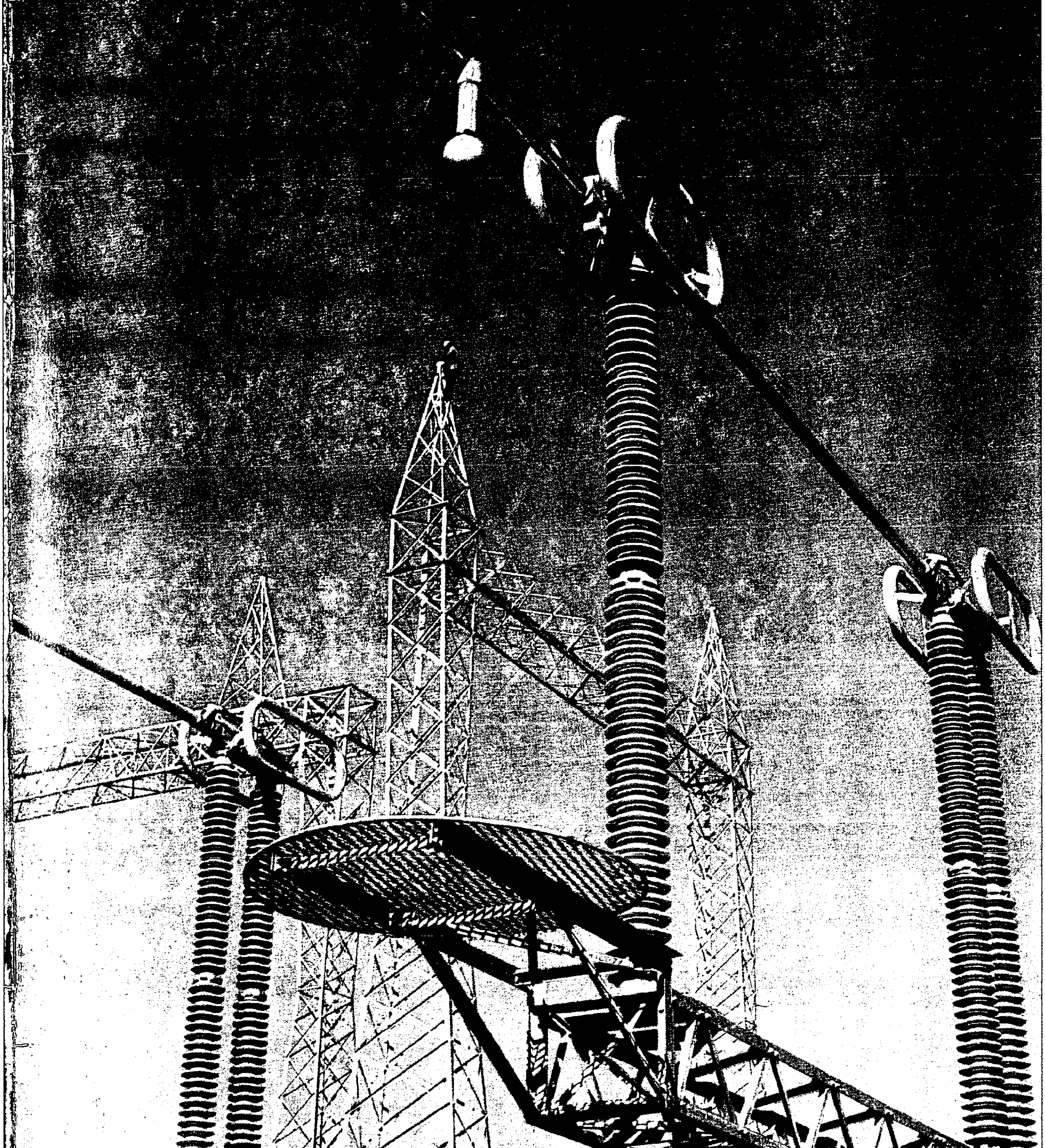
1966 ANNUAL REPORT PACIFIC GAS AND ELECTRIC COMPANY



PACIFIC GAS AND ELECTRIC COMPANY • 245 MARKET STREET, SAN FRANCISCO, CALIFORNIA 94106

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HIGHLIGHTS OF OPERATION

	1966	1965
Operating Revenues and Other Income	$ 920,675,000	$ 853,660,000
Natural Gas Purchased	$ 252,639,000	$ 223,615,000
Taxes and Franchise Payments	$ 179,028,000	$ 170,741,000
Operating Payroll	$ 111,013,000	$ 102,787,000
Other Expenses and Deductions	$ 228,964,000	$ 216,245,000
Net Income	$ 149,031,000	$ 140,272,000
Earned Per Common Share	$2.23	$2.08
Total Assets	$3,457,998,000	$3,277,887,000
Construction Expenditures	$ 297,129,000	$ 286,708,000
Sales of Electricity to Customers (KWH)	34,790,637,000	31,683,319,000
Sales of Gas to Customers (MCF)	597,355 000	537,297,000
Total Customers	4,462,277	4,346,462
Number of Employees	21,984	21,004
Number of Stockholders	259,973	260,280

COVER: Shown near completion is a portion of the 500,000-volt Tesla Substation, a major point on the Company's Extra High Voltage transmission network. The EHV system will carry power from PG&E generating plants as well as being part of the power link between the Pacific Northwest and the Southwest.

REPORT OF THE DIRECTORS OF PACIFIC GAS AND ELECTRIC COMPANY

San Francisco, California, February 24, 1967

To Our Stockholders:

The year 1966 was one of vigorous growth and progress for the Company.

Operating revenues exceeded those of the previous year by $67 million, reaching a total of $918 million. We confidently expect that before the close of 1968 our annual revenues will pass the one billion dollar mark.

Net earnings available for the common stock were $2.23 a share, compared with $2.08 a share in 1965, an increase of 15¢ a share or 7.2%. In March the dividend on the common stock was increased from $1.20 to $1.30 on an annual basis, the fifth dividend increase in the last six years.

New high records were established in all major facets of the Company's operations, except for the number of new customers connected. Nonetheless, despite the substantial decline in new housing starts, we closed the year with a net gain of 115,815 customers in all branches of our operations. This compares with 133,914 in the previous year.

CONSTRUCTION PROGRAM To keep pace with the increasing demands for our service, we spent $297 million on new construction in 1966, the largest such expenditure during any year in our history. We expect to spend approximately the same amount in 1967 to continue our expansion.

Our construction program will harness an exceptional variety of energy sources to supply power and fuel to our customers. We will have under construction simultaneously nuclear, fossil fuel and geothermal electric generating plants, a hydroelectric project, and compressor plant facilities and pipeline extensions for increased natural gas deliveries. In 1967 we will commence construction of a 33 story office building adjacent to the Company's present headquarters building in San Francisco.

Largest of the electric generating projects planned is a 1,060,000-kilowatt nuclear plant at a site known as Diablo Canyon on the Pacific Coast near San Luis Obispo, about 200 miles south of San Francisco. Applications for authorization to construct this plant, which will cost an estimated $150 million, have been filed with the Atomic Energy Commission and the California Public Utilities Commission. We hope that the authorizations will be granted in time to begin construction late in 1967 for initial operation in 1971.

Excellent progress is being made on the $185 million PG&E portion of the Pacific Northwest-Southwest extra high voltage intertie. A northerly section of the 500,000 volt system was placed in service at reduced voltage in December of 1965. In mid-1967 a major section will be placed in service at the full design capacity of 500,000 volts.

ADDITIONAL GAS SUPPLY Authorizations were obtained early in 1966 for the importation of an additional 200 million cubic feet of gas daily from Canada.

The first 100 million cubic feet began moving through the Alberta-California pipeline in December of 1966, and the second 100 million is scheduled for delivery late in 1967.

Subject to authorization by the Federal Power Commission, we plan to increase our purchase of gas from the El Paso Natural Gas Company, commencing in the winter of 1967, by 100 million cubic feet per day. This would bring our total purchases from this source to 1,125 million cubic feet per day. This gas will be delivered to us at the California-Arizona border and transported through our existing pipelines to northern California. Also, subject to the necessary regulatory approvals, we intend to import another 200 million cubic feet of gas per day from the Province of Alberta, Canada, with 100 million scheduled for delivery in late 1968 and the balance a year later. These increments will bring the average daily delivery of Canadian gas to the Company's service area to 815 million cubic feet per day by the end of 1969.

ESTHETIC CONSIDERATIONS People today are increasingly concerned with the appearance of their surroundings. This is especially true in urban areas, where two thirds of the nation's 190 million citizens reside. PG&E's engineers, designers and consultants are placing strong emphasis on good appearance for all our new facilities. This is reflected in our new substations, service centers and other installations.

Substantial progress has been made in placing new electric distribution lines underground, installing new street lighting systems and improving the appearance of overhead electric lines.

In view of recent progress in reducing the cost of installing underground electric facilities in new residential subdivisions, the Company has proposed to the California Public Utilities Commission that it provide this service at no extra charge to the developer except for trenching and backfilling, and installing ducts if required. The Company has further proposed to the Commission a plan for expanding its program for placing existing overhead electric distribution lines underground. Both of these proposals are now pending in a proceeding initiated by the Commission to investigate undergrounding utility facilities. The proceeding involves utility companies throughout the state.

Prospective improvements in materials and techniques hold much promise for further cost reductions in undergrounding distribution power lines. It must be borne in mind, however, that the demand for delivering electricity unobtrusively must be balanced against strong demands for delivering electricity at low rates. Any undergrounding program which is not based on sound economics could produce results which would be unacceptable to both the rate payers and the Company.

MANAGEMENT INFORMATION SYSTEM Effective management of the Company's affairs requires that pertinent and timely information flow to the Company's managers at all levels. Recent developments in electronic data processing equipment make it possible to design greatly improved reporting systems for providing this information. Over a year ago we activated a staff charged with the responsibility of designing and installing a comprehensive management information system that will span all aspects of the Company's operations. Substantial progress has been made on the program and certain phases of it will be placed in operation this year.

We are confident that the system which we expect to establish will help us improve service, control costs more closely and plan with imagination and effectiveness to serve millions of new customers in the years ahead.

OUTLOOK Basic economic factors are favorable for sustained business expansion in our service area. We anticipate a continuing rapid growth of population, increasing industrial development with attendant job opportunities, and a continuation of high consumer expenditures based upon rising personal income. Demand for our utility services should increase commensurately.

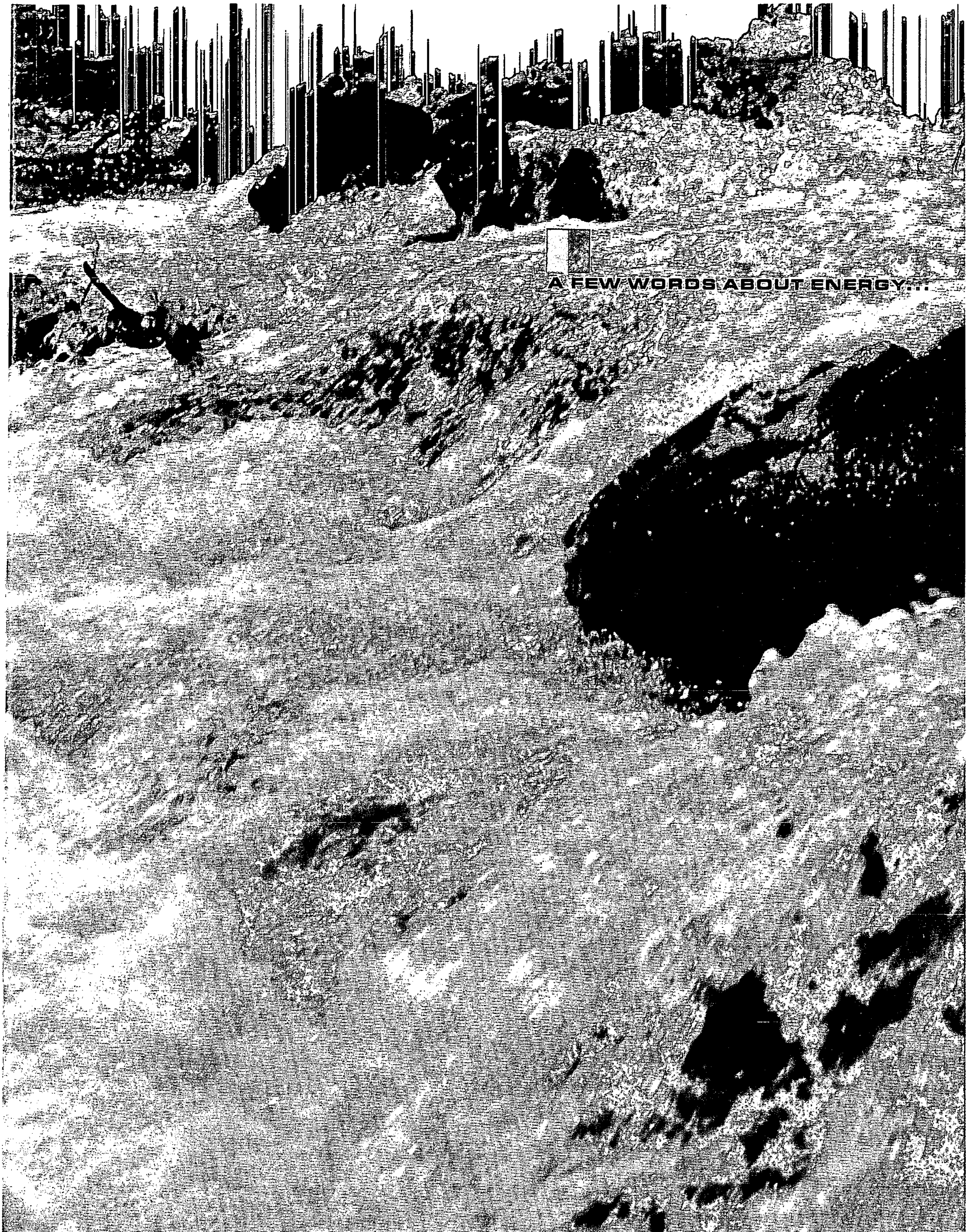
A more detailed review of our operations during the past year is contained in the pages that follow. Financial statements and the opinion of our independent certified public accountants begin at page 26.

