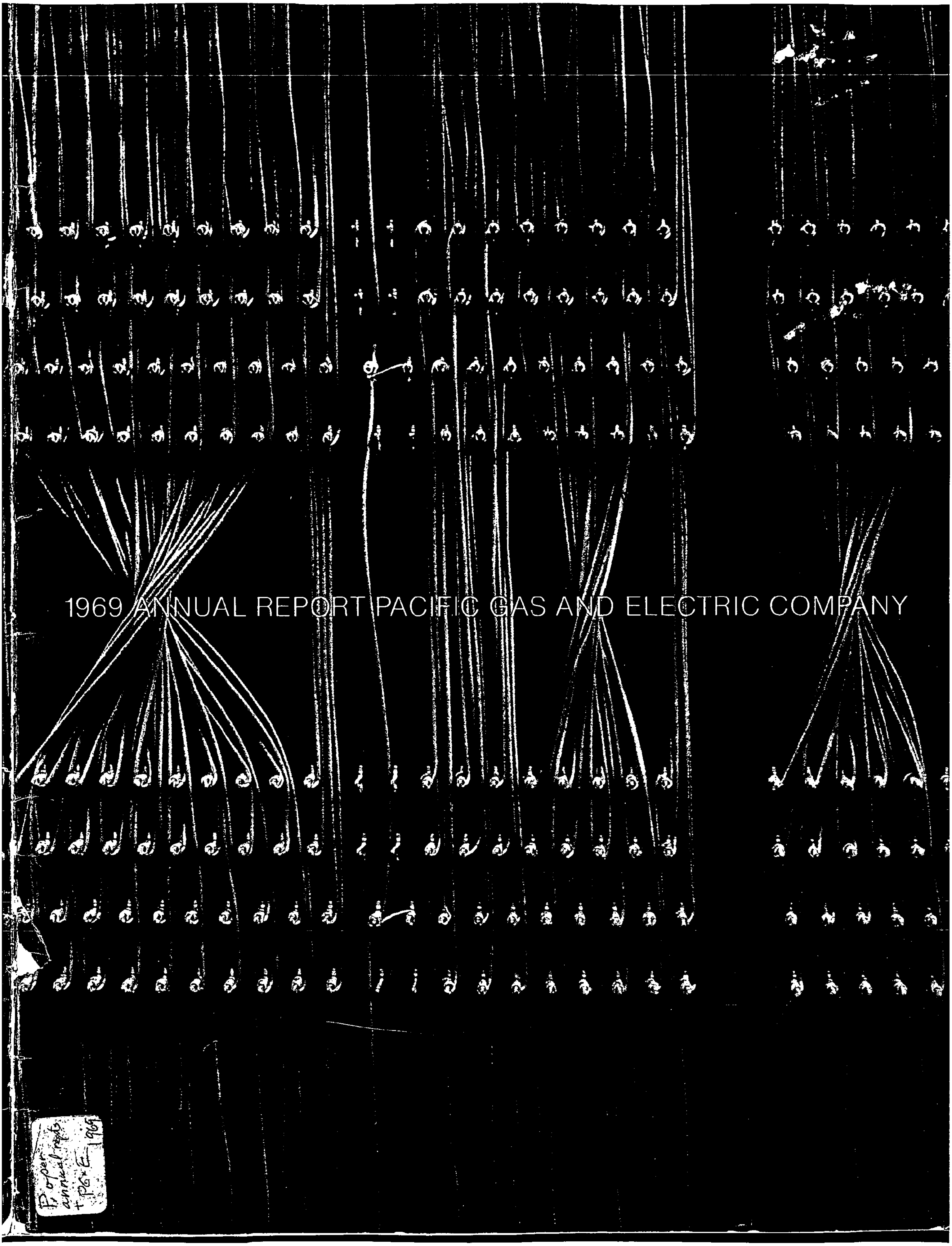
1969 ANNUAL REPORT PACIFIC GAS AND ELECTRIC COMPANY



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CONTENTS

COVER

In this electronic world, these tiny wires are almost as much a symbol of reliable gas and electric service as the mighty power plants, tower lines and transmission mains to which they are linked. Reliability requires volumes of instantaneous information. Circuitry such as this feeds vital data to the dispatchers who operate PG&E's energy systems reliably and efficiently. The Company's communications system is one of the largest private networks in the nation.

CONTENTS

HIGHLIGHTS OF OPERATION

	1969	1968
Operating Revenues	$1,054,311,000	$1,005,215,000
Net Income	$ 169,749,000	$ 167,824,000
Earnings Per Common Share	$2.58	$2.55
Total Assets	$4,014,502,000	$3,815,385,000
Capital Expenditures	$ 339,990,000	$ 289,400,000
Sales of Electricity to Customers (KWH)	40,287,638,000	38,965,976,000
Sales of Gas to Customers (MCF)	661,550,000	632,260,000
Total Customers	4,753,425	4,652,582
Number of Employees	22,930	22,289
Number of Stockholders	239,764	246,998

STOCKHOLDERS' CALENDAR

Schedule of Dividend Payment Dates—1970

COMMON STOCK	PREFERRED STOCK
January 15, 1970	February 16, 1970
April 15,1970	May 15, 1970
July 15, 1970	August 15, 1970
October 15, 1970	November 16, 1970

ANNUAL MEETING

The Management will solicit proxies for the annual meeting to be held at the office of the Company, 245 Market Street, San Francisco, California, on Tuesday, April 28, 1970 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 23, 1970.

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

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

EXECUTIVE OFFICES Pacific Gas and Electric Company, 245 Market Street, San Francisco, California 94106

Surrounded by automatic control devices, computer consoles and electronic monitors, a PG&E power dispatcher keeps a close watch on the Company's electric system and on the extra high voltage interconnections with neighboring systems. The big lighted panel in front of him shows the status of every substation on the 500,000 volt Pacific Intertie which stretches from the Pacific Northwest to Southern California. PG&E's new Energy Control Center is one of the most sophisticated and efficient control centers in the nation.

Robert H. Gerdes

John F. Bonner

Richard H. Peterson and C. E. Ginochio

S. L. Sibley

BOARD OF DIRECTORS

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
Robert H. Gerdes*	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

EXECUTIVE OFFICERS

S. L. Sibley	President and Chief Executive Officer
Robert H. Gerdes	Chairman of the Executive Committee
John F. Bonner	Executive Vice President
C. E. Ginochio	Senior Vice President
Richard H. Peterson	Senior Vice President and General Counsel
Donald L. Bell	Vice President—Finance and Treasurer
H. P. Braun	Vice President—Electric Operations
Joseph Y. DeYoung	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 the President
John F. Roberts, Jr.	Vice President—Rates and Valuation
Frederick T. Searls	Vice President and General Attorney
C. H. Sedam	Vice President—General Construction
John G. Smith	Vice President—Personnel and General Services
J. Dean Worthington	Vice President—Engineering
Frank A. Peter	Comptroller
John F. Taylor	Secretary

A. H. Catherall	Assistant Secretary and Assistant Treasurer
A. J. Duffy	Assistant Treasurer
T. M. Welp	Assistant Treasurer
D. B. Allison	Assistant Secretary
J. N. Gehre	Assistant Secretary

REPORT OF THE DIRECTORS OF PACIFIC GAS AND ELECTRIC COMPANY

San Francisco, California, February 25, 1970

TO OUR STOCKHOLDERS:

Net earnings available for the common stock were $2.58 a share, up only slightly from the $2.55 a share in 1968. The normal growth in earnings was virtually halted by the rapid increases in the cost of material, labor and capital caused by the inflationary pressures which are now the subject of national concern.

Dividends of $1.50 per share of common stock were paid in 1969. This is the fiftieth consecutive year in which the Company has paid dividends.

INFLATION One of the major problems facing your Company today, as is common in American industry, is the rampant inflation which has spread through our economy. Wage increases are at least double what they were several years back. Cost of money, one of our major expense items, now approaches an unprecedented 9%. Price increases for the equipment, materials and supplies needed in our business are frequent. We all hope that the Federal Government will be successful in its efforts to arrest inflation.

Although we have had inflation in this country for a long period of time, it continued at a relatively moderate rate until about three years ago. During this period the Company was able to absorb the increased costs of doing business and at the same time maintain a satisfactory growth in earnings. This was accomplished by increased efficiencies and an increased volume of business.

PG&E has not had a general electric rate increase since 1957, nor a general gas rate increase from 1961 until last year. On the contrary, in the last six years the Company has reduced its gas and electric rates by amounts which are saving its customers about $40 million per year. These reductions passed on to customers the benefits of reduced gas costs and certain reductions in Federal income taxes.

As inflation advanced in the late 1960's, further strenuous efforts were made to cut operating expenses, and expenditures for capital additions, to the maximum extent practical consistent with rendering efficient service to our customers. By 1968 it became apparent that inflation had accelerated to the point where the Company could not absorb the increasing costs without offsetting increases in rates.

GAS RATES In December 1968 the Company applied to the California Public Utilities Commission for permission to increase its gas rates by $37 million annually. In an interim order effective March 23, 1969, the Commission granted the Company a $6.8 million rate increase to partially offset the increased gas costs and the higher Federal income taxes applicable to its gas operations.

On January 6, 1970, the Commission issued its decision relative to the second, or rate of return, phase of the gas rate case. In it the Commission authorized the Company to increase its rates by an additional $14.5 million annually. The Commission stated that this $14.5 million increase was designed to permit the Company to earn, after all operating expenses, a 7.3% rate of return on its investment in gas facilities.

In a third phase of the gas rate proceedings, the Company in February 1970 applied to the Commission for authorization to increase its gas rates by $20.6

million annually, principally to offset new increases in the cost of natural gas purchased by the Company. Hearings on the third phase are currently scheduled, and a decision is expected prior to April 13, 1970, when a major portion of the increase in cost of purchased gas will become effective.

ELECTRIC RATES On December 15, 1969, the Company applied for an increase in its electric rates of $67 million annually. The increase is sought to meet our increased costs and to permit a 7.8% rate of return on investment in electric facilities. Hearings by the Commission on this application are to commence early this year.

