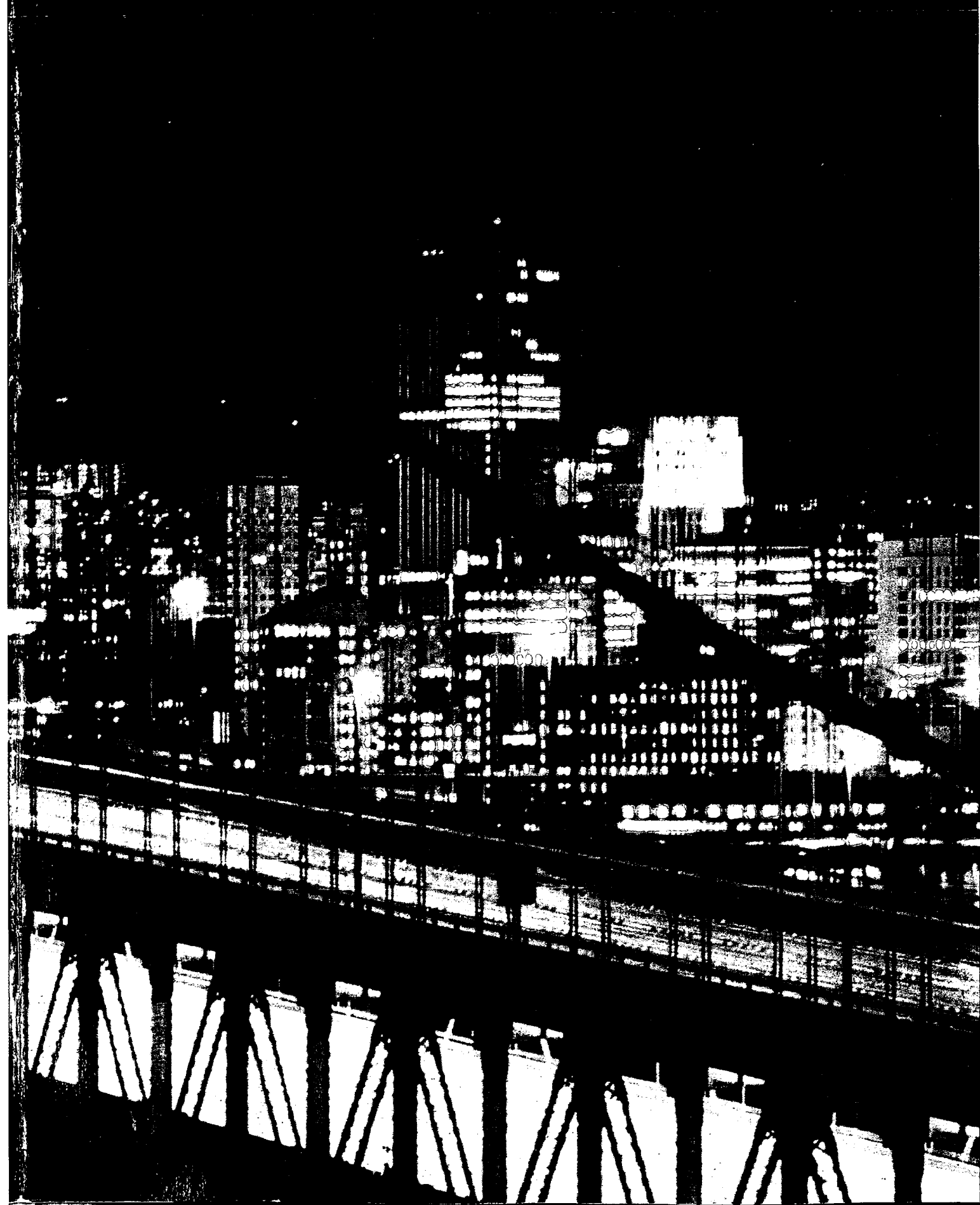


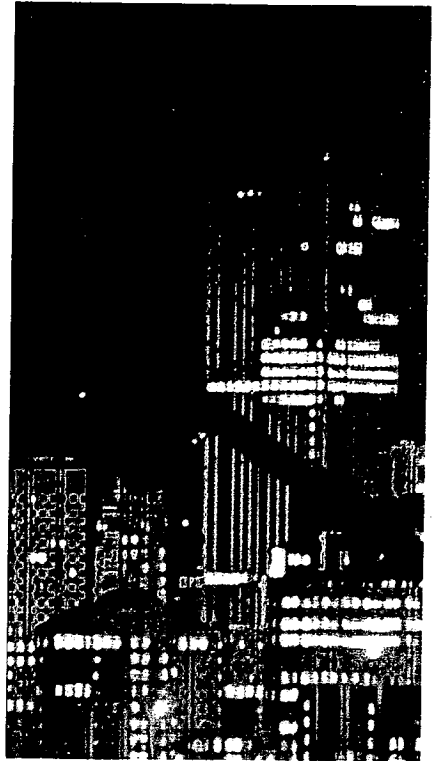
PACIFIC GAS AND ELECTRIC COMPANY 1968 ANNUAL REPORT





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COVER: Beyond the busy decks of the Bay Bridge a segment of San Francisco's ever-changing skyline glows against the night sky. Under the dark waters below the span workmen are building a tube for high speed electric trains that will link San Francisco Bay Area cities in an ultramodern transit system.

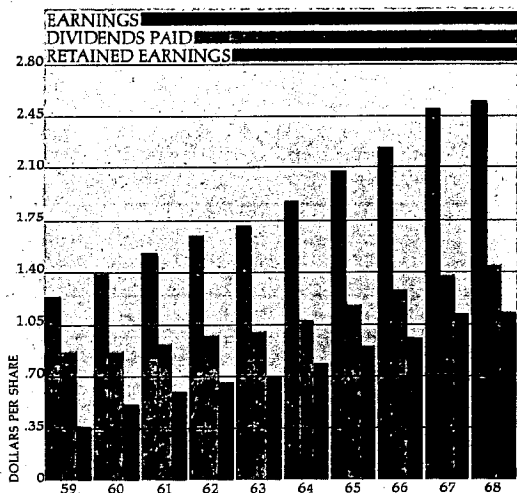
INSIDE COVER: Ferries, steamboats and sailing ships crowd the bay in this 1878 lithograph of San Francisco by Currier and Ives. Only one century earlier, the expedition of Don Gaspar de Portola had first sighted this great natural harbor.

Historical photos courtesy of John Howell Books, Wells Fargo Bank Historical Room, Southern Pacific Company.

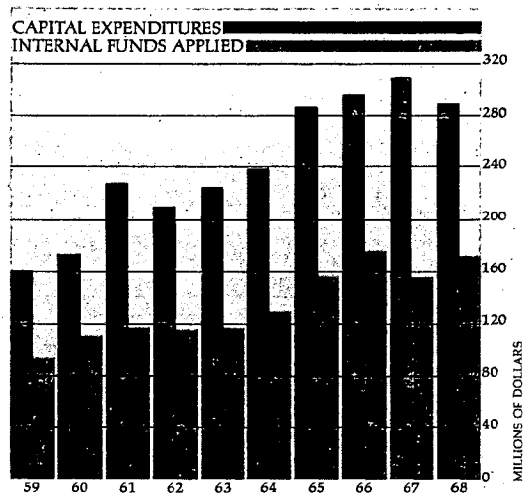
HIGHLIGHTS OF OPERATION

	1968	1967
Operating Revenues	\$1,005,215,000	\$ 945,047,000
Net Income	\$ 167,824,000	\$ 164,351,000
Earnings Per Common Share	\$2.55	\$2.49
Total Assets	\$3,815,385,000	\$3,664,033,000
Construction Expenditures	\$ 289,400,000	\$ 310,992,000
Sales of Electricity to Customers (KWH)	38,965,976,000	35,643,923,000
Sales of Gas to Customers (MCF)	632,260,000	593,280,000
Total Customers	4,652,582	4,554,311
Number of Employees	22,289	22,064
Number of Stockholders	246,998	253,512

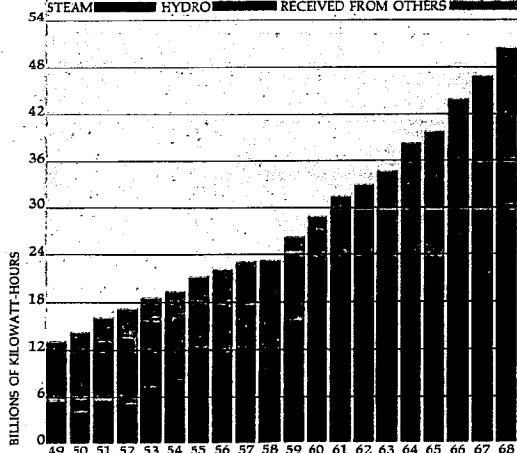
EARNINGS GROWTH



PLANT GROWTH

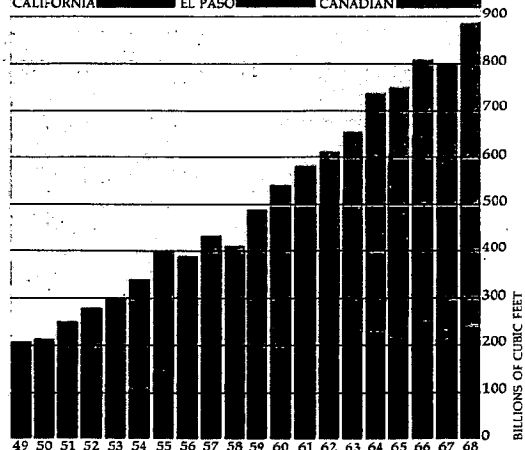


ELECTRIC SYSTEM OUTPUT



ELECTRIC PRODUCTION

NATURAL GAS PURCHASED BY SOURCES



GAS SUPPLY

BOARD OF DIRECTORS

ROBERT H. GERDES*, San Francisco
Chairman of the Board
JOHN F. BONNER**, San Francisco
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
PORTER SESNON, San Francisco
S. L. SIBLEY*, San Francisco
EMMETT G. SOLOMON, San Francisco
CARL F. WENTE*, San Francisco

*Member Executive Committee

**Elected February 19, 1969 to succeed David Packard, resigned January 15, 1969.

EXECUTIVE OFFICERS

ROBERT H. GERDES, Chairman of the Board and Chief Executive Officer
S. L. SIBLEY, President and Chief Operating Officer
JOHN F. BONNER, Senior Vice President
K. C. CHRISTENSEN, Senior Vice President
C. E. GINOCHIO, Senior Vice President
RICHARD H. PETERSON, Senior Vice President and General Counsel
H. P. BRAUN, Vice President—Electric Operations
JOSEPH Y. DE YOUNG, Vice President—Commercial Operations
E. H. FISHER, Vice President—Gas Operations
ROBERT R. GROS, Vice President—Public Relations
FREDERICK W. MIELKE, JR., Vice President and Assistant to Chairman
JOHN F. ROBERTS, JR., Vice President—Rates and Valuation
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
DONALD 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

TO OUR STOCKHOLDERS:



ROBERT H. GERDES, Chairman of the Board, at right and at left
SHERMER L. SIBLEY, President, in front of rendering of the Com-
pany's new headquarters building.