For the Board of Directors

Chairman of the Board

President

(The Management will solicit proxies for the annual meeting to be held at the office of the Company, 245 Market Street, San Francisco, California, on Tuesday, April 25, 1967 at 2:00 p.m. In connection with such solicitation, it is expected that the proxy statement and form of proxy will be mailed to stockholders on or about March 15, 1967.)


A FEW WORDS ABOUT ENERGY...

PG&E is, essentially, a purveyor of energy. So, because it is not so much gas and electricity but energy that is PG&E's stock in trade, it might be appropriate to say a few words about the significance of this vital commodity in our modern world.

Through the corridors of time, man has struggled to bend his environment to fit his fragile self. Often his success has been less than overwhelming. But as he has found new sources of energy to supplement muscle power, man has adapted himself to nature with increasing, and sometimes spectacular, success.

The key word to that success is energy – the quantity of it and how it is applied.

There is a direct relationship between the amount of energy available to man and his standard of living. The caveman who moved everything with his own brute strength had little time left to grow food or build houses. In contrast, Americans put 10.9 billion horsepower to work for them in 1960, the energy equivalent of 1,200 servants for every man, woman and child in the nation.

Per capita income in the United States rises and falls with the per capita use of energy, the National Fuels and Energy Study shows. Since 1939, 100 therms of energy has provided the energy base for almost one dollar in per capita income. This seems to suggest that we all could be as rich as we pleased merely by using more gas and electricity. Such a happy thought must be qualified, however – the energy would have to be put to some financially rewarding work and not merely squandered.

The close relationship between income and energy, or Gross National Product and energy, shows up throughout the world. A nation's financial wealth will generally be increased to the extent that it succeeds in substituting inanimate energy for muscle power. On this bountiful globe, it is rarely a lack of natural resources that is the mark of a poor nation. Often it is a failure to develop the energy needed to make use of the resources that are available.

For example, the annual per capita use of energy in Communist China is only about one thirtieth of that in the U. S. "This indicates that China, despite tremendous resources, is barely on the threshold of an industrial development program," notes a Stanford Research Institute study. Building a modern economy with muscle power is a slow process; its primary result is a national backache.

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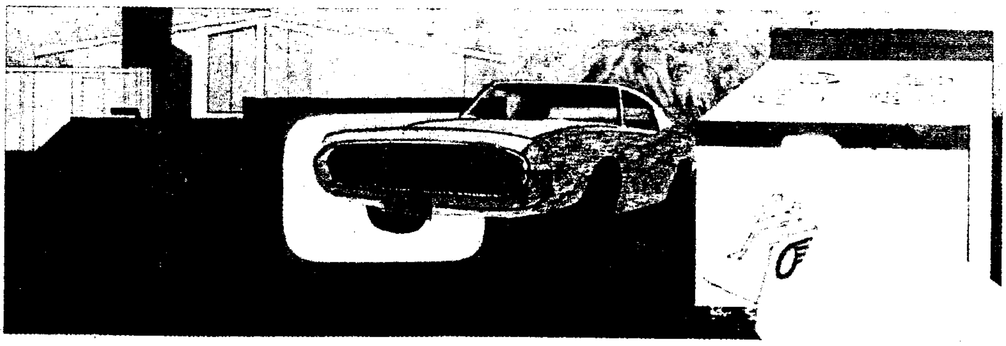
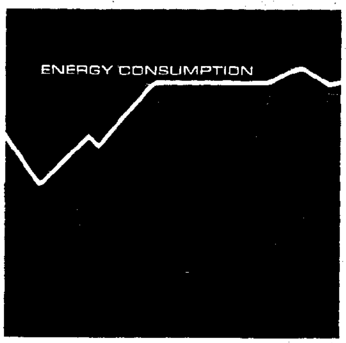
If there is anything certain in this changing world, it is that with each advancing year man's need for energy





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will increase. To make salt water fresh, to build and operate rapid transit systems, to develop an adequate world food supply—these are just a few of the great projects that will depend upon large amounts of energy.

It is estimated that by 1980 the consumption of energy in the United States will be almost double what it was in 1960. And by the year 2000 a world population twice that of 1960 will consume about five times as much energy.

To take a sharper focus on this subject of energy, consider the pleasant residential community of Tiburon on San Francisco Bay. There the average customer's annual use of electricity soared 13.3 per cent in one year. And because about two thirds of PG&E's power is generated in steam plants that use mostly natural gas, the average Tiburon householder is a far better gas customer than he suspects.

So, as a matter of fact, are most PG&E customers. The Company sells five times as much energy in the form of natural gas as it does in the form of electricity. And this does not count the gas PG&E uses in generating electricity.

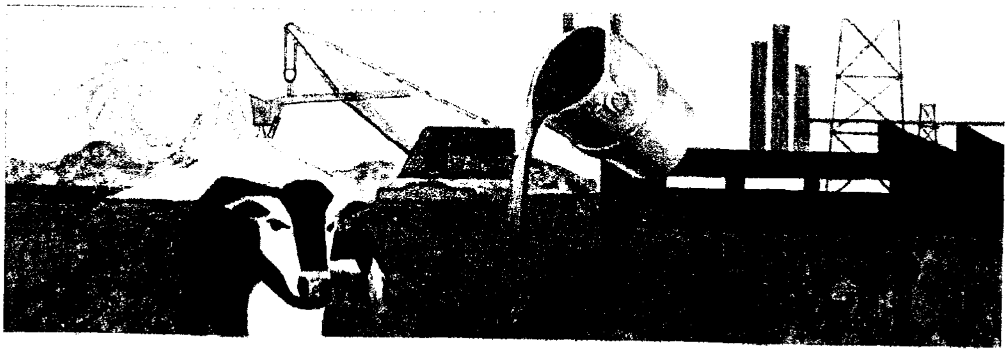
To meet the soaring demands of California, PG&E is enlarging its energy sources substantially. Great new volumes of natural gas are being secured. Hydroelectric and geothermal generating plants are being increased. Big new steam-electric plants are being built and these will be exchanging power with the Pacific Northwest over an extra high voltage network now in partial operation.

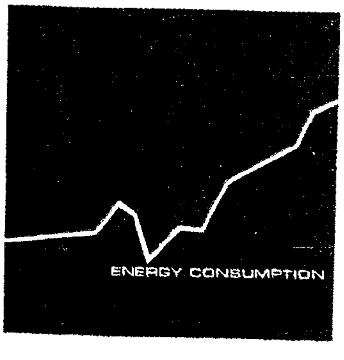
Most dramatically of all, as this report indicates, PG&E is turning increasingly to the atom as a source of energy for the generation of electricity. We face exhilarating prospects for new progress in the decades ahead.

* * *

As the history of this Company—and American industry generally—shows, there are virtually no limits to what dedicated people working together can accomplish. Already, through mechanical and electronic devices, man has fitted himself to circle the earth in a matter of hours and minutes. He has honed his computing ability and his memory recall to microseconds and has stretched his arm to touch the moon and test its pebbled surface. And as man uses machines to adapt himself to his surroundings, he finds it easier to bend his environment without breaking it, to approach nature as a partner instead of an adversary.

But without energy to run them, today's magnificent machines would lie idle and rusting. Our entire economy—and our future—are based on energy. To help supply that energy is the business of the Pacific Gas and Electric Company, and this Annual Report is a review of how we went about that task last year.





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THE 1966 FINANCIAL STORY

REVENUES With operating revenues of $918,157,000 in 1966, the Company maintained its position as the largest gas and electric operating utility in the United States.

The Electric Department contributed 63.0% of the total revenues, the Gas Department 36.7%, with the balance derived from sales of water and steam. The table on page 25 shows a breakdown of revenues and related unit sales by major classes of service.

The over-all increase in electric revenues was 7.5%. Industrial power revenues showed a particularly gratifying gain of 9.2%. Revenues from agricultural power sales were stimulated as a result of below-normal precipitation, which increased the demand for power for irrigation pumping. This was in contrast to the previous year when we experienced unusually heavy rainfall, which adversely affected revenues from agricultural sales.

In the Gas Department warmer than normal temperatures reduced customers' requirements for space heating; as a result revenues in the residential and commercial classifications fell below normal expectations. Revenues from industrial gas sales showed an exceptional growth of 12.3%. In the resale category, revenues almost doubled as a result of greatly increased sales to the Pacific Lighting group of companies, which distribute gas in Southern California. The over-all gain in Gas Department revenues was 8.5%.

EXPENSES Operating expenses, exclusive of taxes and depreciation, increased $38,180,000 to a total of $445,011,000.

About three quarters of the increase was attributable to the larger quantities of gas required for sales to our customers and for fueling our steam-electric generating plants. Most of the remaining increase was accounted for by wages and salaries, reflecting wage adjustments placed in effect in mid-1965 and again in mid-1966, and a modest increase in the number of employees required for our expanded operations.

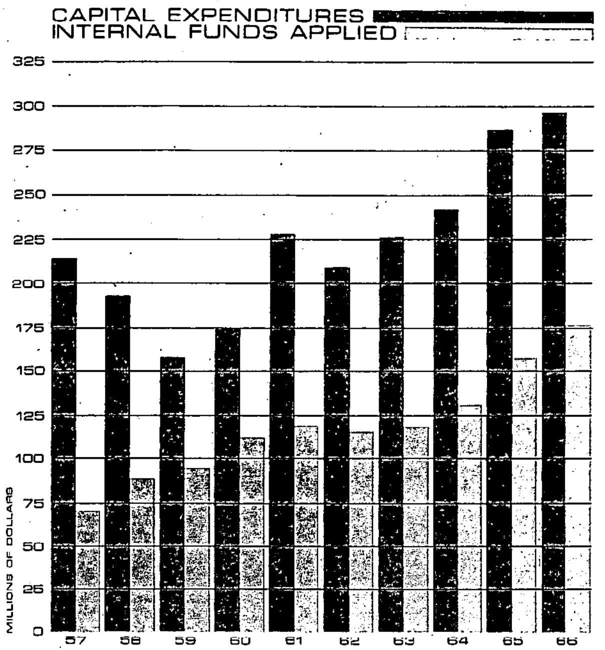
The unit price paid for natural gas continued its downward trend, averaging 30.0¢ per thousand cubic feet (Mcf) in 1966, a substantial reduction from the peak of 33.5¢ in 1962. The purchase of natural gas accounts for over one half of our operating expenses. Therefore the unit price paid is particularly significant in the conduct of the Company's operations. As a result of the current expansion of the Alberta-California natural gas pipeline we are assured of a further reduction of the average cost of gas in 1967 and 1968. Looking beyond 1968, we have every reason to believe that we can obtain additional volumes of gas at favorable prices.

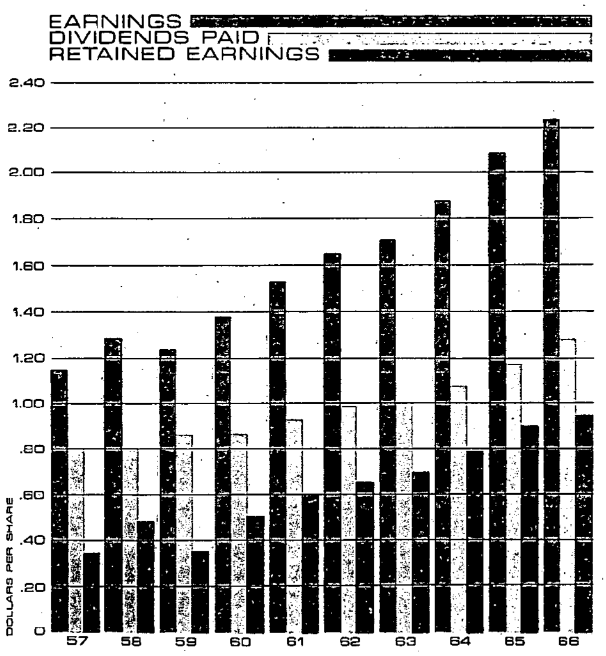
We are continuing to realize important savings in costs through wider use of computers and other automatic equipment. In our electric operations, for example, automatic load dispatching by computer control has been progressively expanded. In 1966 we converted seventeen more generating units, producing 981,000 kilowatts, to this type of control and now have 2,544,000 kilowatts so operated. This type of operation permits selection of the most economical combination of generating resources to meet constantly varying load conditions.

TAXES Taxes of all kinds, paid or set aside for future payment, amounted to $196,272,000 in 1966, as shown in detail by the table on page 12.

Ad valorem property taxes increased $6,558,000 to reach a new peak of $95,721,000. Approximately one half of these taxes were used to support the public schools in our service area. In the past ten years, the average tax rate on the Company's properties has increased from $5.60 to $8.00 per $100 of assessed valuation, an increase of 43%. The higher average tax rate, coupled with progressively higher assessments resulting from the Company's continuing expansion of its facilities, has meant that the Company's property taxes in the past decade have doubled.