With a satisfactory conclusion of the gas and electric rate proceedings, your Company will be better able to attract the capital necessary to finance its large construction program and expects to be able to earn a reasonable return on the common stockholders' investment.

ENVIRONMENT The impact on the environment of population growth and advancing technology continues to be a matter of deep concern to your Company and is given conscientious attention. Our dedication to the conservation of natural resources and to the preservation of the beauties and other environmental assets of the area we serve has been recognized for decades. In recent years we have been working with increased diligence to prevent air pollution and to minimize necessary intrusions on the landscape.

We are cooperating with the State Resources Agency and also with conservation organizations and other responsibly concerned groups in the selection of plant sites and in the design of our facilities. In all these matters we strive to achieve the optimum balance between the need to provide our customers with adequate and reliable energy at reasonable rates and the desire to cause the least possible impact on the environment.

Our engineers, aquatic biologists and foresters, among many other Company men and women at all levels, including the Chairman of the Executive Committee, Mr. Gerdes, as co-chairman of the Governor's Conference on California's Changing Environment, and your President, as a member of the nationwide Electric Power Council on the Environment, are aiding community and statewide environmental activities in many ways.

EXPANSION Expenditures for new facilities in 1969 reached $340 million, the largest in our history. To keep pace with the growth in use of energy in our service area, the Company is planning to spend nearly $400 million in 1970 and more than $2¼ billion for the five years ending in 1974.

On August 29, 1969, the 117,000 kilowatt Belden hydroelectric plant was dedicated at ceremonies attended by State and local officials and civic leaders. This project is our ninth and final plant on the North Fork of the Feather River.

Construction is continuing on our 1,060,000 kilowatt nuclear unit at Diablo Canyon near San Luis Obispo. Hearings have been concluded before the Atomic Energy Commission for the second 1,060,000 kilowatt unit at Diablo Canyon, and the Company is currently awaiting the issuance of a construction permit.

Construction is also well along on a 750,000 kilowatt addition to our Pittsburg conventional steam-electric generating station.

A new low-rise structure adjoining the present San Francisco General Office building has been completed. In it the Company has installed a new electric and gas energy control center which is highly computerized and is one of the most sophisticated and efficient in the nation. The steel framework of the adjacent 34-story tower has been topped out and is scheduled for occupancy in 1971.

GAS SUPPLY Increasing attention is being given today by the natural gas industry and by government to the adequacy of the natural gas supplies available to our nation. Last year, for the first time, the quantities of natural gas discovered in the U. S. did not equal the amount of gas consumed. This is believed by many to be due to a lack of incentive for exploratory drilling for new gas reserves. Field prices paid for natural gas transported between states are fixed by the Federal Power Commission, and these prices are said to be too low to induce the drilling that is needed to discover the gas reserves that are necessary to meet current and prospective demands. This matter is now under study by the Federal Power Commission.

Since completion by PG&E and its subsidiaries of our Alberta-California gas line late in 1961, we have been receiving increasing amounts of natural gas through expansions of the capacity of this line. Gas reserves in the Province of Alberta, Canada, have been increasing at a satisfactory rate. In addition to the two increments of 100 million cubic feet per day, which began flowing to PG&E in 1969, 165 million cubic feet of gas per day is scheduled for delivery through the Alberta-California pipeline commencing November 1970, assuming timely receipt of governmental approvals. In addition, the Company continues to receive natural gas from the southwestern part of the United States, which is still the Company's largest source of supply, and from California fields, which provide an important, though diminishing, portion of total supply.

RELIABILITY OF POWER Recently statements have been made in some national publications that there is a nationwide shortage of power, with imminent threats of brownouts or even blackouts. Although there are a few areas where such problems have appeared due to delays in governmental authorizations or in delivery of equipment, such shortages have not occurred generally, and certainly not in the West.

PG&E's reserve capacity is the greatest in its history and is among the highest maintained by any American utility. Additionally, PG&E is interconnected with the Pacific Northwest and Southern California by a 500,000 volt transmission network which provides the capability for bulk interchange of power. PG&E is a member of the Western States Coordinating Council, an organization of 18 investor-owned and 20 government-owned utilities interconnected into a vast power network that covers an area extending into 13 states of the West from Mexico into British Columbia. The member systems exchange planning and operating information, cooperate in regional power stability studies and are standardizing operational techniques to attain maximum reliability.

ORGANIZATION On July 16, 1969, the Board of Directors elected the undersigned Chief Executive Officer of the Company replacing Robert H. Gerdes who reached age 65 in July. Mr. Gerdes continues to serve on the Board of Directors and as Chairman of the Executive Committee. Other executive changes in the organization are described on page 16.

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 30.

For the Board of Directors

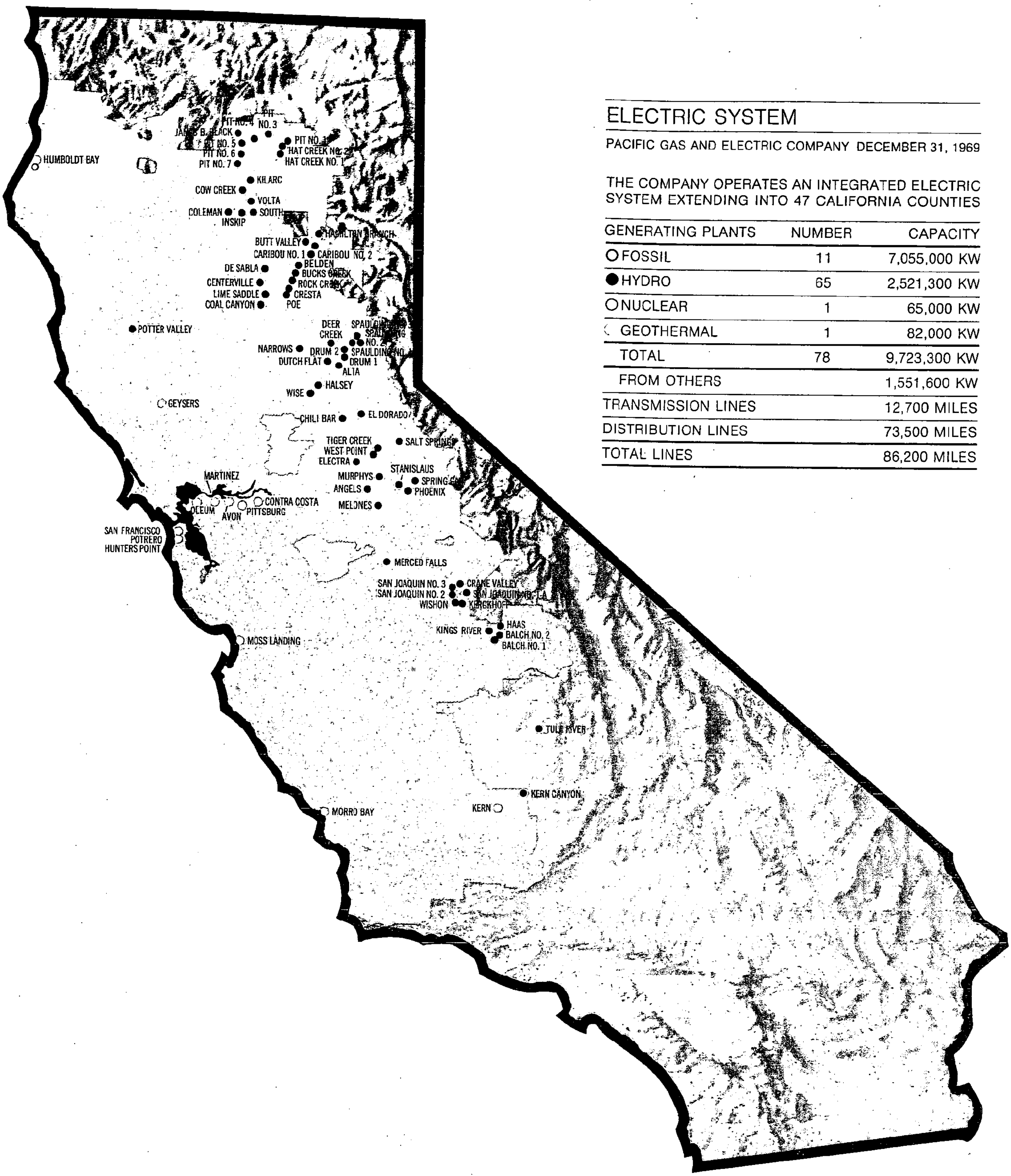
President and Chief Executive Officer

ELECTRIC SYSTEM

PACIFIC GAS AND ELECTRIC COMPANY DECEMBER 31, 1969

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

GENERATING PLANTS	NUMBER	CAPACITY
○ FOSSIL	11	7,055,000 KW
● HYDRO	65	2,521,300 KW
○ NUCLEAR	1	65,000 KW
GEOTHERMAL	1	82,000 KW
TOTAL	78	9,723,300 KW
FROM OTHERS		1,551,600 KW
TRANSMISSION LINES		12,700 MILES
DISTRIBUTION LINES		73,500 MILES
TOTAL LINES		86,200 MILES



GAS SYSTEM

PACIFIC GAS AND ELECTRIC COMPANY DECEMBER 31, 1969

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

● COMPRESSOR STATIONS

○ UNDERGROUND STORAGE

— MAJOR GAS MAINS

TRANSMISSION MAINS	4,800 MILES
DISTRIBUTION MAINS	23,500 MILES
TOTAL MAINS	28,300 MILES

THE 1969 FINANCIAL STORY

REVENUES Operating revenues for 1969 reached $1,054 million, an increase of $49 million over the year 1968. We continue to have the largest operating revenues of any gas and electric utility company in the nation. Electric revenues were 63.7% of the total, gas 36.1%, and the balance was derived from 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 of 3.9% over the prior year was lower than normal. Although satisfactory gains were made in the residential and commercial categories, the overall growth was held down by a 16% decline in agricultural power revenues and a 17% reduction in revenues from sales to other utilities. The decline in agricultural power revenues resulted from the abnormally heavy precipitation which decreased the demand for irrigation pumping, and the reduced revenues from other utilities stemmed from the termination of two short-term sales contracts.