It is a pleasure to report continued growth and progress on many fronts during 1968.

PG&E became the first energy utility in the United States to achieve annual revenues of more than \$1 billion. Operating revenues for 1968 reached \$1,005,215,000, an increase of \$60,168,000 or 6.4% over 1967.

Net earnings available for the common stock amounted to a record high of \$2.55 a share compared with \$2.49 a share for the preceding year, an increase of 2.4%. Per share earnings' growth in 1968 fell behind the average growth experienced in recent years principally because of the imposition of the Federal income tax surcharge, which reduced earnings by about 13¢ a share, and a less favorable water year for hydro generation than in 1967.

In September the Board of Directors increased the dividend on the common stock from \$1.40 to \$1.50 a share on an annual basis. This was the seventh dividend increase in the past eight years.

Business conditions in the Company's 48-county service area continued to improve. New customer connections in the Electric Department were 54,200 and in the Gas Department 50,100, representing increases of 19% and 8%, respectively, over the number connected in the previous year. These customer gains were a reflection of a substantial increase in construction of new housing in our service area. We expect this recovery in housing to continue because of the unusually low number of vacant dwelling units, although the present high interest rates are a depressant.

EXPANSION CONTINUES AT A RAPID PACE To keep pace with the growing need for energy in our service area, the Company spent \$289 million for new construction in 1968, the fourth consecutive year in which construction of new facilities proceeded at a rate of more than \$1 million every working day. We expect to step up this already high tempo of expansion activities in the years immediately

ahead. Construction expenditures approximating \$2 billion over the next five years are anticipated, including about \$340 million in 1969.

During 1968 the second of two new 750,000 kilowatt conventional generating units went into service at Moss Landing Power Plant. Another unit of the same size is being added to Pittsburg Power Plant, where construction began late last year. On a coastal location near San Luis Obispo, site preparation and road building are under way for a 1,060,000 kilowatt nuclear power plant. The Company's application for a second nuclear unit of identical size at the same site was heard by the California Public Utilities Commission in December. An application for a construction permit for the second unit has been filed with the Atomic Energy Commission.

As part of the Company's expansion of its headquarters in San Francisco a low-rise structure is nearing completion and will be ready for occupancy shortly. The complex task of moving the electric and gas dispatching facilities into a new energy control center in this building will be finished by mid-1969. Meanwhile, foundation work is almost complete and steel erection will start soon for the adjacent 34-story headquarters building which is scheduled for occupancy in 1971.

ADDITIONAL GAS SUPPLIES APPROVED On October 30 the Federal Power Commission authorized the Company to import an additional 303 million cubic feet of gas a day from out-of-state sources. Of this amount, 200 million will come from fields in the Province of Alberta, Canada, through our Alberta-California pipeline. The remaining 103 million will come from reserves in the Southwest through the facilities of El Paso Natural Gas Company. In both instances, the increased deliveries will be accomplished by the installation of more compressor units and other facilities along existing pipelines. The full amount of these im-

portant increments to our natural gas supplies will be flowing by November 1, 1969.

EFFECT OF INFLATION ON RATES PG&E has not had a general gas rate increase since 1961, nor a general electric rate increase since 1957. On the contrary, in the last five years the Company has reduced its gas and electric rates by amounts which are saving its customers about \$40 million per year. These reductions were made to pass on to our customers the benefits of reduced gas costs and reductions in Federal income taxes effective in 1964 and 1965. They were made during a period when wages, materials and equipment, and State and local taxes were increasing substantially and were made feasible by increased efficiencies and an increasing volume of business.

We have now reached a point where nearly all of our costs are increasing at unprecedented rates. For example, (a) the Federal income tax surcharge amounts to over \$7 million per year, (b) El Paso Natural Gas Company has filed applications for rate increases with respect to the gas sold to the Company, which amounts to about \$16 million per year, (c) interest rates on borrowed money, also one of our major costs of doing business, have reached 7% and more, said to be the highest rates since the Civil War, and (d) various taxes levied by state and local governments, wages, materials and equipment, and other costs of doing business are rising rapidly.

It is no longer practical for the Company to absorb all these escalating costs without increases in rates. Accordingly, the Company, in December 1968, filed an application with the California Public Utilities Commission to increase its gas rates by about \$37 million annually. The amount requested is designed to offset the increase in the cost of gas, increased Federal taxes, and to earn a 7½% rate of return on the Company's investment in gas facilities. Hearings on the application commenced early in February.

Although no final decision has been made, the Company may file an application to increase its electric rates before the end of the year.

IMPROVEMENT OF OUR ENVIRONMENT Increasingly, people are concerned with the appearance of their surroundings. PG&E is placing strong emphasis on attractive appearance for all our new facilities. This is reflected in our new substations, service centers and other installations.

By reducing the cost of undergrounding electric distribution facilities, we have encouraged developers of dwelling units to install underground lines. Last year 85 per cent of all new single family tracts and over 90 per cent of all multifamily tracts installed underground distribution lines. Also the Company, with the approval of the California Public Utilities Commission, expanded its program to convert overhead lines to underground. Last year the Company allocated \$8 million for this purpose. These and other Company efforts to improve the esthetic qualities of our surroundings are in line with the recent recommendations made by the Electric Utility Industry Task Force on Environment, on which Presidential Advisory Committee your Company's President served.

The Company is cooperating in a number of programs to improve our social environment. To help expand opportunities available to minorities, the Company is participating in programs to offer work experience to young people during the summer, to hire "hard-core" unemployed and to establish a closer liaison with and increase employment of minority races generally.

COOPERATION TO INSURE ELECTRIC RELIABILITY The Western Systems Coordinating Council was recently founded to coordinate the activities of the members for the greatest possible reliability of power supply. PG&E and 18 other investor-owned and 21 government-owned utilities have been interconnected into a vast electric power net-

work that covers an area extending into 13 states of the West from Mexico to Canada and into British Columbia. These systems exchange information on planning and installation of new facilities and on equipment tests, cooperate in regional power stability studies, and are working to standardize operational techniques for handling the variety of new problems that arise in this highly sophisticated interconnected network. The Council, in turn, is a member of the more recently organized National Electric Reliability Council composed of 12 regional coordinating groups of electric power systems covering the whole country. Its function is to augment reliability of power supply on a national basis by coordinating the activities of the twelve regional organizations.

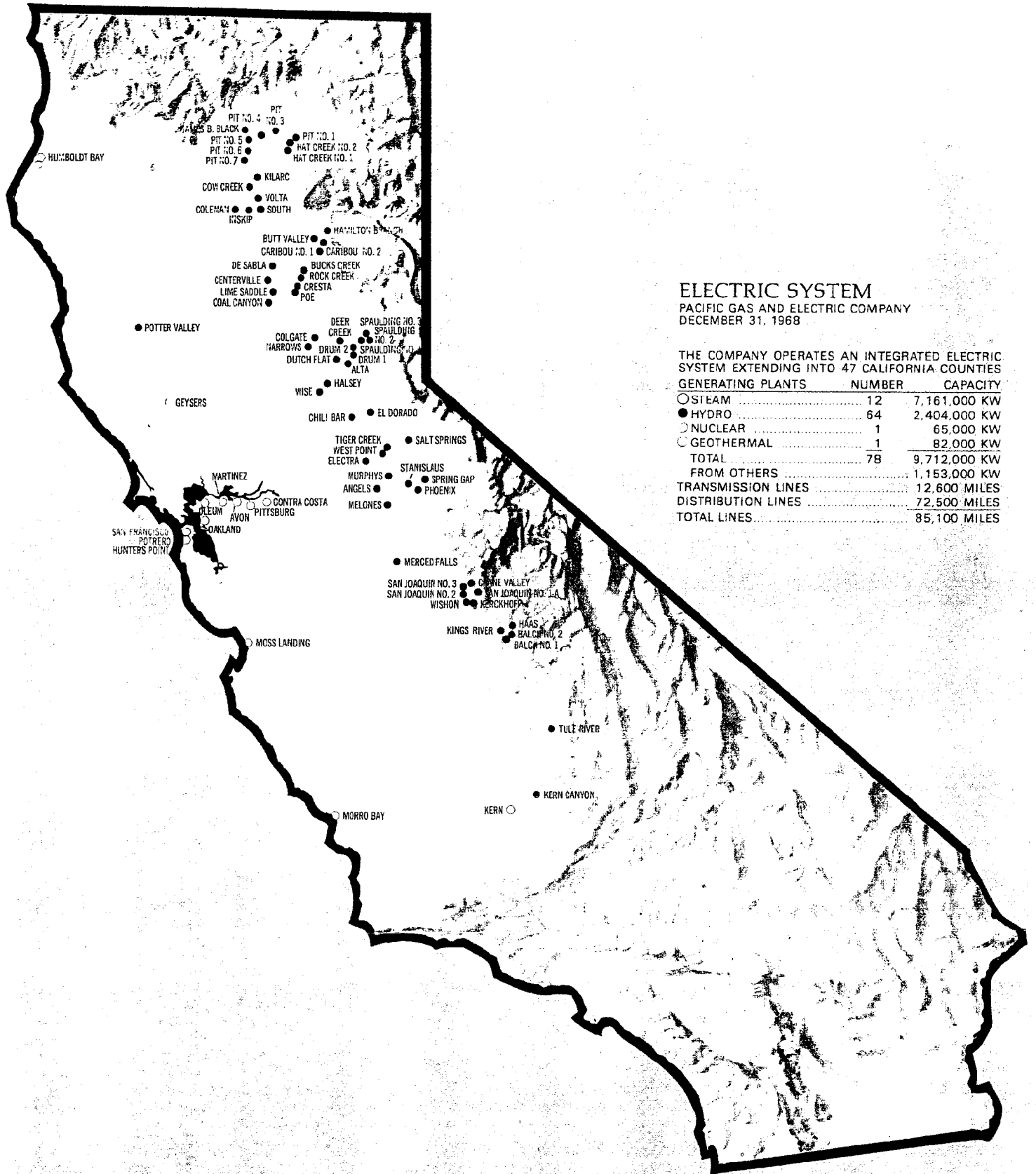
PG&E JOINS IN CELEBRATING CALIFORNIA'S 200TH BIRTHDAY California's Bicentennial Year is 1969, the 200th anniversary of the Portola Expedition which brought the first missionaries and settlers to California. For 117 of these 200 years, PG&E and its predecessor companies have been serving the energy needs of a large area of the state. The pages that follow contain a more detailed review of our operations during the past year and indicate how closely our Company is tied to California's colorful past and to its exciting future.