The investment tax credit made available under the Revenue Act of 1962 was suspended by Congress for the period October 10, 1966 through December 31, 1967. For two reasons, however, it is not expected that this suspension will have a material effect on earnings in 1967. The first is that many of our construction projects





which will be completed in 1967 were started before October 10, 1966, and therefore will qualify for the investment tax credit in 1967. The second is that the Company has been averaging the effect of the investment tax credit in its accounts. As a result of this averaging process, we closed the year 1966 with about $2 million of deferred investment tax credit. The use of these funds will moderate the impact of the suspension of the investment tax credit in 1967.

In a nation which places its principal reliance upon private enterprise for the production of goods and services, it would appear only reasonable that commercial enterprises, whether they be owned and operated by government or private investors, should all pay their fair share of taxes to support governmental functions at the local, state and national levels. Unfortunately, under present laws government-owned utilities escape virtually all taxes. From their tax-sheltered position, customers of government-owned utilities are in effect shifting their share of the tax burden to other taxpayers. Remedial legislation is long overdue to correct this inequitable situation.

EARNINGS AND DIVIDENDS Net income for the year amounted to $149,031,000. After preferred dividend payments of $18,336,000, there remained $130,695,000 available for the common stock, equivalent to $2.23 a share on the 58,736,429 shares of common stock.

On March 16, 1966 the Board of Directors increased the quarterly dividend on the common stock from 30¢ to 32½¢ a share, or from $1.20 to $1.30 on an annual basis. The first dividend at the new rate was paid to common stockholders on April 15, 1966. This represents the fifth dividend increase on common stock in the past six years.

Dividends declared on the common stock during the year amounted to $76,358,000, or 58.2% of the total earnings available for the common stock. Earnings retained in the business totaled $54,337,000, all of which was invested in income-producing properties which will provide an increased earnings base for common stockholders in the future.

In compliance with the requirements of the U. S. Internal Revenue Code, all dividend payments in 1966 to holders of PG&E stock, both common and preferred, have been reported to the Internal Revenue Service. Each shareholder for whom a report was submitted was mailed a copy in mid-December, 1966. In the same mailing, all common stockholders were advised that none of the common stock dividend payments in 1966 was excludable from their taxable income for Federal income tax purposes.

FINANCING About one half of the Company's $297 million construction program in 1966 was financed from internal sources. The balance was obtained from the sale, at competitive bidding, of two issues of our First and Refunding Mortgage Bonds. On March 15, 1966 we sold $75 million of Series MM Bonds, 5⅜%, due June 1, 1998. On November 2, we sold $80 million of Series NN 5¾% Bonds, due December 1, 1998. The cost to the Company of the latter issue was 5.81%, the highest rate the Company has paid for bond money in more than 40 years.

The Board of Directors has authorized the sale, at competitive bidding, of an additional $80 million of First and Refunding Mortgage Bonds on March 14, 1967. The proceeds will be applied toward financing the Company's construction program in 1967, estimated at $295 million. Additional financing will be undertaken later in 1967, the nature and amount of which have not yet been determined.

At the close of 1966, the Company's total capitalization was $3,101 million, consisting of 51.7% mortgage bonds, 11.3% preferred stock, and 37.0% common stock equity.

STOCK OWNERSHIP At the close of 1966 PG&E was owned by 259,973 individual and institutional investors. Of the total, 74,415 were holders of preferred stock and 185,558 were common stockholders. We are the most widely owned gas and electric utility in the nation and rank eighth in number of stockholders among all corporations in the country.

Our employees continue to increase their participation in the ownership of the Company through the Employees' Savings Fund Plan, which was established in 1959. Presently the Plan has about 14,500 members, or about 94% of all employees eligible. At December 31, 1966 the Trustee held 1,587,532 shares of common stock for the account of the Plan members. These shares had a market value of almost $57 million on that date.

A breakdown of our stock ownership by class of investor appears in the accompanying table. While a large portion of our stock is held by individuals and joint tenancies, most of the balance is held by institutional investors such as investment companies, insurance companies and pension funds. Through these holdings, literally millions of people maintain an indirect ownership interest in the Company.

DISTRIBUTION OF STOCK OWNERSHIP
by Class of Investor, December 31, 1966

	Number of Stockholders	*Number of Shares Owned*
Women	99,876	17,836,394
Joint and other tenancies	69,816	10,035,629
Men	56,406	10,362,829
Trustees, guardians and other fiduciaries	24,157	3,780,923
Nominees	3,096	18,328,615
Corporations, partnerships and proprietorships	2,596	2,621,540
Charitable and fraternal organizations and foundations	1,312	493,588
Banks, investment companies and security dealers	1,056	3,070,886
Insurance companies	689	5,715,413
Religious institutions	587	148,416
Educational institutions	348	327,417
Labor organizations	34	24,769
Total	259,973	72,746,419

FIVE YEARS IN BRIEF

PACIFIC GAS AND ELECTRIC COMPANY

	1966	1965	1964	1963	1962
SOURCES OF INCOME:					
Electric revenues	$578,609,000	$538,271,000	$518,903,000	$488,265,000	$463,405,000
Gas revenues	337,063,000	310,762,000	293,728,000	271,428,000	263,608,000
Other operating revenues	2,485,000	2,366,000	2,328,000	2,157,000	2,412,000
Other income	2,518,000	2,261,000	2,487,000	2,388,000	2,247,000
Total	$920,675,000	$853,660,000	$817,446,000	$764,238,000	$731,672,000
DISPOSITION OF INCOME:					
Wages and salaries	$111,013,000	$102,787,000	$ 99,112,000	$ 93,451,000	$ 88,489,000
Power purchased	11,930,000	14,115,000	10,373,000	10,991,000	5,033,000
Natural gas purchased	252,639,000	223,615,000	222,316,000	203,568,000	196,145,000
Oil and other fuel	8,807,000	8,693,000	8,305,000	9,413,000	11,718,000
Other operating expenses	55,502,000	52,011,000	51,195,000	43,483,000	42,747,000
Insurance, injuries and damages, etc.	5,120,000	5,611,000	4,734,000	5,170,000	6,000,000
Depreciation	98,395,000	92,774,000	89,707,000	83,250,000	71,682,000
Taxes – current	176,573,000	168,408,000	160,964,000	147,300,000	152,225,000
Taxes – deferred	* 2,944,000	* 2,909,000	* 2,407,000	3,838,000	4,801,000
Bond interest and other income deductions	54,609,000	48,283,000	47,311,000	49,672,000	42,140,000
Dividends declared on preferred stock	18,336,000	18,336,000	18,336,000	18,336,000	18,336,000
Dividends declared on common stock	76,358,000	70,483,000	63,369,000	56,477,000	56,477,000
Balance retained in the business	54,337,000	51,453,000	44,131,000	39,289,000	35,879,000
Total	$920,675,000	$853,660,000	$817,446,000	$764,238,000	$731,672,000
NUMBER OF SHARES OF COMMON STOCK OUTSTANDING:					
Average for the year	58,736,429	58,736,429	57,606,878	56,477,326	56,477,326
End of year	58,736,429	58,736,429	58,736,429	56,477,326	56,477,326
EARNINGS PER SHARE OF COMMON STOCK:					
On average shares outstanding	$2.23	$2.08	$1.87	$1.70	$1.64
On end-of-year shares outstanding	2.23	2.08	1.83	1.70	1.64
DIVIDENDS PER SHARE OF COMMON STOCK:					
Declared basis	$1.30	$1.20	$1.10	$1.00	$1.00
Paid basis	1.28	1.18	1.08	1.00	.98

*Denotes red figure.

SOURCE AND APPLICATION OF FUNDS - PACIFIC GAS AND ELECTRIC COMPANY

	1966	1965
SOURCE OF FUNDS:		
Net income	$149,031,000	$140,272,000
Depreciation (incl. charges to other accounts)	103,535,000	96,981,000
Mortgage bonds sold	153,706,000	74,853,000
Bank borrowings	–	46,000,000
Sales and salvage of utility plant, and reimbursements	31,260,000	19,998,000
Decrease in working capital	6,168,000	12,859,000
TOTAL	$443,700,000	$390,963,000
APPLICATION OF FUNDS:		
Construction expenditures	$297,129,000	$286,708,000
Mortgage bonds retired	14,877,000	15,436,000
Dividends – preferred and common stock	94,694,000	88,819,000
Bank borrowings retired	37,000,000	–
TOTAL	$443,700,000	$390,963,000

TAXES AND FRANCHISE PAYMENTS - PACIFIC GAS AND ELECTRIC COMPANY

	1966	1965	*Increase*
LOCAL TAXES AND FRANCHISE PAYMENTS:			
Ad valorem property taxes	$ 95,721,000	$ 89,163,000	$ 6,558,000
Franchise payments	5,399,000	5,242,000	157,000
Total	101,120,000	94,405,000	6,715,000
STATE TAXES:			
Corporation franchise: current	10,351,000	8,515,000	1,836,000
Corporation franchise: deferred (net)	* 248,000	* 230,000	* 18,000
Unemployment insurance	1,924,000	2,155,000	* 231,000
Other	945,000	831,000	114,000
Total	12,972,000	11,271,000	1,701,000
CITY AND STATE TAXES:			
Sales and use	5,513,000	5,015,000	498,000
FEDERAL TAXES:			
Corporation income: current	72,983,000	68,419,000	4,564,000
Corporation income: deferred (net)	* 2,696,000	* 2,679,000	* 17,000
Unemployment insurance	276,000	274,000	2,000
Insurance contributions	6,010,000	3,797,000	2,213,000
Other	94,000	143,000	* 49,000
Total	76,667,000	69,954,000	6,713,000
CANADIAN TAXES	–	12,000	* 12,000
TOTAL TAXES AND FRANCHISE PAYMENTS	$196,272,000	$180,657,000	$15,615,000
CHARGED TO:			
Expense as taxes	$173,630,000	$165,499,000	$ 8,131,000
Expense as franchise payments	5,399,000	5,242,000	157,000
Utility plant and other accounts	17,243,000	9,916,000	7,327,000
TOTAL TAXES AND FRANCHISE PAYMENTS	$196,272,000	$180,657,000	$15,615,000

*Denotes red figure.

Canada is the newest and most rapidly expanding of PG&E's several sources of supply of natural gas. Since December 1961 large quantities of gas have been imported from fields in the Province of Alberta. This gas has been transported to California through 1,400 miles of pipeline at the rate of more than 400 million cubic feet a day.

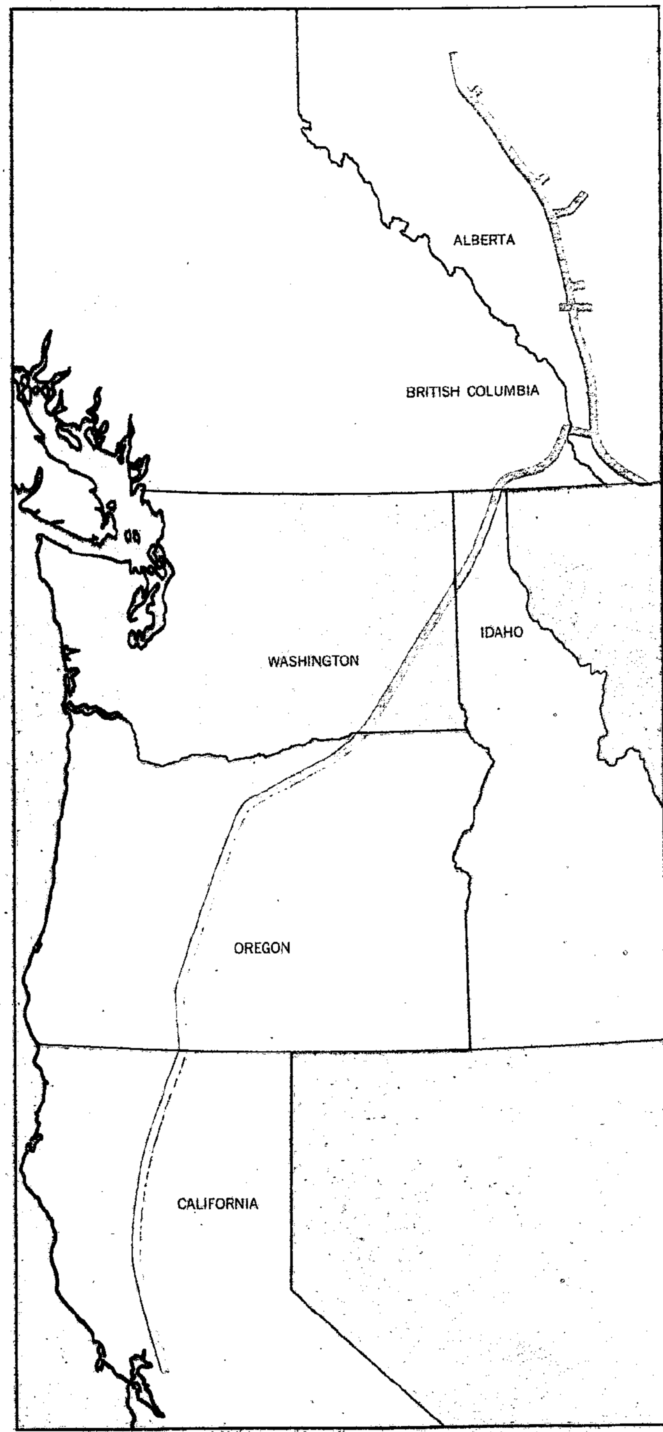
Now the capacity of the pipeline is being increased by about one half with the addition of ten big new compressor units. At the end of 1966, average daily deliveries through the pipeline had increased to 515 million cubic feet and will reach 615 million by November of this year.

