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COVER: A Company hydrographer makes water flow measurements in Pyramid Creek, Desolation Valley, in the Sierra Nevada on a warm July day. Late and heavy snows helped make 1967 a record year for hydroelectric generation. This water gauging station is one of 600 maintained by PG&E. INSIDE COVER: A glowing addition to the San Francisco skyline will be the floodlighted 34-story tower and landscaped office complex being constructed adjacent to the present PG&E general office buildings.

HIGHLIGHTS OF OPERATION

	1967	1966
Operating Revenues	\$ 945,047,000	\$ 918,157,000
Natural Gas Purchased	\$ 230,843,000	\$ 252,639,000
Taxes and Franchise Payments	\$ 184,374,000	\$ 179,028,000
Operating Payroll	\$ 118,788,000	\$ 111,013,000
Other Expenses and Deductions	\$ 246,691,000	\$ 226,446,000
Net Income	\$ 164,351,000	\$ 149,031,000
Earned Per Common Share	\$2.49	\$2.23
Total Assets	\$3,664,033,000	\$3,457,998,000
Construction Expenditures	\$ 310,992,000	\$ 297,129,000
Sales of Electricity to Customers (KWH)	35,643,923,000	34,790,637,000
Sales of Gas to Customers (MCF)	593,280,000	597,355,000
Total Customers	4,554,311	4,462,277
Number of Employees	22,064	21,984
Number of Stockholders	253,512	259,973

**REPORT OF THE DIRECTORS
OF PACIFIC GAS AND ELECTRIC COMPANY**

San Francisco, California, February 24, 1968



ROBERT H. GERDES
Chairman of the Board

SHERMER L. SIBLEY
President

TO OUR STOCKHOLDERS:

1967 was an eventful and successful year for our Company.

Net earnings for the common stock reached an all-time high of \$2.49 a share, up from \$2.23 per share a year earlier, an increase of 26¢ or 11.7%. Earnings were benefited by the exceptionally favorable water year for hydro generation with attendant savings in fuel costs in our thermal electric generating plants.

Gross operating revenues totalled \$945 million, representing an increase of about 3% over the previous year. This below-normal increase was due principally to rate reductions of \$4.3 million, reduced sales of electricity occasioned by the wet year and lower sales of gas to another utility. We expect that our gross revenues will resume their normal growth this year and pass the \$1 billion mark on an annual basis before the close of 1968.

New customer connections in 1967 totalled 92,034, or about 20% less than in the previous year. In the fourth quarter of the year customer growth exceeded that of the corresponding quarter of the previous year and we expect this trend to continue into 1968.

In March the dividend on the common stock was increased from \$1.30 to \$1.40 per share on an annual basis, the sixth dividend increase in the last seven years.

CONSTRUCTION PROGRAM Expenditures for construction of new facilities in 1967 reached \$311 million, the largest in our history. It is anticipated that about \$275 million will be expended in 1968 to keep ahead of the increasing demands for our services.

A 750,000 kilowatt steam-electric generating unit was completed at our Moss Landing power plant and placed in service on December 10, 1967. A twin unit is nearing completion at this location and is scheduled to be in operation by mid-1968. These are by far the largest and most efficient thermal generating units on our system.

On November 7, 1967 the California Public Utilities Commission authorized the construction of a 1,060,000 kilowatt nuclear power unit. The plant will be located on a 750-acre coastal site twelve miles southwest of San Luis Obispo in the southerly reaches of our service area. Construction will begin upon receipt of a construction permit from the Atomic Energy Commission which was the subject of hearings before that agency in February 1968.

In February 1968 plans were announced for the construction of another 750,000 kilowatt conventional thermal unit and a second 1,060,000 kilowatt nuclear unit for operation in the period 1972 through 1974.

Stockholders have previously been informed of plans to construct a 34-story office tower adjacent to our present general office at 245 Market Street, together with a three-story connecting structure to house all energy control functions. Work on the latter structure is under way and should be completed late in 1968. The tower is scheduled for completion in 1971.

INTERTIE AND POWER PURCHASE CONTRACTS SIGNED One of the major highlights of

the year was the signing of the contracts relating to the Pacific Northwest-Southwest Intertie. After negotiations extending over many months, the complex contracts were completed and signed by the Secretary of the Interior, the Company and other parties. The Intertie is more fully explained later. PG&E's segment, consisting of more than 1,000 circuit miles of 500,000 volt lines extending from near the Oregon border to Bakersfield, will be completed in 1968 at a cost of about \$185 million. These arrangements and facilities will contribute to both economy and reliability of service, and also should stabilize power purchase and supply relationships with governmental agencies for many years to come.

Also during the year the Company, Southern California Edison Company and San Diego Gas and Electric Company entered into an agreement with the State of California Department of Water Resources to purchase for 50 years the output of the State's generating plants at its Oroville-Thermalito Dams which are being built as a part of the California Water Project. The State expects to have all the plants in operation by April 1969. The Company's share of the 725,000 kilowatts of capacity and the related energy will be 56.3% until November 1, 1984, and 100% after that date. The revenue to the Department under this contract will materially assist the State in financing its Water Project. The State will be supplied with the power it needs for its Water Project under the Intertie contract and a prior

agreement made with PG&E and the two companies mentioned.

ADDITIONAL GAS SUPPLY Subject to authorization by the Federal Power Commission, we plan to increase our purchase of gas from the El Paso Natural Gas Company before the end of 1968 by 100 million cubic feet per day. This will 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 moved through our existing pipelines to Northern California. Also, subject to Commission approval, 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 late in 1968 and the balance a year later. This will bring the average daily delivery of Canadian gas to the Company's service area to 815 million cubic feet by the end of 1969. Hearings before the Commission on both proposals were held late in 1967 and early in 1968 and it is hoped that a favorable decision will be rendered in the spring of 1968.

ESTHETIC CONSIDERATIONS Throughout the country increasing attention is being given to the need to preserve and improve the appearance of our surroundings. The Company believes that its structures can be made attractive as well as functional and our engineers, designers and landscape consultants are placing strong emphasis on this approach. The results of this effort are shown pictorially throughout the

balance of this report.

One area which has been given the closest attention is the conversion of overhead electric distribution lines to underground. For many years PG&E has followed a program of replacing overhead with underground distribution lines in certain congested metropolitan areas and heavily travelled streets. In September the California Public Utilities Commission, after hearings involving all utilities in the State, issued an order which will broaden our replacement program. The order conforms closely to the proposals which we submitted to the Commission and permits an accelerated replacement program in certain civic, public recreation and scenic areas. We advised the Commission that we have budgeted \$8 million for this purpose in 1968.

MANAGEMENT INFORMATION SYSTEM
Steady progress is being made in the design of the management information system which was initiated in the spring of 1966. Through the use of the latest model computers we are developing a plan to provide management at all levels with timely reports to assist them in conducting the affairs of the Company most efficiently. We estimate the entire program will take five years to complete, but important portions of the system will be made operative as they become available.

OUTLOOK The economy of our service area should continue to expand in 1968 with commensurate increases in demand for our services. We look for a continuation of rapid growth in population, a higher gain in personal income than that of the nation as a whole, strong increases in industrial and commercial development and a considerable improvement in residential construction over the depressed 1967 levels.

The pages that follow contain a more detailed review of our operations during the past year. Financial statements and the opinion of our independent certified public accountants begin at page 28.

For the Board of Directors

Robert A. Gerdes
Chairman of the Board

W. S. Silvey
President

(The Management will solicit proxies for the annual meeting to be held at the Masonic Auditorium, 1111 California Street, San Francisco, California, on Tuesday, April 23, 1968 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, 1968.)



THE COMPANY AND ITS ENVIRONMENT

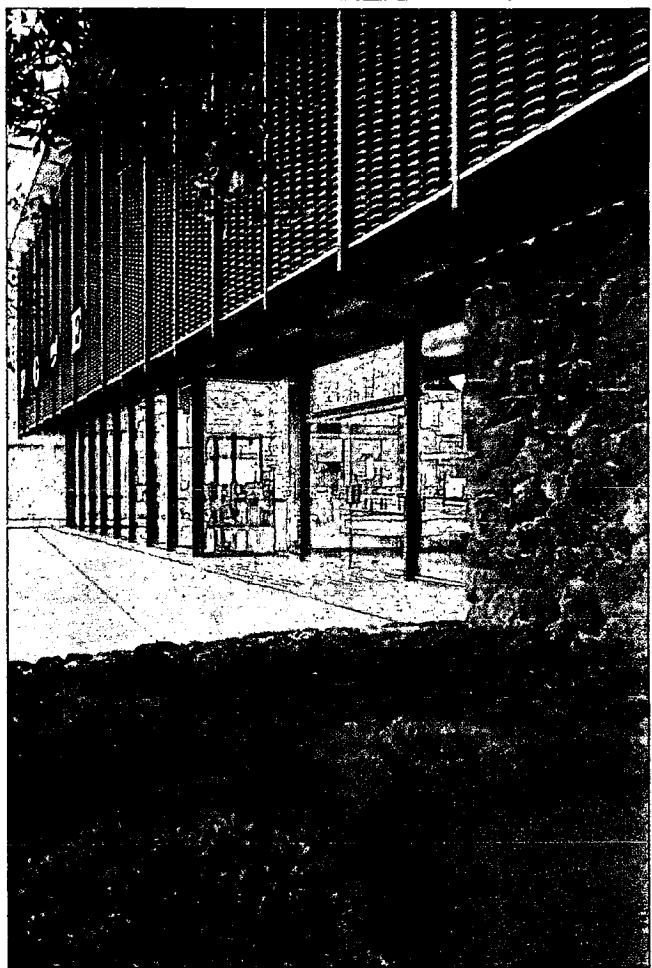
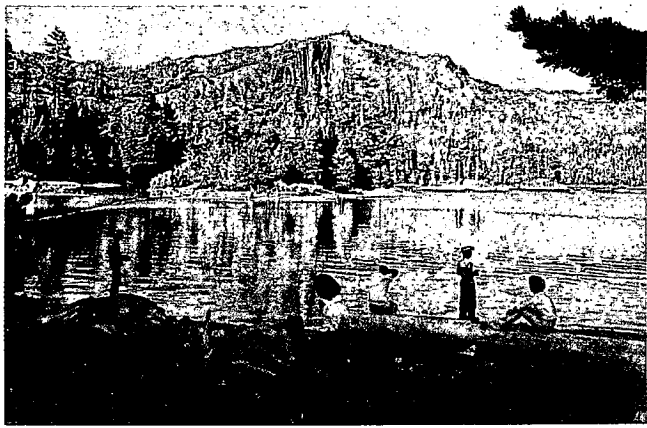
California's population presently is growing at the rate of about 1,500 people a day. Demographers estimate there are about 20 million persons in the state now, and there will be about 30 million in 1980. More people means more homes, highways and airports; more schools, businesses and factories. And more energy.