For the Board of Directors

Robert H. Gerdes
Chairman of the Board

W. S. Sibley
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 22, 1969 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, 1969.)



ELECTRIC SYSTEM

PACIFIC GAS AND ELECTRIC COMPANY
DECEMBER 31, 1968

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

GENERATING PLANTS	NUMBER	CAPACITY
○ STEAM	12	7,161,000 KW
● HYDRO	64	2,404,000 KW
○ NUCLEAR	1	65,000 KW
○ GEOTHERMAL	1	82,000 KW
TOTAL	78	9,712,000 KW
FROM OTHERS		1,153,000 KW
TRANSMISSION LINES		12,600 MILES
DISTRIBUTION LINES		72,500 MILES
TOTAL LINES		85,100 MILES



GAS SYSTEM

PACIFIC GAS AND ELECTRIC COMPANY
DECEMBER 31, 1988

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	23,000 MILES
TOTAL MAINS	27,700 MILES

THE 1968 FINANCIAL STORY

REVENUES Your Company is the first gas and electric utility company to have achieved annual operating revenues of more than one billion dollars. It was only eleven years ago, in 1957, that the half-billion dollar mark had been reached.

The Electric Department contributed 64.3% of the total revenues and the Gas Department 35.5%, the balance coming from sales of water and steam. The table on page 27 shows a breakdown of revenues and related unit sales by major classes of service.

The overall increase in the Electric Department represented a highly satisfactory gain of 7.8%. The revenue increase from agricultural power sales of 14.4% was unusually high. This resulted from below-normal precipitation in 1968 which stimulated irrigation pumping sales as compared to the previous year when above-normal rainfall reduced revenues from that source.

In the Gas Department warmer than normal temperatures last year, in contrast to colder than normal temperatures the previous year, reduced customers' needs for space heating and thereby limited the revenue increases from sales to our residential and commercial customers. However, substantial gains in other classes of service produced an overall gas revenue increase of 4.0%. Revenue from sales to our industrial customers increased by 9.8%, a gain which is in line with our long-term projections for this important class of service. Revenues from industrial gas sales continue to double each decade.

EXPENSES Operating expenses, exclusive of taxes and depreciation, increased \$34 million to a total of \$485 million.

Of the \$34 million increase, \$24 million is attributable to the larger quantities of gas required for sales to our cus-

tomers and for fueling our steam-electric generating plants. Because the cost of natural gas constitutes over half of our operating expenses, the unit cost of gas has a major impact on operating results. For the sixth year in succession, the unit cost of gas has declined. However, one of our principal gas suppliers, El Paso Natural Gas Company, has filed with the appropriate regulatory authorities for an increase in the cost of gas delivered to us. This will be the subject of hearings during 1969 before the Federal Power Commission and it may result in a reversal of the downtrend in the unit cost of gas used by the Company.

Another important category of operating expense which increased was wages and salaries. This increase resulted in large part from wage adjustments placed in effect in July 1967 and 1968. These adjustments were made under the terms of a three-year contract negotiated with the unions in mid-1966.

We are continuing to make wider applications of electronic computers to additional phases of our business. Since 1966 PG&E has been engaged in studying the need and defining the requirements for a comprehensive electronic computer information system. The system we plan to install, the initial phases of which are now operative, will enable us to perform our day-to-day work more efficiently, improve our planning methods and provide better control over all Company operations. In 1968 we established an Information Systems Department to put into effect on a priority basis those parts of the information system which will give the Company the greatest immediate return, either in dollars or improved service to our customers.

TAXES Taxes of all kinds, paid or set aside for future payment, amounted to \$204,538,000, an increase of \$7,305,000 over the prior year.

Federal income taxes accounted for \$3,165,000 of the \$7,305,000 total increase in taxes. The increased Federal income taxes resulted principally from the imposition in

June 1968 of the 10 per cent Federal income tax surcharge, which was retroactive to January 1, 1968.

A table showing taxes by classes and a comparison with the previous year appears on page 13.

EARNINGS AND DIVIDENDS Net income for the year amounted to \$167,824,000, an increase of \$3,473,000 over 1967. After preferred dividend payments of \$18,336,000 there remained \$149,488,000 available for the common stock, equivalent to \$2.55 a share.

In September the Board of Directors increased the quarterly dividend rate on the common stock from 35 cents to 37½ cents (from \$1.40 to \$1.50 on an annual basis). The first dividend at the new rate was paid on October 15, 1968 to common stockholders of record September 27, 1968. This is the seventh dividend increase in the past eight years.

Dividends declared on the common stock during the year were \$85,168,000, or 57% of the total earnings available for the common stock. Earnings of \$64,320,000 were re-invested in income producing properties, which will provide an increased earnings base for common stockholders.

In compliance with the requirements of the United States Internal Revenue Code, all dividend payments in 1968 to holders of PG&E stock, both common and preferred, have been reported to the I.R.S. In December 1968 each shareholder of record was mailed a report of dividends received. In the same mailing all common stockholders were advised that a portion of the common stock dividend payments in 1968 was excludable from their taxable income for Federal income tax purposes as follows:

Date of Payment	Dividends Per Share	Amount Not Taxable
January 15, 1968	\$.350	\$.012
April 15, 1968350	.069
July 15, 1968350	.069
October 15, 1968375	.073
	<u>\$1.425</u>	<u>\$.223</u>

FINANCING Over half of the Company's \$289 million construction program in 1968 came from internal sources (largely depreciation 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 20, 1968 the Company sold \$50 million of Series QQ Bonds, 6⁵/₈ %, due June 1, 2000, at a cost to the Company of 6.72%. On November 7, 1968, we sold \$60 million of Series RR Bonds, 6³/₄ % due December 1, 2000, at a cost of 6.77%. Although these costs were down slightly from the 6.92% paid in December 1967, they do indicate that interest rates remain high and must be taken into account in future planning.

We expect that a portion of the Company's \$340 million construction program in 1969 will be obtained from the sale of additional bonds. As this report goes to press we expect to sell \$80 million of bonds at competitive bidding on April 9th. Additional financing will be undertaken later in the year.

At the close of 1968 the Company's total capitalization was \$3,469 million consisting of 53.1% mortgage bonds, 10.1% preferred stock and 36.8% common stock equity.

STOCK OWNERSHIP At the end of 1968 PG&E was owned by 246,998 individual and institutional investors. Of the total, 71,887 were preferred stockholders and 175,111 were common stockholders.

Our stockholders are located in every state and many foreign countries. However, as a result of our long-standing policy to encourage local ownership, approximately two thirds of our stockholders have California addresses.

Our employees have now become the Company's largest single class of stockholder. Held in trust for them are more than 2,000,000 shares of PG&E common stock which they have acquired through their continuing participation in the Employees' Savings Fund Plan, established in April 1959. Currently there are over 15,000 employees who are mem-

bers of the Plan, representing 95% of those eligible to participate. Employees may join the Plan after completion of three years of service. Payroll deductions are made at the direction of the employee (to a maximum of 6% after 15 years of service), and the Company adds 50% to the amount contributed by the employee.

A breakdown of our stock ownership by class of investor appears in the table below. About one half of our stock is owned by individuals and in joint tenancies, and the other half is held by institutional investors, such as insurance companies and pension funds. Through these latter holdings, millions of additional people have an indirect financial interest in the Company, making it truly a publicly owned enterprise.

DISTRIBUTION OF STOCK OWNERSHIP
by Class of Investor, December 31, 1968

	Number of Stock- holders	Number of Shares Owned
Women	96,515	17,158,385
Joint and other tenancies	64,859	9,447,891
Men	53,074	9,724,298
Trustees, guardians and other fiduciaries	22,880	3,682,605
Nominees	3,617	21,369,212
Corporations, partnerships and proprietorships	1,707	1,118,044
Charitable and fraternal organizations and foundations	1,622	681,511
Banks and trust companies, investment companies and security dealers	1,128	3,274,168
Insurance companies	656	5,867,625
Religious institutions	597	144,747
Educational institutions	303	256,696
Labor organizations	40	21,471
Total	<u>246,998</u>	<u>72,746,653</u>

FIVE YEARS IN BRIEF—PACIFIC GAS AND ELECTRIC COMPANY

	1968	1967	1966	1965	1964
SOURCES OF INCOME:					
Electric revenues	\$ 646,831,000	\$599,876,000	\$578,609,000	\$538,271,000	\$518,903,000
Gas revenues	356,374,000	342,685,000	337,063,000	310,762,000	293,728,000
Other operating revenues	2,010,000	2,486,000	2,485,000	2,366,000	2,328,000
Other income and income deductions—net	9,390,000	3,870,000	917,000	631,000	618,000
Total	<u>\$1,014,605,000</u>	<u>\$948,917,000</u>	<u>\$919,074,000</u>	<u>\$852,030,000</u>	<u>\$815,577,000</u>
DISPOSITION OF INCOME:					
Natural gas purchased	\$ 254,470,000	\$230,843,000	\$252,639,000	\$223,615,000	\$222,316,000
Power purchased	15,087,000	18,562,000	11,930,000	14,115,000	10,373,000
Other production	31,580,000	29,037,000	22,919,000	21,872,000	20,997,000
Transmission	10,823,000	9,529,000	8,315,000	7,648,000	7,634,000
Distribution	43,869,000	42,028,000	38,123,000	35,148,000	33,296,000
Customer accounts	32,071,000	30,694,000	28,187,000	27,057,000	26,225,000
Sales promotion	9,372,000	9,095,000	8,094,000	7,801,000	7,418,000
Administrative and general	41,383,000	36,383,000	35,474,000	32,867,000	30,769,000
Maintenance	45,995,000	44,757,000	39,329,000	36,709,000	37,007,000
Depreciation	109,063,000	102,118,000	98,395,000	92,774,000	89,707,000
Taxes	186,882,000	178,397,000	173,630,000	165,499,000	158,557,000
Interest charges (net of interest charged to construction)	66,186,000	53,123,000	53,007,000	46,653,000	45,442,000
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	85,168,000	82,231,000	76,358,000	70,483,000	63,369,000
Reinvested earnings	64,320,000	63,784,000	54,338,000	51,453,000	44,131,000
Total	<u>\$1,014,605,000</u>	<u>\$948,917,000</u>	<u>\$919,074,000</u>	<u>\$852,030,000</u>	<u>\$815,577,000</u>
NUMBER OF SHARES OF COMMON STOCK OUTSTANDING:					
Average for the year	58,737,000	58,737,000	58,737,000	58,737,000	57,607,000
End of year	58,737,000	58,737,000	58,737,000	58,737,000	58,737,000
EARNINGS PER SHARE OF COMMON STOCK:					
On average shares outstanding	\$2.55	\$2.49	\$2.23	\$2.08	\$1.87
On end-of-year shares outstanding	2.55	2.49	2.23	2.08	1.83
DIVIDENDS PER SHARE OF COMMON STOCK:					
Declared basis	\$1.45	\$1.40	\$1.30	\$1.20	\$1.10
Paid basis	1.42½	1.37½	1.27½	1.17½	1.07½