Currently before Canadian and United States governmental agencies are applications to increase these imports again. If these applications are approved, additional compressor units will be added which will boost the average daily delivery from Canada to 815 million cubic feet by the end of 1969.

Each of these increases in gas throughput will lower the average delivered cost. Key to this economy is the fact that the throughput of the 36-inch diameter pipeline can be increased merely by adding compressor units until its maximum economic capacity is reached (about 1 billion cubic feet per day). The planned average daily delivery of 815 million cubic feet by the end of 1969 will be almost twice the original authorized rate and will be accomplished without any expensive "looping"—the construction of parallel sections of pipeline.

Each compressor station is a powerful complex of gas turbines or reciprocating engines capable of being remotely controlled from operation centers at Calgary, Canada; Spokane, Washington; and Antioch, California. A microwave system along the pipeline route not only provides the control and telemetry facilities needed to operate the line, but also is a communications link extending from San Francisco to Calgary.

The "Big Yard," so-called because of the pipeline's diameter, was completed at an initial cost of $300 million. To link the prolific gas fields of Alberta with the soaring gas requirements of PG&E customers, the pipeline crosses mountain ranges, lava beds, rivers, forests and farmlands. It contains enough steel to build 250,000 automobiles and its construction involved the moving of more than 25 million cubic yards of earth.



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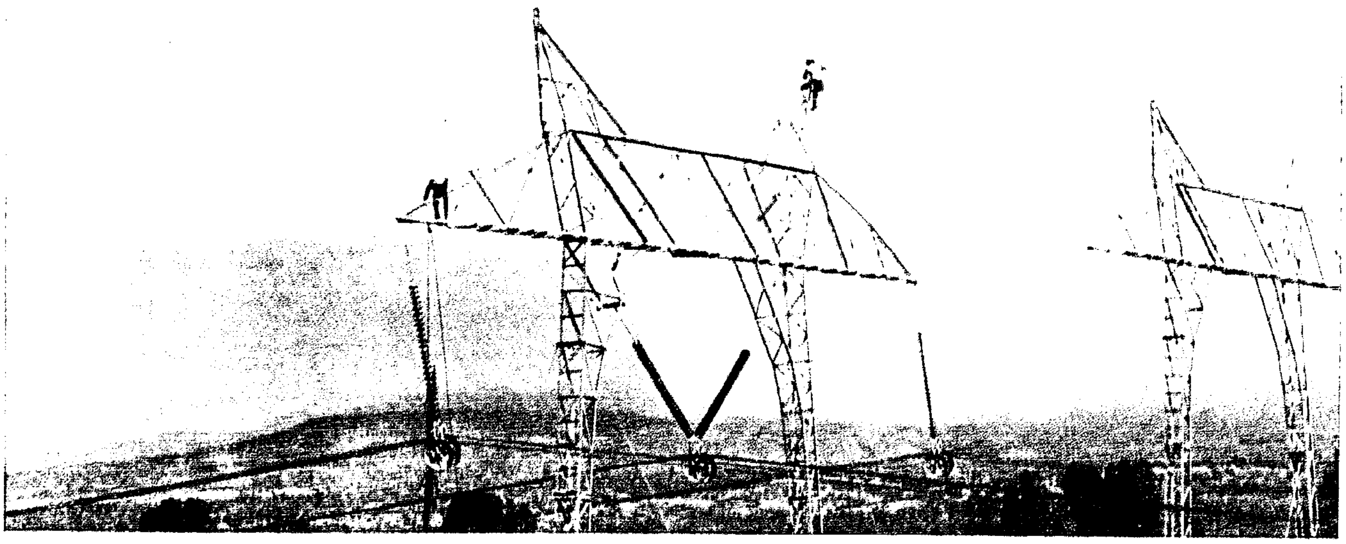


PACIFIC NORTHWEST - SOUTHWEST INTERTIE

What experts have termed "the most imaginative electric transmission system yet conceived" is scheduled to begin partial operation at extra high voltage (EHV) this summer. This is the Pacific Northwest-Southwest Intertie, a $700 million electrical "expressway" in which PG&E is an important partner.

The lines will interconnect the major investor-owned and government-owned electric systems in 11 Western states. When fully operational, it will consist of four long-distance EHV transmission lines and three shorter EHV tie lines (see map opposite).

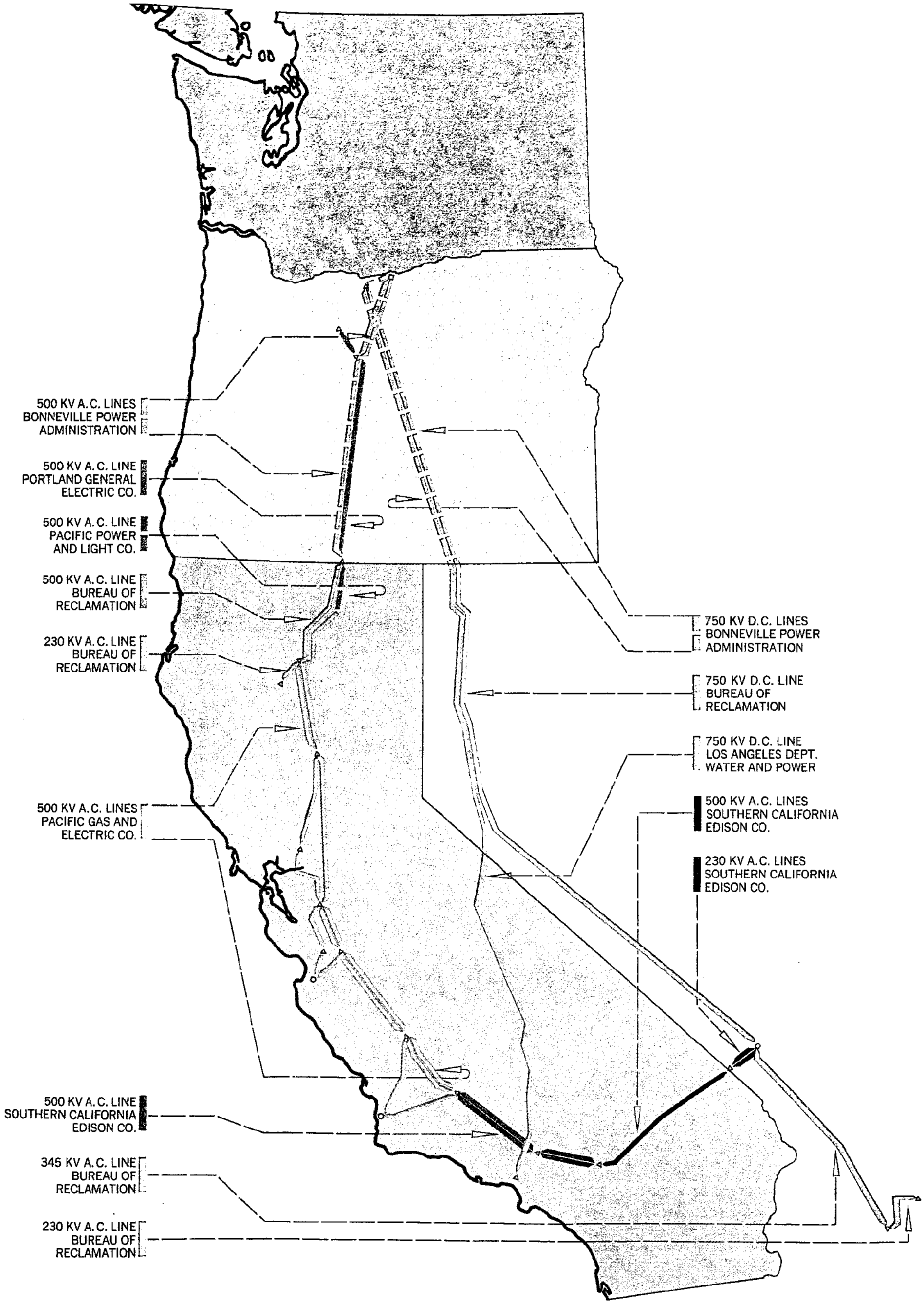
Portions of PG&E's part of the Intertie have been in operation since December 1965 at 230,000 volts. The first transmission at 500,000 volts will begin this summer from PG&E's Moss Landing Power Plant. This fall, power is scheduled to flow between the Columbia Basin and California at 500,000 volts.

These lines extending from the Northwest to Los Angeles will link the hydro power resources of the Northwest with the large steam power resources in California. Several billion kilowatt-hours of surplus energy from the Northwest can be substituted for steam-generated energy in California, providing substantial savings in fuel costs. Furthermore, each area can rely to a substantial extent on the resources of the other for emergency reserves of power.

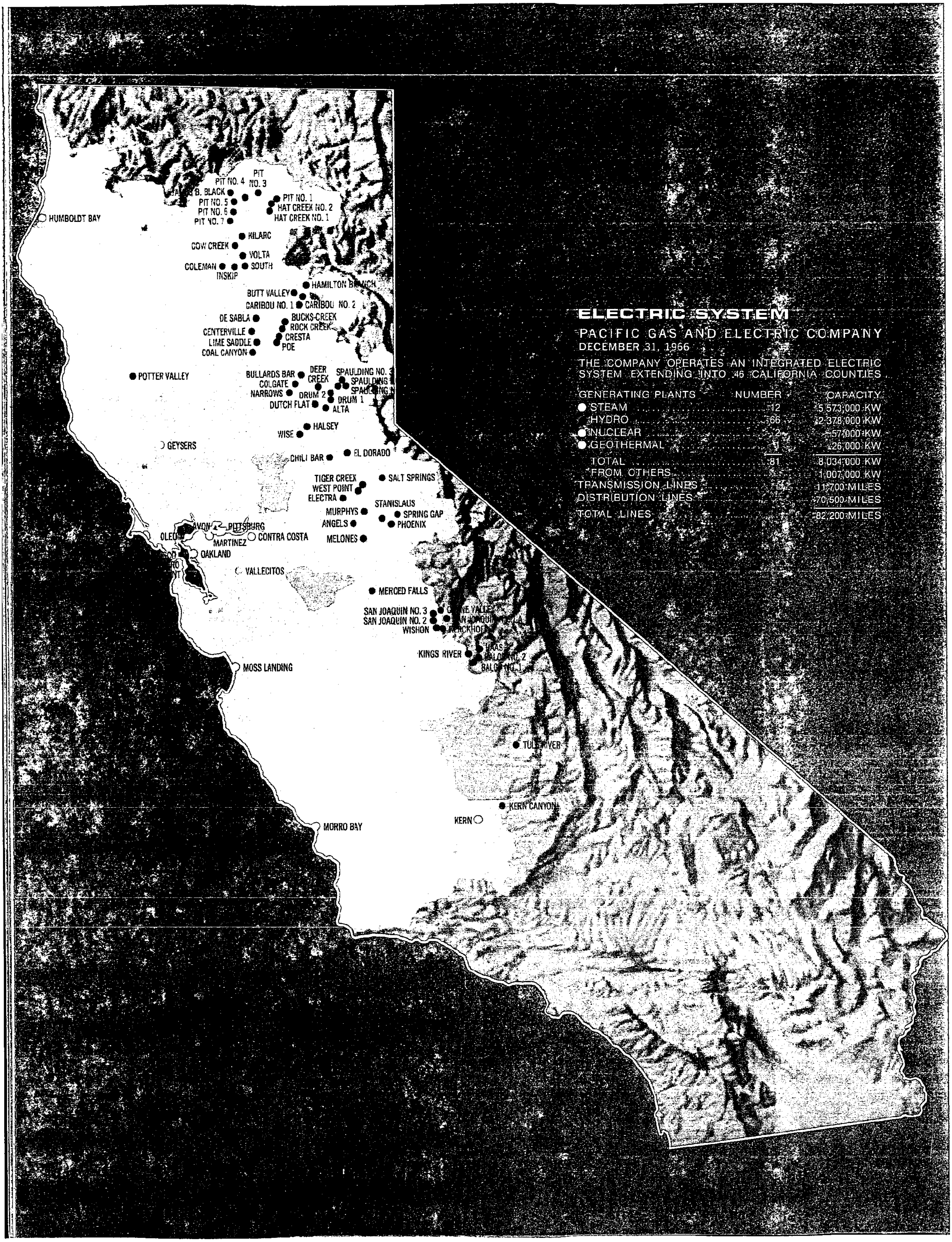
A foretaste of some of these benefits was given last fall. PG&E sent up to 300,000 kilowatts of power northward so that several big manufacturing plants in the Northwest, facing power curtailment because of poor hydro conditions there, could continue operating.

By the end of 1967 PG&E expects to have installed more than a thousand miles of line and seven substations in its 500,000-volt EHV system. These new lines and related facilities, being built at an estimated cost of $185 million, will transmit large amounts of energy from the Company's own plants and provide for interchange of power among members of the California Power Pool, in addition to serving as part of the Intertie.

Another cooperative arrangement made recently with the State of California will provide energy for the pumps that will move California Water Project water southward. The Project will get power from its own plants, from the Northwest over the Intertie and—under a contract signed in November—from the state's four largest electric utilities (PG&E, Southern California Edison Co., San Diego Gas and Electric Co., and Los Angeles Department of Water and Power).