In the face of this increasing population, it has not always been easy for Californians to preserve intact their state's great forests and golden fields, its sparkling waters and blue skies. However, in providing energy for fast growing Northern and Central California, PG&E has been able to do much to enhance the surroundings.

The Company's hydroelectric properties—its lakes and watershed lands—have long been open for public enjoyment. Numerous campsites, picnic areas, boat ramps and other recreational facilities have been developed on these properties. Today there are more than 581 picnic and campground units at 48 different locations, and more are being added every year.

Sites for the Company's big new thermal generating plants are being selected in consultation with agencies of the State of California and conservation groups in order to assure that these developments will be compatible with areas in which they are built.

We expect that most electric generating plants to be



FACETS of PG&E's program to improve our environment include mountain campgrounds, a stepped-up program of undergrounding electric distribution lines, the nation's most ambitious street relighting program, science fairs and televised concerts for young people, attractive offices and conservation of our natural resources.



constructed in the future by PG&E will be atomic-powered, such as the planned Diablo Canyon plant. These atomic plants will generate power safely and economically and will have simple lines that lend to pleasing architectural treatment. The emphasis on good appearance of Company facilities is reflected in our new office buildings and trim new electric transmission and distribution structures. Increased emphasis is being placed on underground electric distribution lines.

At the base of the hills along the western side of the Santa Clara Valley is the residential community of Los Gatos. Among the attractive features of the town is a neighborhood park of 3½ acres. Although developed by the city, the park is on PG&E's transmission line right of way. Here is another instance where service facilities and environmental improvements exist in harmony. We expect that many similar improvements will be undertaken in the future.

Our environment is social as well as physical, and there is no resource more valuable than a society of free and independent people. The Company is working with numerous organizations to find productive work for members of minority groups and for the disadvantaged. In addition the Company has long had a successful program of hiring young people for summer work.

From the James B. Black College Scholarship program to sponsoring student television concerts, PG&E evidences interest and concern for the youth of our society—and, through them, for the type of environment which lies in our future.

Like the silent forces of gas and electricity, our program for environmental improvement rarely calls attention to itself, yet it is helping build a better future for the communities we serve. This year's Annual Report provides a glimpse of the efforts we are making in this direction.



THE 1967 FINANCIAL STORY

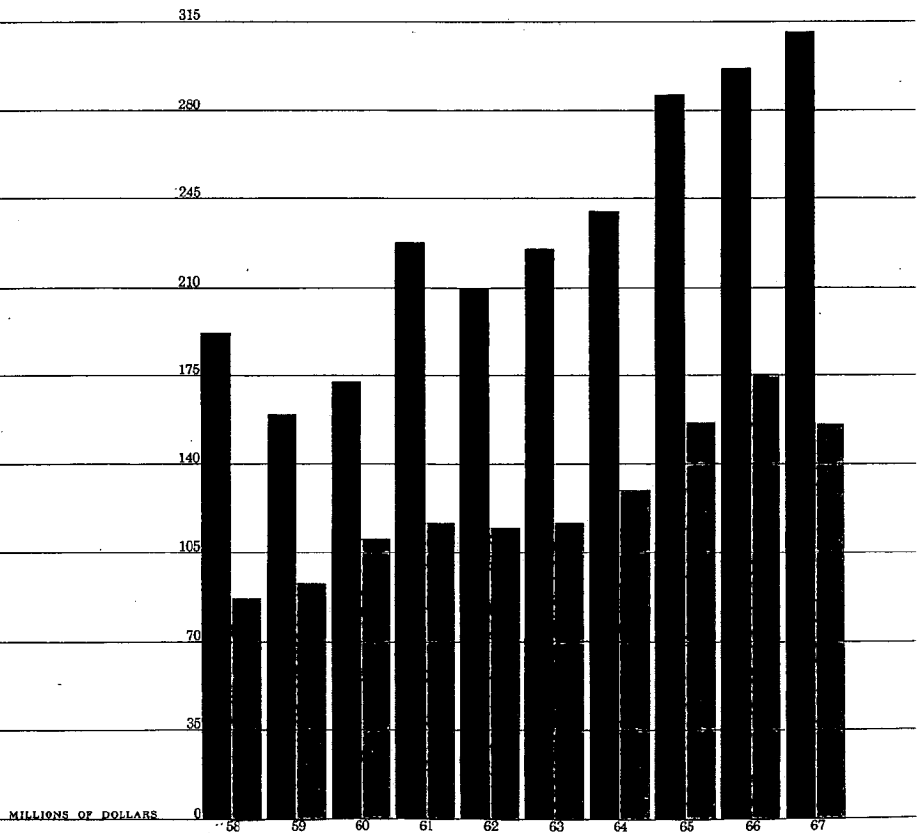
REVENUES Operating revenues amounted to \$945 million in 1967, an increase of \$27 million over the prior year. We continue to have the largest operating revenues of any gas and electric utility company in the nation.

Electric revenues were 63.5% of the total, gas 36.3% and the balance was derived from the sales of water and steam. The table on page 27 shows revenues and unit sales by major classes of service.

The overall increase in electric revenues was 3.7%, with the important residential and industrial categories showing gains of approximately 8%. Revenues from agricultural power sales were depressed as a result of above normal precipitation which decreased the de-

CAPITAL EXPENDITURES
INTERNAL FUNDS APPLIED

315



mand for irrigation pumping. This was in contrast to the previous year when below normal rainfall stimulated revenues from agricultural sales.

Gas customers' requirements for space heating were increased by colder than normal temperatures and the 6% revenue gain in the residential and commercial classifications was somewhat above the normal expectation. In the resale category, revenues were sharply reduced as a result of lower sales to the Pacific Lighting group of companies which distribute gas in Southern California.

EXPENSES There was a very small increase in the cost of conducting our expanded operations in 1967. Operating expenses, exclusive of taxes and depreciation, amounted to \$451 million, only \$6 million above the 1966 level of expenses.

The principal reasons for the small increase in operating expenses were the exceptionally favorable water year for hydroelectric generation which reduced the fuel requirements in our steam-electric generating plants and a reduction in the unit cost of purchased gas.

Our purchases of natural gas for sale to customers and for fueling our steam-electric generating plants now account for more than half of our operating expenses. Consequently, the unit cost of gas has a major impact on operating results. In 1967 the unit cost continued its downward trend, averaging 29.1¢ per thousand cubic feet. This compares to a cost of 30.0¢ in 1966 and a peak of 33.5¢ in 1962. The significance of these figures lies in the fact that each 1/10 of a cent reduction decreases the cost of gas purchased by three quarters of a million dollars annually. The decline in cost in 1967 resulted from a reduction in the price of gas purchased from El Paso Natural Gas Company and expansion of the Alberta-California pipeline which permitted delivery of higher volumes of Canadian gas at relatively low incremental cost. Additional quantities of gas from Canada which we began to receive in De-

cember 1967 assure a further reduction in average cost in 1968. If we are successful in obtaining permits which we are now seeking to import additional gas from Canada, a further decrease in costs will occur in the future.

Other important cost savings continue to be realized through wider use of computerized equipment. In 1967 we placed additional generating units on automatic load dispatching by computer control, bringing the total capacity so operated to 3,097,000 kilowatts by year end. This type of operation not only improves the economics of system operation but increases the reliability of the area power supply.

TAXES Taxes of all kinds, paid or set aside for future payment, totalled \$197,233,000, an all-time high. This amount was equal to 21 per cent of our operating revenues. Another measure of the magnitude of the tax bill is that it is equal to all wages and salaries paid to operating employees plus all dividends paid to common stockholders.

The state and local governments' share of our taxes has been steadily increasing. Over fifty per cent of every tax dollar paid by the Company goes to local governments in the form of property taxes. In 1967 about one half of such taxes, or approximately \$55 million, was used to support the public schools in our service area.

With the tax burdens steadily mounting, the sweeping tax exemptions allowed government-owned utility systems are becoming increasingly inequitable. Presently tax-sheltered and often tax-subsidized commercial operations of governmental agencies should bear their full share of the costs of government. This situation should be reviewed by our citizens and public officials and serious consideration given to remedial legislation which is long overdue.

A table showing taxes imposed by the various taxing authorities and a comparison with the previous year appears on page 13 of this report.

