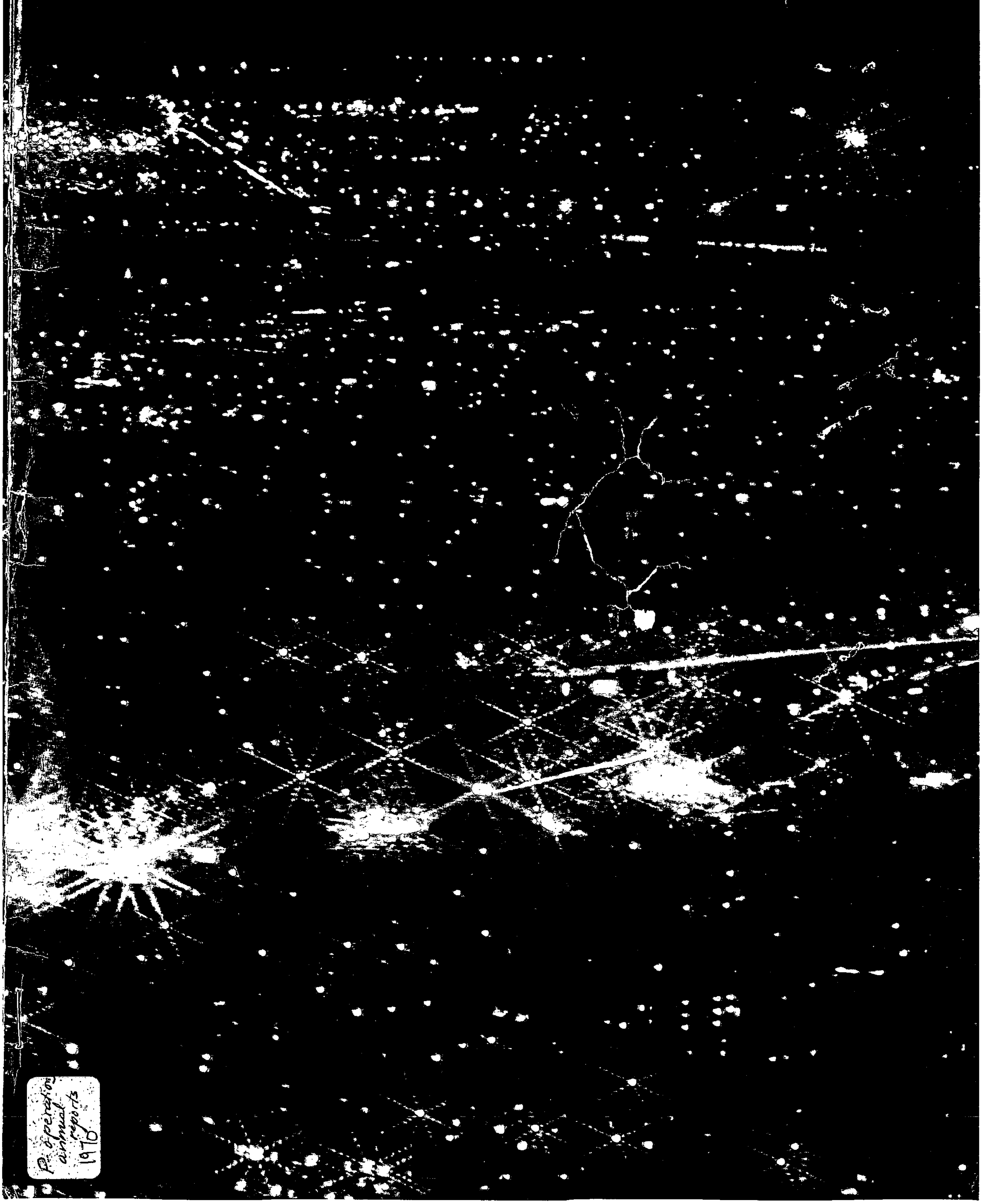
1970 ANNUAL REPORT PACIFIC GAS AND ELECTRIC COMPANY



COVER

Symbolic of the energy needed by our dynamic economy is this dramatic nighttime view across the San Francisco Bay Area. To help keep the future of PG&E's service area bright and our environment attractive, the Company provided clean energy in the forms of electricity and natural gas in unprecedented quantities last year.

CONTENTS

HIGHLIGHTS OF OPERATION

	1970	1969
Operating Revenues	$1,103,258,000	$1,054,311,000
Net Income	$ 166,219,000	$ 169,749,000
Earnings Per Common Share	$2.47	$2.58
Total Assets	$4,318,832,000	$4,014,502,000
Capital Expenditures	$ 415,331,000	$ 339,990,000
Sales of Electricity to Customers (KWH)	42,213,539,000	40,287,638,000
Sales of Gas to Customers (MCF)	673,804,000	661,550,000
Total Customers	4,864,378	4,753,425
Number of Employees	23,569	23,622
Number of Stockholders	247,821	239,764

REPORT OF THE DIRECTORS OF PACIFIC GAS AND ELECTRIC COMPANY

TO OUR STOCKHOLDERS:

Net earnings available for the common stock were $2.47 a share, down from the $2.58 a share earned in 1969. The 11-cent decline in earnings per share was the result of the rapidly increasing costs of material, labor and capital. These continuing inflationary pressures have made, and will continue to make, it necessary for the Company to seek substantial rate relief as discussed below.