500 KV A.C. LINES
BONNEVILLE POWER
ADMINISTRATION
500 KV A.C. LINE
PORTLAND GENERAL
ELECTRIC CO.
500 KV A.C. LINE
PACIFIC POWER
AND LIGHT CO.
500 KV A.C. LINE
BUREAU OF
RECLAMATION
230 KV A.C. LINE
BUREAU OF
RECLAMATION
500 KV A.C. LINES
PACIFIC GAS AND
ELECTRIC CO.
500 KV A.C. LINE
SOUTHERN CALIFORNIA
EDISON CO.
345 KV A.C. LINE
BUREAU OF
RECLAMATION
230 KV A.C. LINE
BUREAU OF
RECLAMATION
750 KV D.C. LINES
BONNEVILLE POWER
ADMINISTRATION
750 KV D.C. LINE
BUREAU OF
RECLAMATION
750 KV D.C. LINE
LOS ANGELES DEPT.
WATER AND POWER
500 KV A.C. LINES
SOUTHERN CALIFORNIA
EDISON CO.
230 KV A.C. LINES
SOUTHERN CALIFORNIA
EDISON CO.



ELECTRIC SYSTEM
PACIFIC GAS AND ELECTRIC COMPANY
DECEMBER 31, 1966
THE COMPANY OPERATES AN INTEGRATED ELECTRIC SYSTEM EXTENDING INTO 46 CALIFORNIA COUNTIES
GENERATING PLANTS NUMBER CAPACITY
STEAM 12 5,573,000 KW
HYDRO 66 2,378,000 KW
NUCLEAR 2 57,000 KW
GEOTHERMAL 1 26,000 KW
TOTAL 81 8,034,000 KW
FROM OTHERS 1,007,000 KW
TRANSMISSION LINES 11,700 MILES
DISTRIBUTION LINES 70,500 MILES
TOTAL LINES 82,200 MILES
HUMBOLDT BAY
PIT NO. 4
PIT NO. 3
PIT NO. 5
PIT NO. 6
PIT NO. 7
PIT NO. 1
HAT CREEK NO. 2
HAT CREEK NO. 1
KILARC
COW CREEK
VOLTA
COLEMAN
SOUTH
INSKIP
HAMILTON BRANCH
BUTT VALLEY
CARIBOU NO. 1
CARIBOU NO. 2
DE SABLA
BUCKS CREEK
ROCK CREEK
CENTERVILLE
CRESTA
LIME SADDLE
POE
COAL CANYON
POTTER VALLEY
BULLARDS BAR
DEER CREEK
SPAULDING NO. 3
COLGATE
NARROWS
DRUM 2
DRUM 1
DUTCH FLAT
ALTA
HALSEY
WISE
GEYSERS
CHILI BAR
EL DORADO
TIGER CREEK
SALT SPRINGS
WEST POINT
ELECTRA
STANISLAUS
MURPHYS
SPRING GAP
ANGELS
PHOENIX
MELONES
AVON
PITTSBURG
MARTINEZ
CONTRA COSTA
OAKLAND
VALLECITOS
MERCED FALLS
SAN JOAQUIN NO. 3
SAN JOAQUIN NO. 2
WISHON
KINGS RIVER
MOSS LANDING
TULE RIVER
KERN CANYON
KERN
MORRO BAY

OPERATIONS AND ADMINISTRATION

ELECTRIC OPERATIONS Electric system output in 1966 exceeded that of the previous year by almost 10%, reaching a total of 43.0 billion kilowatt-hours. Company hydroelectric output amounted to 11.1 billion kilowatt-hours, or 25.8% of the total. This was a drop of 2 billion kilowatt-hours from the previous year, which had been an unusually favorable one for hydro generation. Load growth and reduced hydro output added to the load of our thermal plants, which generated 26.5 billion kilowatt-hours, or 61.6% of the total system output. This compares with 20.2 billion kilowatt-hours in the previous year. The remaining 5.4 billion kilowatt-hours, or 12.6%, were obtained from other producers. Most of the power purchased from others was produced by a number of water conservation and irrigation projects, with which we have long-term contracts to absorb their output.

The peak demand on our system, amounting to 7,392,600 kilowatts, occurred on August 17. In the previous year the system peak occurred in December.

At the present time we have 2,732,000 kilowatts of electric generating capacity under construction or on order as follows:

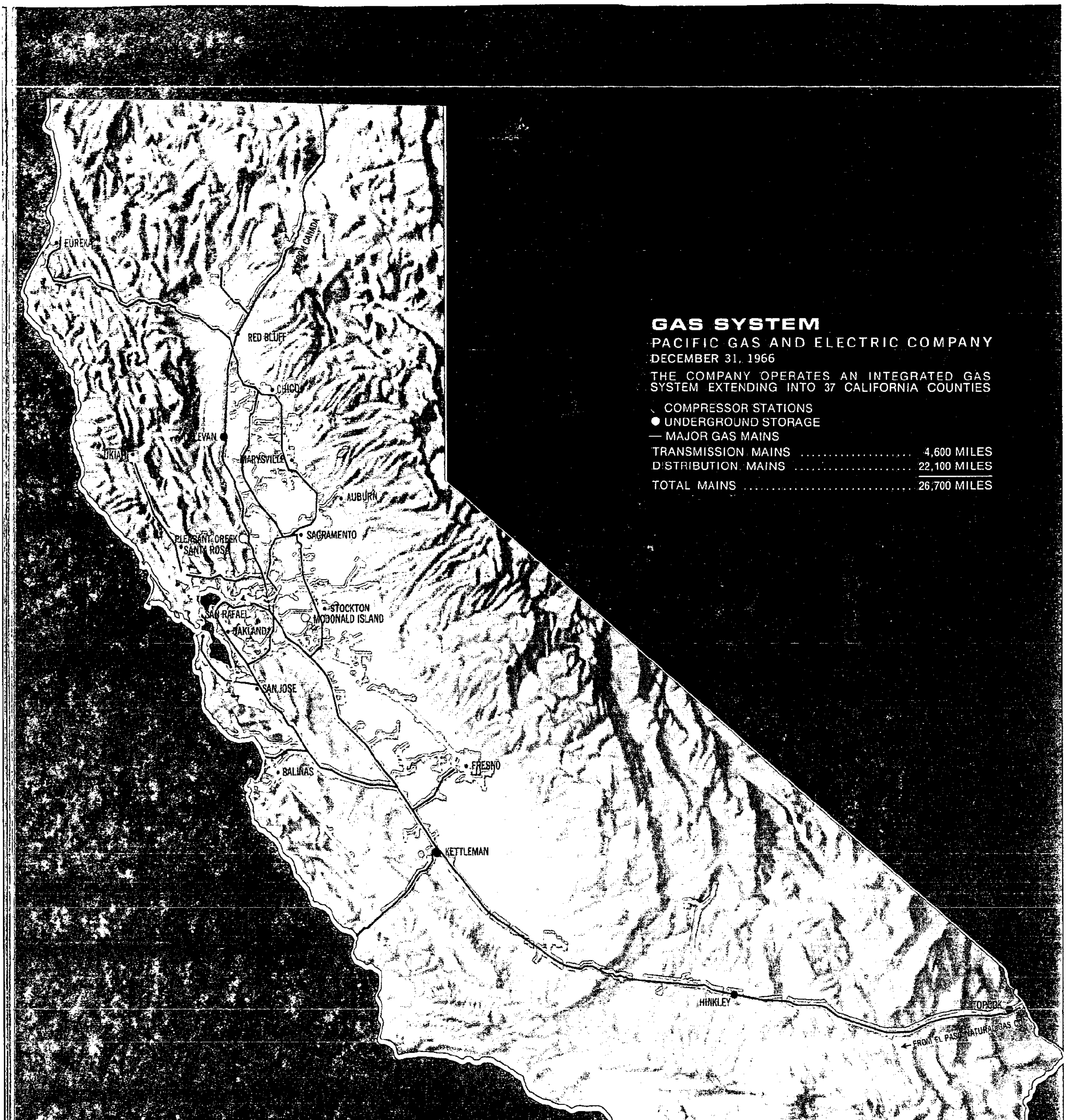
Completion Date		*Estimated Capacity (KW)*
1967	Geysers No. 3 (geothermal)	27,500
1967	Moss Landing No. 6 (conventional steam)	750,000
1968	Moss Landing No. 7 (conventional steam)	750,000
1968	Geysers No. 4 (geothermal)	27,500
1969	Belden (hydro)	117,000
1971	Nuclear Plant – Diablo Canyon Site	1,060,000
		2,732,000

In planning our future requirements for generating capacity we must anticipate the resources which will be available from others. The relatively small additions to capacity between 1968 and 1971 make allowance for about 600,000 kilowatts which will be obtained from the Northwest over the EHV transmission system and about 650,000 kilowatts which will become available from water projects in our service area.

GAS OPERATIONS The importance of natural gas as an energy source in our service area is shown by the fact that – expressed in energy equivalents – our Gas Department supplies about five times as much energy as our Electric Department.

About three fifths of our total electric system output is produced in thermal plants fueled with natural gas. Last year these plants used an average of about 630 million cubic feet of gas a day. This use will increase as we add the two 750,000 kilowatt units now under construction at our Moss Landing Power Plant, each of which will consume in excess of 100 million cubic feet of gas a day.

In 1966 we purchased a total of 808 billion cubic feet of natural gas for sale to our customers and for use as fuel in our thermal electric generating plants. Of the gas purchased, 48.6% was obtained from Texas and New Mexico fields and delivered to us at the Arizona-California border through the facilities of the El Paso Natural Gas Company; 31.0% from California fields; and the balance of 20.4% from Canadian fields. In addition to the gas purchased, there was a net withdrawal during the year of 36 billion cubic feet from underground storage, principally from our McDonald Island


GAS SYSTEM
PACIFIC GAS AND ELECTRIC COMPANY
DECEMBER 31, 1966
THE COMPANY OPERATES AN INTEGRATED GAS SYSTEM EXTENDING INTO 37 CALIFORNIA COUNTIES
COMPRESSOR STATIONS
UNDERGROUND STORAGE
— MAJOR GAS MAINS
TRANSMISSION MAINS .... 4,600 MILES
DISTRIBUTION MAINS .... 22,100 MILES
TOTAL MAINS .... 26,700 MILES
EUREKA
RED BLUFF
CHICO
UKIAH
MARYSVILLE
AUBURN
PLEASANT CREEK
SANTA ROSA
SACRAMENTO
SAN RAFAEL
OAKLAND
STOCKTON
McDONALD ISLAND
SAN JOSE
SALINAS
FRESNO
KETTLEMAN
HINKLEY
TOPOCK
FROM EL PASO NATURAL GAS CO.

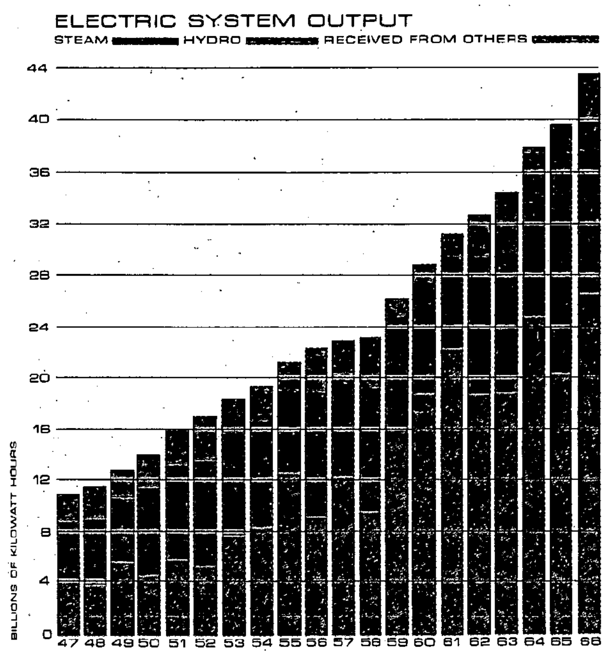
underground gas storage reservoir located about fifty miles east of San Francisco.

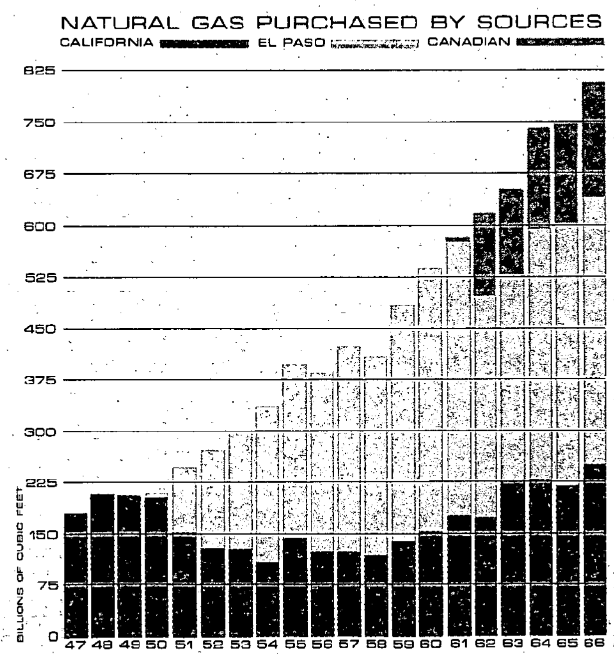
Changes in the sources of our gas supply during the past two decades are shown in the accompanying chart. Prior to 1950 our entire gas supply was obtained from California fields. In the intervening years, the California production became inadequate for our needs and we obtained access to the vast reserves of natural gas in the southwestern United States and in the Province of Alberta in Canada. Mention has already been made of our plans to obtain additional gas from these sources. We believe that we are in an exceptionally favorable position to obtain increases in our gas supply for many years to come at reasonable prices.

