redeemed prior to maturity through refunding operations, and the balances of unamortized discount and expense applicable thereto, the premiums paid upon retirement, and, as to certain issues in 1935, interest on new bonds for periods prior to redemption of old bonds (see Note 3 to Exhibit B), are being amortized over the lives of the new issues.
5. The funded debt issued and that held by the public include bonds in the principal amount of \$6,912,000, which mature in the year 1937 and bonds in the principal amount of \$7,655,000, which were called for redemption as of January 1, 1937; funds sufficient for the redemption as of January 1, 1937, have been deposited with the trustee under the mortgage securing the bonds.
6. Collateral to a new retirement plan for employees of the company and of its subsidiaries, which became effective as of January 1, 1937, the company, at December 31, 1936, created a pension reserve by transferring thereto an amount of \$3,000,000 from Federal tax reserves found to be excessive. This reserve is considered by the company to be an initial provision for pensions which it hopes and expects to grant to members of the new retirement plan, independently of such plan, for services rendered by them prior to January 1, 1937. The reserve is more than sufficient to provide for future payments to present pensioners.
- The reserve for amounts charged gas consumers in excess of rates established by Decision No. 26512 of the Railroad Commission of the State of California does not include any provision for interest, as the amount of interest, if any, which may be payable in the event of refund is not determinable.
- In connection with refunding operations undertaken by the company in 1935 and 1936, it entered into underwriting agreements in which it indemnified the several underwriters against certain claims and liabilities which such underwriters might incur under the Securities Act of 1933, as amended.
- Aside from the matters covered in the preceding paragraphs of this Note and other matters involved in litigation amounts for which are not definitely determinable, there are no known contingent liabilities not provided for by reserves.
7. The company closes its accounts promptly as of the end of each month, with the result that there are always overlapping items of expenses from month to month and year to year. The unrecorded liabilities and accruals for expenses at any date are more than offset by the unrecorded and unbilled revenues accrued at that date.

EXHIBIT G