Dividends of $1.50 per share of common stock were paid in 1970, of which 52% was excludable from taxable income for Federal income tax purposes.

EFFECTS OF INFLATION Although we have had inflation in this country for many years, it continued at a relatively moderate rate until about three years ago. Prior to that time, 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 greater efficiencies and an increased volume of business.

During the 13 years preceding 1971 PG&E did not have a general electric rate increase. Nor did it have a general gas rate increase from 1961 until 1969. In fact, during these periods gas and electric rates were reduced by about $40 million per year, based on current volume.

Notwithstanding strenuous efforts to hold down operating expenses and expenditures for capital additions, the inflation which gained increasing momentum in 1968 made rate increases inevitable. Wage rates have risen about 75% since 1957. Costs of gas, fuel, equipment, materials and supplies have all increased at an accelerating pace. The rates of interest paid by the Company on new bonds increased from 4% in 1957 to nearly 9% in November 1970. Although there has been some decrease in interest rates recently, the average interest rate on the Company's existing debt capital will remain relatively high for many years in the future. These factors made it necessary for us to seek rate increases.

GAS RATES As described in last year's annual report to stockholders, the California Public Utilities Commission on January 6, 1970 authorized the Company to increase its gas rates by $14.5 million annually. In April of 1970 the Commission authorized the Company to increase its gas rates by $19.4 million annually primarily to offset an increase in the cost of natural gas purchased by the Company from El Paso Natural Gas Company, the Company's largest supplier. At the end of 1970, El Paso applied to the Federal Power Commission for further increases in the cost of gas to take effect in 1971. Hearings before the California Commission were held in January 1971 to allow the Company to offset the increased cost of gas from this source. Increases in the cost of gas from our other sources of supply will occur during the year, making it essential to obtain further gas rate relief.

ELECTRIC RATES In December 1969 the Company applied to the Commission for authority to increase its electric rates by $67 million annually. On January 19, 1971, the Commission authorized the Company to increase its rates by $51.6 million annually, based upon the test year 1970. The Commission stated that this increase was designed to permit the Company to earn, after all operating expenses, a 7.5% rate of return on its investment in electric facilities. This increase in electric rates, averaging about 7.5%, should improve the return on the common stockholders' investment and assist in attracting the capital necessary to finance the Company's large construction program. The new rates were effective February 13, 1971.

CONSTRUCTION PROGRAM The Company spent a record $415 million for new plant during 1970 and plans to spend $485 million in 1971. For the four years through 1974, approximately $2 billion will be spent. The Company has 3,200,000 kilowatts of generating capacity under construction or scheduled for completion by the end of 1974, an increase of nearly one-third over the present generating capacity. Facilities to transport an additional 165 million cubic feet of natural gas a day from Canada have recently been completed, and a further expansion of this project is planned for 1971-72.

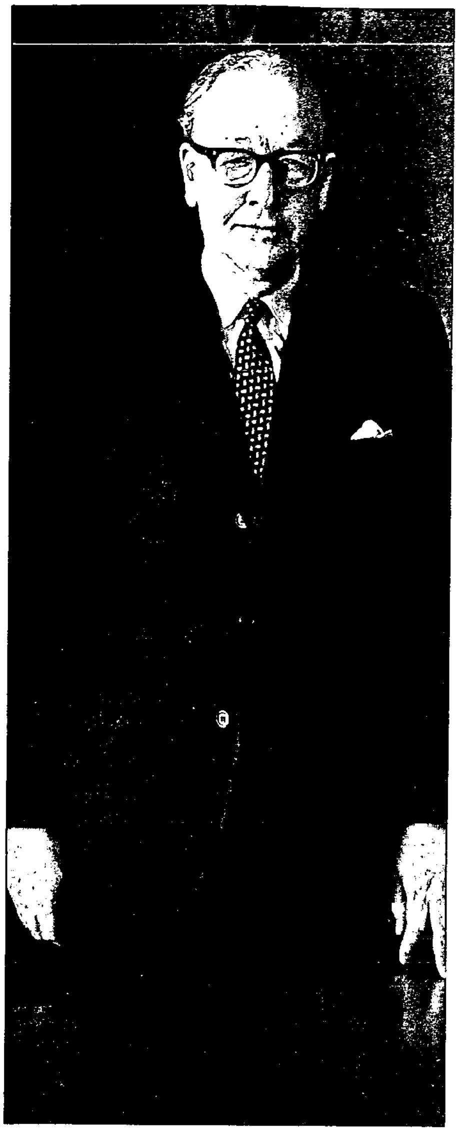
The largest project now under construction is our nuclear electric generating plant at Diablo Canyon near San Luis Obispo. The first unit of 1,060,000 kilowatts is scheduled for completion in the winter of 1973-74. In December the Company received a construction permit from the Atomic Energy Commission for a second unit of approximately the same size, and construction of this unit is now being started. Work also continued on the 750,000 kilowatt addition to our Pittsburg fossil-fuel plant, which is expected to be placed in operation in the winter of 1972-73. Two 55,000 kilowatt additions are planned for completion in each of the next three years at our Geysers generating complex. These additions, like existing units, will use natural underground steam to generate electricity.