BUSINESS DEVELOPMENT Our sales and advertising departments conduct aggressive promotional programs. As we sell both gas and electricity, we enjoy the advantage of not having to spend large sums for advertising and promotion of such basic loads as cooking and heating, which come onto our lines in any case. We thus are able to invest our residential sales promotion dollars more effectively by selective selling. We concentrate on the "plus" business which improves load factor and net earnings, such as lighting, gas air conditioning, dishwashers, freezers and color television.

Continuing in-migration and native population growth, along with a high per capita income, are creating a rapidly expanding potential for all types of goods and services in Northern and Central California. In addition, the strategic location of our service area in the middle third of the Pacific Coast makes this the logical distribution center for the entire western market.

As a direct result, the past year has seen record capital expenditures in our service area for new and expanded production facilities in food processing, fertilizers, construction materials, petroleum, chemicals, metals and metal fabrication. For example, a large petrochemical complex is developing rapidly along a 30-mile stretch of deep water on the upper San Francisco Bay. Of the four major long established oil refineries in that area, two completed modernization programs during the year costing more than $150 million. Also, during the year a





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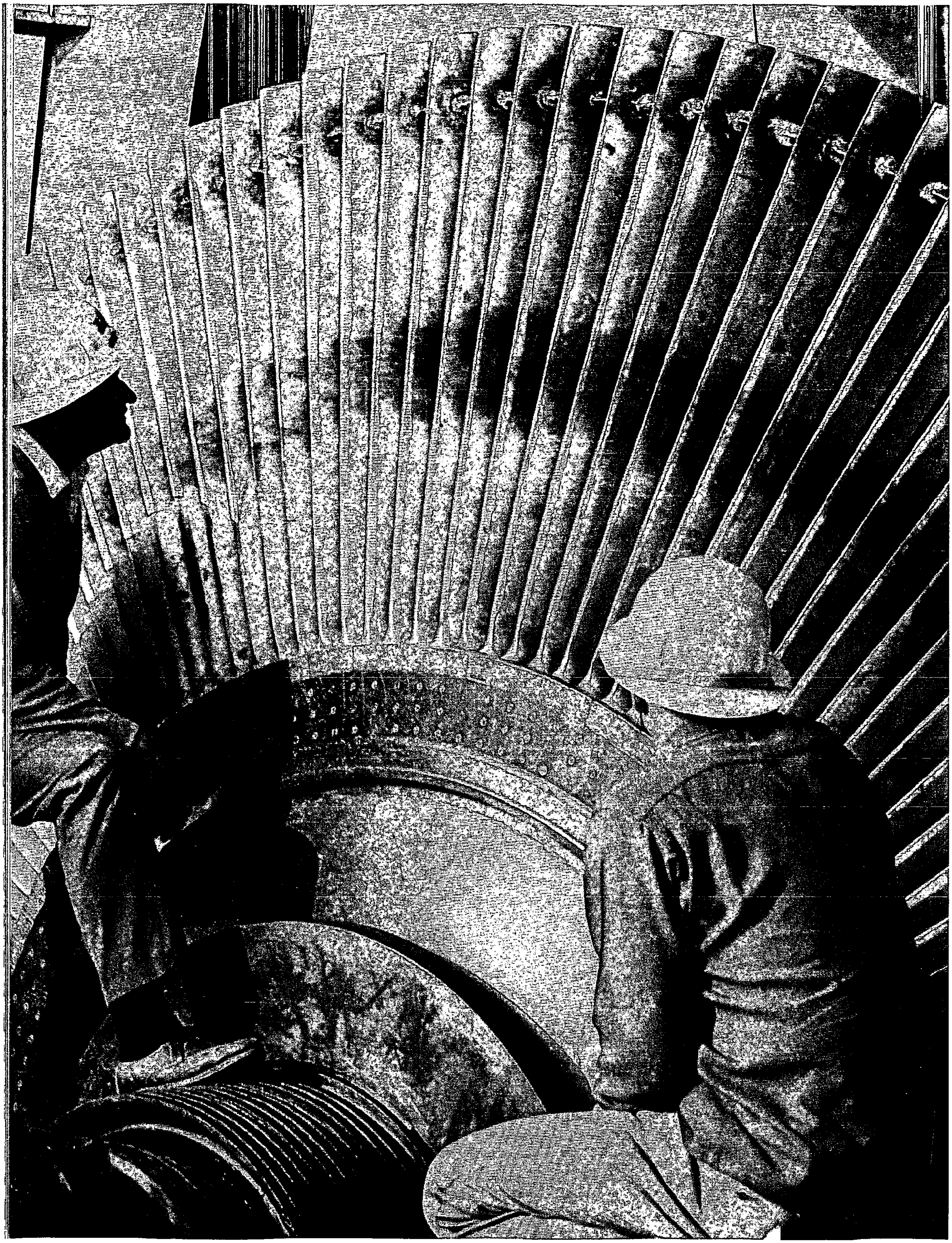


fifth refinery was completed at a cost of $33 million and ground was broken for a sixth estimated to cost $100 million. Many of the nation's largest chemical industries also have plants in the same area.

Food processing and packaging are already vital parts of the area's economy. As California's population continues to grow, they assume even greater importance. A $30 million sugar beet mill—the nation's largest—is in the planning stage for the San Joaquin Valley. New tomato processing plants are under construction as mechanical harvesting methods bring new land into cultivation.

Our Area Development Department has assisted many of these new industries in confidential plant location studies. We have worked closely with local chambers of commerce, city and county officials and organizations in planning for a sound economic growth of our service area.

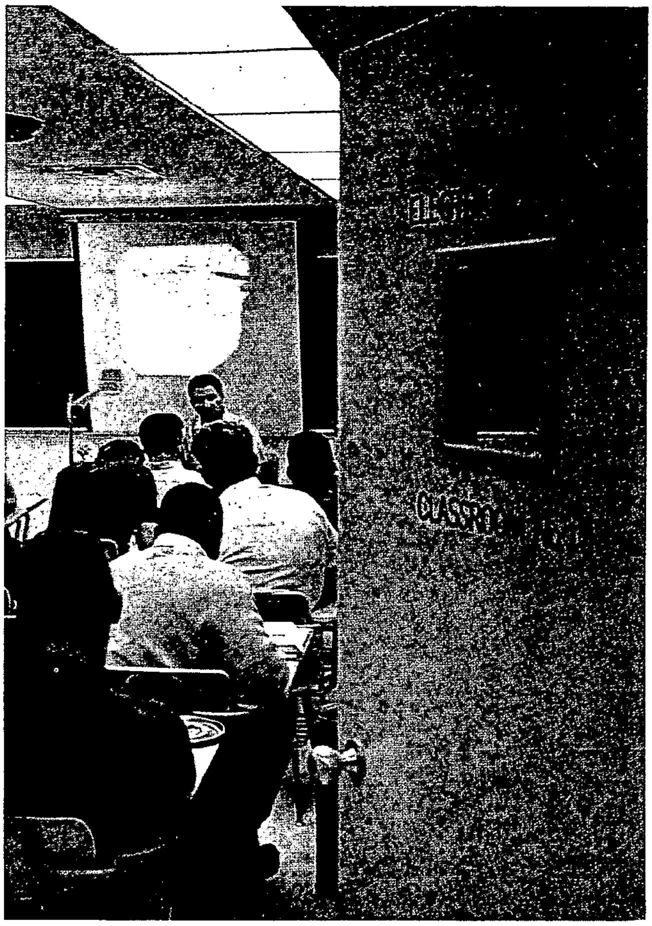
CUSTOMERS	1966	1965	*Increase during 1966*
Electric Department	2,383,907	2,323,896	60,011
Gas Department	2,064,045	2,008,623	55,422
Water Department	13,806	13,416	390
Steam Department	519	527	* 8
Total	4,462,277	4,346,462	115,815

*Denotes red figure.

EMPLOYEES There were 21,984 men and women employed by the Company at the end of 1966, an increase of almost 1,000 employees over 1965. Most of the increase represents employees engaged in construction work required for the Company's continuing expansion program.

Because of the increasing complexity of its operations, the Company has increased its formal and informal training programs for large numbers of employees. Last year one employee in four attended some type of formal Company training program.

In 1966 our employees established the best safety record in the Company's history. As compared with 1965, there was a reduction of 11% in the number of lost-time injuries, and a reduction of 13% in the frequency rate of such injuries. Our injury frequency rate

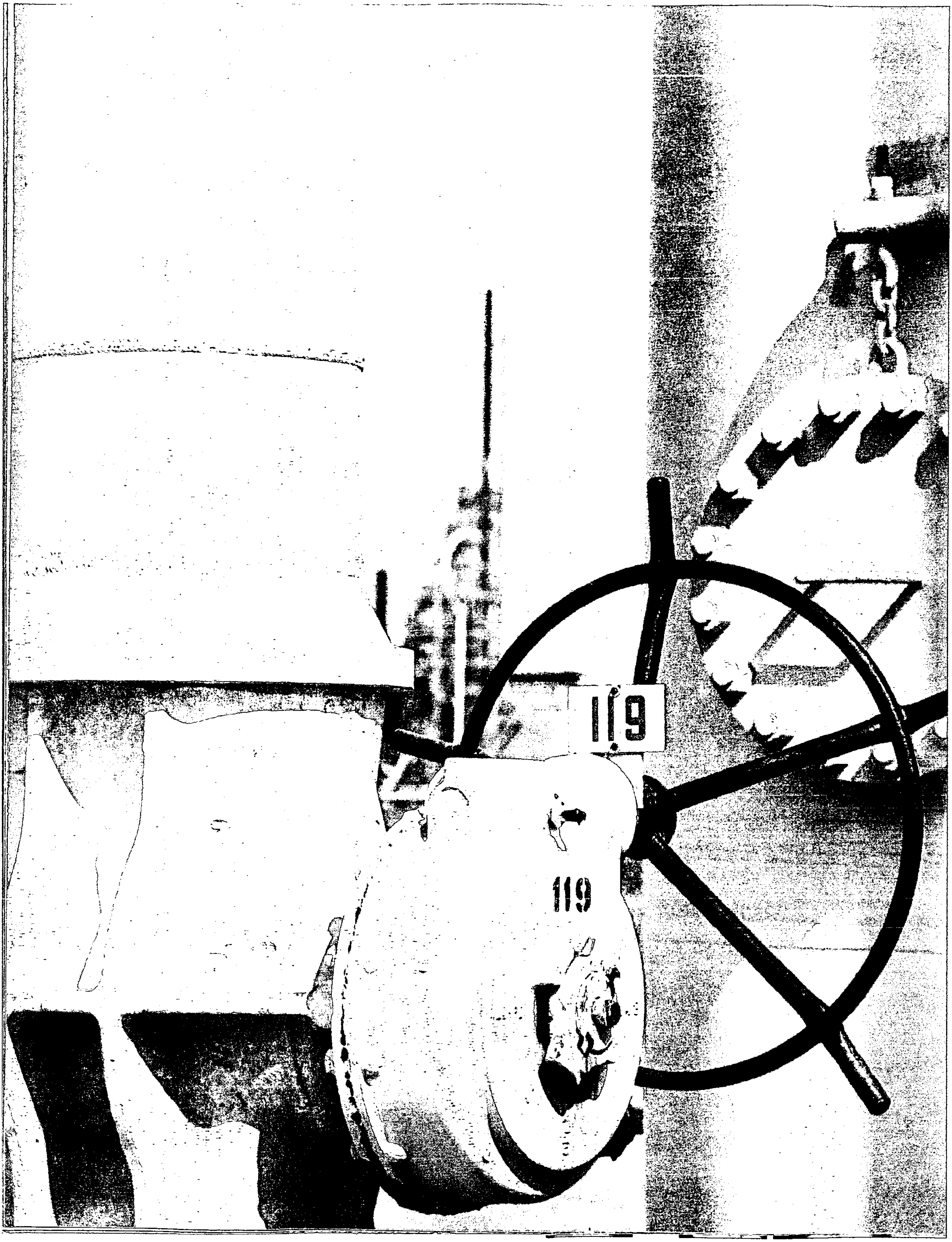


continues to be substantially below the average for the gas and electric utility industry.

Wages and salaries amounted to $189,800,000 in 1966, of which $111,013,000 was paid to operating employees and charged against income. The balance was paid to employees engaged in construction activities and was charged to capital accounts.

Our agreement with the International Brotherhood of Electrical Workers (IBEW) reached the end of its three-year term on June 30, 1966. A new four-year wage agreement was negotiated which provides for basic wage increases of 4% effective July 1, 1966, plus some additional adjustments for special skills. It also provides for wage increases of 4% in mid-1967 and 3.6% in mid-1968, although wage negotiations may be opened in

Energy's pattern: a turbine wheel being installed at Moss Landing's 750,000-kilowatt Unit 6.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1968 if the Consumer Price Index rises beyond a certain level. Also, wages must be negotiated for 1969, but otherwise the terms of the contract are firm for four years. A substantially similar agreement was negotiated with the Engineers and Scientists of California.

During the year the Company again took an active part in a number of local and state programs designed to encourage young men and women to complete their education and so prepare themselves for useful careers. Under some of these programs, teachers and students regularly visit our offices and facilities to learn more about the business and technical world. These tours permit the Company to demonstrate that we are an equal opportunity employer, and that hiring and promotion are based on merit alone, without regard to racial, religious or other considerations.