SOURCE AND APPLICATION OF FUNDS—PACIFIC GAS AND ELECTRIC COMPANY

SOURCE OF FUNDS:	1968	1967
Net income.....	\$167,824,000	\$164,351,000
Depreciation (incl. charges to other accounts).....	114,881,000	107,463,000
Mortgage bonds sold.....	109,003,000	159,294,000
Sales and salvage of utility plant, and reimbursements—net.....	19,534,000	14,866,000
Bank borrowings.....	6,000,000	—
TOTAL.....	<u>\$417,242,000</u>	<u>\$445,974,000</u>
APPLICATION OF FUNDS:		
Construction expenditures.....	\$289,400,000	\$310,992,000
Mortgage bonds retired.....	23,953,000	15,654,000
Dividends—preferred and common stock.....	103,504,000	100,567,000
Bank borrowings retired.....	—	3,000,000
Increase in working capital.....	385,000	15,761,000
TOTAL.....	<u>\$417,242,000</u>	<u>\$445,974,000</u>

TAXES AND FRANCHISE PAYMENTS—PACIFIC GAS AND ELECTRIC COMPANY

LOCAL TAXES AND FRANCHISE PAYMENTS:	1968	1967	Increase
Ad valorem property taxes.....	\$100,710,000	\$ 99,071,000	\$1,639,000
Franchise payments.....	6,133,000	5,977,000	156,000
Total.....	<u>106,843,000</u>	<u>105,048,000</u>	<u>1,795,000</u>
STATE TAXES:			
Corporation franchise: current.....	11,049,000	9,296,000	1,753,000
Corporation franchise: deferred.....	* 251,000	* 251,000	—
Unemployment insurance.....	1,793,000	1,940,000	* 147,000
Automobile.....	1,091,000	1,037,000	54,000
Total.....	<u>13,682,000</u>	<u>12,022,000</u>	<u>1,660,000</u>
CITY AND STATE TAXES:			
Sales and Use.....	5,950,000	6,109,000	* 159,000
FEDERAL TAXES:			
Corporation income: current.....	72,863,000	69,698,000	3,165,000
Corporation income: deferred.....	* 2,694,000	* 2,694,000	—
Unemployment insurance.....	324,000	302,000	22,000
Insurance contributions.....	7,489,000	6,671,000	818,000
Other.....	81,000	77,000	4,000
Total.....	<u>78,063,000</u>	<u>74,054,000</u>	<u>4,009,000</u>
TOTAL TAXES AND FRANCHISE PAYMENTS.....	<u>\$204,538,000</u>	<u>\$197,233,000</u>	<u>\$7,305,000</u>
CHARGED TO:			
Expense as taxes.....	\$186,882,000	\$178,397,000	\$8,485,000
Expense as franchise payments.....	6,133,000	5,977,000	156,000
Utility plant and other accounts.....	11,523,000	12,859,000	*1,336,000
TOTAL TAXES AND FRANCHISE PAYMENTS.....	<u>\$204,538,000</u>	<u>\$197,233,000</u>	<u>\$7,305,000</u>

*Denotes red figure.



From the highway, this PG&E substation looks like a ski chalet. It serves a big, new, all-year recreational area in the Sierra.

ELECTRIC OPERATIONS Electric system output in 1968 exceeded that of the previous year by almost 9%, reaching a total of 48.7 billion kilowatt-hours. Company hydroelectric plants generated 11.3 billion kilowatt-hours, or 23.1% of the total. This was a decrease of 3.2 billion kilowatt-hours from the previous year when unusually favorable water conditions prevailed.

Load growth and the reduced hydro output resulted in increased output from our thermal plants, which generated 30.4 billion kilowatt-hours, or 62.4% of the total. This was an increase of 8.5 billion kilowatt-hours over the previous year. The remaining 14.5%, or 7.0 billion kilowatt-hours, was obtained from other producers.

The peak demand on our system, which occurred on December 18, 1968, amounted to 8,666,400 kilowatts, an increase of 9.0% over the previous year.

During the year 778,000 kilowatts of new generating capacity were added to our system capability, the same amount as in 1967. A 750,000 kilowatt conventional steam-electric generating unit, designated Moss Landing No. 7, was placed in service in August and a 28,000 kilowatt geothermal unit, Geysers No. 4, became operational in December. The Moss Landing unit, together with a similar unit at the same location placed in service in 1967, is producing substantial operating economies.

At the present time we have 3,042,000 kilowatts of electric generating capacity under construction or planned as follows:

Completion Date		Estimated Capacity (KWH)
1969	Belden (hydro)	117,000
1971	Geysers No. 5 (geothermal)*	55,000
1972	Pittsburg No. 7 (conventional steam)	750,000
1973	Diablo Canyon Site—No. 1 (nuclear)	1,060,000
1974	Diablo Canyon Site—No. 2 (nuclear)	1,060,000
		<u>3,042,000</u>

*Additional development is contemplated at this site during the 1972-1974 period.

In planning additions to our generating capacity we take into account the resources which will be available from others. The relatively small additions to plant for the years 1969 through 1971 make allowance for about 600,000 kilowatts that the Company will purchase from the Pacific Northwest over our 500 KV Intertie completed in 1968 and about 650,000 kilowatts that it will purchase from water conservation projects in our service area.

GAS OPERATIONS In 1968 the Company purchased a total of 888 billion cubic feet of natural gas to meet the needs of our customers and for use as fuel in our thermal electric generating plants. Of the total, 46% was obtained from the Southwestern part of the United States and delivered to us at the Arizona-California border through the facilities of the El Paso Natural Gas Company. The Alberta-California pipeline delivered 27% of the gas from Canadian fields and a like amount came from California producers.

Large gas reserves in the Southwestern part of the United

States, in Western Canada, and in California are dedicated for use of our customers. Because of the geographic distribution and the growing quantity of these gas reserves through new discoveries, we believe that the Company is in an excellent position to obtain additions to its gas supply as needed for many years.

BUSINESS DEVELOPMENT Our Area Development Department plays an active role in stimulating the economic growth of the 197 incorporated cities and 48 counties it serves. This activity includes Industrial Development—promoting Northern and Central California as a plant location and helping new industries to find suitable sites here. It also includes Community Development—helping communities to become more attractive to new industry and better able to support the expansion of existing firms.

The promotion of energy sales to agriculture and related industries continues to be of major importance in our sales program. California's supremacy in total cash farm income is well known. In 1968 such income was approximately \$4 billion, marking the 21st year of this state's leadership.

Not so well known, however, is the variety and economic importance of "agribusiness." This term applies to those industries and groups which supply equipment, materials, fuel, chemicals, labor, transportation, canning, freezing, packaging, advertising, and financial and insurance services to agriculture.

When the value of the materials and services provided by these allied industries is counted, the \$4 billion for agriculture becomes approximately \$16 billion.

The overall agricultural economy accounts for approximately one fifth of the state's gross product. About two

Where ancient windmills once pumped water for ranches, big new oil refineries and other industrial complexes are taking shape to meet the needs of a growing state. To provide energy for its customers, large and small, PG&E expects to invest approximately two billion dollars in the next five years.

thirds of this agribusiness (\$10.5 billion) is generated within the Northern and Central California service area of Pacific Gas and Electric Company. PG&E itself is a substantial factor in the total enterprise by serving large amounts of electric energy for irrigation and other related uses and natural gas for food processing and as a raw material of ammonia-base fertilizers.

Agribusiness touches almost every person, region and business in the state to some degree. One job in three in California depends directly or indirectly on agriculture, and for every 100 persons employed on farms, more than 260 are employed in closely related industries such as processing, packaging, transporting and selling of agricultural products.

CUSTOMERS	1966	1967	Increase during 1968
Electric Department	2,483,480	2,429,306	54,174
Gas Department	2,160,569	2,110,510	50,059
Water Department	8,052	13,999	* 5,947
Steam Department	481	496	* 15
Total	<u>4,652,582</u>	<u>4,554,311</u>	<u>98,271</u>

*Denotes red figure.

EMPLOYEES At the end of 1968 there were 22,289 men and women employed by the Company.

Again this past year, in keeping with the rapid changes in the technology of our industry, the Company has provided a wide range of both formal and informal training programs for a large number of its employees.

The year 1968 also marked another successful year in attracting young professional talent to the Company. During this year the Company's recruiting teams visited

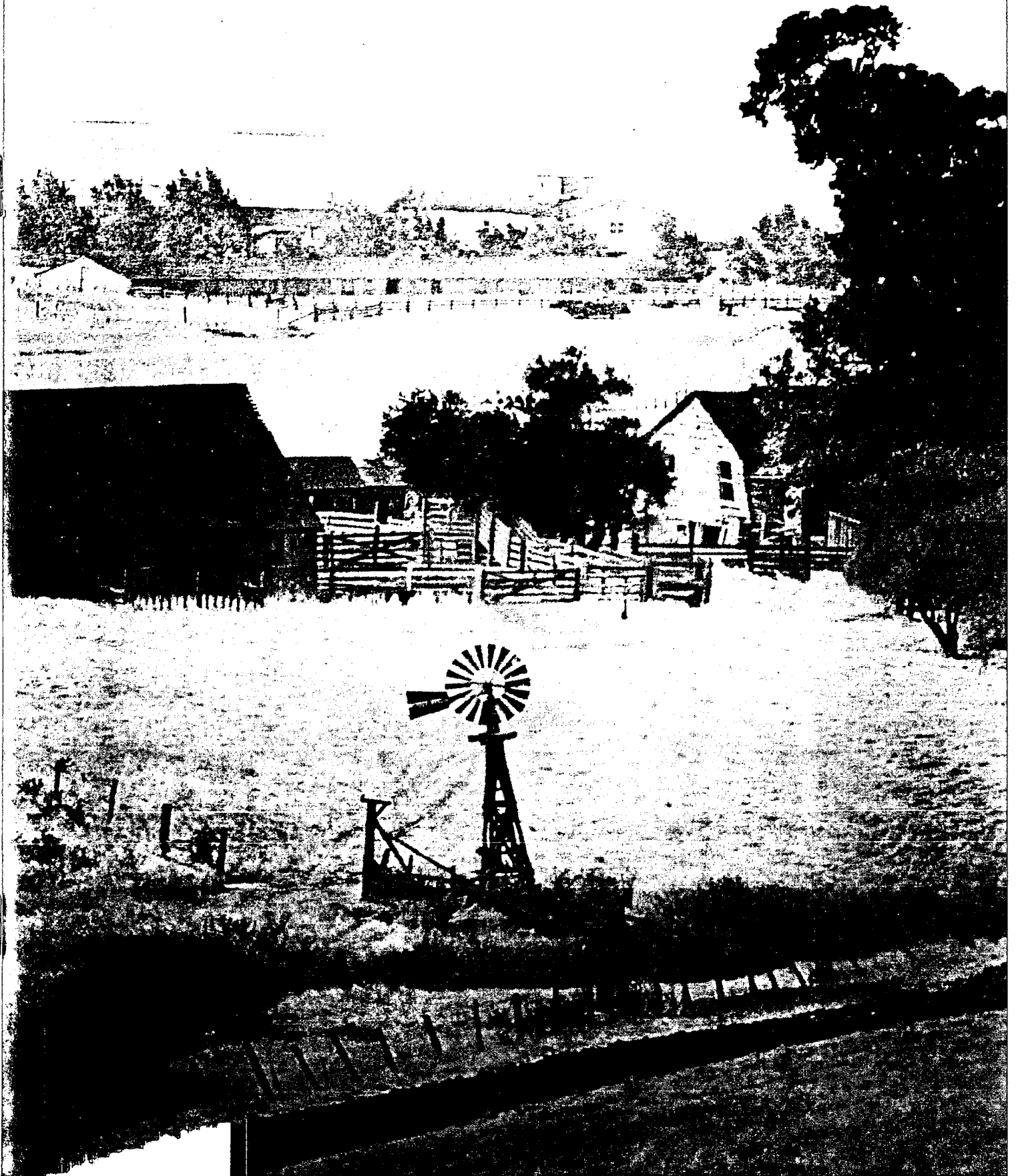
more than forty colleges and universities in search of talented engineering and business-oriented graduates. With the growth rate the Company has had in the past and expects to enjoy in future years, this activity will continue to assure that we attract and develop qualified men and women to fill immediate and future corporate needs.