In addition, contracts have recently been awarded for the nuclear steam supply systems for two 1,100,000 kilowatt nuclear generating units to be constructed in southern Mendocino County. Applications will be filed shortly for necessary governmental authorizations. The first unit is scheduled for operation in 1977 and the second in 1979.

SHERMER L. SIBLEY
President and Chief Executive Officer

JOHN F. BONNER
Executive Vice President

RICHARD H. PETERSON
Executive Vice President



ROBERT H. GERDES
Chairman of the Executive Committee

The new headquarters building adjacent to the Company's present general office building at 245 Market Street is nearing completion. This 34-story tower, located at 77 Beale Street, is being occupied on a progressive schedule as each floor is finished.

RELIABILITY OF SERVICE We are pleased to report that PG&E has had no shortage of either gas or electricity for service to our customers, and consequently we have not had to resort to "brownouts."

In August of 1970 the Company served a new record electric peak demand of nearly 9 million kilowatts and still had more than 2 million kilowatts of generating capacity in reserve. PG&E's integrated electric system of 77 generating plants is supplemented by generating capacity available from public water conservation agencies within our service area, as well as from power producers in other regions of the Pacific States through large capacity transmission interconnections.

Our construction program described previously is designed to meet new gas and electric loads and to maintain reserves adequate for reliable service. However, the lengthening lead times for obtaining governmental authorizations for power plant sites, transmission line rights-of-way, and plant construction are increasing the problems PG&E and other electric utilities face in meeting future electric demands. Although there are often complex conservation and environmental considerations involved, prolonged delays in the regulatory process—beyond those necessary to protect the public interest—could result in future energy deficiencies.

ENVIRONMENT The quality of the environment in which we work and live has become a subject of great concern to all Americans. PG&E recognizes the multitude of unique environmental assets within its service area and is giving much attention to preserving and enhancing them. Many steps have been taken already to improve and restore the quality of the air and water and esthetic appeal of this region. Yet much remains to be done to preserve the diverse beauties and benefits of this abundant region.

PG&E has been engaged in an intensive program to improve the esthetics of its utility facilities. This program includes undergrounding of electric distribution lines, constructing substations with lower silhouettes, ornamental walls and landscaping, designing new transmission towers and constructing attractive offices, service centers and other utility facilities. The fuel burned in our electric generating plants will be almost entirely clean-burning natural gas or low-sulphur fuel oil. The Company has gained national recognition for its achievements in conservation, esthetics and environmental protection.

Additional supplies of electricity and gas are necessary for protection and enhancement of the environment in which we live. Large amounts of energy will be required for sewage treatment, rapid transit systems, waste product recycling and other environmental improvements.

GAS SUPPLY The demand for clean-burning natural gas will continue to increase as a substitute for fuels which pollute the environment. This has already caused an acute shortage of gas in certain areas of the United States. PG&E currently has an adequate supply of natural gas to meet the demands of its customers, and the Company is continuing its efforts to increase its supply of natural gas from the southwestern part of the United States, western Canada and California so as to be prepared for future demands.

To transport the additional quantities of gas needed to meet its customers' requirements, PG&E must continue to expand its gas transmission facilities. The pipeline expansion previously mentioned increased the average daily delivery of gas to PG&E from Canada from 815 million to 980 million cubic feet per day.

Applications were filed during December of 1970 and January of this year with the National Energy Board of Canada and the Federal Power Commission for authorization to import an additional 200 million cubic feet per day from Canada. These increases will enable the Company to meet the growing demands of our customers for the next several years.

Ultimately, an adequate gas supply depends on vigorous exploration for new reserves which may be developed economically. We hope that the higher prices for natural gas now being received by the producers will provide the incentive for more exploratory drilling and the discovery of new gas reserves.

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

For the Board of Directors

S L Sibley

President and Chief Executive Officer

San Francisco, California,
February 25, 1971

ENERGY INTERTIES MAP:

To meet the ever-growing energy requirements of its service area, PG&E has developed far-flung sources of gas and electric energy, as indicated on this map. Pipelines reach 1,400 miles northward into Canada and almost that distance southeasterly to the Permian Basin of Texas and New Mexico. They bring into our service area more than 2 billion cubic feet of gas a day. Additionally, gas purchases from California fields account for almost 250 billion cubic feet annually.

PG&E's own vast electric generating system is likewise augmented by major interconnections with other sources. The Pacific Intertie links the great hydroelectric plants of the Columbia River Basin with the big thermal generating resources in Northern and Southern California. The Company also is a member of the Western States Coordinating Council. WSCC consists of 38 major interconnected power systems—government-owned and investor-owned—covering 13 western states and western Canada. Its purpose is to increase reliability by coordinating electric operations on a regional basis.