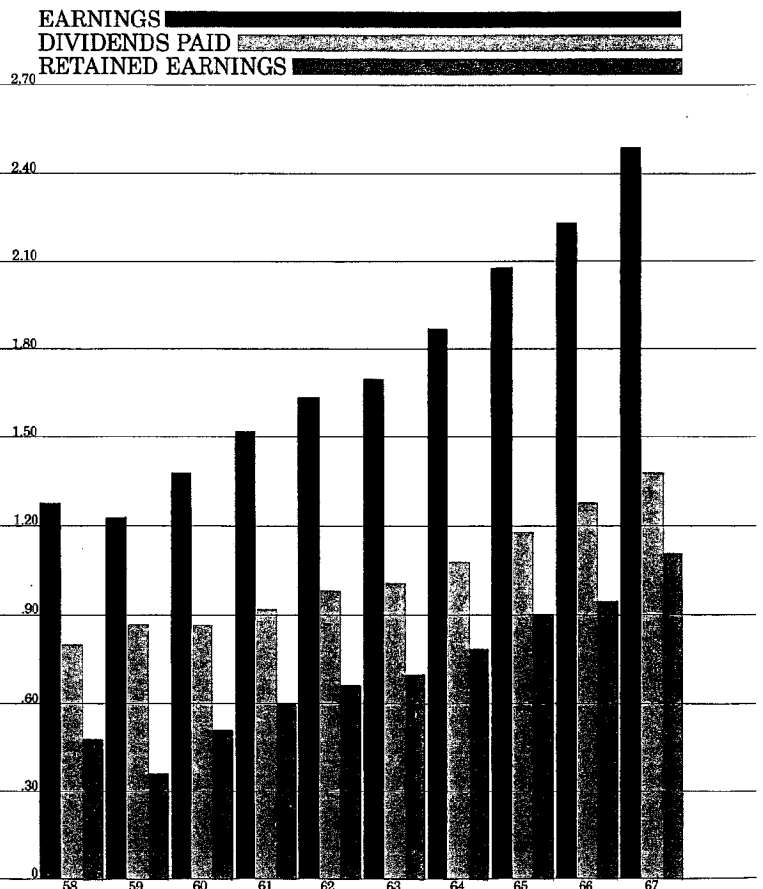
EARNINGS AND DIVIDENDS Net income for the year amounted to \$164,351,000, an increase of \$15,320,000 over 1966. After preferred dividend payments of \$18,336,000 there remained \$146,015,000 available for the common stock, equivalent to \$2.49 a share.

On March 15, 1967 the Board of Directors increased the quarterly dividend rate on the common stock from 32½ cents to 35 cents, equivalent to an increase from \$1.30 to \$1.40 per share on an annual basis. The first dividend at the new rate was paid on April 15, 1967 to common stockholders of record March 24, 1967. This is the sixth dividend increase in the past seven years.

Dividends declared on the common stock during the year amounted to \$82,231,000, or 56.2% of the total

earnings available for the common stock. Earnings retained in the business totalled \$63,784,000. This was all invested in new plant which will provide an increased earnings base for the common stockholders.

In compliance with the requirements of the U. S. Internal Revenue Code, all dividend payments in 1967 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, 1967. In the same mailing, all common stockholders were advised that none of the common stock dividend payments in 1967 was excludable from their taxable income for Federal income tax purposes.



FINANCING About fifty percent of the Company's \$311 million construction program in 1967 was financed from internal sources (principally depreciation accruals and retained earnings). The balance was obtained from the sale, at competitive bidding, of two issues of our First and Refunding Mortgage Bonds. On March 14, 1967 the Company sold \$80 million of Series OO Bonds, 5½%, due June 1, 1999, at a cost to the Company of 5.505%. On December 4, 1967 we sold an additional \$80 million issue, Series PP Bonds, 6⅞%, due December 1, 1999, at a cost of 6.92%, the highest rate the Company has paid for bond money since the early 1920's.

We expect that the Company's new money requirements in 1968 to assist in financing our estimated \$275 million construction program will be obtained from the sale of additional bonds, the amount of which has not yet been determined.

At the close of 1967 the Company's total capitalization was \$3,305 million consisting of 52.8% mortgage bonds, 10.6% preferred stock and 36.6% common stock equity.

STOCK OWNERSHIP At the close of 1967 PG&E was owned by 253,512 individual and institutional investors. Of the total, 72,951 were holders of preferred stock and 180,561 were common stockholders. We continue to enjoy the distinction of being the most widely owned electric and gas utility in the nation.

As a result of our long-standing policy of encouraging local ownership of our stock, about two thirds of our stockholders have California addresses. However, ownership extends into every state and many foreign countries.

Many of our employees share in the ownership of the Company through their membership in the Employees'

Savings Fund Plan. More than 2,000,000 shares have been purchased by the Trustees for the account of employees since the Plan's inception in April 1959. At present more than 14,500 employees are members, representing 95% of those eligible. Distribution of the members' holdings is normally made in the year following retirement. In 1967, 213 charter members of the Plan received distributions averaging almost \$8,000 in market value of PG&E stock. Significantly, 95% chose to receive stock in lieu of cash upon leaving the Plan.

A breakdown of our stock ownership by class of investor appears in the accompanying table. Although the majority of our outstanding stock is held by individuals, a large part of the balance is held by institutional investors such as investment companies, insurance companies and pension funds. Through these holdings, millions of people have a beneficial financial interest in the Company, making us investor-owned in every sense of the word.

DISTRIBUTION OF STOCK OWNERSHIP
by Class of Investor, December 31, 1967

	<i>Number of Stock- holders</i>	<i>Number of Shares Owned</i>
Women	98,299	17,493,874
Joint and other tenancies	67,161	9,698,664
Men	54,691	10,027,038
Trustees, guardians and other fiduciaries	23,427	3,642,253
Nominees	3,652	20,389,519
Corporations, partnerships and proprietorships	1,778	1,136,577
Charitable and fraternal organizations and foundations	1,696	693,873
Banks and trust companies, investment companies and security dealers	1,130	3,336,243
Insurance companies	695	5,847,019
Religious institutions	619	147,978
Educational institutions	322	310,479
Labor organizations	42	23,136
Total	<u>253,512</u>	<u>72,746,653</u>

ASSISTING tomorrow's leaders in their education, PG&E awards fifteen \$4,000 scholarships each year, hires talented young people on summer job programs and sponsors Future Farmers or 4-H Club members in livestock projects.

FIVE YEARS IN BRIEF — PACIFIC GAS AND ELECTRIC COMPANY

	1967	1966	1965	1964	1963
SOURCES OF INCOME:					
Electric revenues	\$599,876,000	\$578,609,000	\$538,271,000	\$518,903,000	\$488,265,000
Gas revenues	342,685,000	337,063,000	310,762,000	293,728,000	271,428,000
Other operating revenues	2,486,000	2,485,000	2,366,000	2,328,000	2,157,000
Other income and income deductions—net	3,870,000	917,000	631,000	618,000	*4,751,000
Total	<u>\$948,917,000</u>	<u>\$919,074,000</u>	<u>\$852,030,000</u>	<u>\$815,577,000</u>	<u>\$757,099,000</u>
DISPOSITION OF INCOME:					
Wages and salaries	\$118,788,000	\$111,013,000	\$102,787,000	\$ 99,112,000	\$ 93,451,000
Power purchased	18,562,000	11,930,000	14,115,000	10,373,000	10,991,000
Natural gas purchased	230,843,000	252,639,000	223,615,000	222,316,000	203,568,000
Oil and other fuel	13,652,000	8,807,000	8,693,000	8,305,000	9,413,000
Other operating expenses	64,660,000	55,502,000	52,011,000	51,195,000	43,483,000
Insurance, injuries and damages, etc.	4,423,000	5,120,000	5,611,000	4,734,000	5,170,000
Depreciation	102,118,000	98,395,000	92,774,000	89,707,000	83,250,000
Taxes	178,397,000	173,629,000	165,499,000	158,557,000	151,138,000
Interest charges	53,123,000	53,008,000	46,653,000	45,442,000	42,533,000
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	82,231,000	76,358,000	70,483,000	63,369,000	56,477,000
Balance retained in the business	63,784,000	54,337,000	51,453,000	44,131,000	39,289,000
Total	<u>\$948,917,000</u>	<u>\$919,074,000</u>	<u>\$852,030,000</u>	<u>\$815,577,000</u>	<u>\$757,099,000</u>
NUMBER OF SHARES OF COMMON STOCK OUTSTANDING:					
Average for the year	58,736,662	58,736,662	58,736,662	57,607,111	56,477,559
End of year	58,736,662	58,736,662	58,736,662	58,736,662	56,477,559
EARNINGS PER SHARE OF COMMON STOCK:					
On average shares outstanding	\$2.49	\$2.23	\$2.08	\$1.87	\$1.70
On end-of-year shares outstanding	2.49	2.23	2.08	1.83	1.70
DIVIDENDS PER SHARE OF COMMON STOCK:					
Declared basis	\$1.40	\$1.30	\$1.20	\$1.10	\$1.00
Paid basis	1.38	1.28	1.18	1.08	1.00

*Denotes red figure.