The overall increase in gas revenues of 6.7% over 1968 was higher than normal. Gas customers' requirements for space heating in 1969 were stimulated by colder-than-normal temperatures compared to the previous year. This produced a revenue gain of over 8% in the residential and commercial classifications, considerably above the normal growth. In the resale category, revenues were sharply reduced as a result of lower sales to the group of companies which distribute gas in Southern California.

EXPENSES Total operating expenses, exclusive of depreciation and taxes, amounted to $513,418,000 or an increase over the preceding year of $28,768,000. Although this represents a 5.9% rise over 1968, the increase would have been somewhat greater if substantial reductions in fuel requirements for thermal-electric generation had not occurred because of the abundance of water for hydroelectric generation.

A substantial portion of the increase in operating expenses can be attributed to increases in natural gas prices reflecting the current inflationary pressures. The average price paid for gas purchased from El Paso Natural Gas Company, which supplied about one half of our gas requirements in 1969, increased by 3.5 cents per MCF or 12.5% above the 1968 price. Further increases in the unit price of natural gas will become effective in 1970, as both El Paso Natural Gas Company and Pacific Gas Transmission Company, which supplies Canadian gas, have filed with the Federal Power Commission for higher rates. As stated earlier, the Company has applied to the California Public Utilities Commission for increases in rates to offset these increased costs of out-of-state gas.

Increases in wages amounting to approximately $16 million annually went into effect as of July 1, 1969, of which about 63% is chargeable to operations and the balance to construction. Most of this increase results from a 6½% general wage increase applicable to all union employees.

[redacted] [redacted]

TAXES Taxes of all kinds, paid or set aside for future payment, amounted to $211,929,000, an increase of $7,391,000 over the prior year. Federal income taxes of $75,058,000 remained at a high level because of the continuation of the 10% income tax surcharge.

One of the provisions of the Revenue Act of 1969 is to reduce the Federal income tax surcharge to 5% on January 1, 1970, and to terminate the surcharge on June 30, 1970. However, another provision of the Revenue Act of 1969 repealed the Investment Tax Credit. The effect of this repeal is to just about offset the reduction in the surcharge.

A table showing taxes imposed by the various taxing authorities and a comparison with the previous year appears on page 26 of this report.

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

EARNINGS AND DIVIDENDS Net income for the year was $169,749,000, an increase of $1,925,000 over 1968. After preferred dividend payments of $18,336,000, there remained $151,413,000 available for the common stockholders, equivalent to $2.58 a share, an increase of 3 cents per share over the prior year. A more adequate growth of earnings should be restored when we receive the rate increases we have applied for.

Dividends declared on common stock during the year amounted to $88,106,000, or 58% of the total earnings available for the common stock. The balance of the earnings available for the common stockholders, $63,307,000, was reinvested in the business, which has enabled us to meet in part our expenditures for new construction and to maintain a balanced capital structure.

In compliance with the requirements of the United States Internal Revenue Code, all dividend payments in 1969 to holders of PG&E stock, both common and preferred, have been reported to the Internal Revenue Service. In January 1970 each shareholder of record was mailed a report of dividends received. In the same mailing all common stockholders were advised that 25.1% of the common stock dividend payments in 1969 was excludable from their taxable income for Federal income tax purposes.

FINANCING More than one half of the Company's $340 million construction program in 1969 was financed from depreciation and reinvested earnings. The balance was obtained from the sale at competitive bidding of two $80 million issues of first and refunding mortgage bonds. On April 9, 1969, the Company sold the first issue, Series SS bonds, 7½%, due June 1, 2001, at a cost to the Company of 7.55%. On November 19, 1969, an issue of similar size, Series TT, 9%, due December 1, 2001, was sold at a cost to the Company of 8.94%, the highest rate our Company has ever paid for long-term debt.

The average cost to the Company for all of its outstanding mortgage bonds has been increasing significantly for the past four years, rising from 4.26% to 4.60% in the last year. The rising cost of debt capital, together with higher operating costs, is the cause of the reduced growth rate of the Company's earnings.

Plans for obtaining the external funds needed to carry out the Company's $397 million capital expansion program in 1970 have not been finalized. As a first step, we expect to accept competitive bids for a $75 million bond offering on March 4. The methods of financing the remainder of the funds needed for 1970 will depend upon future market conditions.

At the close of 1969 the Company's total capitalization was $3,635 million, consisting of 53.6% mortgage bonds, 9.6% preferred stock and 36.8% common stock equity.

STOCK OWNERSHIP At the end of 1969 PG&E was owned by 239,764 individual and institutional investors. Of the total, 71,119 were holders of preferred stock and 168,645 were common stockholders. Reflecting the Company's policy of encouraging local ownership, approximately two thirds of our stockholders have California addresses. Ownership, however, extends into every state and many foreign countries.

The Company's employees continue to increase their holdings of PG&E common stock through the Company Savings Fund Plan, which reached its tenth year of operation on March 31, 1969. More than 2,200,000 shares are now held in trust for approximately 16,500 participating employees.

A breakdown of our stock ownership by class of investor appears in the accompanying table. About one half of our stock is owned by individuals and in joint tenancy, and the other half is held by institutional investors, such as insurance companies and pension funds. Through these latter 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, 1969	Number of Stock-holders	Number of Shares Owned
Women	94,540	16,857,208
Joint and other tenancies	62,205	9,185,450
Men	51,468	9,419,555
Trustees, guardians and other fiduciaries	22,366	3,727,088
Nominees	3,585	23,364,829
Corporations, partnerships and proprietorships	1,578	1,115,542
Charitable and fraternal organizations and foundations	1,522	644,314
Banks and trust companies, investment companies and security dealers	1,110	2,677,121
Insurance companies	586	5,514,373
Religious institutions	516	115,260
Educational institutions	257	112,844
Labor organizations	31	13,069
Total	239,764	72,746,653

Steelwork for PG&E's new headquarters building rises toward San Francisco's changing skyline. A new low-rise structure links the 34-story tower and the present General Office building.

ELECTRIC OPERATIONS Electric system output in 1969 amounted to 53.3 billion kilowatt hours, an increase of 5.6% over the preceding year. Although power sales for agricultural pumping fell sharply because of the above-normal rainfall in 1969, the same abundant water conditions were responsible for raising hydroelectric generation from 22.3% of total production in 1968 to 28.9% in 1969. The Company's steam-electric generation plants produced 43.2% of the total output, the lowest percentage since 1958. The remaining 27.9% was obtained from other hydroelectric power producers, principally from public water conservation agencies within the PG&E service area.

The peak demand on our system, which occurred on January 23, 1969, amounted to 8,692,600 kilowatts.

In June 1969 the remaining three units of our old Oakland steam-electric power plant, totaling 106,000 kilowatts, were retired from service. The initial operating date for one of these units extends back almost 50 years. By contrast, the average age of all our thermal-electric units currently in service is 11 years. In September the new 117,000 kilowatt Belden hydroelectric plant was placed in service. This is the Company's ninth hydroelectric plant on the Feather River "Stairway of Power" and probably will be the last major hydroelectric plant to be developed by the Company.

Presently five electric generating units are under construction or definitely planned, totaling 2,980,000 kilowatts of capacity, as shown in the following table:

Completion Date		Estimated Capacity (KW)
1971	Geysers No. 5 (geothermal)	55,000
1971	Geysers No. 6 (geothermal)*	55,000
1972	Pittsburg No. 7 (fossil)	750,000
1973	Diablo Canyon Site—No. 1 (nuclear)	1,060,000
1974	Diablo Canyon Site—No. 2 (nuclear)	1,060,000
Total		2,980,000

*Additional development is contemplated at this site after 1971.

The Company added approximately 400,000 kilowatts to its operating capacity in 1969 through a long-term agreement to purchase hydroelectric power from the California Department of Water Resources. An additional 550,000 kilowatts in 1970 and another 300,000 kilowatts in 1971 will be available from the Pacific Northwest through the 500,000 volt interconnection and from the Yuba County Water Agency, a water conservation project in the Company's service area.

GAS OPERATIONS The volume of natural gas purchased in 1969, 878 billion cubic feet, was approximately equal to that purchased in 1968. As previously mentioned, reduced fuel requirements for steam-electric generation held down the quantity of natural gas purchased in 1969. Of the total gas purchased by PG&E for all purposes, 45% was obtained from the Southwest through El Paso Natural Gas Company, 30% from Canada via the Alberta-California pipeline and the remaining 25% from California producers. Natural gas purchases by sources for the past 20 years are shown on the chart on page 24.

To keep pace with the growing demands for natural gas, the Company has contracted to purchase from Pacific Gas Transmission Company, commencing November 1, 1970, an additional 165 million cubic feet of natural gas per day. Applications for permission to import this gas from Canada have been filed with the appropriate governmental authorities there and in the United States. When all the necessary governmental authorizations have been received and the required facilities have been constructed, PG&E's total purchases of natural gas from Canada will be 980 million cubic feet per day.

BUSINESS DEVELOPMENT California for decades was known chiefly for its agriculture, mining and movie-making. Today it is one of the leading industrial states in the nation.

Despite its $4 billion annual farm income—the nation's greatest—and the $12 billion of revenue derived by businesses related to agriculture, California is no longer dependent primarily on agriculture. The State has attracted thousands of new industrial plants. California has one or more manufacturing operations in nearly all of the 418 standard industrial classifications. More than 400 of these categories are represented in PG&E's service area of Northern and Central California. This broadening of the economic base and balancing of the product mix has contributed significantly to California's economic stability and growing leadership in the national economy.

Of the top 500 industrial firms in the nation, 41 of the first 50, 72 of the first 100, and approximately half of the 500 firms listed have manufacturing operations in Northern and Central California. Scores more have warehouse distribution facilities, often built in anticipation of a decision to manufacture here.