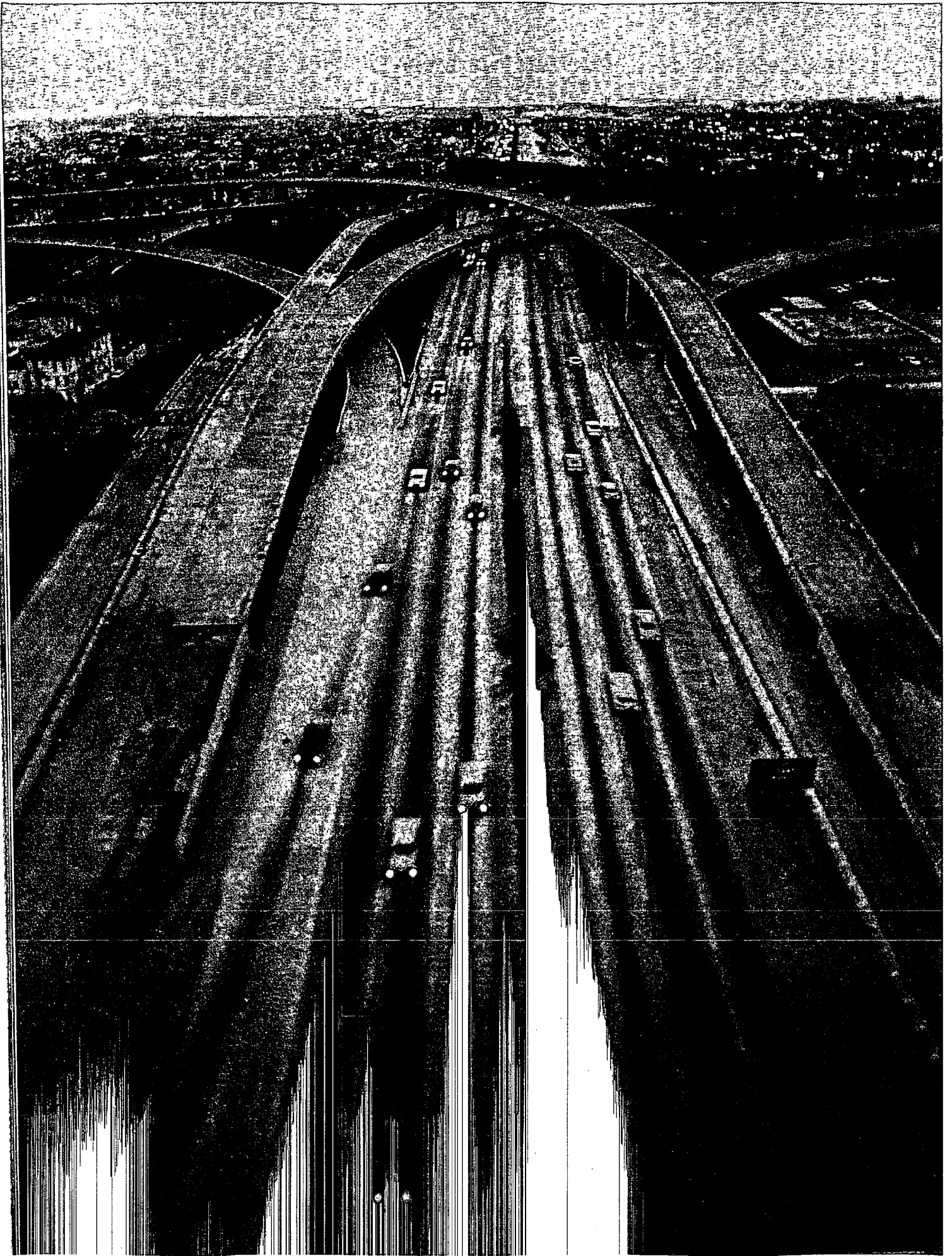
The Company also continues to participate with high schools and technical colleges in programs designed to encourage students to relate their academic training more closely to the world of work so that they may better qualify for entry into our work force. Teachers, counselors and students regularly visit Company facilities to learn more about the many career opportunities we offer. These tours also provide the opportunity for further stressing the Company's equal employment opportunities and encouraging students from all ethnic groups to join the Company and share in its growth potential.

DIRECTORS AND OFFICERS On February 19, 1969, John F. Bonner, Senior Vice President, was elected a member of the Board of Directors to replace David Packard who resigned on January 15, 1969 to become Deputy Secretary of Defense.

On June 30 Emil J. Lage, Vice President—Rates and Valuation, retired after a 43-year career with the Company. He was succeeded by John F. Roberts, Jr., who had been serving as manager of the Rate Department.

Vern C. Redman, Senior Vice President, retired on December 31. He was succeeded by C. Elliot Ginochio, who had been Vice President—Commercial Operations. Joseph Y. DeYoung, manager of the Stockton Division, was elected Mr. Ginochio's successor.





In metropolitan areas like Oakland: freeways and rapid transit systems speed Californians to a better tomorrow. Outside the cities: an emphasis on agriculture and conservation nourishes man's body and soul.

"An Explorer satellite was hurled into orbit around the Earth today with equipment designed to monitor radio waves from the sun, Jupiter and the Milky Way. The craft, whose antennas will exceed the height of the Empire State Building when fully extended, was launched from the space agency's Western Test Range at Lompoc, Calif."

News item.



In 1852, the year of PG&E's beginnings, miners sought gold in Auburn Ravine as one of the few women there brought them lunch.

A scant two centuries ago explorers of another type rode along the beach beside the same hills from which space vehicles now thunder into the heavens. This was the expedition of Don Gaspar de Portola who, with Father Junipero Serra, was colonizing California—a fabled land then almost as remote from Europe as the moon.

These were the beginnings of California, and 1969 is California's Bicentennial Year. Like Portola and Serra, those who followed through the years have always found that in reality California is greater than the legends about it, but that the riches are not so much in the land as in the

people. Those who journeyed to this far frontier were "men with empire in their purpose and new eras in their brains." They lived, as do their successors, with one foot in the future, creating institutions that are enduring and dynamic.

Pacific Gas and Electric Company is one of these institutions. For 117 of the past 200 years PG&E or its predecessors have provided energy for a large area of California to grow on.

PG&E traces its beginnings to 1852, the year the San Francisco Gas Company was organized. The first gas company in all the West, it began operations with a small gas plant, 237 customers and a resolve to bring light to the



Completion of the transcontinental railroad in 1869 spelled the end of ox-drawn wagon trains and stepped up the westward migration.

murky heart of the Gold Rush city by the bay. Today PG&E's rapidly-growing natural gas system serves more than two million customers and its roots extend to Canada and Texas.

Equally a pioneer was PG&E's electric grandparent—the California Electric Light Company, the first electric public utility in the nation. In 1879 it made San Francisco the first city to have a central generating station for distribution of electricity to the public.

As gas and electric companies proliferated in Northern and Central California, men risked fortunes on spectacular



In the pleasant Amador Valley of eastern Contra Costa County, new residential subdivisions continue their steady growth.

new ventures in these uncharted technical fields. First they harnessed the abundant water power in miners' ditches in the Sierra Nevada and generated hydroelectricity. Then they pioneered long distance transmission of electrical energy to the cities on the plains below, drawing admiring attention from engineers around the world.



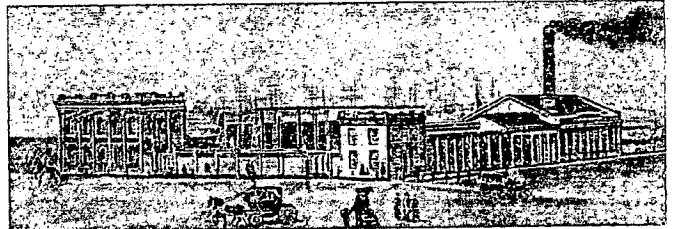
Like many California cities, Placerville still has relics of the Gold Rush days when it was but a cluster of cabins around a rich strike.

This early availability of gas and electric energy was the mold that shaped much of Northern and Central California's prosperity. Farms were being electrified before the turn of the century and the state's present preeminence in agriculture owes much to this pioneering in rural electrification.

Efficiency and economics dictated the consolidation of many smaller gas and electric utilities into increasingly larger corporate units until, in 1905, Pacific Gas and Electric Company was formed from two of the largest. As the pace of California's development stepped up, not even the earthquake and fire of 1906 could shatter the basic soundness of this dynamic new utility.