SOURCE AND APPLICATION OF FUNDS—PACIFIC GAS AND ELECTRIC COMPANY

SOURCE OF FUNDS:	1967	1966
Net income	\$164,351,000	\$149,031,000
Depreciation (incl. charges to other accounts)	107,463,000	103,535,000
Mortgage bonds sold	159,294,000	153,706,000
Sales and salvage of utility plant, and reimbursements	14,866,000	31,260,000
Decrease in working capital	—	6,168,000
TOTAL	<u>\$445,974,000</u>	<u>\$443,700,000</u>
APPLICATION OF FUNDS:		
Construction expenditures	\$310,992,000	\$297,129,000
Mortgage bonds retired	15,654,000	14,877,000
Dividends—preferred and common stock	100,567,000	94,694,000
Bank borrowings retired	3,000,000	37,000,000
Increase in working capital	15,761,000	—
TOTAL	<u>\$445,974,000</u>	<u>\$443,700,000</u>

TAXES AND FRANCHISE PAYMENTS—PACIFIC GAS AND ELECTRIC COMPANY

LOCAL TAXES AND FRANCHISE PAYMENTS:	1967	1966	<i>Increase</i>
Ad valorem property taxes	\$ 99,071,000	\$ 95,721,000	\$ 3,350,000
Franchise payments	5,977,000	5,399,000	578,000
Total	<u>105,048,000</u>	<u>101,120,000</u>	<u>3,928,000</u>
STATE TAXES:			
Corporation franchise: current	9,296,000	10,351,000	* 1,055,000
Corporation franchise: deferred	* 251,000	* 248,000	* 3,000
Unemployment insurance	1,940,000	1,924,000	16,000
Other	1,037,000	945,000	92,000
Total	<u>12,022,000</u>	<u>12,972,000</u>	* 950,000
CITY AND STATE TAXES:			
Sales and Use	6,109,000	5,513,000	596,000
FEDERAL TAXES:			
Corporation income: current	69,698,000	72,983,000	* 3,285,000
Corporation income: deferred	* 2,694,000	* 2,696,000	2,000
Unemployment insurance	302,000	276,000	26,000
Insurance contributions	6,671,000	6,010,000	661,000
Other	77,000	94,000	* 17,000
Total	<u>74,054,000</u>	<u>76,667,000</u>	* 2,613,000
TOTAL TAXES AND FRANCHISE PAYMENTS	<u>\$197,233,000</u>	<u>\$196,272,000</u>	<u>\$ 961,000</u>
CHARGED TO:			
Expense as taxes	\$178,397,000	\$173,630,000	\$ 4,767,000
Expense as franchise payments	5,977,000	5,399,000	578,000
Utility plant and other accounts	12,859,000	17,243,000	* 4,384,000
TOTAL TAXES AND FRANCHISE PAYMENTS	<u>\$197,233,000</u>	<u>\$196,272,000</u>	<u>\$ 961,000</u>

*Denotes red figure.



ELECTRIC SYSTEM

PACIFIC GAS AND ELECTRIC COMPANY
DECEMBER 31, 1967

THE COMPANY OPERATES AN INTEGRATED ELECTRIC SYSTEM EXTENDING INTO 47 CALIFORNIA COUNTIES

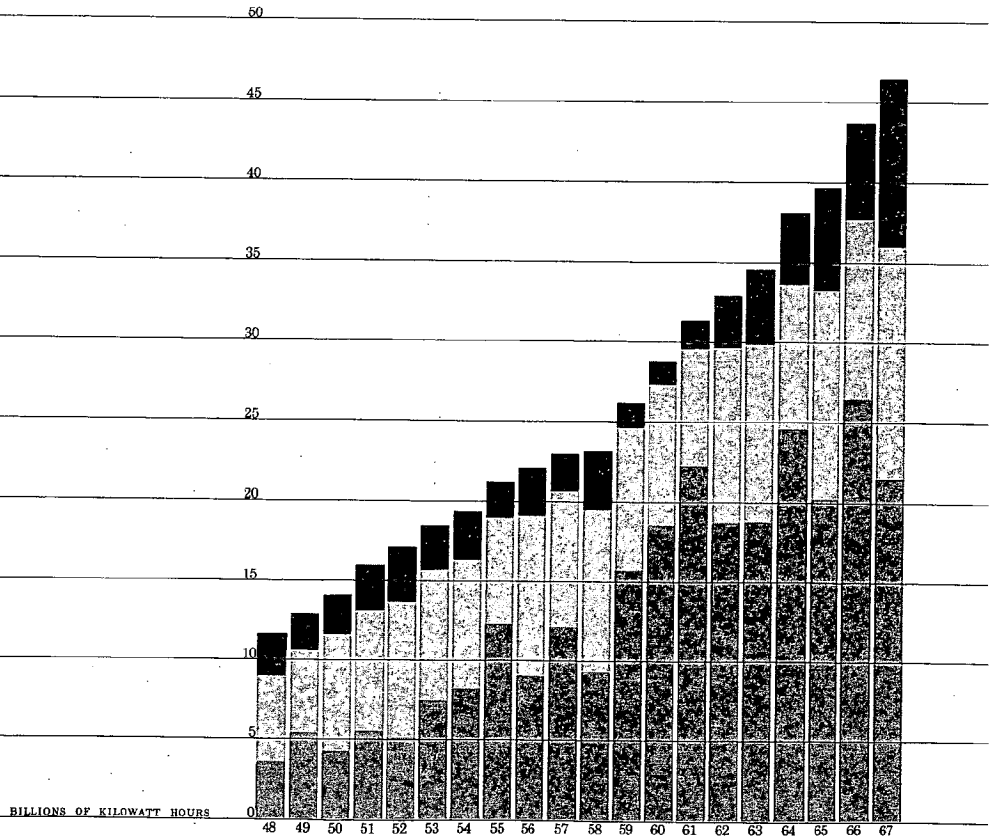
GENERATING PLANTS	NUMBER	CAPACITY
● STEAM	12	6,411,000 KW
○ HYDRO	66	2,437,000 KW
○ NUCLEAR	1	52,000 KW
● GEOTHERMAL	1	54,000 KW
TOTAL	80	8,954,000 KW
FROM OTHERS		1,132,000 KW
TRANSMISSION LINES		12,100 MILES
DISTRIBUTION LINES		71,500 MILES
TOTAL LINES		83,600 MILES

OPERATIONS AND ADMINISTRATION

ELECTRIC OPERATIONS System electric output amounted to 44.8 billion kilowatt-hours, an increase of 4% over 1966. This below normal increase was due to the abundance of water in 1967 which resulted in reduced sales for irrigation pumping and for delivery to other utilities. Because of the favorable water conditions hydroelectric generation accounted for 32% of the total output, considerably more than normal. Company steam-electric generating plants produced 48%

ELECTRIC SYSTEM OUTPUT

STEAM [stippled pattern] HYDRO [cross-hatched pattern] RECEIVED FROM OTHERS [solid black]





GAS SYSTEM

PACIFIC GAS AND ELECTRIC COMPANY
DECEMBER 31, 1967

THE COMPANY OPERATES AN INTEGRATED GAS SYSTEM EXTENDING INTO 37 CALIFORNIA COUNTIES

- COMPRESSOR STATIONS
- UNDERGROUND STORAGE
- ▬ MAJOR GAS MAINS

TRANSMISSION MAINS	4,700 MILES
DISTRIBUTION MAINS	22,600 MILES
TOTAL MAINS	27,300 MILES

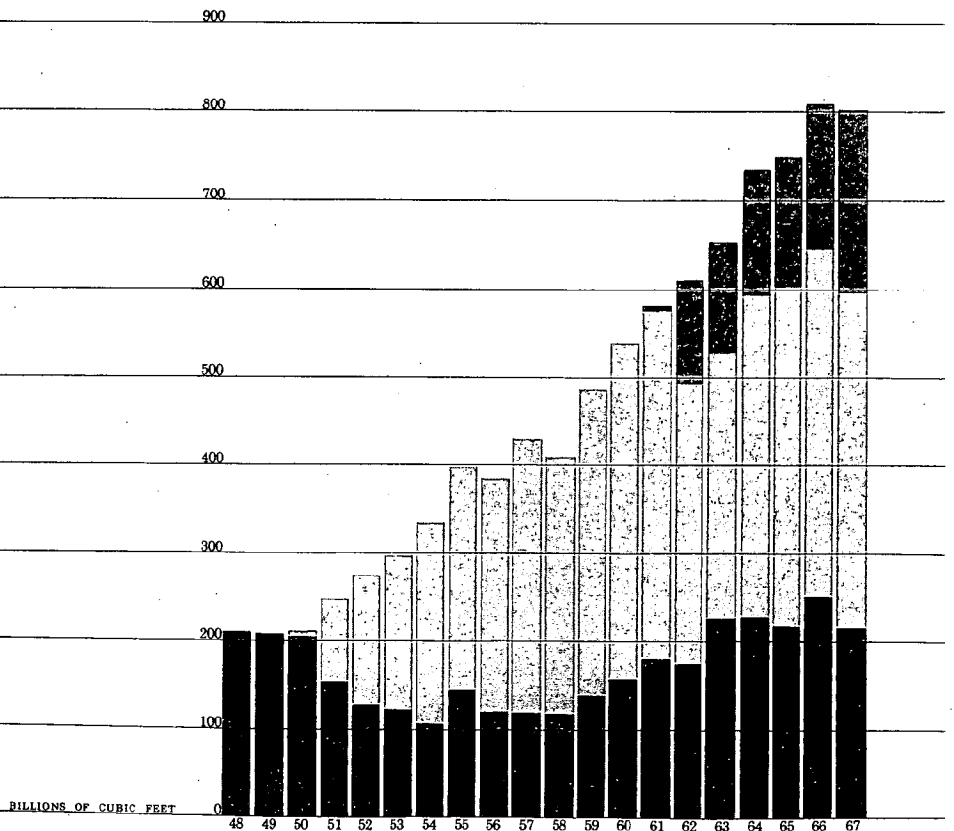
and the remaining 20% was obtained from other producers. This was the first year in the last ten when steam-electric generation dropped below half of the total output. The peak demand on our system, which occurred on December 20, 1967, amounted to 7,950,200 kilowatts.