ENERGY
INTERTIES
ELECTRIC SYSTEMS
PG&E
OTHER
GAS SYSTEMS
PG&E
PG&E AFFILIATES
OTHER
PG&E SERVICE AREA
WESTERN STATES COORDINATING COUNCIL

THE 1970 FINANCIAL STORY

REVENUES The Company's operating revenues reached $1,103,258,000 in 1970, an increase of $48,947,000 over the prior year. Electric revenues contributed 63.7% of the total; gas revenues, 36.1%; and sales of water and steam, the small remainder. The table on page 23 shows revenues and unit sales by major classes of service.

The growth in electric revenues of 4.6% was less than the 5.3% average increase in revenues over the previous five years. The slower growth in residential revenues is attributable primarily to the fact that multi-family dwellings and mobile homes, which represent increasingly large percentages of the total number of new dwelling units connected, use less electricity than single-family residences. The lower commercial revenue growth of 4.4% and industrial revenue growth of 3.8% reflect the recent decline in economic activity and also a slowing in the rate of growth of population. A decrease in precipitation in 1970, compared to the previous abnormally wet year, resulted in a 12.5% increase in revenues from agricultural pumping. This gain was partially offset by an 11.4% decrease in revenues from sales to other utilities as a result of the termination of short-term sales contracts.

The overall increase in gas revenues of 4.7% in 1970 mainly reflected the increase in rates which became effective January 31, 1970. This increase was achieved despite the warmest first quarter in 54 years and generally warmer weather throughout the rest of the year than was experienced during 1969, which was colder than normal. Industrial sales, which are not affected by temperature changes, increased by a satisfactory 7.6%. A small portion of that increase reflected the changeover by some industrial plants from oil to cleaner-burning natural gas. More changeovers are expected in 1971.

EXPENSES Total operating expenses, exclusive of depreciation and taxes, amounted to $573,351,000 in 1970, an 11.7% increase over the prior year. Of the $59,933,000 increase in expenses, $32,441,000 was for natural gas purchased. This increase was in part the result of the larger quantities of natural gas required for electric generation in 1970 because of less hydro generation than in the previous wet year, and in part the result of higher prices paid to suppliers for natural gas.

The price of natural gas was increased during 1970 by the Company's two largest suppliers, El Paso Natural Gas Company and Pacific Gas Transmission Company. The average price paid for natural gas rose by 6.0% to 31.9 cents per MCF. Further increases in the price of gas from these sources and from California producers will occur in 1971.

Wages and salaries for the year amounted to $257,557,000, of which $160,415,000 was paid to operating employees and charged against income. The balance was paid to employees engaged in construction projects and charged against capital accounts.

TAXES Taxes of all kinds, paid or set aside for future payment, totaled $196,894,000, a decrease of $15,035,000 from the prior year. Federal income taxes declined $21,072,000 because of termination of the 5% income tax surcharge in June 1970 and lower operating earnings. State and local taxes amounted to $136,319,000, an increase of $5,709,000 from the prior year.

A table showing taxes imposed by the various taxing authorities and a comparison with the previous year appears on page 25.

The attention of stockholders has previously been directed to the almost complete tax exemption of government-owned utilities. By reason of this inequitable treatment, customers of these utilities shift their share of the tax burden to others. There is increasing awareness of this situation amongst lawmakers, and it is hoped that legislation will be forthcoming to correct this inequity.

EARNINGS AND DIVIDENDS Net income for 1970 was $166,219,000, a decrease of $3,530,000 from the previous year. After preferred dividend requirements of $18,559,000, there remained $147,660,000 available for the common stockholders — $2.47 per average common share outstanding during the year. Earnings growth should be resumed once the full effect of the recently granted rate relief is realized and rate increases are granted to offset anticipated higher gas costs.

Dividends declared on the common stock were $1.50 per share, or 61% of the total earnings available for the common stock. The remaining $57,792,000 of the earnings not paid out in dividends was reinvested in income-producing property, thereby adding to the book value and earning potential of the common shares.

In compliance with the requirements of the U. S. Internal Revenue Code, all dividend payments in 1970 to holders of PG&E stock, both common and preferred, have been reported to the Internal Revenue Service. In December of 1970, each shareholder of record was mailed a report of dividends received. In the same mailing all common stockholders were advised that 52% of the common stock dividend payments in 1970 was excludable from their taxable income for Federal income tax purposes.

FINANCING Nearly half of the financing for the Company's $415 million capital expenditure program in 1970 came from depreciation and reinvested earnings. The balance was financed from external sources by four separate security issues.

On March 4, 1970, the Company sold, at competitive bidding, $75 million of Series UU bonds, 8⅝%, due June 1, 2002, at a cost to the Company of 8.66%.

Common stockholders of record June 16, 1970 were offered the right to subscribe for 2,349,467 additional shares of common stock in the ratio of one new share for each twenty-five then held. The subscription price was $21.25 per share. The offering was well received and produced net proceeds of more than $48 million.

On October 28, 1970, the Company sold 9.28%, $25 par value preferred stock at $25.60 per share. The net proceeds of over $17 million were used to retire the 3% Series J mortgage bonds which matured on December 1, 1970.

The long-term financing for 1970 was completed on November 16 when the Company sold, at competitive bidding, $100 million of Series VV bonds, 8⅞%, due December 1, 2002, at a cost to the Company of 8.90%.