DIRECTORS AND OFFICERS On September 14, James M. Hait, Chairman of the Board and Principal Executive Officer of FMC Corporation, was elected to the Board of Directors to fill a vacancy left by the resignation of Paul L. Davies.

On July 1, C. C. Whelchel retired as Vice President–Engineering. His successor, J. D. Worthington, had been serving as Mr. Whelchel's assistant.

L. W. Coughlan, Comptroller, retired on September 30 after a fifty-year career with the Company. He was succeeded by Frank A. Peter, who had been Assistant to the Comptroller.

Effective January 1, 1967 Richard L. Hayden retired as a Senior Vice President. He was succeeded by Vern C. Redman, who had been Vice President–Commercial Operations. C. Elliot Ginochio, manager of the San Jose Division, was appointed Mr. Redman's successor.

STOCKHOLDERS' CALENDAR Schedule of Dividend Payments

Common Stock

Record Date	*Date Payable*
March 24	April 15, 1967
June 23	July 15, 1967
September 29	October 16, 1967
December 29	January 15, 1968

Preferred Stock

Record Date	*Date Payable*
January 27	February 15, 1967
April 21	May 15, 1967
July 28	August 15, 1967
October 27	November 15, 1967

STOCK TRANSFER AGENTS Office of the Company (E. F. Hall, Transfer Agent), San Francisco; Bankers Trust Company, New York
REGISTRARS OF STOCK Wells Fargo Bank, San Francisco; Chemical Bank New York Trust Company, New York

Energy for industry: natural gas from Canada flows through scrubbers at P G & E's Antioch terminal and on to customers such as the chemical plant in the distance.

MANAGEMENT INFORMATION SYSTEM

An extensive research program to determine the many kinds of information needed to run the Company is well under way. A system is being designed to provide this information when and where it is needed.

This program, called the Management Information System, will provide three general types of information:

Forecasting information, to assist management in planning for the future;

Operating information, to assist in improving day-to-day operation; and

Control information, to provide supervisors and managers with data showing how well they are meeting Company objectives.

The latest computers and other sophisticated electronic devices will be used where appropriate.

This system is being developed because the volume of information to be handled and the need for rapid access to data of all types are growing steadily.

Here are a few examples of how the system is expected to work:

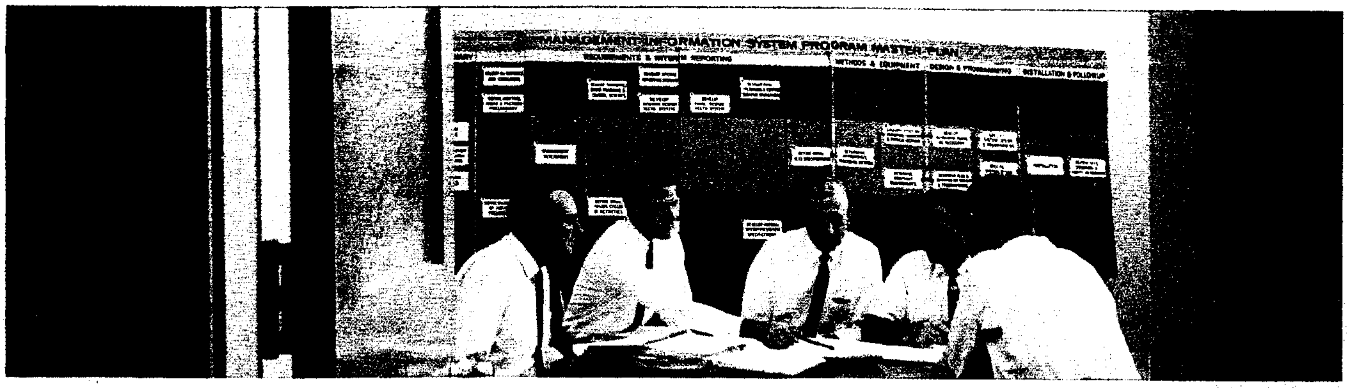
A counter clerk, asked a question about service by a customer, types a few words on a keyboard. Instantly, the question is transmitted over the Company's communication network to a centrally located computer system. Within a second or two, the answer flashes on a video screen in front of her.

An engineer, encountering a problem, steps to a similar keyboard and enters his question in standard engineering terms. Again, the query goes to the computer system where necessary calculations are made, and the answer comes back in a few seconds. If desired, the answer could be printed out by an attached typewriter for later reference.

Many routine decisions probably will be made automatically. As the system keeps inventory, for instance, it could be programmed to place orders automatically when stock levels reach a specific point.

Essentially all work the Company performs is being analyzed and broken into its component parts. We estimate a tentative timetable of three to five years for completion of all parts of the program. Parts of the system will be put in operation as they are ready; for example, about mid-1967 a new responsibility accounting system is scheduled to go into effect, providing up-to-date information to managers and supervisors on the direct costs of their activities.

Much work remains, but it is already clear that PG&E's Management Information System will be another major step in our continuing drive to maintain leadership in one of the most productive, progressive industries in the nation.



REVENUES AND SALES

ELECTRIC AND GAS DEPARTMENTS BY CLASSES OF SERVICE

ELECTRIC DEPARTMENT	1966	1965	Increase Amount	Increase Per Cent
REVENUES:				
Residential	$ 205,155,425	$ 193,219,065	$ 11,936,360	6.2%
Commercial	204,659,862	190,277,116	14,382,746	7.6
Industrial (1000 kw demand or over)	77,174,265	70,645,968	6,528,297	9.2
Agricultural Power	55,992,615	50,572,841	5,419,774	10.7
Public Street and Highway Lighting	9,431,542	8,653,119	778,423	9.0
Other Electric Utilities	15,806,442	14,551,062	1,255,380	8.6
Miscellaneous	10,388,590	10,352,005	36,585	0.4
TOTAL	$ 578,608,741	$ 538,271,176	$ 40,337,565	7.5%
SALES—Kilowatt Hours:				
Residential	9,219,898,335	8,543,621,421	676,276,914	7.9%
Commercial	10,436,725,752	9,598,447,112	838,278,640	8.7
Industrial	8,481,334,644	7,589,860,973	891,473,671	11.7
Agricultural Power	4,110,792,228	3,628,496,328	482,295,900	13.3
Public Street and Highway Lighting	274,642,107	259,665,248	14,976,859	5.8
Other Electric Utilities	2,267,244,206	2,063,228,193	204,016,013	9.9
Total Sales to Customers	34,790,637,272	31,683,319,275	3,107,317,997	9.8
Delivered for the Account of Others	2,183,746,716	2,385,867,260	* 202,120,544	* 8.5
TOTAL	36,974,383,988	34,069,186,535	2,905,197,453	8.5%

GAS DEPARTMENT	1966	1965	Increase Amount	Increase Per Cent
REVENUES:				
Residential	$ 164,642,414	$ 163,143,142	$ 1,499,272	0.9%
Commercial	41,269,606	40,221,605	1,048,001	2.6
Industrial	102,487,957	91,235,162	11,252,795	12.3
Other Gas Utilities	28,336,148	15,776,822	12,559,326	79.6
Miscellaneous	326,903	385,031	* 58,128	*15.1
TOTAL	$ 337,063,028	$ 310,761,762	$ 26,301,266	8.5%
SALES—Thousands of Cubic Feet:				
Residential	203,040,868	202,600,838	440,030	0.2%
Commercial	62,169,236	60,782,777	1,386,459	2.3
Industrial	249,446,320	218,803,490	30,642,830	14.0
Other Gas Utilities	82,698,680	55,109,865	27,588,815	50.1
Total Sales to Customers	597,355,104	537,296,970	60,058,134	11.2
Company Use (Steam plants)	229,807,677	174,954,248	54,853,429	31.4
TOTAL	827,162,781	712,251,218	114,911,563	16.1%

*Denotes red figure.

STATEMENT OF EARNED SURPLUS - PACIFIC GAS AND ELECTRIC COMPANY

FOR THE YEARS ENDED DECEMBER 31, 1966 AND 1965

	1966	1965
BALANCE, JANUARY 1	$328,308,000	$275,041,000
NET INCOME	149,031,000	140,272,000
REVERSAL, IN CONNECTION WITH SALE OF PROPERTY, OF COST ADJUSTMENT PREVIOUSLY CHARGED TO EARNED SURPLUS	9,414,000	
OTHER ADDITIONS — Net	30,000	1,814,000
Total	486,783,000	417,127,000
DIVIDENDS DECLARED — Cash:		
Preferred stock	18,336,000	18,336,000
Common stock (1966, $1.30; 1965, $1.20 a share)	76,358,000	70,483,000
Total	94,694,000	88,819,000
BALANCE, DECEMBER 31	$392,089,000	$328,308,000

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

ACCOUNTANTS' OPINION

HASKINS & SELLS
CERTIFIED PUBLIC ACCOUNTANTS

120 MONTGOMERY STREET
SAN FRANCISCO 94104

February 15, 1967

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

We have examined the balance sheet and schedules of capital stock and mortgage bonds of Pacific Gas and Electric Company as of December 31, 1966 and the related statements of income and earned surplus for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the above-mentioned financial statements and schedules present fairly the financial position of the Company at December 31, 1966 and the results of its operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Haskins & Sells

STATEMENT OF INCOME – PACIFIC GAS AND ELECTRIC COMPANY

FOR THE YEARS ENDED DECEMBER 31, 1966 AND 1965

	1966	1965
OPERATING REVENUES:		
Electric	$578,609,000	$538,271,000
Gas	337,063,000	310,762,000
Other	2,485,000	2,366,000
Total	918,157,000	851,399,000
OPERATING EXPENSES:		
Power purchased	11,930,000	14,115,000
Natural gas purchased	252,639,000	223,615,000
Oil and other fuel	8,807,000	8,693,000
Other production	14,112,000	13,179,000
Transmission	8,315,000	7,648,000
Distribution	38,123,000	35,148,000
Maintenance	39,329,000	36,709,000
Customer accounts	28,187,000	27,057,000
Sales promotion	8,094,000	7,801,000
Administrative and general	35,474,000	32,867,000
Depreciation (Note [illegible])	98,395,000	92,774,000
Taxes:		
Federal income (Note [illegible])	65,760,000	65,951,000
Other	107,870,000	99,548,000
Total	717,035,000	665,105,000
OPERATING INCOME	201,122,000	186,294,000
OTHER INCOME	2,518,000	2,261,000
Total	203,640,000	188,555,000
INCOME DEDUCTIONS:		
Interest on mortgage bonds	58,329,000	53,259,000
Interest charged to construction (credit)	(7,820,000)	(8,678,000)
Other	4,100,000	3,702,000
Total	54,609,000	48,283,000
NET INCOME	$149,031,000	$140,272,000
EARNINGS PER SHARE OF COMMON STOCK AFTER PREFERRED DIVIDENDS	$ 2.23	$ 2.08

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

BALANCE SHEET - PACIFIC GAS AND ELECTRIC COMPANY - DECEMBER 31, 1966 AND 1965

ASSETS	1966	1965
UTILITY PLANT—At original cost	$4,191,677,000	$3,957,154,000
Accumulated depreciation (Note [illegible])	982,667,000	922,954,000
Utility plant—net	3,209,010,000	3,034,200,000
INVESTMENTS—At cost:		
Subsidiaries (Notes 4 and 5)	23,020,000	22,957,000
Nonutility property and other	4,616,000	3,721,000
Total investments	27,636,000	26,678,000
CURRENT ASSETS:		
Cash	21,377,000	25,560,000
Accounts receivable (less allowance for uncollectible accounts: 1966, $1,775,000; 1965, $1,814,000)	82,853,000	73,415,000
Materials and supplies—at average cost	32,426,000	26,994,000
Gas stored underground—at average cost	10,943,000	22,627,000
Prepayments	63,728,000	60,930,000
Total current assets	211,327,000	209,526,000
DEFERRED DEBITS:		
Unamortized bond discount and expense—net	7,549,000	6,801,000
Other	2,476,000	682,000
Total deferred debits	10,025,000	7,483,000
TOTAL	$3,457,998,000	$3,277,887,000

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

BALANCE SHEET – PACIFIC GAS AND ELECTRIC COMPANY – DECEMBER 31, 1966 AND 1965

LIABILITIES	1966	1965
CAPITALIZATION:		
Capital stock (Schedule 1):		
Preferred stock	$ 350,250,000	$ 350,250,000
Common stock	587,366,000	587,366,000
Excess of premiums over discount and expense on outstanding shares	167,636,000	167,636,000
Total capital stock	1,105,252,000	1,105,252,000
Earned surplus	392,089,000	328,308,000
Total capital stock and surplus	1,497,341,000	1,433,560,000
Mortgage bonds (Note [redacted]) (Schedule 2)	1,603,495,000	1,466,416,000
Total capitalization	3,100,836,000	2,899,976,000
CURRENT LIABILITIES:		
Notes payable to banks	9,000,000	46,000,000
Accounts payable	59,708,000	59,277,000
Customer deposits	6,000,000	5,511,000
Taxes accrued (Note [redacted])	104,983,000	100,937,000
Interest accrued	5,975,000	5,126,000
Dividends payable	19,091,000	17,622,000
Mortgage bonds—current portion (Note [redacted]) (Schedule 2)	9,685,000	7,782,000
Total current liabilities	214,442,000	242,255,000
CUSTOMER ADVANCES FOR CONSTRUCTION	10,552,000	9,181,000
DEFERRED CREDITS	10,637,000	4,929,000
RESERVES FOR INSURANCE AND CASUALTIES	8,035,000	8,710,000
CONTRIBUTIONS IN AID OF CONSTRUCTION	46,561,000	42,958,000
ACCUMULATED DEFERRED TAXES ON INCOME (Note [redacted])	66,935,000	69,878,000
TOTAL	$3,457,998,000	$3,277,887,000

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

CAPITAL STOCK - PACIFIC GAS AND ELECTRIC COMPANY, DECEMBER 31, 1966 - SCHEDULE 1

Description	Shares Authorized	Outstanding—Held by Public: Shares	Outstanding—Held by Public: Amount
PREFERRED, CUMULATIVE, PAR VALUE $25 PER SHARE (Note E):			
6% (see Note)	4,211,662	4,211,662	$ 105,292,000
5½%	1,173,163	1,173,163	29,329,000
5%	400,000	400,000	10,000,000
5% redeemable	2,860,977	2,860,977	71,524,000
5% redeemable—series A	1,750,000	1,719,388	42,985,000
4.80% redeemable	1,517,375	1,517,375	37,934,000
4.50% redeemable	1,127,426	1,127,426	28,186,000
4.36% redeemable	1,000,000	1,000,000	25,000,000
Redeemable (unclassified in series)	5,959,397		
TOTAL	20,000,000	14,009,991	350,250,000
COMMON, PAR VALUE $10 PER SHARE (see Note)	75,000,000	58,736,662	587,366,000
TOTAL			937,616,000
EXCESS OF PREMIUMS OVER DISCOUNT AND EXPENSE ON OUTSTANDING SHARES			167,636,000
TOTAL CAPITAL STOCK			$1,105,252,000

NOTE: Capital stock outstanding includes warrants for the issuance of one share of 6% preferred stock and 233 shares of common stock.