With a growth consistently greater than almost all other sections of the nation, the West exerts a strong influence on American business to establish manufacturing operations where the market is. Northern and Central California, the middle third of the Pacific Coast, is the market's heart.

Helping American business find the right location for a new plant site in this dynamic area is the role of PG&E's Area Development Department. Its staff of community and industrial development consultants is augmented by knowledgeable Company managers in 126 local offices throughout the northern two thirds of the State. This effective team offers any interested industrial prospect an excellent opportunity, without cost and in absolute confidence, to get all the facts about any of the 214 incorporated cities and 48 counties the Company serves.

CUSTOMERS	1969	1968	Increase (Decrease)
Electric Department	2,536,703	2,483,480	53,223
Gas Department	2,208,046	2,160,569	47,477
Water Department	8,200	8,052	148
Steam Department	476	481	(5)
Total	4,753,425	4,652,582	100,843

EMPLOYEES Largely as a result of expanded construction activities, employment totaled 22,930 men and women at the end of 1969, an increase of 641 over last year.

PG&E has long observed a policy of nondiscrimination—a policy of hiring and promoting employees on the basis of merit alone without regard to race, color, religion or national origin.

However, solving the deep social problems related to the minorities in our society requires more than merely the avoidance of discrimination. Our Company affirmatively reaches out to provide employment opportunities, training and development programs for persons from all ethnic, racial and religious backgrounds. We are also continuing to aid and cooperate with dozens of community programs, both privately and governmentally sponsored, which provide young men and women with additional training necessary to obtain employment or to advance with today's technology.

On March 1, 1969, the Company and the International Brotherhood of Electrical Workers jointly put into effect a Master Apprenticeship Agreement, covering training to the journeyman level in craft occupations. This Agreement encompasses 18 three-year programs of combined on-the-job training and formal classroom instruction. Approximately 650 apprentices were enrolled in these programs at the end of the year. This Agreement is only one example of the wide range of formal and informal training programs that the Company provides in order to keep pace with the rapid technological changes of the industry.

The Company's recruitment at colleges and universities continues to attract engineering, science and business administration graduates at an encouraging rate.

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 6½% was placed in effect as of July 1, 1969. The salary levels of our supervisory and administrative personnel are continually being adjusted to reflect improvements in performance and to keep abreast of inflationary trends.

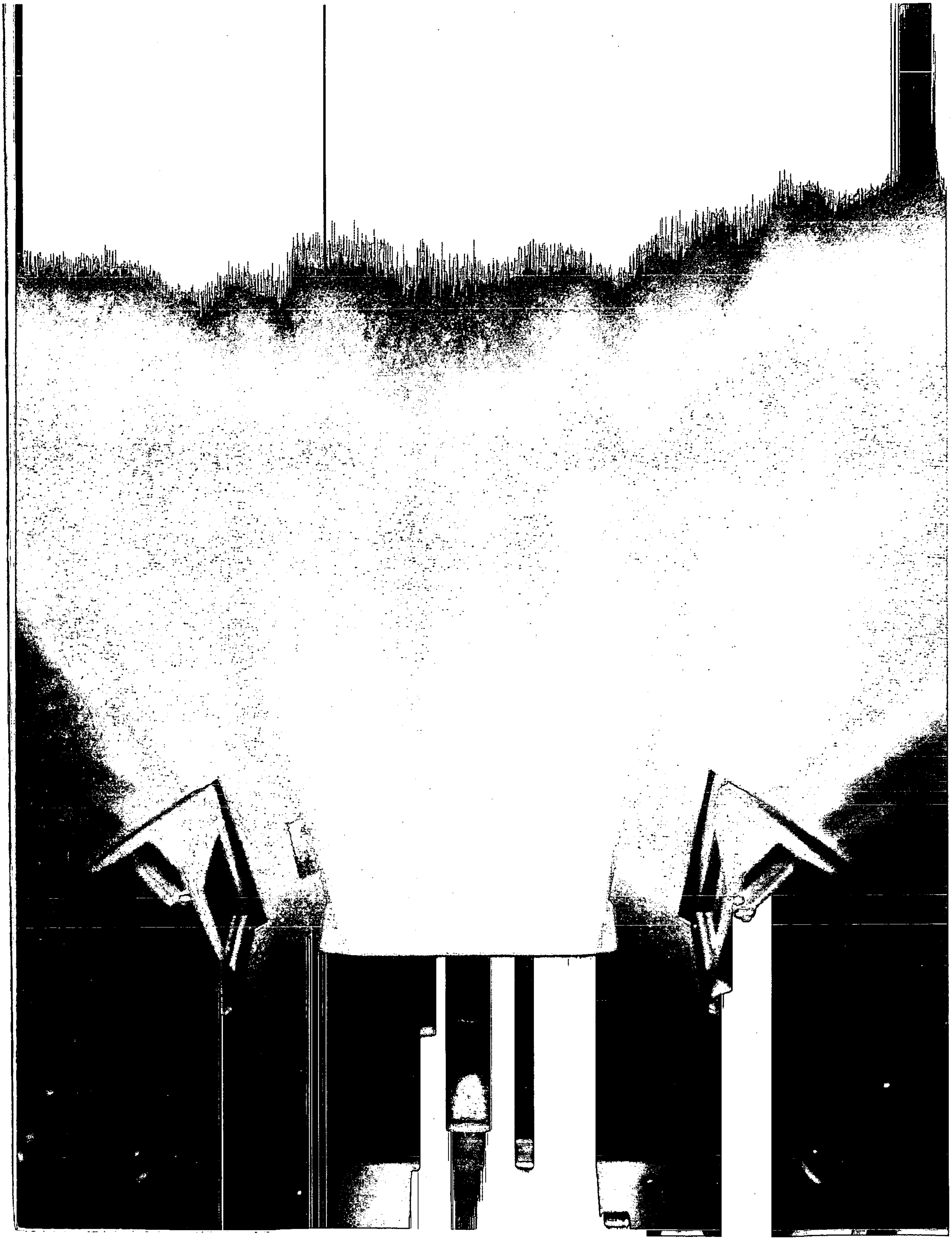
Wages and salaries for the year totaled $238,606,000, of which $149,284,000 was paid to operating employees and charged against income. The balance was paid employees engaged in construction projects and charged against capital accounts.

DIRECTORS AND OFFICERS At the July 16, 1969, meeting of the Board of Directors, Shermer L. Sibley, President, was also elected Chief Executive Officer. Robert H. Gerdes, formerly Chairman of the Board and Chief Executive Officer, who reached 65 years of age in July, was elected Chairman of the Executive Committee. John F. Bonner, Senior Vice President, was elected Executive Vice President, and Frederick W. Mielke, Jr., Vice President and Assistant to the Chairman, was elected Vice President and Assistant to the President. All of these changes became effective August 1, 1969.

Frederick T. Searls, General Attorney of the Company since 1955, was elected Vice President and General Attorney by the Board of Directors on August 20, 1969.

On December 31, 1969, Kenneth C. Christensen, Senior Vice President and chief financial officer of the Company, retired after a 39-year career with the Company. He continues as a member of the Board of Directors. Effective January 1, 1970, Donald L. Bell, Treasurer, was elected Vice President—Finance and Treasurer by the Board of Directors.


Tomorrow
will be
held today



TOMORROW WILL BE HELD TODAY

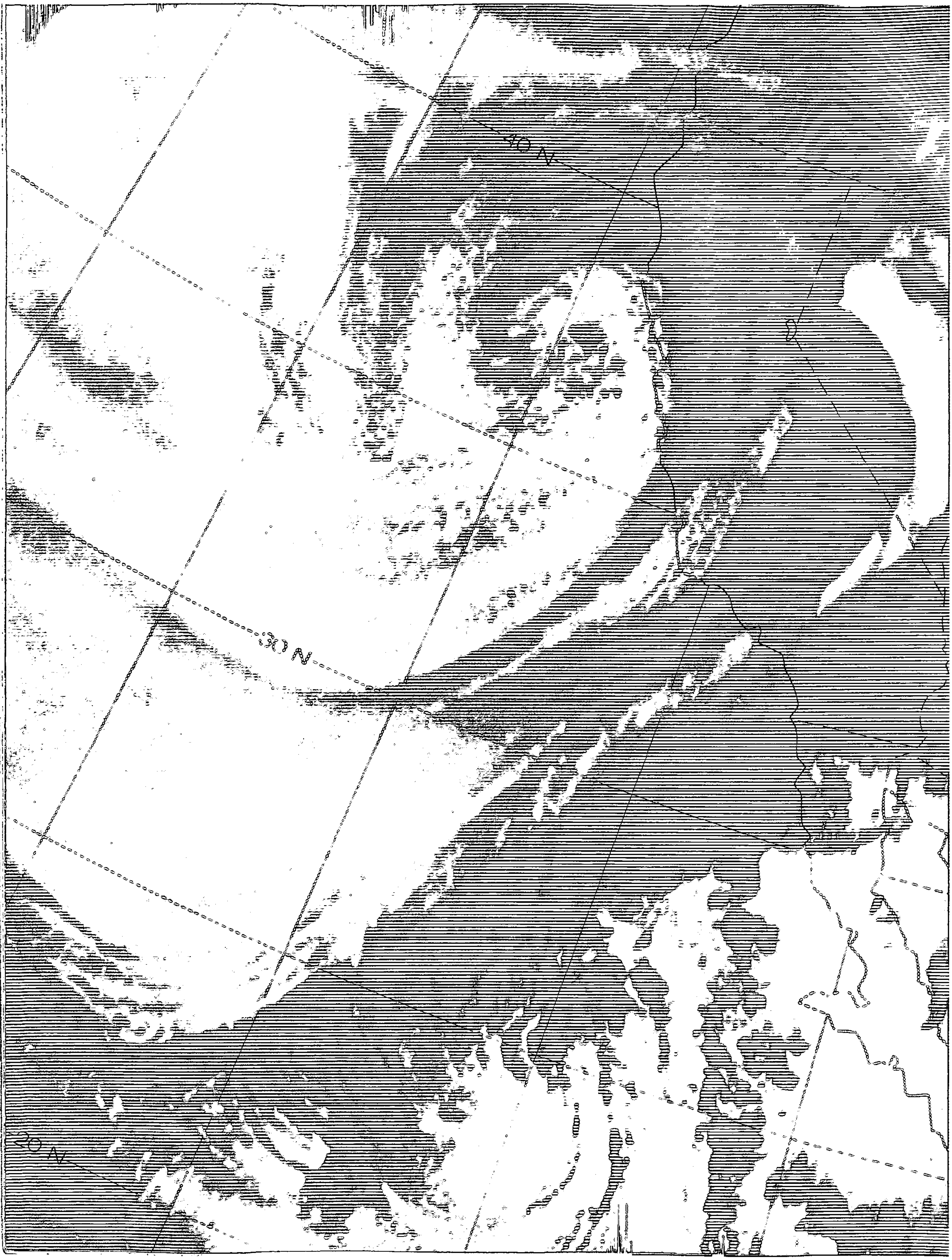
Among the graffiti making the rounds a few years back was one that proclaimed: "Due to lack of interest, tomorrow has been cancelled." The line may have caught the public's fancy, but its pessimism missed the public's mood. Now, as we enter the Seventies, a more accurate expression would be: "Due to overwhelming public demand, tomorrow will be held today."