In 1914 PG&E made financial history when, in a tight money market, directors decided to sell an issue of preferred stock directly to PG&E customers, employees and stockholders. Here was true customer ownership and peo-

ple responded eagerly to the opportunity to become a capitalist on the installment plan. "We have started something which will spread all over the United States," one director accurately predicted—and by 1930 utilities across the country had sold almost two billion dollars worth of securities by this method to nearly two million investors. PG&E no

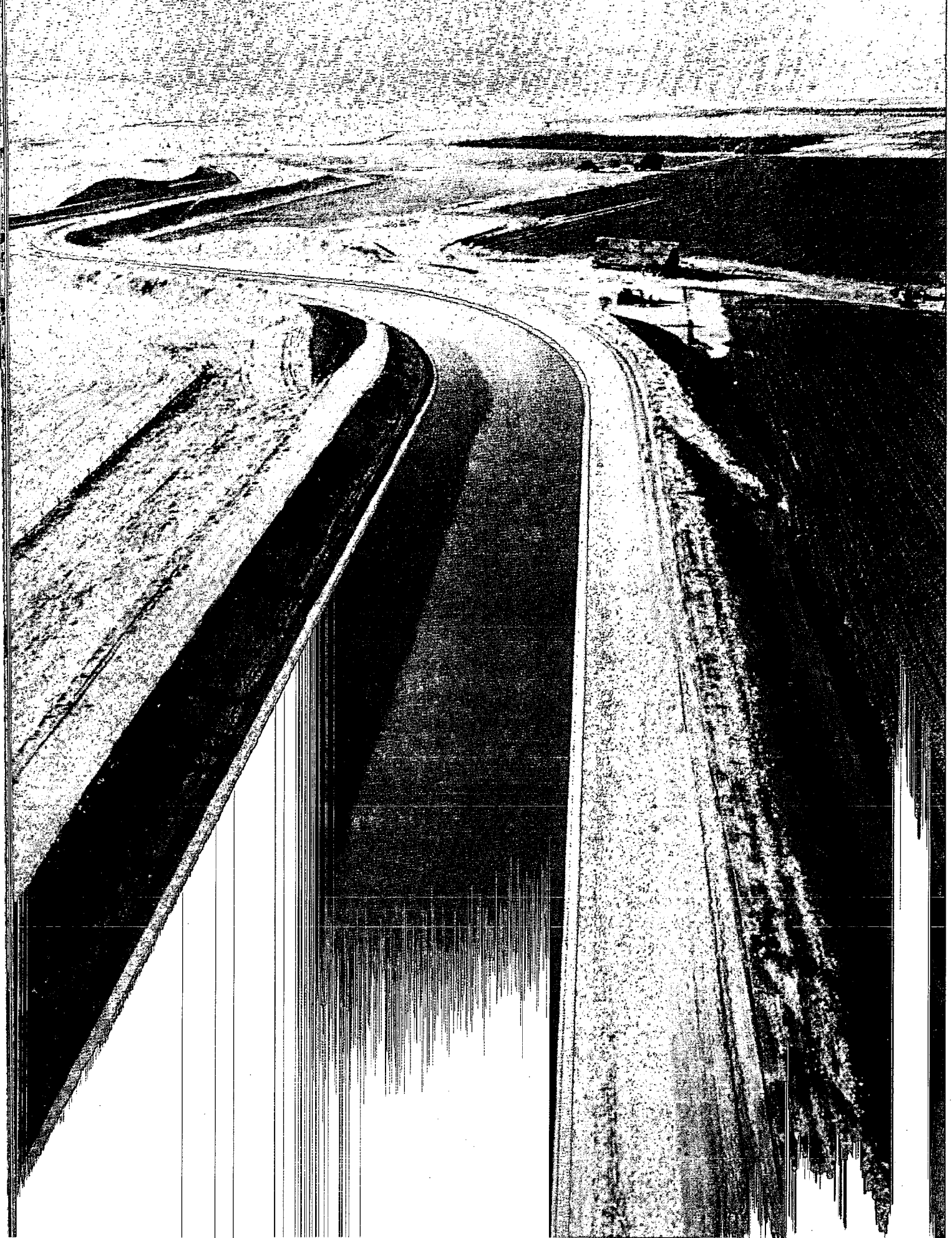


The San Francisco Gas Company, formed in 1852, brought gas lights and a promise of a glowing future to the then-remote city.

longer sells its own stock directly to the public, but the tradition of customer ownership continues: about two thirds of the company's 247,000 stockholders have California addresses.

PG&E's constant quest for new and better sources of energy often produces some dramatic developments. Generating electricity from nuclear-fueled plants and from subterranean steam—at the Geysers Power Plant—captures the imagination today. Back in 1928 the drama centered on natural gas, truly a wonder fuel. In that year an exploratory gas well in the Kettleman Hills of Kings County blew in with a roar, assuring a plentiful supply of this modern fuel for the major cities within PG&E's service area. The Company acted quickly to pipe this gas to the San Francisco Bay Area, developing new and improved pipe-laying techniques as it went.

Natural gas arrived in the Bay Area in 1929. The follow-



Green fields mark the progress of the giant California Aqueduct pushing southward across once-arid lands, opening a new era for California agriculture and boosting the state's dynamic economy.

ing year, despite the onset of the Great Depression, PG&E put a small army of trained men in the field to tackle the mammoth job of converting two and a half million appliances to burn natural gas—the largest conversion task that ever had been undertaken.



The Tower of Jewels and searchlights lit the sky as part of the electrical exuberance of 1915 Panama Pacific International Exposition.

The introduction of this hotter, more economical fuel produced an immediate and expected drop in revenues as customers saved a total of millions of dollars a year in their fuel bills. However, imaginative promotion soon found many new uses and a multitude of new customers for natural gas; volume and revenues have been climbing steadily ever since. Exotic new uses for this versatile fuel are still being discovered and ample supplies in Canada and the Southwest have been secured by PG&E to bolster California sources. Today a great natural gas industry thrives in Northern and Central California as the result of a bold decision in bleak times.

Another landmark decision was required a decade and a half later. World War II had just ended, the great shipyards and aircraft plants lay idle and almost everyone was predicting an exodus of war workers from California. In the face of such predictions, PG&E launched a vast expansion program, one designed not only to catch up on war-

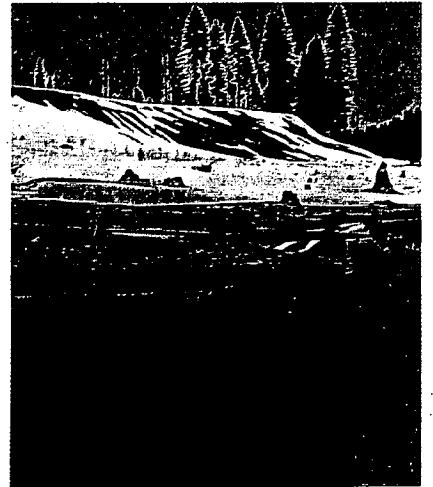
time-caused shortages but also to get ahead of the great population influx which Company officers correctly foresaw. When the boom developed, PG&E was ready— and it is still building ahead of the area's soaring energy needs at the rate of more than a million dollars every working day.



In 1904 teams of horses hauled generating machinery into Kilarc, one of the many early powerhouses built along abundant waterways.

In a land where it has been only 200 years from missionaries to moon rockets, the future is easily read in the past. It has been but eleven years from the time PG&E started up its 5,000 kilowatt Vallecitos Atomic Power Plant—holder of Atomic Energy Commission License No. 1—until the Company began construction in 1968 of a nuclear-fueled plant of more than one million kilowatts' capacity. There, on a remote section of the California coast from which even Portola turned aside, construction preliminaries had barely begun when applications were filed for a second identical unit.

But the atom is only the most glamorous symbol of PG&E's dynamic future. The shape of things to come can also be read in new Company structures designed for beauty as well as utility and in our expanding programs of social responsibility involving minority employment and urban revitalization. In areas of conservation, of recreation, of research, PG&E is helping build a better tomorrow, today.



STOCKHOLDERS' CALENDAR

SCHEDULE OF DIVIDEND PAYMENTS

COMMON STOCK

<u>RECORD DATE</u>	<u>DATE PAYABLE</u>
March 28, 1969	April 15, 1969
June 27, 1969	July 15, 1969
September 26, 1969 ..	October 15, 1969
December 26, 1969 ...	January 15, 1970

PREFERRED STOCK

<u>RECORD DATE</u>	<u>DATE PAYABLE</u>
January 24, 1969 ...	February 15, 1969
April 25, 1969	May 15, 1969
July 25, 1969	August 15, 1969
October 24, 1969 ..	November 15, 1969

STOCK TRANSFER AGENTS Office of the Company (W. E. Floyd, Transfer Agent), San Francisco; Bankers Trust Company, New York

REGISTRARS OF STOCK Wells Fargo Bank, San Francisco; Chemical Bank, New York

TEN-YEAR COMPARATIVE STATISTICS - PACIFIC GAS AND ELECTRIC COMPANY

	1968	1967
PER SHARE DATA - Common Stock⁽¹⁾:		
Earnings (based on average shares)	\$ 2.55	\$ 2.49
Dividends Declared	\$ 1.45	\$ 1.40
Dividend Payout Ratio	57.0%	56.3%
Book Value (end of year)	\$21.71	\$20.62
Market Price—High	38 ⁷ / ₈	38
—Low	30 ³ / ₄	31 ⁵ / ₈
—Close	38 ¹ / ₈	35 ⁵ / ₈
CAPITALIZATION RATIOS - End of Year:		
Bonds (and Bank Loans)	53.3%	52.8%
Preferred Stock	10.1	10.6
Common Stock Equity	36.6	36.6
Total	100.0%	100.0%
ELECTRIC STATISTICS:		
Total Gross System Output (000 KWH)	50,487,458	46,498,627
Gross System Output—In Per Cent		
Hydroelectric Plants	22.3%	31.0%
Steam-Electric Plants	60.2	46.4
Received from Other Sources	17.5	22.6
Total	100.0%	100.0%
Gross Normal Operating Capacity—KW		
Hydroelectric Plants	2,404,300	2,436,800
Steam-Electric Plants	7,308,000	6,517,000
Total from Company Plants	9,712,300	8,953,800
Available from Others	1,153,000	1,132,000
Peak Demand—Kilowatts	8,666,400	7,950,200
Total Customers at End of Year	2,483,480	2,429,306
Customers per Mile of Distribution Line	34.3	34.0
Average Annual Residential Consumption—KWH	5,181	5,000
Average Revenue per KWH—Residential	2.14¢	2.16¢
Average Revenue per KWH—All Classes	1.62¢	1.65¢
GAS STATISTICS:		
Total Natural Gas Purchased—MCF	888,074,653	802,221,367
Sources of Gas Purchased—In Per Cent		
From California	27.5%	26.3%
From Other States	45.5	48.3
From Canada	27.0	25.4
Total	100.0%	100.0%
Average Cost of Gas Purchased—MCF		
From California	30.3¢	30.2¢
From Other States (at California-Arizona border)	27.9	28.4
From Canada (at California-Oregon border)	28.0	29.3
Average—All Sources	28.6¢	29.1¢
Peak Day Sendout—MCF	3,338,669	3,363,503
Total Customers at End of Year	2,160,569	2,110,510
Customers per Mile of Gas Distribution Main	93.8	93.5
Average Annual Residential Consumption—MCF	109.7	112.4
Average Revenue per MCF—Residential	80.4¢	80.1¢
Average Revenue per MCF—All Classes	56.3¢	57.7¢