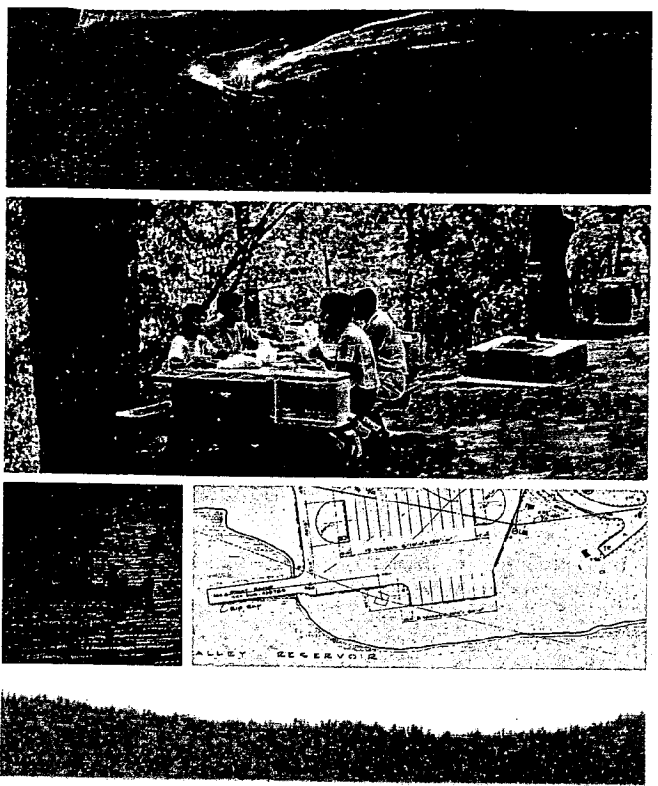
During the year 778,000 kilowatts of new generating capacity was added to our system capability. A 28,000

kilowatt geothermal unit, Geysers No. 3, became operative in April and in December Moss Landing No. 6, a 750,000 kilowatt conventional steam-electric unit, was placed in service. This latter unit is more than twice the size of the next largest in our system and will produce substantial operating economies. A twin unit is nearing completion at the Moss Landing site and should be in operation by mid-1968.

NATURAL GAS PURCHASED BY SOURCES

CALIFORNIA EL PASO CANADIAN





At year end the Company had 3,820,000 kilowatts of generating capacity under construction or planned as follows:

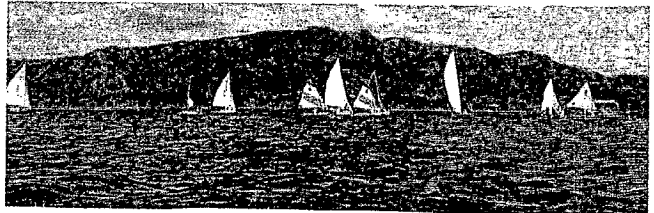
<i>Completion Date</i>		<i>Estimated Capacity (KW)</i>
1968	Moss Landing No. 7 (conventional steam)	750,000
1968	Geysers No. 4 (geothermal)	28,000
1969	Belden (hydro)	117,000
1971	Geysers No. 5 (geothermal)	55,000
1972	Diablo Canyon No. 1 (nuclear)	1,060,000
thru	Pittsburg No. 7 (conventional steam)	750,000
1974	Diablo Canyon No. 2 (nuclear)	1,060,000
		3,820,000

The relatively small additions to capacity for the years 1969 through 1971 make allowance for about 600,000 kilowatts which will be obtained from the Northwest over the Intertie and about 650,000 kilowatts which will become available from the Oroville-Thermalito units of the California Water Project and other public agencies in our service area.

GAS OPERATIONS While our natural gas customers have increased by one third in the past ten years, their total gas consumption has risen by more than 80%.



RECREATION is a byproduct of PG&E's hydroelectric developments. Most Company reservoirs and watershed lands have long been open to public use. Now more than 581 camping and picnic units have been developed in 48 different locations and more are being added each year.





Gas system sendout reached an all-time peak on December 19 when consumption amounted to 3,364 million cubic feet. During this peak, our underground storage facilities, principally at McDonald Island about 50 miles east of San Francisco, assisted materially in maintaining continuity of service for our firm gas customers.

Changes in the sources of our gas supply in the past twenty years are shown in the accompanying chart. In 1967, 48.3% of our gas purchased was obtained from mid-continent fields and delivered to us at the Arizona-California border through the lines of the El Paso Natural Gas Company. California fields supplied 26.3% and the balance of 25.4% was received from Canadian fields via the Alberta-California project. It is expected that reserves from these three areas will provide an ample supply for our customers' needs for many years to come.

BUSINESS DEVELOPMENT The location of our service area in the middle third of the Pacific Coast makes it the land, sea and air distribution center for the Western United States. This, combined with continuing population growth, a high per capita income and a

skilled labor pool, has continued to attract new plants and stimulated the expansion of existing industries. Perhaps one of the most dramatic developments is the growth of a heavy industrial corridor along 35 miles of the inland deep water channel extending from the east side of San Francisco Bay to a point east of Antioch. In this area are five major oil refineries with a sixth under construction, a seventh in the planning stage, and twelve large chemical plants. There also are pulp and paper mills, smelters, the world's largest cane sugar refinery and two sizable steel mills.

To assist industry in locating in our area the Company provides a site location service. Data is supplied on resources, transportation, markets, water supply, taxes, climate, power and fuel and land availability. Working with local chambers of commerce and city and county officials and organizations, we contribute to the economic growth of our area.

The Company for several years has helped organize and stage town meetings to solve problems posed by traffic congestion, mounting taxes and areas of unemployment. In 1967, 29 meetings were held in various communities and many plans for area development



were formulated and put into effect. Named the "Congress for Community Action," the program earned national recognition in winning the highest public service award of the American Gas Association.

The average annual use of electricity by our residential customers continued to climb, reaching 5000 kilowatt-hours in 1967, an increase of 339 kilowatt-hours over the previous year. This represents a 45% increase over the 1960 level.

CUSTOMERS	1967	1966	Increase during 1967
Electric Department	2,429,306	2,383,907	45,399
Gas Department	2,110,510	2,064,045	46,465
Water Department	13,999	13,806	193
Steam Department	496	519	* 23
Total	4,554,311	4,462,277	92,034

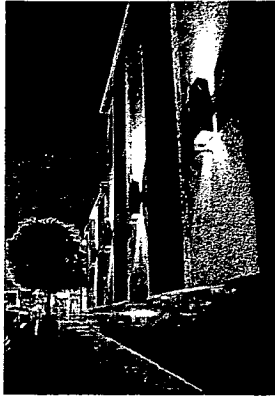
*Denotes red figure.

EMPLOYEES At the end of 1967 there were 22,064 men and women employed by the Company.

As our operations continue to expand and become increasingly complex, education and training of employees have been given more emphasis. A number of new training programs were initiated throughout the year for many employees and educational assistance programs for others were established.

Pursuant to collective bargaining agreements with the International Brotherhood of Electrical Workers, AFL-CIO, and the Engineers and Scientists of California, a basic general wage increase of 4% was placed in effect as of July 1, 1967. The salary levels of our supervisory and administrative personnel were adjusted to reflect improvements in performance, and to keep abreast of continuing inflation.

Wages and salaries for the year totaled \$208,049,000, of which \$118,788,000 was paid to operating employees and charged against income. The balance was paid to employees engaged on construction projects and charged to capital accounts.



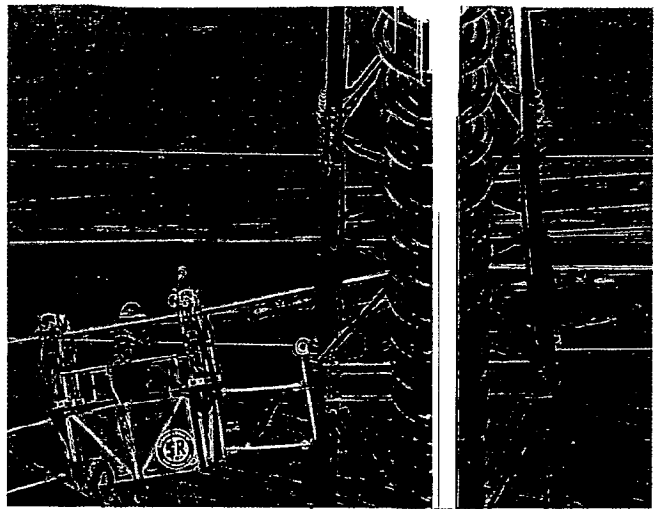
ESTHETICS IN ACTION: attractive new facilities of PG&E include (from top to bottom) a courtyard in the Sacramento Division office building, a substation at Monterey, a "stream-lined" distribution pole, a San Francisco substation, the interior of the customer services office in Eureka and the entrance to the Company's Berkeley office.



During this past year the Company participated with high schools and technical colleges to encourage students to pursue their educational opportunities to the fullest degree so that they could better qualify for entry into the Company's work force.

In seminars, high school counsellors were informed of the Company's educational requirements for employment.

In 1967 our employees achieved the best safety record in the Company's history. As compared with 1966, there was a reduction of 16% in the number of lost-time injuries and a reduction of 19% 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. The Gas Department received an award in October 1967 for working 5 million man-hours without a lost-time accident. This American Gas Association presentation is only the third to be granted on a nation-wide basis since 1954.



PACIFIC NORTHWEST-SOUTHWEST INTERTIE AND ALBERTA-CALIFORNIA PIPELINE

The establishment and expansion of great interregional energy ties, both electric and natural gas, were a highlight of 1967 operations.

On September 20, the first 500,000 volt interconnection between PG&E and the Northwest was effected as part of the \$700 million Pacific Northwest-Southwest Intertie. And in November, authorized deliveries of natural gas from Alberta, Canada, were increased by 100 million cubic feet a day with the completion of additional compressor units along the 1,400 mile pipeline.

The first of these two great energy transmission systems, the Alberta-California pipeline, was completed in December, 1961. Since that time, deliveries have been increased by one half – to 615 million cubic feet a day – in order to keep ahead of the growing requirements for natural gas. Upon receipt of the necessary regulatory approvals, additional compressors will be added to boost the average daily delivery of natural gas from Canada to 815 million cubic feet by late 1969.