Man is being propelled into the future by technological advances and social pressures. And though the momentum is increasing, so is the proof that we can, at least in some areas, direct the course of change and shape our tomorrows closer to our desires. Men who have walked on the moon, even vicariously, no longer need doubt their abilities to meet the problems of this fragile oasis in space called Earth.

All this is by way of comment on PG&E's own involvement with the challenge of building a better future while preserving the best qualities of the present. For it has become increasingly apparent that the solutions to many of our current social and environmental problems are tied to the imaginative use of clean and economical sources of energy: electricity and natural gas.

The nation's most modern rapid transit system, powered by electric energy from seven PG&E substations, will become operational next year—speeding San Francisco Bay Area passengers to their destinations and at the same time helping reduce the congestion of smog-producing motor vehicles. Clean-burning natural gas is being tested by fleet operators in business and government in order to

Working to protect the environment—today's and tomorrow's—PG&E researchers use a variety of sophisticated instruments in studying and quantifying facets of our ecology. Here, a laboratory in PG&E's Department of Engineering Research is lit up by the colorful flame from an atomic absorption spectrophotometer used to analyze the chemical content of various materials.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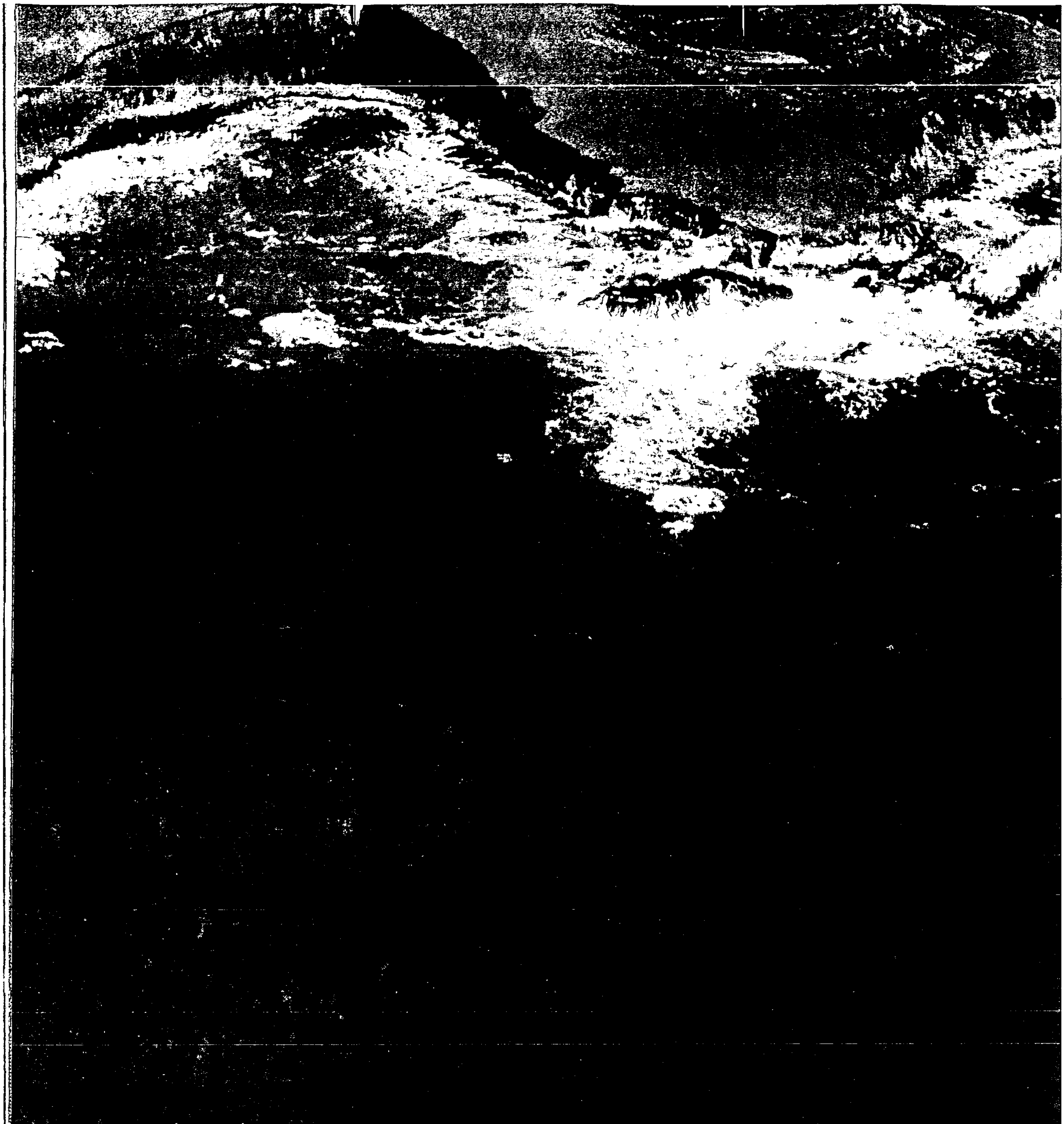
greatly reduce exhaust emissions, and the first PG&E service trucks converted to run on natural gas as well as gasoline are now in operation.

Electricity and natural gas energy are used in one new Northern California sewage disposal plant that discharges water pure enough to drink. On San Francisco Bay several communities have installed the first units of what eventually may be similar waste-water purification plants. Nearby, a prototype disposal plant incinerates garbage in a gas-fired, pollution-free furnace until the waste emerges as products which can be used for fertilizer, street paving or other purposes.

Projects to get fresh water from the oceans, increase food production, recycle wastes, build low-cost houses in factories—all depend on increasing quantities of economical energy in the forms of electricity and natural gas. It is this same energy, powering everything from computers to household appliances, that has freed man from all sorts of drudgery and given him the opportunity to look critically at his social and physical environment—to enjoy it and to improve it.

To provide the energy necessary to solve existing environmental problems without creating new ones in the process is the daily preoccupation of PG&E planners, engineers and researchers. Imagination and a firm resolve to minimize the impact of our facilities on the environment have paid off handsomely. Through landscaping and engineering advances, PG&E substations are designed to blend with their surroundings, while Company offices, service centers and other new facilities also combine esthetics and efficiency. Research has reduced the cost of undergrounding electric distribution lines so greatly that more than 90 percent of all new homes built in our service area last year had underground service. The Company's big

An orbiting weather satellite helps PG&E meteorologists increase the accuracy of their weather predictions. This photograph of a storm, relayed to Company facsimile machines, is superimposed over a map of the Pacific Coast area to show its changing impact on the service area.



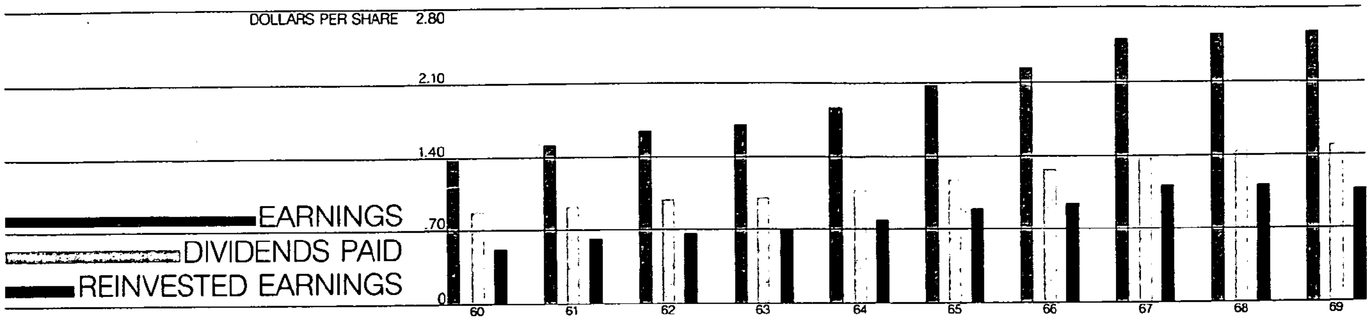
nuclear power plant being built at Diablo Canyon will provide economical electricity without adding any products of combustion to the air.