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

1966	1965	1964	1963	1962	1961	1960	1959
\$ 2.23	\$ 2.08	\$ 1.87	\$ 1.70	\$ 1.64	\$ 1.52	\$ 1.38	\$ 1.23
\$ 1.30	\$ 1.20	\$ 1.10	\$ 1.00	\$ 1.00	\$.93 ¹ / ₃	\$.86 ² / ₃	\$.86 ² / ₃
58.4%	57.8%	58.9%	59.0%	61.2%	61.3%	62.8%	70.2%
\$19.53	\$18.44	\$17.54	\$16.23	\$15.51	\$14.85	\$13.81	\$13.27
36 ³ / ₄	40 ³ / ₈	35 ³ / ₈	34 ⁵ / ₈	36 ⁷ / ₈	36	25 ⁵ / ₈	22 ¹ / ₄
27	33 ⁷ / ₈	30 ⁵ / ₈	30 ¹ / ₈	25	24 ¹ / ₂	20	19 ³ / ₈
35 ³ / ₄	36 ¹ / ₂	34 ¹ / ₄	31 ¹ / ₄	31 ⁷ / ₈	34	25 ¹ / ₄	21 ¹ / ₂
51.8%	51.3%	50.5%	51.7%	51.5%	50.1%	51.3%	50.6%
11.3	11.9	12.6	13.4	13.9	14.7	15.6	16.3
36.9	36.8	36.9	34.9	34.6	35.2	33.1	33.1
100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
43,743,340	40,042,134	38,177,510	34,691,873	32,873,959	31,354,960	28,809,150	26,260,391
25.4%	32.7%	23.8%	31.7%	33.2%	23.6%	30.4%	33.7%
60.6	50.3	64.3	54.0	56.7	70.8	64.4	60.0
14.0	17.0	11.9	14.3	10.1	5.6	5.2	6.3
100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
2,378,300	2,372,600	2,074,000	2,074,000	1,973,500	1,959,500	1,972,500	1,922,500
5,656,000	5,656,000	5,447,000	4,787,500	4,393,000	4,063,000	3,635,500	3,296,500
8,034,300	8,028,600	7,521,000	6,861,500	6,366,500	6,022,500	5,608,000	5,219,000
1,007,000	791,000	825,000	600,000	550,000	530,000	470,000	400,000
7,392,600	6,836,400	6,327,100	5,921,500	5,538,500	5,414,700	5,130,000	4,564,900
2,383,907	2,323,896	2,254,267	2,177,610	2,103,569	2,038,687	1,976,575	1,915,297
33.8	33.5	33.2	32.5	31.9	31.4	31.1	30.7
4,661	4,454	4,249	4,038	3,828	3,664	3,451	3,154
2.23¢	2.26¢	2.33¢	2.42¢	2.49¢	2.53¢	2.59¢	2.69¢
1.63¢	1.67¢	1.67¢	1.72¢	1.73¢	1.70¢	1.73¢	1.76¢
808,062,244	749,410,192	736,597,764	653,786,964	611,983,411	580,584,538	539,127,300	484,319,522
31.0%	29.1%	31.0%	34.7%	28.6%	30.9%	29.2%	28.6%
48.6	50.7	49.3	45.9	52.1	67.9	70.8	71.4
20.4	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%
30.1¢	29.8¢	30.0¢	30.0¢	30.2¢	30.2¢	29.8¢	28.2¢
29.4	29.6	30.1	33.3	34.6	32.7	31.4	28.7
31.2	33.6	34.4	37.1	35.4	34.5	—	—
30.0¢	30.5¢	30.9¢	32.9¢	33.5¢	32.0¢	30.9¢	28.5¢
3,032,844	3,110,309	2,775,582	2,779,629	2,497,276	2,271,482	1,915,456	1,884,473
2,064,045	2,008,623	1,944,503	1,874,743	1,803,989	1,745,030	1,690,523	1,628,269
93.5	93.3	92.8	92.5	91.3	91.4	91.4	91.2
107.5	110.6	113.1	108.3	108.1	104.2	101.1	89.1
81.1¢	80.5¢	80.1¢	81.2¢	82.2¢	82.1¢	79.7¢	77.8¢
56.4¢	57.8¢	60.2¢	62.3¢	63.3¢	63.5¢	61.5¢	58.3¢

TEN-YEAR COMPARATIVE STATISTICS (Lift Page)

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

ELECTRIC DEPARTMENT	1968	1967	Increase	
			Amount	Per Cent
REVENUES:				
Residential	\$ 233,096,000	\$ 221,118,000	\$ 11,978,000	5.4%
Commercial	223,600,000	212,834,000	10,766,000	5.1
Industrial (1000 kw demand or over)	89,755,000	83,517,000	6,238,000	7.5
Agricultural Power	56,461,000	49,338,000	7,123,000	14.4
Public Street and Highway Lighting	11,033,000	10,152,000	881,000	8.7
Other Electric Utilities	17,230,000	12,920,000	4,310,000	33.4
Miscellaneous	15,656,000	9,997,000	5,659,000	56.6
TOTAL	\$ 646,831,000	\$ 599,876,000	\$ 46,955,000	7.8%
SALES—Kilowatt-hours:				
Residential	10,913,433,000	10,220,270,000	693,163,000	6.8%
Commercial	11,758,988,000	10,968,745,000	790,243,000	7.2
Industrial (1000 kw demand or over)	9,776,894,000	9,033,951,000	742,943,000	8.2
Agricultural Power	4,065,365,000	3,475,342,000	590,023,000	17.0
Public Street and Highway Lighting	316,831,000	293,325,000	23,506,000	8.0
Other Electric Utilities	2,134,465,000	1,652,290,000	482,175,000	29.2
Total Sales to Customers	38,965,976,000	35,643,923,000	3,322,053,000	9.3
Delivered for the Account of Others	4,351,024,000	3,219,695,000	1,131,329,000	35.1
TOTAL	43,317,000,000	38,863,618,000	4,453,382,000	11.5%
GAS DEPARTMENT				
REVENUES:				
Residential	\$ 174,986,000	\$ 174,533,000	\$ 453,000	0.3%
Commercial	44,735,000	44,313,000	422,000	1.0
Industrial	113,056,000	103,000,000	10,056,000	9.8
Other Gas Utilities	23,263,000	20,537,000	2,726,000	13.3
Miscellaneous	334,000	302,000	32,000	10.6
TOTAL	\$ 356,374,000	\$ 342,685,000	\$ 13,689,000	4.0%
SALES—Thousands of Cubic Feet:				
Residential	217,569,000	217,857,000	* 288,000	* 0.1%
Commercial	67,747,000	66,958,000	789,000	1.2
Industrial	278,762,000	251,679,000	27,083,000	10.8
Other Gas Utilities	68,182,000	56,786,000	11,396,000	20.1
Total Sales to Customers	632,260,000	593,280,000	38,980,000	6.6
Company Use (Steam plants)	237,065,000	171,682,000	65,383,000	38.1
TOTAL	869,325,000	764,962,000	104,363,000	13.6%

*Denotes red figure.

STATEMENT OF REINVESTED EARNINGS - PACIFIC GAS AND ELECTRIC COMPANY -
FOR THE YEARS ENDED DECEMBER 31, 1968 AND 1967

	1968	1967
BALANCE, JANUARY 1	\$455,873,000	\$392,089,000
NET INCOME	<u>167,824,000</u>	<u>164,351,000</u>
Total	<u>623,697,000</u>	<u>556,440,000</u>
DIVIDENDS DECLARED—Cash:		
Preferred stock	18,336,000	18,336,000
Common stock (1968, \$1.45; 1967, \$1.40 a share)	<u>85,168,000</u>	<u>82,231,000</u>
Total	<u>103,504,000</u>	<u>100,567,000</u>
BALANCE, DECEMBER 31	<u>\$520,193,000</u>	<u>\$455,873,000</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 14, 1969

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, 1968 and the related statements of income and reinvested earnings 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, 1968 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, 1968 AND 1967

	1968	1967
OPERATING REVENUES:		
Electric	\$ 646,831,000	\$599,876,000
Gas	356,374,000	342,685,000
Other	2,010,000	2,486,000
Total	<u>1,005,215,000</u>	<u>945,047,000</u>
OPERATING EXPENSES:		
Operation:		
Natural gas purchased	254,470,000	230,843,000
Power purchased	15,087,000	18,562,000
Other production	31,580,000	29,037,000
Total	<u>301,137,000</u>	<u>278,442,000</u>
Transmission	10,823,000	9,529,000
Distribution	43,869,000	42,028,000
Customer accounts	32,071,000	30,694,000
Sales promotion	9,372,000	9,095,000
Administrative and general	41,383,000	36,383,000
Total	<u>438,655,000</u>	<u>406,171,000</u>
Maintenance	45,995,000	44,757,000
Depreciation (Note 4)	109,063,000	102,118,000
Taxes:		
Federal income (Note 4)	70,169,000	67,004,000
Other	116,713,000	111,393,000
Total	<u>780,595,000</u>	<u>731,443,000</u>
OPERATING INCOME	224,620,000	213,604,000
OTHER INCOME AND INCOME DEDUCTIONS—Net		
Total	<u>9,390,000</u>	<u>3,870,000</u>
	<u>234,010,000</u>	<u>217,474,000</u>
INTEREST CHARGES:		
Interest on mortgage bonds	74,642,000	66,175,000
Net bond discount and expense and miscellaneous interest	1,173,000	1,942,000
Interest charged to construction (credit)	(9,629,000)	(14,994,000)
Total	<u>66,186,000</u>	<u>53,123,000</u>
NET INCOME	<u>\$ 167,824,000</u>	<u>\$164,351,000</u>
EARNINGS PER SHARE	<u>\$2.55</u>	<u>\$2.49</u>