Interest expense in 1970 increased by 19.0% and exceeded $100 million for the first time.

At the end of 1970 the Company's total capitalization was $3.9 billion, consisting of 53.2% mortgage bonds, 9.5% preferred stock and 37.3% common stock equity.

STOCK OWNERSHIP At year end 247,821 individual and institutional investors owned PG&E stock, a gain of 8,057 for the year. Of these owners, 74,867 were preferred stockholders and 172,954 were common stockholders.

More than 2,600,000 shares of common stock are now held in trust for participating employees by the trustee of the Company's Savings Fund Plan. At year end about 17,300 employees were participating in this stock purchase plan, which is designed to supplement retirement income.

The distribution of PG&E stock ownership is shown in the accompanying table. Although PG&E stock is held by owners in every state and many foreign countries, approximately two-thirds of our stockholders have California addresses, reflecting the Company's policy of encouraging local ownership. Nearly half of the shares are held by institutional investors such as insurance companies and pension funds. Millions of people thus have an indirect financial interest in the Company, making the investor ownership of PG&E truly widespread.

DISTRIBUTION OF STOCK OWNERSHIP
By Class of Investor, December 31, 1970

	Number of Stockholders	Number of Shares Owned
Women	96,914	17,284,151
Joint and other tenancies	65,235	9,878,662
Men	53,142	9,810,356
Trustees, guardians and other fiduciaries	23,410	3,836,115
Nominees	3,683	25,696,149
Corporations, partnerships and proprietorships	1,634	1,146,635
Charitable and fraternal organizations and foundations	1,501	654,688
Banks and trust companies, investment companies and security dealers	1,004	2,793,110
Religious institutions	544	123,442
Insurance companies	499	4,474,377
Educational institutions	227	91,199
Labor organizations	28	14,196
Total	247,821	75,803,080

Between the hills of Contra Costa County and the Sacramento River, the seventh unit of Pittsburg Power Plant is taking shape. The $80 million unit, capable of generating 750,000 kilowatts, is scheduled to come on the line late in 1972 and keep PG&E ahead of the growing demand for electricity.

OPERATIONS AND ADMINISTRATION

ELECTRIC OPERATIONS Electric system output in 1970 exceeded that of the previous year by 6.5%, reaching a total of 57 billion kilowatt hours.

The Company's steam-electric generating plants produced 26 billion kilowatt hours, or 46% of the total output. Even though water conditions for the production of hydroelectric power were not as favorable as those of the previous year, when unusually favorable water conditions prevailed, 31 billion kilowatt hours, 54% of the total output, came from hydroelectric sources. Company hydroelectric plants generated 14 billion kilowatt hours, and the remaining 17 billion kilowatt hours were obtained under long-term purchase contracts from other hydroelectric power producers, principally public water conservation agencies within the PG&E service area.

The peak demand on our system, which occurred on August 10, 1970, was 8,950,300 kilowatts. At the time of the peak there were more than 2 million kilowatts of reserve generation on our system.

To assure that the Company will be able to meet increases in demand for electricity in the future, we currently have 11 electric generating units under construction or scheduled, totaling 5,400,000 kilowatts of capacity. Other additions to generating capacity besides the plants shown in the following table are contemplated during the period 1974 to 1980.

Completion Date		Estimated Capacity (KW)
1971	Geysers No. 5 (geothermal)	55,000
1971	Geysers No. 6 (geothermal)	55,000
1972	Geysers No. 7 (geothermal)	55,000
1972	Geysers No. 8 (geothermal)	55,000
1972	Pittsburg No. 7 (fossil)	750,000
1973	Geysers No. 9 (geothermal)	55,000
1973	Geysers No. 10 (geothermal)	55,000
1973	Diablo Canyon Site—No. 1 (nuclear)	1,060,000
1974	Diablo Canyon Site—No. 2 (nuclear)	1,060,000
1977	Mendocino Site—No. 1 (nuclear)	1,100,000
1979	Mendocino Site—No. 2 (nuclear)	1,100,000
Total		5,400,000

In addition to the above, 250,000 kilowatts of new capacity will be available to the Company from the Pacific Northwest through the intertie in 1971, and another 100,000 kilowatts will be available in 1972.

GAS OPERATIONS In 1970 the Company purchased a total of 951 billion cubic feet of natural gas to meet the needs of its customers and for use as fuel in its steam-electric generating plants. Of the total, 44% was obtained from the southwestern part of the United States and delivered at the Arizona-California border by the El Paso Natural Gas Company. The Alberta-California pipeline delivered 31% from Canadian fields, and the remainder came from California producers.

The Company's payment of $303 million for natural gas during the year was by far its largest single expenditure. The 1970 cost was 31.9 cents per MCF, an increase of 1.8 cents or 6.0% over 1969, representing an increase of $17 million in the cost of gas for the year. El Paso Natural Gas Company has filed with the Federal Power Commission a further price increase to take effect in 1971. The cost of gas from both Canadian and California sources will also rise further in 1971. Applications have been made, or will be made, to offset these increased expenses with appropriate rate increases.