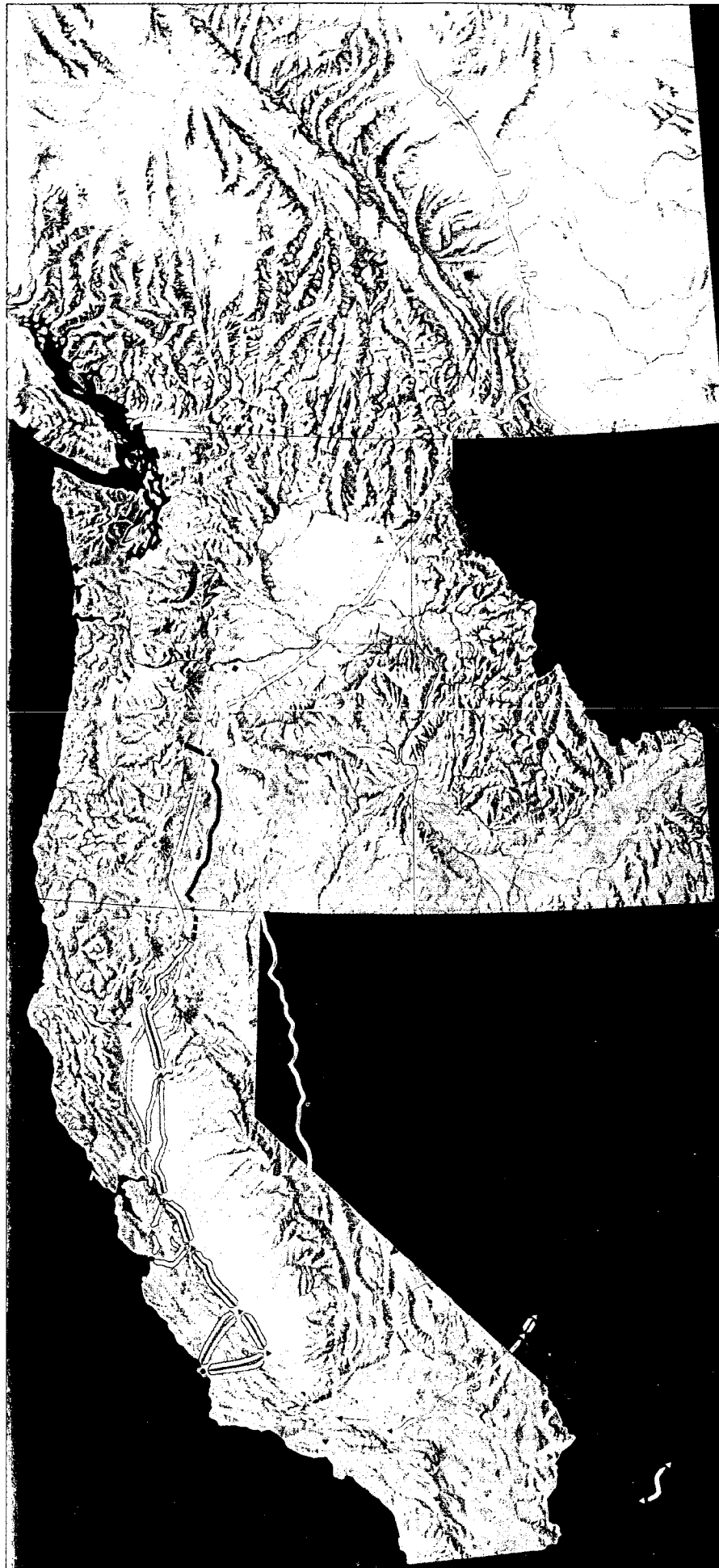
PG&E's portion of the spectacular Pacific Northwest-Southwest Intertie is nearing completion after more than three years in building. One 500,000 volt circuit is

already energized and interconnections have been made with electric utilities to the north and south. Within the next few months, the Company will finish the second 500,000 volt circuit. PG&E is also completing the last of seven new substations connected to these lines.

The strong interconnections which the Intertie will provide between PG&E and the power agencies in the Pacific Northwest and in Southern California will enhance the reliability of the power supplies of PG&E and the entire Pacific Coast.

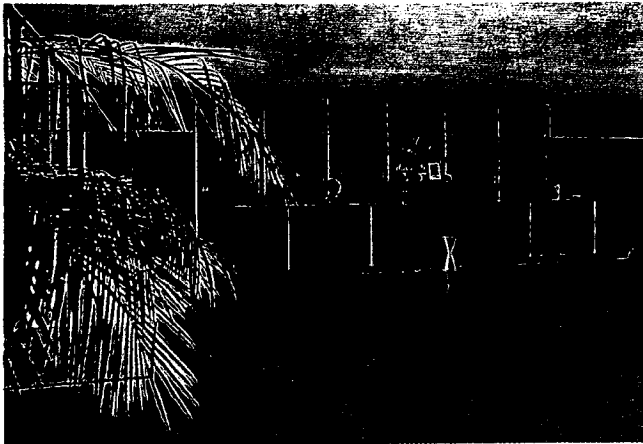
The Intertie will also result in increased efficiency in pooling of power resources between companies and regions and will make possible delivery of surplus Northwest interruptible power in California. The advantages of any diversity in the loads and in the resources of the vast interconnected area will be made available for the benefit of the customers of participating agencies.

The more than one thousand miles of transmission line which make up PG&E's portion of the Intertie will also serve as a "backbone" system within our service area. It will substantially increase our ability to move large blocks of power throughout the territory.



**PACIFIC NORTHWEST-
SOUTHWEST INTERTIE AND
ALBERTA-CALIFORNIA PIPELINE SYSTEM**

- ▬ ALBERTA-CALIFORNIA PIPELINE
- ▬ 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.



Interior of Company office in Sacramento

STOCKHOLDERS' CALENDAR
 Schedule of Dividend Payments

COMMON STOCK

<i>Record Date</i>	<i>Date Payable</i>
March 29	April 15, 1968
June 28	July 15, 1968
September 27	October 15, 1968
December 27	January 15, 1969

PREFERRED STOCK

<i>Record Date</i>	<i>Date Payable</i>
January 26	February 15, 1968
April 26	May 15, 1968
July 26	August 15, 1968
October 25	November 15, 1968

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

TEN-YEAR COMPARATIVE STATISTICS — PACIFIC GAS AND ELECTRIC COMPANY

	1967	1966
PER SHARE DATA — Common Stock⁽¹⁾:		
Earnings (based on end-of-period shares)	\$ 2.49	\$ 2.23
Dividends Declared	\$ 1.40	\$ 1.30
Dividend Payout Ratio	56.2%	58.4%
Book Value (end of year)	\$20.62	\$19.53
Market Price—High	38	36¾
Market Price—Low	31⅝	27
CAPITALIZATION RATIOS—End of Year:		
Bonds (and Bank Loans)	52.8%	51.8%
Preferred Stock	10.6	11.3
Common Stock Equity	36.6	36.9
	<u>100.0%</u>	<u>100.0%</u>
ELECTRIC STATISTICS:		
Total Gross System Output (000 KWH)	46,498,627	43,743,340
Gross System Output—In Per Cent		
Hydroelectric Plants	31.0%	25.4%
Steam-electric Plants	46.4	60.6
Received from Other Sources	22.6	14.0
Total	<u>100.0%</u>	<u>100.0%</u>
Gross Normal Operating Capacity—KW		
Hydroelectric Plants	2,436,800	2,378,300
Steam-electric Plants	6,517,000	5,656,000
Total from Company Plants	8,953,800	8,034,300
Available from Others	1,132,000	1,007,000
Peak Demand—Kilowatts	7,950,200	7,392,600
Total Customers at End of Year	2,429,306	2,383,907
Customers per Mile of Distribution Line	34.0	33.8
Average Annual Residential Consumption—KWH	5,000	4,661
Average Revenue per KWH—Residential	2.16¢	2.23¢
Average Revenue per KWH—All Classes	1.65¢	1.63¢
GAS STATISTICS:		
Total Natural Gas Purchased—MCF	802,221,367	808,062,244
Sources of Gas Purchased—In Per Cent		
From California	26.3%	31.0%
From Other States	48.3	48.6
From Canada	25.4	20.4
Total	<u>100.0%</u>	<u>100.0%</u>
Average Cost of Gas Purchased—MCF		
From California	30.2¢	30.1¢
From Other States (at California-Arizona border)	28.4	29.4
From Canada (at California-Oregon border)	29.3	31.2
Average—All Sources	29.1¢	30.0¢
Peak Day Sendout—MCF	3,363,503	3,032,844
Total Customers at End of Year	2,110,510	2,064,045
Customers per Mile of Gas Distribution Main	93.5	93.5
Average Annual Residential Consumption—MCF	112.4	107.5
Average Revenue per MCF—Residential	80.1¢	81.1¢
Average Revenue per MCF—All Classes	57.7¢	56.4¢