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

BALANCE SHEET—PACIFIC GAS AND ELECTRIC COMPANY—DECEMBER 31, 1968 AND 1967

ASSETS	1968	1967
UTILITY PLANT—At original cost:		
Electric	\$3,342,869,000	\$3,094,821,000
Gas	984,320,000	937,547,000
Other departments and common	208,423,000	198,983,000
Construction work in progress	136,402,000	224,320,000
Total utility plant	4,672,014,000	4,455,671,000
Accumulated depreciation (Note <u>4</u>)	1,120,766,000	1,055,980,000
Utility plant—net	<u>3,551,248,000</u>	<u>3,399,691,000</u>
INVESTMENTS—At cost:		
Subsidiaries (Notes <u>1</u> and <u>3</u>)	22,708,000	23,088,000
Nonutility property and other	5,114,000	5,330,000
Total investments	<u>27,822,000</u>	<u>28,418,000</u>
CURRENT ASSETS:		
Cash	22,710,000	22,863,000
Accounts receivable (less allowance for uncollectible accounts: 1968, \$1,986,000; 1967, \$1,755,000)	100,797,000	89,324,000
Materials and supplies—at average cost	26,480,000	30,914,000
Gas stored underground—at average cost	9,289,000	12,055,000
Prepayments	67,433,000	69,991,000
Total current assets	<u>226,709,000</u>	<u>225,147,000</u>
DEFERRED DEBITS:		
Unamortized bond discount and expense—net	8,254,000	7,773,000
Other	1,352,000	3,004,000
Total deferred debits	<u>9,606,000</u>	<u>10,777,000</u>
TOTAL	<u>\$3,815,385,000</u>	<u>\$3,664,033,000</u>

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

BALANCE SHEET—PACIFIC GAS AND ELECTRIC COMPANY—DECEMBER 31, 1968 AND 1967

LIABILITIES	1968	1967
CAPITALIZATION:		
Common stock (Schedule 1)	\$ 587,366,000	\$ 587,366,000
Excess of premiums over discount and expense on outstanding shares.....	167,636,000	167,636,000
Reinvested earnings	520,193,000	455,873,000
Common stock equity	<u>1,275,195,000</u>	<u>1,210,875,000</u>
Preferred stock (Schedule 1)	350,250,000	350,250,000
Total	1,625,445,000	1,561,125,000
Mortgage bonds (Note <u>3</u>) (Schedule 2)	<u>1,830,343,000</u>	<u>1,743,965,000</u>
Total capitalization	<u>3,455,788,000</u>	<u>3,305,090,000</u>
CURRENT LIABILITIES:		
Notes payable to banks	12,000,000	6,000,000
Accounts payable	62,137,000	68,027,000
Customer deposits	6,717,000	6,625,000
Taxes accrued (Note <u>4</u>)	87,900,000	90,063,000
Interest accrued	8,659,000	6,777,000
Dividends payable	22,027,000	20,559,000
Mortgage bonds—current portion (Note <u>3</u>) (Schedule 2)	<u>13,230,000</u>	<u>13,561,000</u>
Total current liabilities	212,670,000	211,612,000
CUSTOMER ADVANCES FOR CONSTRUCTION	13,164,000	12,467,000
DEFERRED CREDITS	14,091,000	14,206,000
RESERVE FOR INSURANCE AND CASUALTIES	6,160,000	7,105,000
CONTRIBUTIONS IN AID OF CONSTRUCTION	52,468,000	49,564,000
ACCUMULATED DEFERRED TAXES ON INCOME—Accelerated amortization	<u>61,044,000</u>	<u>63,989,000</u>
TOTAL	<u>\$3,815,385,000</u>	<u>\$3,664,033,000</u>

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

CAPITAL STOCK - PACIFIC GAS AND ELECTRIC COMPANY, DECEMBER 31, 1968 - SCHEDULE 1

Description	Shares Authorized	Outstanding— Held by Public	
		Shares	Amount
COMMON, PAR VALUE \$10 PER SHARE	<u>75,000,000</u>	<u>58,736,662</u>	<u>\$ 587,366,000</u>
PREFERRED, CUMULATIVE, PAR VALUE \$25 PER SHARE (Note 2):			
6%	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	<u>20,000,000</u>	<u>14,009,991</u>	<u>\$ 350,250,000</u>

MORTGAGE BONDS - PACIFIC GAS AND ELECTRIC COMPANY, DECEMBER 31, 1968 - 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	2,500,000	
P	2¾	June 1, 1981	21,836,000	
Q	2⅞	Dec. 1, 1980	56,214,000	\$ 68,000
R	3⅛	June 1, 1982	66,875,000	603,000
S	3	June 1, 1983	68,341,000	128,000
T	2⅞	June 1, 1976	54,177,000	1,483,000
U	3⅞	Dec. 1, 1985	42,437,000	
W	3⅛	Dec. 1, 1984	48,951,000	
X	3⅛	June 1, 1984	59,259,000	
Y	3⅞	Dec. 1, 1987	41,408,000	336,000
Z	3⅞	Dec. 1, 1988	17,178,000	
AA	4½	Dec. 1, 1986	29,498,000	1,198,000
BB	5	June 1, 1989	57,700,000	
CC	3¾	Dec. 1, 1978	58,195,000	1,120,000
DD	4½	June 1, 1990	52,562,000	564,000
EE	5	June 1, 1991	59,815,000	
FF	4⅝	June 1, 1992	52,684,000	115,000
GG	4½	June 1, 1993	56,757,000	
HH	4⅞	June 1, 1994	58,437,000	
II	4¼	June 1, 1995	52,472,000	
JJ	4½	June 1, 1996	63,750,000	
KK	4½	Dec. 1, 1996	61,950,000	
LL	4⅝	June 1, 1997	69,925,000	
MM	5⅞	June 1, 1998	72,000,000	
NN	5¾	Dec. 1, 1998	75,750,000	
OO	5½	June 1, 1999	77,000,000	
PP	6⅞	Dec. 1, 1999	80,000,000	
QQ	6⅝	June 1, 2000	50,000,000	
RR	6¾	Dec. 1, 2000	60,000,000	
TOTAL MORTGAGE BONDS			<u>1,843,573,000</u>	<u>\$5,615,000</u>
Mortgage Bonds Included in Current Liabilities (Note 3)			<u>13,230,000</u>	
Mortgage Bonds Included in Capitalization			<u>\$1,830,343,000</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.

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, 1968 was \$23,197,000 and in the results of operations for the years ended December 31, 1968 and 1967 was \$1,648,000 and \$1,576,000, respectively. Dividend income was \$1,217,000 and \$1,200,000 for the years 1968 and 1967.

NOTE 2 PREFERRED STOCK:

Preferred stock outstanding at December 31, 1968 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 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 accruable 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 AND CONTINGENT LIABILITIES:

Utility plant construction expenditures for the year 1969 are estimated at \$340,000,000.

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 1968 were \$13,911,000. The Company's policy is to fund the accrued amount of retirement plan cost. At December 31, 1968 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 with various expiration dates up to the year 2013. Upon 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 on September 27, 1968 issued regulations with respect to determination of the "net investment" in such projects. Applications for rehearing of the Commission's order filed on behalf of more than 50 interested parties, including the Company, were granted November 22, 1968 "for the purpose of adequate consideration of the issues." The Company estimates that if the present order becomes effective the "net investment" in its licensed projects as of December 31, 1968 may be approximately \$55,000,000 less than the amount at which they are now carried on the Company's books net of accrued depreciation. Because the details of application of the Commission's regulations are unknown, the calculation necessarily involves assumptions as to certain figures which may not be precise, and relatively minor changes in the assumptions can substantially affect the results, the foregoing estimate is only tentative but the Company believes that the amount finally determined, if the order becomes effective, will not differ from the present estimate by an amount which would have a materially different effect on the Company's financial position or results of operations. The Commission's order states that it does not decide whether it would be advisable to reduce the licensee's rate base by a corresponding amount for purposes of rate cases before the Commission.

DEPARTMENTAL ORGANIZATION - JANUARY 1, 1969

ELECTRIC OPERATIONS

C. R. MACHEN, Assistant to Vice President—
Electric Operations

Managers:

R. L. BRINTON, Communications
H. R. DANIELS, Hydro Generation
HAROLD J. ERLING, System Protection
ELMER F. KAPRIELIAN, Power Control
PAUL MATTHEW, Steam Generation
H. J. STEFANETTI, Transmission and Distribution
R. F. STUART, Substations

GAS OPERATIONS

Managers:

T. J. BIANUCCI, Gas Distribution
E. C. DREW, Gas Utilization
S. A. HAAVIK, Natural Gas Production
N. H. NEEL, Gas Purchase
H. P. PRUDHOMME, Pipe Line Operations
E. F. SIBLEY, Gas Control
R. D. SMITH, Gas System Design

ENGINEERING

THOMAS A. BETTERSWORTH, Chief Electric
Distribution Engineer
RAMON F. CAYOT, Chief, Engineering Research
W. R. JOHNSON, Chief Electric Generation and
Transmission Engineer
D. V. KELLY, Chief Mechanical Engineer
GEORGE A. MANEATIS, Chief Computer
Application Engineer
J. J. McCANN, Chief, Engineering Services
H. R. PERRY, Chief Planning Engineer
B. W. SHACKELFORD, Chief Civil Engineer

RATES AND VALUATION

Managers:

S. M. ANDREW, Economics and Statistics
W. M. GALLAVAN, Rate
ROBERT E. PALMER, Tax
EDWARD C. RITCHIE, Valuation

COMPTROLLER

GRANGER F. HILL, Assistant Comptroller
L. D. COUGHRAN, Assistant to the Comptroller

Managers:

JOHN L. COUNCE, Data Processing
S. L. CULWELL, Customer Accounting
JAMES W. HALL, Responsibility Accounting
NORRIS D. HENNINGS, Plant Accounting
DEXTER STONER, Accounting Methods and
Procedures
H. W. SWANSON, General Accounting

OFFICE OF THE CHAIRMAN OF THE BOARD

HERMAN C. KRUSE, Assistant to the Chairman

GOVERNMENTAL AND PUBLIC AFFAIRS DEPT.

A. R. TODD, Manager

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
J. A. CROCKWELL, Insurance
E. C. PADDOCK, Credit and Collection
T. M. WELP, Financial Analysis

PERSONNEL AND GENERAL SERVICES

Managers:

THOMAS V. ADAMS, Personnel Relations
I. WAYLAND BONBRIGHT, Industrial Relations
ELMER E. HALL, Land
GERALD P. LARSON, Automotive and Equipment

GENERAL CONSTRUCTION

Managers:

M. H. CHANDLER, Station Construction
HUGO IRONS, General Construction Services
M. A. KIRSCH, Line Construction
JOE PIRTZ, Civil-Hydro and Gas Construction
R. B. THOMPSON, Field Office Operations
and Personnel

COMMERCIAL OPERATIONS

Managers:

STANLEY O. BLOIS, Commercial, Industrial
and Agricultural Sales
WALTER BLUMST, Marketing Research and Services
ALBERT B. COOK, Commercial
WALTER D. HOWELL, General Sales
ALLEN D. OWEN, Customer Services
R. L. SAWYIER, JR., Residential Sales
J. S. WALSH, Area Development

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:

W. A. HYNES, Public Activities
A. J. McCOLLUM, Advertising and Publicity

INFORMATION SYSTEMS

JOHN R. KLEESPIES, Manager

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: Howard M. McKinley, Stockton