BUSINESS DEVELOPMENT The economic diversification of our service area played a major part in minimizing the effects on PG&E of a slowdown in the national economy during 1970. New industrial and commercial development continued at a satisfactory pace.

Numerous new and expanded public facilities, including schools and colleges, churches, enlarged hospitals, new convalescent hospitals and retirement homes, were constructed during the year. Construction of office buildings, hotels, motels, supermarkets, and shopping and convention centers continued at a high rate throughout 1970.

Food processing—the State's largest manufacturing industry in dollar output—further expanded to meet the growing domestic and worldwide demand for more convenience type food products. Highlighting this progress was the completion of two new "super-canneries," which are the largest and most modern of their type in the world and able to process both fruit and vegetable crops on a virtually uninterrupted basis.

Our award-winning community development program provided technical aid for community planning meetings in 16 cities, assisted in staging ecological and educational forums, and prepared illustrated presentations on environmental concerns. One rewarding result of earlier community planning meetings has been the development of "mini parks" for children on Company transmission line rights-of-way in urban areas.

CUSTOMERS	1970	1969	Increase (Decrease)
Electric Department	2,597,314	2,536,703	60,611
Gas Department	2,258,285	2,208,046	50,239
Water Department	8,321	8,200	121
Steam Department	458	476	(18)
Total	4,864,378	4,753,425	110,953

EMPLOYEES At year end the Company had 23,569 employees, reflecting only a nominal change in employment during 1970.

On-campus college recruiting was very successful in 1970, demonstrating in part the Company's reputation for providing challenging career opportunities for graduates with varied technical and business-oriented degrees. Continuing education for all employees becomes more important as our business becomes more complex. Accordingly, the number and content of training programs is being constantly expanded to enable qualified employees to meet the requirements of our technological age.

Carrying out the Company's express policy to employ and promote without regard to race, color, religion, age, sex or national origin, affirmative steps taken by PG&E have continued to attract applicants of many racial and ethnic backgrounds.

Negotiations during 1970 with the International Brotherhood of Electrical Workers, AFL-CIO, and the Engineers and Scientists of California resulted in agreements for a 7½% general wage increase effective July 1, 1970 and expanded medical insurance coverage for employees. As a result, wages and other benefits will be increased by $17 million annually, of which 62% is chargeable to operations and the balance to construction.

DIRECTORS AND OFFICERS

Kenneth C. Christensen, retired Senior Vice President—Finance, resigned from the Board of Directors at the July 15 Board Meeting and was replaced by Richard H. Peterson of the Company.

At the August Board Meeting, Russell Giffen, a Board member for 12 years, resigned and Alfred W. Eames, Jr., Chairman of the Board of Del Monte Corporation, was elected a director.

Leon S. Peters, President of Valley Foundry and Machine Works of Fresno, was elected a member of the Board of Directors at the December Board Meeting to replace Reed O. Hunt, retired Chairman of the Board of the Crown Zellerbach Corporation.

The Company was saddened on February 1, 1971, by the death of Carl F. Wente, a veteran member of its Board of Directors. Mr. Wente's membership on the Board extended over a period of more than 16 years. He served the Company with distinction, and his wise counsel will be greatly missed.

Rudolph J. Drews, Chairman and Chief Executive Officer of Foremost-McKesson, Inc., was elected a member of the Board to replace Mr. Wente. Director Porter Sesnon succeeded Mr. Wente on the Executive Committee.

There were also several changes during the year at the executive officer level. Frank A. Peter, Comptroller, was elected Vice President and Comptroller in May.

In November, Richard H. Peterson, previously Senior Vice President and General Counsel, was elected Executive Vice President, and Frederick T. Searls, previously Vice President and General Attorney, was elected Vice President and General Counsel.

Effective December 1, Donald L. Bell, Vice President—Finance, relinquished the position of Treasurer, and Theodore M. Welp, previously an Assistant Treasurer, was elected Treasurer.

On December 22, John G. Smith died at the age of 53. He had been a valued and respected employee of the Company for 25 years, the last five as Vice President—Personnel and General Services. Following Mr. Smith's untimely death, Richard K. Miller, previously Manager of the Company's San Francisco Division, was elected Vice President—Personnel and General Services effective January 20, 1971.

Sections of a 36-inch pipeline are lowered into a trench in Northern California as part of a program to expand the capacity of PG&E's Canadian gas line. This recently completed project enables PG&E to import 980 million cubic feet of gas a day from fields in Alberta, Canada.