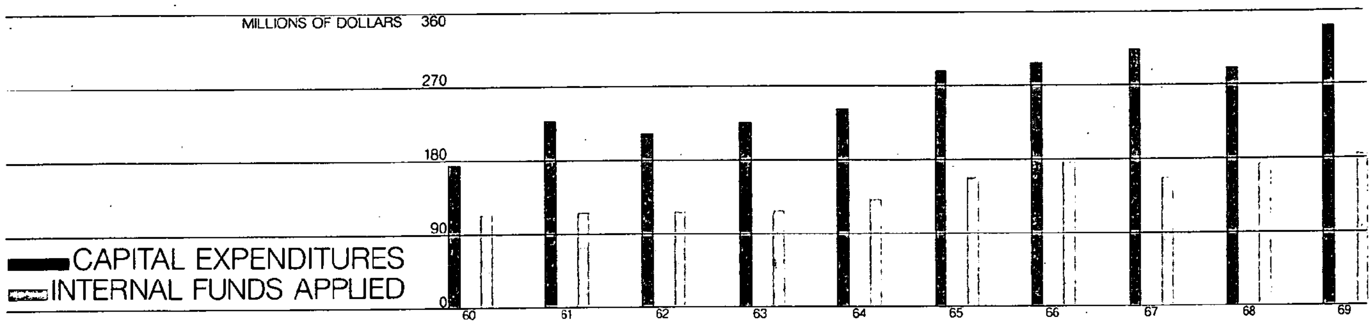
Advances in transmission technology have enabled us to build 500,000 volt power lines, any one of which can carry as much power as four or more transmission lines of lower voltages. And beneath its power lines the Company has cooperated in the development of mini-parks, tot lots and other recreational facilities. Hundreds of campground and picnic area units have been developed by PG&E on our lakes and watershed lands, providing thousands of people each year with new recreational opportunities.

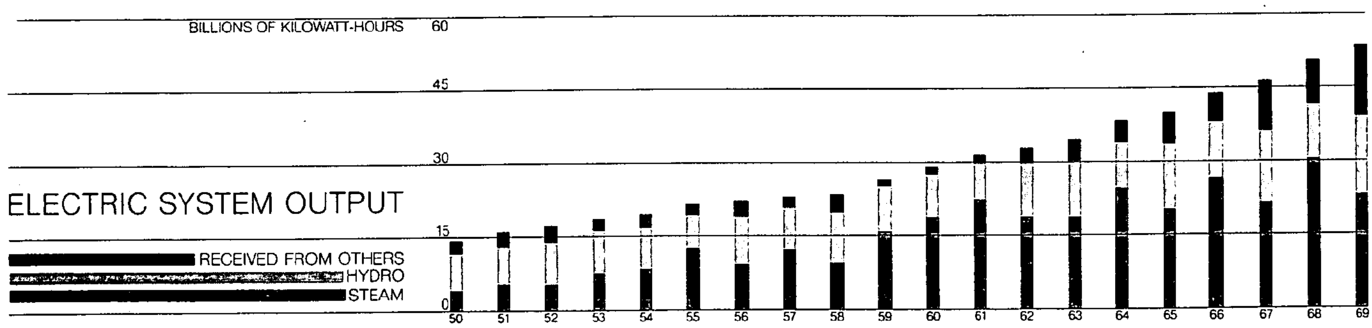
There are yet other dimensions to this business of supplying energy for a better tomorrow. The Company has been helping stage "town meeting" type congresses to encourage community-wide participation in civic improvement programs. PG&E industrial development experts work with planning officials to promote, in appropriate areas, industrial parks and centers for manufacturing and research—thus helping provide more jobs and new tax revenues for Californians. The Company's support of agricultural research programs has resulted in imaginative new applications of electricity on the farm, increasing production and lowering costs.

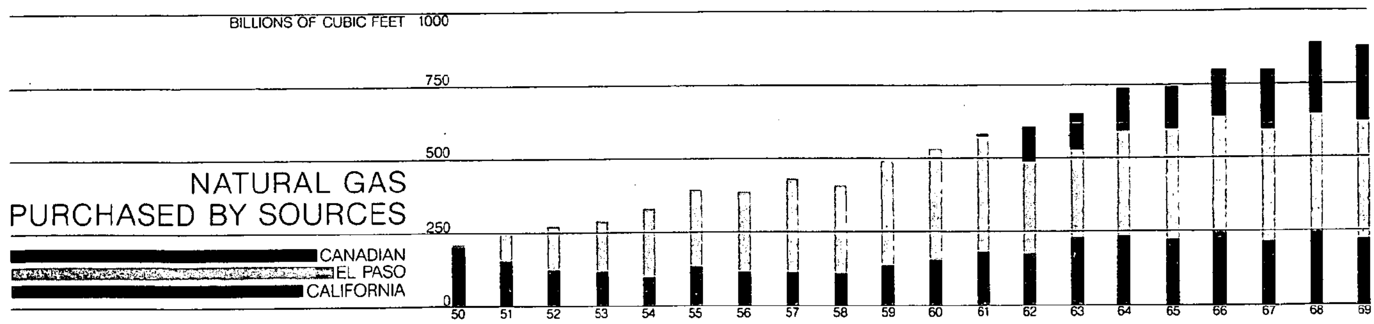
In the past, institutions were mainly instruments to preserve things as they were. Today, institutions are fast becoming vehicles for change—constructive change, if they are good institutions. Determined to remain in this category, PG&E is committed to serving the future as faithfully as it is serving the present.

Using infrared photography, PG&E technicians can study the ecology of power plant sites before and after construction. Not visible by ordinary means would be the bull kelp (dark areas in the center of the picture) on which abalone feed near the Company's Diablo Canyon Power Plant. To insure that marine life continues to flourish, PG&E will conduct environmental surveillance programs for the life of the plant. Dedicated to preserving the ecology, the Company has been studying power plant cooling water discharges since 1951. As a result, PG&E has been able to design and operate its thermal generating units so they have no adverse effect on marine life.









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FIVE YEARS IN BRIEF Pacific Gas and Electric Company

	—Thousands—				
SOURCES OF INCOME:	1969	1968	1967	1966	1965
ELECTRIC REVENUES	$ 671,990	$ 646,831	$599,876	$578,609	$538,271
GAS REVENUES	380,197	356,374	342,685	337,063	310,762
OTHER OPERATING REVENUES	2,124	2,010	2,486	2,485	2,366
OTHER INCOME AND INCOME DEDUCTIONS—NET	11,498	9,390	3,870	917	631
TOTAL	$1,065,809	$1,014,605	$948,917	$919,074	$852,030
DISPOSITION OF INCOME:					
NATURAL GAS PURCHASED	$ 259,781	$ 254,470	$230,843	$252,639	$223,615
POWER PURCHASED	25,084	15,087	18,562	11,930	14,115
OTHER PRODUCTION	26,845	31,580	29,037	22,919	21,872
TRANSMISSION	11,331	10,823	9,529	8,315	7,648
DISTRIBUTION	46,770	43,869	42,028	38,123	35,148
CUSTOMER ACCOUNTS	34,722	32,071	30,694	28,187	27,057
SALES	9,884	9,372	9,095	8,094	7,801
ADMINISTRATIVE AND GENERAL	45,935	41,383	36,383	35,474	32,867
MAINTENANCE	53,066	45,995	44,757	39,329	36,709
DEPRECIATION	115,474	109,063	102,118	98,395	92,774
TAXES	192,940	186,882	178,397	173,630	165,499
INTEREST (Net of interest charged to construction)	74,228	66,186	53,123	53,007	46,653
DIVIDENDS DECLARED ON PREFERRED STOCK	18,336	18,336	18,336	18,336	18,336
DIVIDENDS DECLARED ON COMMON STOCK	88,106	85,168	82,231	76,358	70,483
REINVESTED EARNINGS	63,307	64,320	63,784	54,338	51,453
TOTAL	$1,065,809	$1,014,605	$948,917	$919,074	$852,030
SHARES OF COMMON STOCK OUTSTANDING—(Thousands)	58,737	58,737	58,737	58,737	58,737
EARNINGS PER SHARE OF COMMON STOCK	$2.58	$2.55	$2.49	$2.23	$2.08
DIVIDENDS PER SHARE OF COMMON STOCK:					
DECLARED BASIS	$1.50	$1.45	$1.40	$1.30	$1.20
PAID BASIS	1.50	1.42½	1.37½	1.27½	1.17½

2

SOURCE AND APPLICATION OF FUNDS Pacific Gas and Electric Company

	Thousands 1969	1968
SOURCE OF FUNDS:		
NET INCOME	$169,749	$167,824
DEPRECIATION (Including charges to other accounts)	121,780	114,881
MORTGAGE BONDS SOLD	159,912	109,003
SALES AND SALVAGE OF UTILITY PLANT, AND REIMBURSEMENTS—Net	15,250	19,534
BANK BORROWINGS	—	6,000
DECREASE IN WORKING CAPITAL AND OTHER CHANGES	14,564	—
TOTAL	$481,255	$417,242
APPLICATION OF FUNDS:		
CAPITAL EXPENDITURES	$339,990	$289,400
MORTGAGE BONDS RETIRED	31,023	23,953
DIVIDENDS—PREFERRED AND COMMON STOCK	106,442	103,504
BANK BORROWINGS RETIRED	3,800	—
INCREASE IN WORKING CAPITAL AND OTHER CHANGES	—	385
TOTAL	$481,255	$417,242

TAXES AND FRANCHISE PAYMENTS Pacific Gas and Electric Company

	Thousands 1969	1968	Increase (Decrease)
LOCAL TAXES AND FRANCHISE PAYMENTS:			
AD VALOREM PROPERTY TAXES	$104,567	$100,710	$3,857
FRANCHISE PAYMENTS	6,623	6,133	490
TOTAL	111,190	106,843	4,347
STATE TAXES:			
CORPORATION FRANCHISE: CURRENT	10,647	11,049	(402)
CORPORATION FRANCHISE: DEFERRED	(251)	(251)	—
UNEMPLOYMENT INSURANCE	1,437	1,793	(356)
AUTOMOBILE	1,112	1,091	21
TOTAL	12,945	13,682	(737)
CITY AND STATE SALES AND USE TAXES	6,475	5,950	525
FEDERAL TAXES:			
CORPORATION INCOME: CURRENT	75,058	72,863	2,195
CORPORATION INCOME: DEFERRED	(2,694)	(2,694)	—
UNEMPLOYMENT INSURANCE	293	324	(31)
INSURANCE CONTRIBUTIONS	8,574	7,489	1,085
OTHER	88	81	7
TOTAL	81,319	78,063	3,256
TOTAL TAXES AND FRANCHISE PAYMENTS	$211,929	$204,538	$7,391
CHARGED TO:			
EXPENSE AS TAXES	$192,940	$186,882	$6,058
EXPENSE AS FRANCHISE PAYMENTS	6,623	6,133	490
UTILITY PLANT AND OTHER ACCOUNTS	12,366	11,523	843
TOTAL TAXES AND FRANCHISE PAYMENTS	$211,929	$204,538	$7,391