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

1965	1964	1963	1962	1961	1960	1959	1958
\$ 2.08	\$ 1.83	\$ 1.70	\$ 1.64	\$ 1.49	\$ 1.38	\$ 1.23	\$ 1.25
\$ 1.20	\$ 1.10	\$ 1.00	\$ 1.00	\$.93 $\frac{1}{4}$	\$.86 $\frac{2}{3}$	\$.86 $\frac{2}{3}$	\$.81 $\frac{2}{3}$
57.8%	58.9%	59.0%	61.2%	61.3%	62.8%	70.2%	64.1%
\$18.44	\$17.54	\$16.23	\$15.51	\$14.85	\$13.81	\$13.27	\$12.91
40 $\frac{3}{8}$	35 $\frac{3}{8}$	34 $\frac{5}{8}$	36 $\frac{7}{8}$	36	25 $\frac{5}{8}$	22 $\frac{1}{4}$	21 $\frac{3}{8}$
33 $\frac{7}{8}$	30 $\frac{5}{8}$	30 $\frac{1}{8}$	25	24 $\frac{1}{2}$	20	19 $\frac{3}{8}$	15 $\frac{7}{8}$
51.3%	50.5%	51.7%	51.5%	50.1%	51.3%	50.6%	49.8%
11.9	12.6	13.4	13.9	14.7	15.6	16.3	16.8
36.8	36.9	34.9	34.6	35.2	33.1	33.1	33.4
100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
40,042,134	38,177,510	34,691,873	32,873,959	31,354,960	28,809,150	26,260,391	23,125,794
32.7%	23.8%	31.7%	33.2%	23.6%	30.4%	33.7%	43.8%
50.3	64.3	54.0	56.7	70.8	64.4	60.0	40.3
17.0	11.9	14.3	10.1	5.6	5.2	6.3	15.9
100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
2,372,600	2,074,000	2,074,000	1,973,500	1,959,500	1,972,500	1,922,500	1,922,500
5,656,000	5,447,000	4,787,500	4,393,000	4,063,000	3,635,500	3,296,500	3,296,500
8,028,600	7,521,000	6,861,500	6,366,500	6,022,500	5,608,000	5,219,000	5,219,000
791,000	825,000	600,000	550,000	530,000	470,000	400,000	450,000
6,836,400	6,327,100	5,921,500	5,538,500	5,414,700	5,130,000	4,564,900	4,019,200
2,323,896	2,254,267	2,177,610	2,103,569	2,038,687	1,976,575	1,915,297	1,848,336
33.5	33.2	32.5	31.9	31.4	31.1	30.7	30.2
4,454	4,249	4,038	3,828	3,664	3,451	3,154	3,046
2.26¢	2.33¢	2.42¢	2.49¢	2.53¢	2.59¢	2.69¢	2.73¢
1.67¢	1.67¢	1.72¢	1.73¢	1.70¢	1.73¢	1.76¢	1.86¢
749,410,192	736,597,764	653,786,964	611,983,411	580,584,538	539,127,300	484,319,522	408,084,481
29.1%	31.0%	34.7%	28.6%	30.9%	29.2%	28.6%	29.0%
50.7	49.3	45.9	52.1	67.9	70.8	71.4	71.0
20.2	19.7	19.4	19.3	1.2	—	—	—
100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
29.8¢	30.0¢	30.0¢	30.2¢	30.2¢	29.8¢	28.2¢	29.7¢
29.6	30.1	33.3	34.6	32.7	31.4	28.7	28.0
33.6	34.4	37.1	35.4	34.5	—	—	—
30.5¢	30.9¢	32.9¢	33.5¢	32.0¢	30.9¢	28.5¢	28.5¢
3,110,309	2,775,582	2,779,629	2,497,276	2,271,482	1,915,456	1,884,473	1,720,134
2,008,623	1,944,503	1,874,743	1,803,989	1,745,030	1,690,523	1,628,269	1,566,236
93.3	92.8	92.5	91.3	91.4	91.4	91.2	90.7
110.6	113.1	108.3	108.1	104.2	101.1	89.1	92.6
80.5¢	80.1¢	81.2¢	82.2¢	82.1¢	79.7¢	77.8¢	73.0¢
57.8¢	60.2¢	62.3¢	63.3¢	63.5¢	61.5¢	58.3¢	55.9¢

REVENUES AND SALES—PACIFIC GAS AND ELECTRIC COMPANY—ELECTRIC AND GAS DEPARTMENTS BY CLASSES OF SERVICE

ELECTRIC DEPARTMENT				Increase	
		1967	1966	Amount	Per Cent
REVENUES:					
Residential	\$ 221,118,000	\$ 205,155,000	\$ 15,963,000	7.8%	
Commercial	212,834,000	204,660,000	8,174,000	4.0	
Industrial (1000 kw demand or over)	83,517,000	77,174,000	6,343,000	8.2	
Agricultural Power	49,338,000	55,993,000	* 6,655,000	*11.9	
Public Street and Highway Lighting	10,152,000	9,432,000	720,000	7.6	
Other Electric Utilities	12,920,000	15,806,000	* 2,886,000	*18.3	
Miscellaneous	9,997,000	10,389,000	* 392,000	* 3.8	
TOTAL	\$ 599,876,000	\$ 578,609,000	\$ 21,267,000	3.7%	
SALES—Kilowatt-hours:					
Residential	10,220,270,000	9,219,898,000	1,000,372,000	10.9%	
Commercial	10,968,745,000	10,436,726,000	532,019,000	5.1	
Industrial (1000 kw demand or over)	9,033,951,000	8,481,335,000	552,616,000	6.5	
Agricultural Power	3,475,342,000	4,110,792,000	* 635,450,000	*15.5	
Public Street and Highway Lighting	293,325,000	274,642,000	18,683,000	6.8	
Other Electric Utilities	1,652,290,000	2,267,244,000	* 614,954,000	*27.1	
Total Sales to Customers	35,643,923,000	34,790,637,000	853,286,000	2.5	
Delivered for the Account of Others	3,219,695,000	2,183,747,000	1,035,948,000	47.4	
TOTAL	38,863,618,000	36,974,384,000	1,889,234,000	5.1%	
GAS DEPARTMENT					
REVENUES:					
Residential	\$ 174,533,000	\$ 164,642,000	\$ 9,891,000	6.0%	
Commercial	44,313,000	41,270,000	3,043,000	7.4	
Industrial	103,000,000	102,488,000	512,000	0.5	
Other Gas Utilities	20,537,000	28,336,000	* 7,799,000	*27.5	
Miscellaneous	302,000	327,000	* 25,000	* 7.8	
TOTAL	\$ 342,685,000	\$ 337,063,000	\$ 5,622,000	1.7%	
SALES—Thousands of Cubic Feet:					
Residential	217,857,000	203,041,000	14,816,000	7.3%	
Commercial	66,958,000	62,169,000	4,789,000	7.7	
Industrial	251,679,000	249,446,000	2,233,000	0.9	
Other Gas Utilities	56,786,000	82,699,000	* 25,913,000	*31.3	
Total Sales to Customers	593,280,000	597,355,000	* 4,075,000	* 0.7	
Company Use (Steam plants)	171,682,000	229,808,000	* 58,126,000	*25.3	
TOTAL	764,962,000	827,163,000	* 62,201,000	* 7.5%	

*Denotes red figure.

STATEMENT OF EARNED SURPLUS - PACIFIC GAS AND ELECTRIC COMPANY - FOR THE YEARS ENDED DECEMBER 31, 1967 AND 1966

	1967	1966
BALANCE, JANUARY 1	\$392,089,000	\$328,308,000
NET INCOME	164,351,000	149,031,000
REVERSAL, IN CONNECTION WITH SALE OF PROPERTY, OF COST ADJUSTMENT		
PREVIOUSLY CHARGED TO EARNED SURPLUS		9,414,000
OTHER ADDITIONS - Net		30,000
Total	<u>556,440,000</u>	<u>486,783,000</u>
DIVIDENDS DECLARED - Cash:		
Preferred stock	18,336,000	18,336,000
Common stock (1967, \$1.40; 1966, \$1.30 a share)	82,231,000	76,358,000
Total	<u>100,567,000</u>	<u>94,694,000</u>
BALANCE, DECEMBER 31	<u>\$455,873,000</u>	<u>\$392,089,000</u>

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

ACCOUNTANTS' OPINION

HASKINS & SELLS
CERTIFIED PUBLIC ACCOUNTANTS

44 MONTGOMERY STREET
SAN FRANCISCO 94104

February 16, 1968

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, 1967 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, 1967 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, 1967 AND 1966

	1967	1966
OPERATING REVENUES:		
Electric	\$599,876,000	\$578,609,000
Gas	342,685,000	337,063,000
Other	2,486,000	2,485,000
Total	<u>945,047,000</u>	<u>918,157,000</u>
OPERATING EXPENSES:		
Operation:		
Natural gas purchased	230,843,000	252,639,000
Power purchased	18,562,000	11,930,000
Other production	29,037,000	22,919,000
Total	<u>278,442,000</u>	<u>287,488,000</u>
Transmission	9,529,000	8,315,000
Distribution	42,028,000	38,123,000
Customer accounts	30,694,000	28,187,000
Sales promotion	9,095,000	8,094,000
Administrative and general	36,383,000	35,474,000
Total	<u>406,171,000</u>	<u>405,681,000</u>
Maintenance	44,757,000	39,329,000
Depreciation (Note)	102,118,000	98,395,000
Taxes:		
Federal income (Note :)	67,004,000	65,760,000
Other	111,393,000	107,870,000
Total	<u>731,443,000</u>	<u>717,035,000</u>
OPERATING INCOME	213,604,000	201,122,000
OTHER INCOME AND INCOME DEDUCTIONS - Net		
Total	<u>3,870,000</u>	<u>916,000</u>
Total	<u>217,474,000</u>	<u>202,038,000</u>
INTEREST CHARGES:		
Interest on mortgage bonds	66,175,000	58,329,000
Net bond discount and expense and miscellaneous interest	1,942,000	2,498,000
Interest charged to construction (credit)	(14,994,000)	(7,820,000)
Total	<u>53,123,000</u>	<u>53,007,000</u>
NET INCOME	<u>\$164,351,000</u>	<u>\$149,031,000</u>
EARNINGS PER SHARE	<u>\$ 2.49</u>	<u>\$ 2.23</u>

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

BALANCE SHEET - PACIFIC GAS AND ELECTRIC COMPANY - DECEMBER 31, 1967 AND 1966

ASSETS	1967	1966
UTILITY PLANT — At original cost:		
Electric	\$3,094,821,000	\$2,868,849,000
Gas	937,547,000	890,817,000
Other departments and common	198,983,000	189,865,000
Construction work in progress	224,320,000	242,146,000
Total utility plant	<u>4,455,671,000</u>	<u>4,191,677,000</u>
Accumulated depreciation (Note 1)	1,055,980,000	982,667,000
Utility plant — net	<u>3,399,691,000</u>	<u>3,209,010,000</u>
INVESTMENTS — At cost:		
Subsidiaries (Notes 2 and 3)	23,088,000	23,020,000
Nonutility property and other	5,330,000	4,616,000
Total investments	<u>28,418,000</u>	<u>27,636,000</u>
CURRENT ASSETS:		
Cash	22,863,000	21,377,000
Accounts receivable (less allowance for uncollectible accounts: 1967, \$1,755,000; 1966, \$1,775,000)	89,324,000	82,853,000
Materials and supplies — at average cost	30,914,000	32,426,000
Gas stored underground — at average cost	12,055,000	10,943,000
Prepayments	69,991,000	63,728,000
Total current assets	<u>225,147,000</u>	<u>211,327,000</u>
DEFERRED DEBITS:		
Unamortized bond discount and expense — net	7,773,000	7,549,000
Other	3,004,000	2,476,000
Total deferred debits	<u>10,777,000</u>	<u>10,025,000</u>
TOTAL	<u>\$3,664,033,000</u>	<u>\$3,457,998,000</u>