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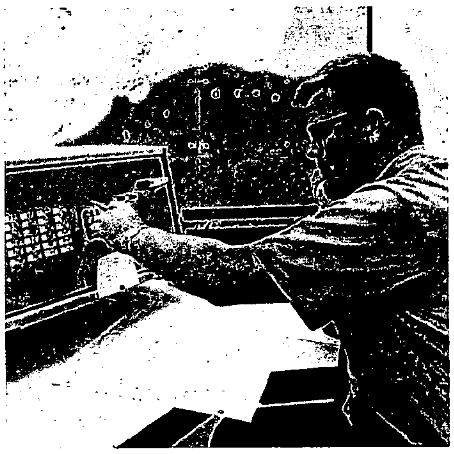
"...THE FUTURE OF ENERGY IS THE FUTURE OF MAN"

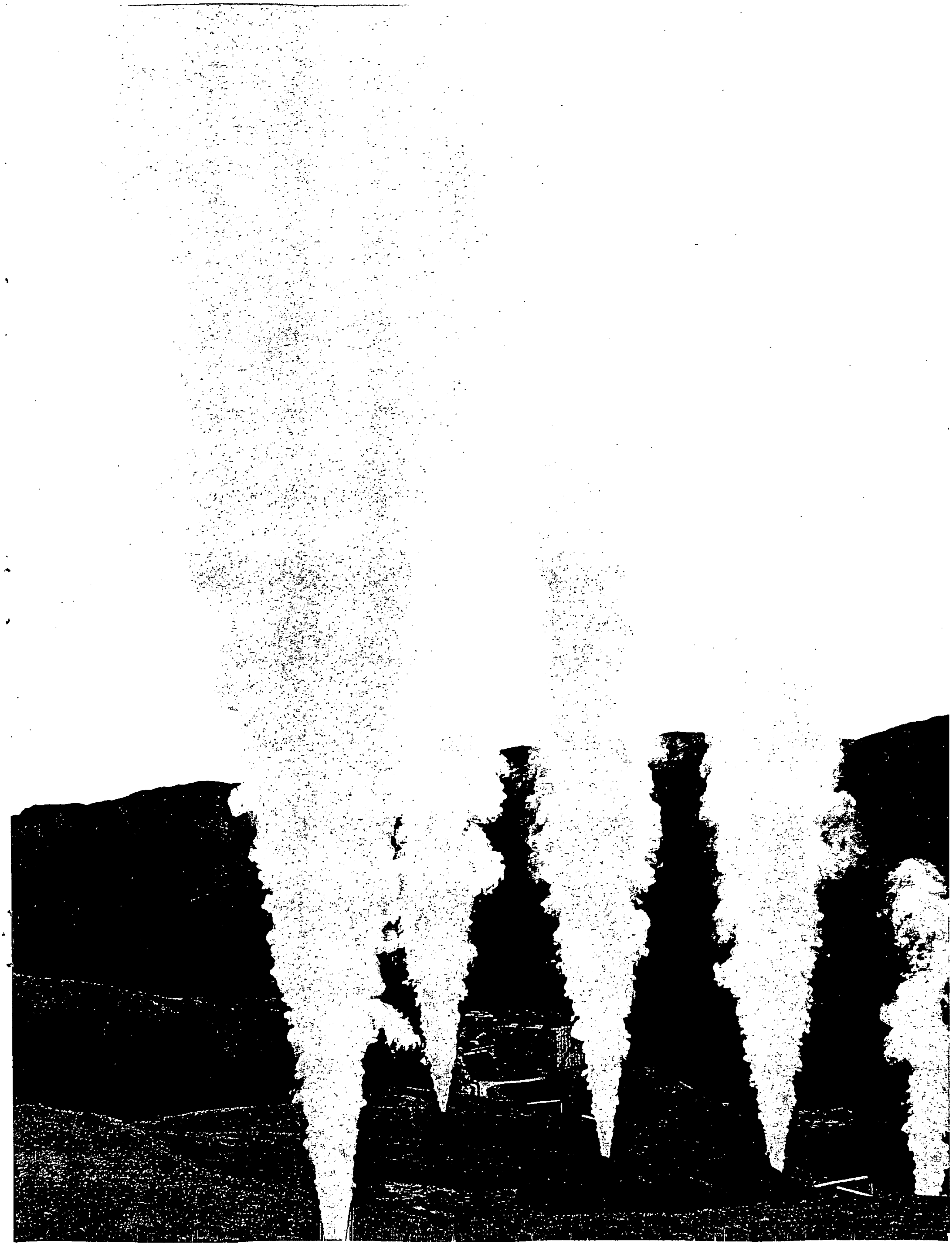
DR. GLENN SEABORG



TOP: In the bracing air of the High Sierra, PG&E water management teams pack into remote areas every fall in order to repair snow course markers, restock mountain shelters with food and survival gear and otherwise prepare for winter. The Company's 65-plant hydro system is not only an important source of electric energy, it also provides water conservation and public recreation. ABOVE: In the Company's new Gas Control Center in San Francisco, a dispatcher controls the flow of natural gas to meet the increasing demand for this clean-burning fuel. AT RIGHT: Plumes of geothermal steam shoot high into the air at the Geysers Power Plant during a test of steam wells there. This generating plant of PG&E is the only one in the nation to use this natural source of energy. Expanded continuously since its inception in 1960, the Geysers is expected to have 10 units in operation by the end of 1973 and a capacity of 412,000 kilowatts — enough to serve a city about two-thirds the size of San Francisco.