REVENUES AND SALES Pacific Gas and Electric Company • Electric and Gas Departments by Classes of Service

ELECTRIC DEPARTMENT REVENUES:	1969 (Thousands)	1968 (Thousands)	Increase (Decrease) Amount	Increase (Decrease) Percent
RESIDENTIAL	$249,070	$233,096	$15,974	6.9 %
COMMERCIAL	237,379	223,600	13,779	6.2
INDUSTRIAL (1000 KW demand or over)	94,474	89,755	4,719	5.3
AGRICULTURAL POWER	47,413	56,461	(9,048)	(16.0)
PUBLIC STREET AND HIGHWAY LIGHTING	11,754	11,033	721	6.5
OTHER ELECTRIC UTILITIES	14,308	17,230	(2,922)	(17.0)
MISCELLANEOUS	17,592	15,656	1,936	12.4
TOTAL	$671,990	$646,831	$25,159	3.9 %
SALES—KWH:				
RESIDENTIAL	11,946,102	10,913,433	1,032,669	9.5 %
COMMERCIAL	12,602,286	11,758,988	843,298	7.2
INDUSTRIAL (1000 KW demand or over)	10,278,768	9,776,894	501,874	5.1
AGRICULTURAL POWER	3,099,272	4,065,365	(966,093)	(23.8)
PUBLIC STREET AND HIGHWAY LIGHTING	334,946	316,831	18,115	5.7
OTHER ELECTRIC UTILITIES	2,026,264	2,134,465	(108,201)	(5.1)
TOTAL SALES TO CUSTOMERS	40,287,638	38,965,976	1,321,662	3.4
DELIVERED FOR THE ACCOUNT OF OTHERS	4,710,932	4,351,024	359,908	8.3
TOTAL	44,998,570	43,317,000	1,681,570	3.9 %

GAS DEPARTMENT REVENUES:	1969	1968	Amount	Percent
RESIDENTIAL	$189,090	$174,986	$14,104	8.1 %
COMMERCIAL	48,793	44,735	4,058	9.1
INDUSTRIAL	123,759	113,056	10,703	9.5
OTHER GAS UTILITIES	18,380	23,263	(4.883)	(21.0)
MISCELLANEOUS	175	334	(159)	(47.6)
TOTAL	$380,197	$356,374	$23,823	6.7 %
SALES—MCF:				
RESIDENTIAL	235,793	217,569	18,224	8.4 %
COMMERCIAL	73,358	67,747	5,611	8.3
INDUSTRIAL	302,900	278,762	24,138	8.7
OTHER GAS UTILITIES	49,499	68,182	(18,683)	(27.4)
TOTAL SALES TO CUSTOMERS	661,550	632,260	29,290	4.6
COMPANY USE (Steam Plants)	185,248	237,065	(51,817)	(21.9)
TOTAL	846,798	869,325	(22,527)	(2.6)%

COMPARATIVE STATISTICS Pacific Gas and Electric Company

PER SHARE OF COMMON STOCK[1]:	1969	1968	1967
EARNINGS	$ 2.58	$ 2.55	$ 2.49
DIVIDENDS DECLARED	$ 1.50	$ 1.45	$ 1.40
DIVIDEND PAYOUT RATIO	58.2%	57.0%	56.3%
BOOK VALUE (End of the Year)	$22.79	$21.71	$20.62
MARKET PRICE—HIGH	39½	38⅞	38
MARKET PRICE—LOW	29½	30¾	31⅝
MARKET PRICE—CLOSE	32¾	38⅛	35⅝
CAPITALIZATION RATIOS—END OF YEAR:			
BONDS (and Bank Loans)	54.0%	53.3%	52.8%
PREFERRED STOCK	9.5	10.1	10.6
COMMON STOCK EQUITY	36.5	36.6	36.6
TOTAL	100.0%	100.0%	100.0%
CAPITAL EXPENDITURES (Thousands):			
ELECTRIC DEPARTMENT	$240,468	$200,763	$235,707
GAS DEPARTMENT	61,428	58,834	50,536
OTHER	38,094	29,803	24,748
TOTAL	$339,990	$289,400	$310,991
ELECTRIC STATISTICS:			
TOTAL GROSS SYSTEM OUTPUT (Million KWH)	53,307	50,487	46,499
GROSS SYSTEM OUTPUT—In percent			
Hydroelectric Plants	28.9%	22.3%	31.0%
Steam-electric Plants	43.2	60.2	46.4
Received from Other Sources	27.9	17.5	22.6
Total	100.0%	100.0%	100.0%
GROSS NORMAL OPERATING CAPACITY—KW			
Hydroelectric Plants	2,521,300	2,404,300	2,436,800
Steam-electric Plants	7,202,000	7,308,000	6,517,000
Total from Company Plants	9,723,300	9,712,300	8,953,800
Available from Others	1,551,600	1,146,600	1,132,000
PEAK DEMAND—KW	8,692,600	8,666,400	7,950,200
TOTAL CUSTOMERS AT END OF YEAR	2,536,703	2,483,480	2,429,306
CUSTOMERS PER MILE OF DISTRIBUTION LINE	34.5	34.3	34.0
AVERAGE ANNUAL RESIDENTIAL CONSUMPTION—KWH	5,545	5,181	5,000
AVERAGE REVENUE PER KWH—RESIDENTIAL	2.08¢	2.14¢	2.16¢
AVERAGE REVENUE PER KWH—ALL CLASSES	1.62¢	1.62¢	1.65¢
GAS STATISTICS:			
TOTAL NATURAL GAS PURCHASED—MCF	878,483,866	888,074,653	802,221,367
SOURCES OF GAS PURCHASED—In percent			
From California	25.2%	27.5%	26.3%
From Other States	45.3	45.5	48.3
From Canada	29.5	27.0	25.4
Total	100.0%	100.0%	100.0%
AVERAGE COST OF GAS PURCHASED—MCF			
From California	29.9¢	30.3¢	30.2¢
From Other States (at California-Arizona border)	31.4	27.9	28.4
From Canada (at California-Oregon border)	28.2	28.0	29.3
Average—All Sources	30.1¢	28.6¢	29.1¢
PEAK DAY SENDOUT—MCF	3,445,626	3,338,669	3,363,503
TOTAL CUSTOMERS AT END OF YEAR	2,208,046	2,160,569	2,110,510
CUSTOMERS PER MILE OF GAS DISTRIBUTION MAIN	94.0	93.8	93.5
AVERAGE ANNUAL RESIDENTIAL CONSUMPTION—MCF	116.2	109.7	112.4
AVERAGE REVENUE PER MCF—RESIDENTIAL	80.2¢	80.4¢	80.1¢
AVERAGE REVENUE PER MCF—ALL CLASSES	57.4¢	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	$ .87	$ .87
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
36¾	40⅜	35⅜	34⅝	36⅞	36	25⅝	22¼
27	33⅞	30⅝	30⅛	25	24½	20	19⅜
35¾	36½	34¼	31¼	31⅞	34	25¼	21½
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%
$220,241	$218,479	$181,810	$167,438	$147,379	$139,468	$117,480	$113,384
55,596	46,057	40,484	43,568	46,337	75,587	45,759	33,584
21,292	22,172	17,777	15,070	16,009	13,031	9,887	11,725
$297,129	$286,708	$240,071	$226,076	$209,725	$228,086	$173,126	$158,693
43,743	40,042	38,178	34,692	32,874	31,355	28,809	26,260
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¢

STATEMENT OF REINVESTED EARNINGS

Pacific Gas and Electric Company
For the Years Ended December 31, 1969 and 1968

	Thousands 1969	1968
BALANCE, JANUARY 1	$520,193	$455,873
NET INCOME	169,749	167,824
TOTAL	689,942	623,697
DIVIDENDS DECLARED—CASH:		
PREFERRED STOCK	18,336	18,336
COMMON STOCK (1969, $1.50; 1968, $1.45 a share)	88,106	85,168
TOTAL	106,442	103,504
BALANCE, DECEMBER 31	$583,500	$520,193

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 5, 1970

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, 1969 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, 1969 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, 1969 and 1968

	Thousands 1969	1968
OPERATING REVENUES:		
ELECTRIC	$ 671,990	$ 646,831
GAS	380,197	356,374
OTHER	2,124	2,010
TOTAL	1,054,311	1,005,215
OPERATING EXPENSES:		
OPERATION:		
Natural gas purchased	259,781	254,470
Power purchased	25,084	15,087
Other production	26,845	31,580
Transmission	11,331	10,823
Distribution	46,770	43,869
Customer accounts	34,722	32,071
Sales	9,884	9,372
Administrative and general	45,935	41,383
TOTAL	460,352	438,655
MAINTENANCE	53,066	45,995
DEPRECIATION (Note 4)	115,474	109,063
FEDERAL INCOME TAXES (Note 4)	72,364	70,169
OTHER TAXES	120,576	116,713
TOTAL	821,832	780,595
OPERATING INCOME	232,479	224,620
OTHER INCOME AND INCOME DEDUCTIONS—Net	11,498	9,390
TOTAL	243,977	234,010
INTEREST CHARGES:		
INTEREST ON MORTGAGE BONDS	82,892	74,642
NET BOND DISCOUNT AND EXPENSE AND MISCELLANEOUS INTEREST	1,729	1,173
INTEREST CHARGED TO CONSTRUCTION (Credit)	(10,393)	(9,629)
TOTAL	74,228	66,186
NET INCOME	$ 169,749	$ 167,824
EARNINGS PER COMMON SHARE	$2.58	$2.55