MORTGAGE BONDS - PACIFIC GAS AND ELECTRIC COMPANY, DECEMBER 31, 1966 - SCHEDULE 2

Series	Interest Rate %	Maturity	Outstanding—Held by Public	Held in Treasury
J	3	Dec. 1, 1970	$ 17,674,000	
K	3	June 1, 1971	23,789,000	
L	3	June 1, 1974	109,101,000	
M	3	Dec. 1, 1979	77,376,000	
N	3	Dec. 1, 1977	47,962,000	
O	3	Dec. 1, 1975	3,600,000	
P	2¾	June 1, 1981	22,614,000	
Q	2⅞	Dec. 1, 1980	59,901,000	
R	3⅛	June 1, 1982	67,528,000	$ 233,000
S	3	June 1, 1983	69,605,000	
T	2⅞	June 1, 1976	70,149,000	250,000
U	3⅜	Dec. 1, 1985	42,823,000	
W	3⅛	Dec. 1, 1984	51,606,000	875,000
X	3⅛	June 1, 1984	59,459,000	
Y	3⅜	Dec. 1, 1987	41,889,000	
Z	3⅜	Dec. 1, 1988	17,225,000	
AA	4½	Dec. 1, 1986	30,696,000	273,000
BB	5	June 1, 1989	57,700,000	
CC	3¾	Dec. 1, 1978	63,170,000	275,000
DD	4½	June 1, 1990	53,323,000	
EE	5	June 1, 1991	59,815,000	
FF	4⅝	June 1, 1992	53,777,000	358,000
GG	4½	June 1, 1993	56,757,000	
HH	4⅜	June 1, 1994	58,437,000	
II	4¼	June 1, 1995	52,704,000	
JJ	4½	June 1, 1996	63,750,000	
KK	4½	Dec. 1, 1996	62,000,000	
LL	4⅝	June 1, 1997	71,000,000	
MM	5⅜	June 1, 1998	72,000,000	
NN	5¾	Dec. 1, 1998	75,750,000	4,250,000
TOTAL			1,613,180,000	$6,514,000
Mortgage Bonds Included in Current Liabilities (Note C)			9,685,000	
Mortgage Bonds Included in Capitalization			$1,603,495,000	

NOTE: The amount of Mortgage Bonds (First and Refunding) currently authorized ($2,000,000,000) may be increased from time to time by the Board of Directors. Additional bonds, of other series, may be issued subject to provisions of the related bond indenture.

The accompanying notes to financial statements are an integral part of these schedules.

NOTE 1 SUBSIDIARIES:

The financial statements relate to the Company only because the assets and revenues of the subsidiaries were not significant in relation to those of the Company. The Company's equity in the net assets of the subsidiaries as of December 31, 1966 was $22,355,000 and in the results of operations for the years ended December 31, 1966 and 1965 was $1,540,000 and $1,521,000. Dividend income was $1,092,000 and $1,130,000 for the years 1966 and 1965, respectively.

NOTE 2 PREFERRED STOCK:

Preferred stock outstanding at December 31, 1966 consisted of First Preferred and included 8,225,166 shares subject to redemption, at the option of the Company, at par value ($25) per share plus a premium of $.75 to $2.25, depending upon the series and date fixed for redemption. The involuntary liquidation preference of the preferred stock is par value plus accrued dividends.

NOTE 3 MORTGAGE BONDS:

The Company is required, according to provisions of the First and Refunding Mortgage, to make semi-annual sinking-fund payments for the retirement of the bonds. Such payments due within twelve months are included, net of treasury bonds, in current liabilities.

All real properties and substantially all personal properties are subject to the lien of the mortgage. Securities representing investments in subsidiaries are pledged as collateral for the bonds.

NOTE 4 DEPRECIATION AND FEDERAL INCOME TAXES:

For financial statement purposes depreciation of utility plant has been computed on a straight-line remaining life basis at rates based on the estimated useful lives of plant properties. For Federal income tax purposes amortization of utility plant completed under five-year certificates of necessity and depreciation of substantially all other plant were computed by methods allowed by the Treasury Department, including accelerated and liberalized methods and guideline lives. For financial statement purposes Federal income taxes included in operating expenses were computed by methods allowed for rate-making purposes by the California Public Utilities Commission. Accordingly, the Company has charged operating expenses for Federal income taxes based on estimated useful lives of plant completed under certificates of necessity, and has reflected in net income the current tax reductions arising from use of liberalized methods of depreciation and guideline lives.

Investment tax credits were applied as a reduction of Federal income tax expense and amounted to $6,028,000 and $5,861,000 for the years 1966 and 1965, respectively.

NOTE 5 COMMITMENTS:

Utility plant construction expenditures for the year 1967 are estimated at $295,000,000.

The Company provides retirement and savings fund plans for eligible employees. Provisions for such plans (including amounts charged to construction) for the year 1966 were $13,440,000. At December 31, 1966 the unfunded liability, as computed by actuaries, was approximately $9,680,000.

Most of the Company's hydroelectric developments are subject to Federal Power Commission "major" licenses for specific terms. Upon the expiration of each such license, the United States may grant a new license to the Company for the project, take over the project upon payment of "net investment" in the project plus severance damages, determined in accordance with the Federal law under which the license was issued, or grant a license for the project to a new licensee subject to payment to the Company of the amount specified for Federal takeover. The Federal Power Commission has under consideration the promulgation of regulations with respect to determination of the "net investment" in such projects. The effect of such regulations as may be adopted is not presently determinable.

DEPARTMENTAL ORGANIZATION

ELECTRIC OPERATIONS
C. R. Machen, *Assistant to Vice President – Electric Operations*
MANAGERS:
Elmer F. Kaprielian, *Power Control*
Paul Matthew, *Steam Generation*
H. R. Daniels, *Hydro Generation*
R. F. Stuart, *Substations*
H. J. Stefanetti, *Transmission and Distribution*
R. L. Brinton, *Communications*
Harold J. Erling, *System Protection*

GAS OPERATIONS
MANAGERS:
R. D. Smith, *Gas System Design*
E. C. Drew, *Gas Utilization*
R. T. Peterson, *Gas Control*
K. B. Anderson, *Pipe Line Operations*
E. F. Sibley, *Gas Distribution*
S. A. Haavik, *Natural Gas Production*
J. J. Pugh, *Gas System Planning*
N. H. Neel, *Gas Purchase*

ENGINEERING
W. R. Johnson, *Chief Electric Generation and Transmission Engineer*
Thomas A. Bettersworth, *Chief Electric Distribution Engineer*
E. V. Noe, *Chief Engineering Services*
William O. Cheney, *Chief Engineering Research*
W. M. Pickslay, *Chief Computer Application Engineer*
B. W. Shackelford, *Chief Civil Engineer*
D. V. Kelly, *Chief Mechanical Engineer*
H. R. Perry, *Chief Planning Engineer*

RATES AND VALUATION
MANAGERS:
Edward C. Ritchie, *Valuation*
John F. Roberts, *Rate*
John R. Kleespies, *Economics and Statistics*

COMPTROLLER
Granger F. Hill, *Assistant Comptroller*
MANAGERS:
Norris D. Hennings, *Plant Accounting*
Dexter Stoner, *Accounting Methods and Procedures*
George Kestner, *Customer Accounting*
L. D. Coughran, *General Accounting*

TREASURER
MANAGERS:
E. C. Paddock, *Credit and Collections*
J. A. Crockwell, *Insurance*

PERSONNEL AND GENERAL SERVICES
MANAGERS:
Harry M. McKnight, *Personnel Relations*
V. J. Thompson, *Industrial Relations*
S. B. Barton, *Land*
Gerald P. Larson, *Automotive and Equipment*

GENERAL CONSTRUCTION
MANAGERS:
Joe Pirtz, *Civil-Hydro and Gas Construction*
M. A. Kirsch, *Line Construction*
M. H. Chandler, *Station Construction*
R. B. Thompson, *Field Office Operations and Personnel*
Hugo Irons, *General Construction Services*

COMMERCIAL OPERATIONS
MANAGERS:
Walter D. Howell, *General Sales*
Albert B. Cook, *Commercial*
J. G. Foster, *Residential Sales*
R. I. Mendes, *Market Research and Sales Control*
J. S. Walsh, *Area Development*
Stanley O. Blois, *Commercial, Industrial and Agricultural Sales*
Allen D. Owen, *Customer Services*

TAX DEPARTMENT
Robert E. Palmer, *Acting Manager*

INTERNAL AUDITING DEPARTMENT
Frank P. Lallement, *Manager*

LAW DEPARTMENT
SENIOR ATTORNEYS:
William B. Kuder
William E. Johns
Malcolm H. Furbush
John A. Sproul
John C. Morrissey
Richard A. Raftery
Charles T. VanDeusen
Malcolm A. MacKillop
Philip A. Crane, Jr.

CLAIMS AND SAFETY DEPARTMENT
R. W. White, *Manager*

PURCHASING AND STORES DEPARTMENT
F. F. Mautz, *Manager*

ADVERTISING AND PUBLICITY DEPARTMENT
A. J. McCollum, *Manager*
W. A. Hynes, *Manager Public Activities*

DIVISION MANAGERS

COAST VALLEYS: Leigh H. Smith, Salinas
COLGATE: W. L. Murray, Marysville
DE SABLA: C. Robert Martin, Chico
DRUM: William D. Laughlin, Auburn
EAST BAY: W. D. Skinner, Oakland
HUMBOLDT: V. C. Novarino, Eureka
NORTH BAY: E. S. Day, San Rafael
SACRAMENTO: K. C. Porter, Sacramento
SAN FRANCISCO: Richard K. Miller, San Francisco
SAN JOAQUIN: Earl E. Foley, Fresno
SAN JOSE: Ellis B. Langley, Jr., San Jose
SHASTA: Lee W. Brillhart, Red Bluff
STOCKTON: J. Y. DeYoung, Stockton

BOARD OF DIRECTORS

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CHARLES DE BRETTEVILLE, *San Francisco*
RUSSELL GIFFEN, *Fresno*
WALTER A. HAAS*, *San Francisco*
JAMES M. HAIT, *San Jose*
REED O. HUNT, *San Francisco*
ELLIOTT McALLISTER*, *San Francisco*
DAVID PACKARD, *Palo Alto*
PORTER SESNON, *San Francisco*
S. L. SIBLEY*, *San Francisco*
EMMETT G. SOLOMON, *San Francisco*
CARL F. WENTE*, *San Francisco*

*Member Executive Committee

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JOHN F. BONNER, *Senior Vice President*
RICHARD H. PETERSON, *Senior Vice President and General Counsel*
V. C. REDMAN, *Senior Vice President*
H. P. BRAUN, *Vice President – Electric Operations*
E. H. FISHER, *Vice President – Gas Operations*
C. E. GINOCHIO, *Vice President – Commercial Operations*
ROBERT R. GROS, *Vice President – Public Relations*
E. J. LAGE, *Vice President – Rates and Valuation*
FREDERICK W. MIELKE, JR., *Vice President and Assistant to Chairman*
C. H. SEDAM, *Vice President – General Construction*
JOHN G. SMITH, *Vice President – Personnel and General Services*
J. DEAN WORTHINGTON, *Vice President – Engineering*
FREDERICK T. SEARLS, *General Attorney*
D. L. BELL, *Treasurer*
EDMOND E. MANHARD, *Secretary*
FRANK A. PETER, *Comptroller*

* * *

A. H. CATHERALL, *Assistant Secretary and Assistant Treasurer*
A. J. DUFFY, *Assistant Treasurer*
T. M. WELP, *Assistant Treasurer*
J. N. GEHRE, *Assistant Secretary*
JOHN F. TAYLOR, *Assistant Secretary*