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

BALANCE SHEET - PACIFIC GAS AND ELECTRIC COMPANY - DECEMBER 31, 1967 AND 1966

LIABILITIES	1967	1966
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	<u>1,105,252,000</u>	<u>1,105,252,000</u>
Earned surplus	455,873,000	392,089,000
Total capital stock and surplus	1,561,125,000	1,497,341,000
Mortgage bonds (Note 3) (Schedule 2)	1,743,965,000	1,603,495,000
Total capitalization	<u>3,305,090,000</u>	<u>3,100,836,000</u>
CURRENT LIABILITIES:		
Notes payable to banks	6,000,000	9,000,000
Accounts payable	68,027,000	59,708,000
Customer deposits	6,625,000	6,000,000
Taxes accrued (Note 4)	90,063,000	104,983,000
Interest accrued	6,777,000	5,975,000
Dividends payable	20,559,000	19,091,000
Mortgage bonds - current portion (Note 3) (Schedule 2)	13,561,000	9,685,000
Total current liabilities	<u>211,612,000</u>	<u>214,442,000</u>
CUSTOMER ADVANCES FOR CONSTRUCTION	12,467,000	10,552,000
DEFERRED CREDITS	14,206,000	10,637,000
RESERVES FOR INSURANCE AND CASUALTIES	7,105,000	8,035,000
CONTRIBUTIONS IN AID OF CONSTRUCTION	49,564,000	46,561,000
ACCUMULATED DEFERRED TAXES ON INCOME - Accelerated amortization	63,989,000	66,935,000
TOTAL	<u><u>\$3,664,033,000</u></u>	<u><u>\$3,457,998,000</u></u>

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

CAPITAL STOCK - PACIFIC GAS AND ELECTRIC COMPANY, DECEMBER 31, 1967 - SCHEDULE 1

Description	Shares Authorized	Outstanding - Held by Public	
		Shares	Amount
PREFERRED, CUMULATIVE, PAR VALUE \$25 PER SHARE (Note 2):			
6%	4,211,662	4,211,662	\$ 105,292,000
5 1/2%	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	<u>20,000,000</u>	<u>14,009,991</u>	<u>350,250,000</u>
COMMON, PAR VALUE \$10 PER SHARE	<u>75,000,000</u>	<u>58,736,662</u>	<u>587,366,000</u>
TOTAL			937,616,000
EXCESS OF PREMIUMS OVER DISCOUNT AND EXPENSE ON OUTSTANDING SHARES			167,636,000
TOTAL CAPITAL STOCK			<u>\$1,105,252,000</u>

MORTGAGE BONDS - PACIFIC GAS AND ELECTRIC COMPANY, DECEMBER 31, 1967 - 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	3,000,000	
P	2 3/4	June 1, 1981	22,036,000	\$ 578,000
Q	2 7/8	Dec. 1, 1980	59,286,000	
R	3 1/8	June 1, 1982	67,478,000	
S	3	June 1, 1983	69,462,000	
T	2 7/8	June 1, 1976	62,810,000	2,997,000
U	3 3/8	Dec. 1, 1985	42,638,000	
W	3 1/8	Dec. 1, 1984	51,457,000	56,000
X	3 1/8	June 1, 1984	59,259,000	200,000
Y	3 3/8	Dec. 1, 1987	41,839,000	
Z	3 3/8	Dec. 1, 1988	17,178,000	
AA	4 1/2	Dec. 1, 1986	30,696,000	
BB	5	June 1, 1989	57,700,000	
CC	3 3/4	Dec. 1, 1978	61,929,000	224,000
DD	4 1/2	June 1, 1990	53,126,000	
EE	5	June 1, 1991	59,815,000	
FF	4 5/8	June 1, 1992	52,799,000	
GG	4 1/2	June 1, 1993	56,757,000	
HH	4 3/8	June 1, 1994	58,437,000	
II	4 1/4	June 1, 1995	52,472,000	
JJ	4 1/2	June 1, 1996	63,750,000	
KK	4 1/2	Dec. 1, 1996	61,950,000	
LL	4 5/8	June 1, 1997	71,000,000	
MM	5 3/8	June 1, 1998	72,000,000	
NN	5 3/4	Dec. 1, 1998	75,750,000	
OO	5 1/2	June 1, 1999	77,000,000	
PP	6 7/8	Dec. 1, 1999	80,000,000	
TOTAL MORTGAGE BONDS			<u>1,757,526,000</u>	<u>\$4,055,000</u>
Mortgage Bonds Included in Current Liabilities (Note 3)			<u>13,561,000</u>	
Mortgage Bonds Included in Capitalization			<u>\$1,743,965,000</u>	

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.

NOTES TO FINANCIAL STATEMENTS — PACIFIC GAS AND ELECTRIC COMPANY, DECEMBER 31, 1967 AND 1966

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, 1967 was \$22,945,000 and in the results of operations for the years ended December 31, 1967 and 1966 was \$1,576,000 and \$1,540,000, respectively. Dividend income was \$1,200,000 and \$1,092,000 for the years 1967 and 1966.

NOTE 2 PREFERRED STOCK:

Preferred stock outstanding at December 31, 1967 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 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 the

Company computes depreciation, generally, using liberalized methods and guideline lives, as allowed by the Treasury Department. In accordance with requirements of the California Public Utilities Commission (which has ruled that for rate-making and accounting purposes Federal income taxes shall be considered at the accrutable actual liability) the Company has reflected in net income the current tax reductions arising from use of liberalized methods of depreciation and guideline lives.

NOTE 5 COMMITMENTS:

Utility plant construction expenditures for the year 1968 are estimated at \$275,000,000.

The Company provides voluntary retirement and savings plans for substantially all employees. The actuarially computed cost of the retirement plan and cost of the savings plan (including amounts charged to construction) for the year 1967 were \$13,659,000. The Company's policy is to fund the accrued amount of retirement plan cost. At December 31, 1967 the Company had fully funded the actuarially computed value of all vested benefits provided under the plan.

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.

BOARD OF DIRECTORS

ROBERT H. GERDES*, *San Francisco*
Chairman of the Board
K. C. CHRISTENSEN, *San Francisco*
RANSOM M. COOK, *San Francisco*
JAMES F. CRAFTS*, *San Francisco*
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

EXECUTIVE OFFICERS

ROBERT H. GERDES, *Chairman of the Board and Chief Executive Officer*
S. L. SIBLEY, *President and Chief Operating Officer*
K. C. CHRISTENSEN, *Senior Vice President*
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. GINOCCHIO, *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*

DEPARTMENTAL ORGANIZATION - JANUARY 1, 1968

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*
 E. F. Sibley, *Gas Control*
 H. P. Prudhomme, *Pipe Line Operations*
 T. J. Bianucci, *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. Betterworth, *Chief Electric Distribution Engineer*
 J. J. McCann, *Chief, Engineering Services*
 Ramon F. Cayot, *Chief, Engineering Research*
 George A. Maneatis, *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*
 Robert E. Palmer, *Tax*

COMPTROLLER

Granger F. Hill, *Assistant Comptroller*

MANAGERS:

Norris D. Hennings, *Plant Accounting*
 Dexter Stoner, *Accounting Methods and Procedures*
 S. L. Culwell, *Customer Accounting*
 L. D. Coughran, *General Accounting*
 John L. Counce, *Data Processing*
 James W. Hall, *Responsibility Accounting*

DIVISION MANAGERS

COAST VALLEYS: Leigh H. Smith, Salinas
 COLGATE: W. L. Murray, Marysville
 DE SABLE: C. Robert Martin, Chico
 DRUM: William D. Laughlin, Auburn
 EAST BAY: W. D. Skinner, Oakland
 HUMBOLDT: V. C. Novarino, Eureka
 NORTH BAY: J. Galen Foster, San Rafael

TREASURER

MANAGERS:

A. H. Catherall, *Treasury Operations*
 E. C. Paddock, *Credit and Collection*
 J. A. Crockwell, *Insurance*
 T. M. Welp, *Financial Analysis*

PERSONNEL AND GENERAL SERVICES

MANAGERS:

Thomas V. Adams, *Personnel Relations*
 V. J. Thompson, *Industrial Relations*
 Elmer E. Hall, Jr., *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*
 R. L. Sawyer, Jr., *Residential Sales*
 Walter Blumst, *Marketing Research & Services*
 J. S. Walsh, *Area Development*
 Stanley O. Blois, *Commercial, Industrial and Agricultural Sales*
 Allen D. Owen, *Customer Services*

INTERNAL AUDITING DEPARTMENT

Earl C. Suess, *Manager*

LAW DEPARTMENT

SENIOR ATTORNEYS:

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

CLAIMS AND SAFETY DEPARTMENT

R. W. White, *Manager*

PURCHASING AND STORES DEPARTMENT

F. F. Mautz, *Manager*

PUBLIC RELATIONS

MANAGERS:

A. J. McCollum, *Advertising and Publicity*
 W. A. Hynes, *Public Activities*

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: Vernon H. Lind, Red Bluff
 STOCKTON: J. Y. DeYoung, Stockton