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

BALANCE SHEET Pacific Gas and Electric Company • December 31, 1969 and 1968

ASSETS

	Thousands 1969	Thousands 1968
UTILITY PLANT—At original cost:		
ELECTRIC	$3,484,964	$3,342,869
GAS	1,044,241	984,320
OTHER DEPARTMENTS AND COMMON	226,441	208,423
CONSTRUCTION WORK IN PROGRESS	206,157	136,402
TOTAL UTILITY PLANT	4,961,803	4,672,014
ACCUMULATED DEPRECIATION (Note 4)	1,202,929	1,120,766
UTILITY PLANT—Net	3,758,874	3,551,248
INVESTMENTS—At cost:		
SUBSIDIARIES (Notes 1 and 3)	23,817	22,708
NONUTILITY PROPERTY AND OTHER	3,234	5,114
TOTAL INVESTMENTS	27,051	27,822
CURRENT ASSETS:		
CASH	22,376	22,710
ACCOUNTS RECEIVABLE (less allowance for uncollectible accounts: 1969, $1,803; 1968, $1,986)	77,452	100,797
MATERIALS AND SUPPLIES—At average cost	32,792	26,480
GAS STORED UNDERGROUND—At average cost	11,923	9,289
PREPAYMENTS	72,653	67,433
TOTAL CURRENT ASSETS	217,196	226,709
DEFERRED DEBITS:		
UNAMORTIZED BOND DISCOUNT AND EXPENSE—Net	7,730	8,254
OTHER	3,651	1,352
TOTAL DEFERRED DEBITS	11,381	9,606
TOTAL	$4,014,502	$3,815,385

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

BALANCE SHEET Pacific Gas and Electric Company • December 31, 1969 and 1968

LIABILITIES

	Thousands 1969	1968
CAPITALIZATION:		
COMMON STOCK (Schedule 1)	$ 587,366	$ 587,366
EXCESS OF PREMIUMS OVER DISCOUNT AND EXPENSE ON OUTSTANDING SHARES	167,636	167,636
REINVESTED EARNINGS	583,500	520,193
COMMON STOCK EQUITY	1,338,502	1,275,195
PREFERRED STOCK (Schedule 1)	350,250	350,250
TOTAL	1,688,752	1,625,445
MORTGAGE BONDS (Note 3) (Schedule 2)	1,946,283	1,830,343
TOTAL CAPITALIZATION	3,635,035	3,455,788
CURRENT LIABILITIES:		
NOTES PAYABLE TO BANKS	8,200	12,000
ACCOUNTS PAYABLE	83,828	62,137
CUSTOMER DEPOSITS	6,439	6,717
TAXES ACCRUED (Note 4)	84,574	87,900
INTEREST ACCRUED	9,453	8,659
DIVIDENDS PAYABLE	22,028	22,027
MORTGAGE BONDS—Current portion (Note 3) (Schedule 2)	26,267	13,230
TOTAL CURRENT LIABILITIES	240,789	212,670
CUSTOMER ADVANCES FOR CONSTRUCTION	13,986	13,164
DEFERRED CREDITS	6,307	14,091
RESERVE FOR INSURANCE AND CASUALTIES	4,995	6,160
CONTRIBUTIONS IN AID OF CONSTRUCTION	55,291	52,468
ACCUMULATED DEFERRED TAXES ON INCOME—Accelerated amortization	58,099	61,044
TOTAL	$4,014,502	$3,815,385

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

CAPITAL STOCK Pacific Gas and Electric Company, December 31, 1969—Schedule 1

Description	Shares Authorized (Thousands)	Outstanding—Held by Public: Shares (Thousands)	Outstanding—Held by Public: Amount (Thousands)
COMMON, PAR VALUE $10 PER SHARE	75,000	58,737	$ 587,366
PREFERRED, CUMULATIVE, PAR VALUE $25 PER SHARE (Note 2):			
6%	4,212	4,212	$ 105,292
5½ %	1,173	1,173	29,329
5%	400	400	10,000
5% REDEEMABLE	2,861	2,861	71,524
5% REDEEMABLE—SERIES A	1,750	1,719	42,985
4.80% REDEEMABLE	1,517	1,517	37,934
4.50% REDEEMABLE	1,128	1,128	28,186
4.36% REDEEMABLE	1,000	1,000	25,000
REDEEMABLE (Unclassified in series)	5,959		
TOTAL	20,000	14,010	$ 350,250

MORTGAGE BONDS Pacific Gas and Electric Company, December 31, 1969—Schedule 2

Series	Interest Rate %	Maturity	Outstanding—Held by Public (Thousands)	Held in Treasury (Thousands)
J	3	Dec. 1, 1970	$ 17,674	
K	3	June 1, 1971	23,789	
L	3	June 1, 1974	109,101	
M	3	Dec. 1, 1979	73,915	$2,861
N	3	Dec. 1, 1977	47,962	
O	3	Dec. 1, 1975	2,000	
P	2¾	June 1, 1981	21,562	274
Q	2⅞	Dec. 1, 1980	53,491	2,390
R	3⅛	June 1, 1982	65,183	200
S	3	June 1, 1983	66,817	1,524
T	2⅞	June 1, 1976	43,522	2,000
U	3⅜	Dec. 1, 1985	41,105	557
W	3⅛	Dec. 1, 1984	46,962	
X	3⅛	June 1, 1984	58,339	
Y	3⅜	Dec. 1, 1987	40,780	628
Z	3⅜	Dec. 1, 1988	17,178	
AA	4½	Dec. 1, 1986	29,348	150
BB	5	June 1, 1989	57,700	
CC	3¾	Dec. 1, 1978	56,860	
DD	4½	June 1, 1990	50,812	
EE	5	June 1, 1991	59,815	
FF	4⅝	June 1, 1992	51,494	
GG	4½	June 1, 1993	56,657	100
HH	4⅜	June 1, 1994	58,287	150
II	4¼	June 1, 1995	52,472	
JJ	4½	June 1, 1996	63,600	150
KK	4½	Dec. 1, 1996	61,950	
LL	4⅝	June 1, 1997	69,425	211
MM	5⅜	June 1, 1998	72,000	
NN	5¾	Dec. 1, 1998	75,750	
OO	5½	June 1, 1999	77,000	
PP	6⅞	Dec. 1, 1999	80,000	
QQ	6⅝	June 1, 2000	50,000	
RR	6¾	Dec. 1, 2000	60,000	
SS	7½	June 1, 2001	80,000	
TT	9	Dec. 1, 2001	80,000	
TOTAL MORTGAGE BONDS			1,972,550	$11,195
MORTGAGE BONDS INCLUDED IN CURRENT LIABILITIES (Note 3)			26,267	
MORTGAGE BONDS INCLUDED IN CAPITALIZATION			$1,946,283	

NOTE: The amount of Mortgage Bonds (First and Refunding) currently authorized ($3,000,000) 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 only to the Company 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, 1969, was $24,753,000 and in the results of operations for the years ended December 31, 1969 and 1968 was $1,503,000 and $1,648,000, respectively. Dividend income was $1,204,000 and $1,217,000 for the years 1969 and 1968.

NOTE 2 PREFERRED STOCK: Preferred stock outstanding at December 31, 1969, 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 semiannual sinking fund payments for the retirement of the bonds based upon the aggregate amount of bonds outstanding. Sinking fund payments due in 1970 for bonds outstanding at December 31, 1969, will amount to $19,788,000. This amount less treasury bonds of $11,195,000 is included in current liabilities. Bonds of $17,674,000 (included in current liabilities) will mature in 1970.

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: Capital expenditures for the year 1970 are estimated at $397,000,000.

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 1969 were $15,283,000. The Company's policy is to fund the accrued amount of retirement plan cost. At December 31, 1969, 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 2014. 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.

A Federal Power Commission statement of policy issued on August 4, 1969, states that the Commission will estimate for Congress the "net investment" component of a takeover price as equal to the project original cost, less the amount accumulated in the project depreciation reserve, subject to a maximum potential further deduction of the balance accumulated in the project Section 10(d) amortization reserve account.

The Company estimates that the amount allocable to this account as of December, 31, 1969, not yet reflected on the Company's books, will not exceed $10,000,000. It is contemplated that final determination of "net investment" will be the subject of a hearing as provided by Section 14 of the Federal Power Act.

DEPARTMENTAL ORGANIZATION

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
J. N. Ylarraz—Substations

GAS OPERATIONS
Managers:
Robert W. Brooks—Long Range Gas Supply
E. C. Drew—Gas Utilization
J. A. Fairchild—Gas Distribution
S. A. Haavik—Natural Gas Production
F. J. Parsons—Gas System Planning
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

PUBLIC RELATIONS
Managers:
W. A. Hynes—Public Activities
A. J. McCollum—Advertising and Publicity

RATES & VALUATION
Managers:
S. M. Andrew—Economics and Statistics
H. E. Crowhurst, Jr.—Valuation
W. M. Gallavan—Rate
Robert E. Palmer—Tax

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 PRESIDENT
Ralph B. Dewey—Assistant to the President

GOVERNMENTAL & PUBLIC AFFAIRS DEPT.
A. R. Todd—Manager

FINANCE & TREASURER
Managers:
A. H. Catherall—Treasury Operations
J. A. Crockwell—Insurance
E. C. Paddock—Credit and Collection
T. M. Welp—Financial Analysis

PERSONNEL & 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
Robert F. Irons—Field Office Operations
Joe Pirtz—Civil-Hydro and Gas Construction
C. Gordon Sparrowe—Line Construction

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

CLAIMS & SAFETY DEPARTMENT
R. W. White—Manager

MATERIALS DEPARTMENT
F. F. Mautz—Manager

INFORMATION SYSTEMS
John R. Kleespies—Manager

DIVISION MANAGERS

COAST VALLEYS: W. L. Murray, Salinas
COLGATE: Grant N. Radford, Marysville
DE SABLA: C. Robert Martin, Chico
DRUM: William D. Laughlin, Auburn
EAST BAY: W. D. Skinner, Oakland
HUMBOLDT: V. C. Novarino, Eureka
NORTH BAY: J. Galen Foster, San Rafael
SACRAMENTO: John H. Black, 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