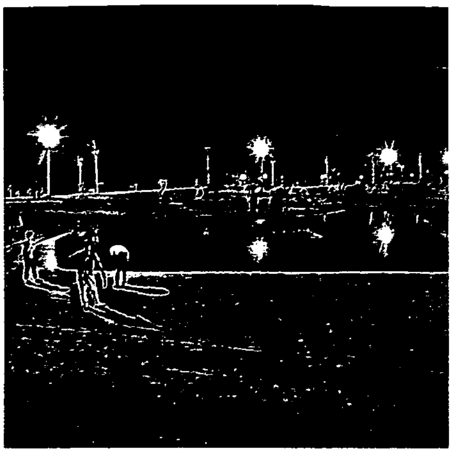
Abundant energy in most of its forms has long been a hallmark and symbol of California. This is a land of sun and surf, of rushing rivers and busy people, of fields sprouting row crops, orchards, vineyards and oil wells. It is a dynamic land where the pulse of the economy is strong and fast. To help power this heartbeat without slowing the tempo or missing a beat is the mission being accomplished by Pacific Gas and Electric Company.

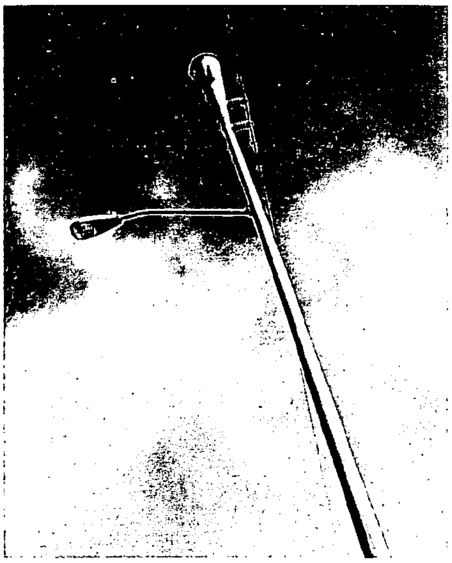
Through the heat of summer and chill of winter, despite storms and mechanical mishaps, PG&E again delivered vast annual quantities of gas and electric energy — reliably and with adequate margins of reserve. To accomplish this, the Company has reached as far as Canada and Texas for natural gas supplies. We are a



partner in an electric transmission intertie of unprecedented dimensions, stretching from the Northwest to Southern California. To generate power, we have tapped the nucleus of the atom and steam from the earth's interior as well as hydro and fossil-fueled energy sources. And we are spending much more than a million dollars a day to expand our system so that we can maintain our record of providing adequate, economical and reliable energy.

During the past year—1970—PG&E sold more than 42 billion kilowatt hours of electricity and almost 700 billion cubic feet of natural gas. At times of peak consumption, the demand for electricity approached 9 million kilowatts, a peak that the Company met with about 2 million kilowatts of capacity in reserve. The Gas Department similarly met peak days handily, thanks partly to large new sources of supply in Canada.





Electric energy in the form of light is improving the quality of our environment after dark in many different ways. TOP: Lighted golf courses are extending the recreational opportunities available after working hours. ABOVE: New style mercury vapor lamps offer more light for less money than incandescent street lamps. PG&E recently concluded the largest street relighting program in the nation's history using these new lamps. AT RIGHT: Shopping centers, outdoor restaurants and cultural and commercial centers all depend on high levels of outdoor illumination for lighting that is both decorative and functional.

The sufficiency of gas and electric energy in PG&E territory today is cause for confidence but not complacency. A growing economy and rising per capita consumption of energy mean that continued expansion of our system is necessary and new sources of gas must be obtained. And today's growing concern for the protection of our environment means even greater roles for the clean energy provided by electricity and natural gas.

Based upon past growth trends, PG&E estimates that, in the next 15 years, it must add more than twice as much electrical capacity as is provided by the existing system which required 90 years to reach its present size. Fortunately, this can be done with a minimal impact on the environment. Fewer but larger generating

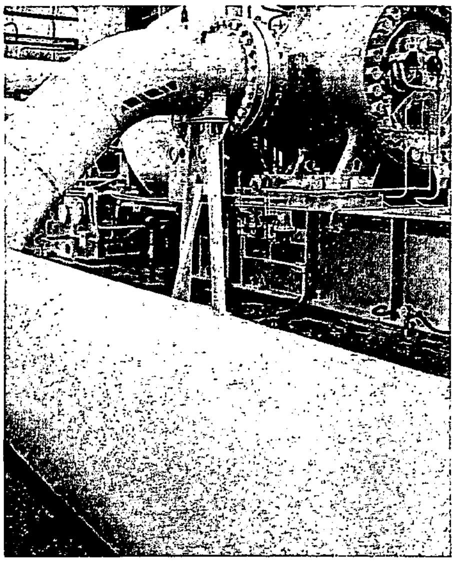
units, extra-high voltage transmission lines, underground distribution systems, nuclear power plants, interconnections with other utilities—these are but a few of the modern techniques that are being employed to make energy systems compatible with their environment.

All of these and many new techniques still being researched must be pressed into service, for it has been estimated that by the year 2000 electric energy will account for about 50% of the total energy consumed in the nation—in contrast to about 20% to 25% today. It can mean a better future for everyone. Few have painted the outlook better than Dr. Glenn Seaborg, chairman of the United States Atomic Energy Commission, who last year declared:

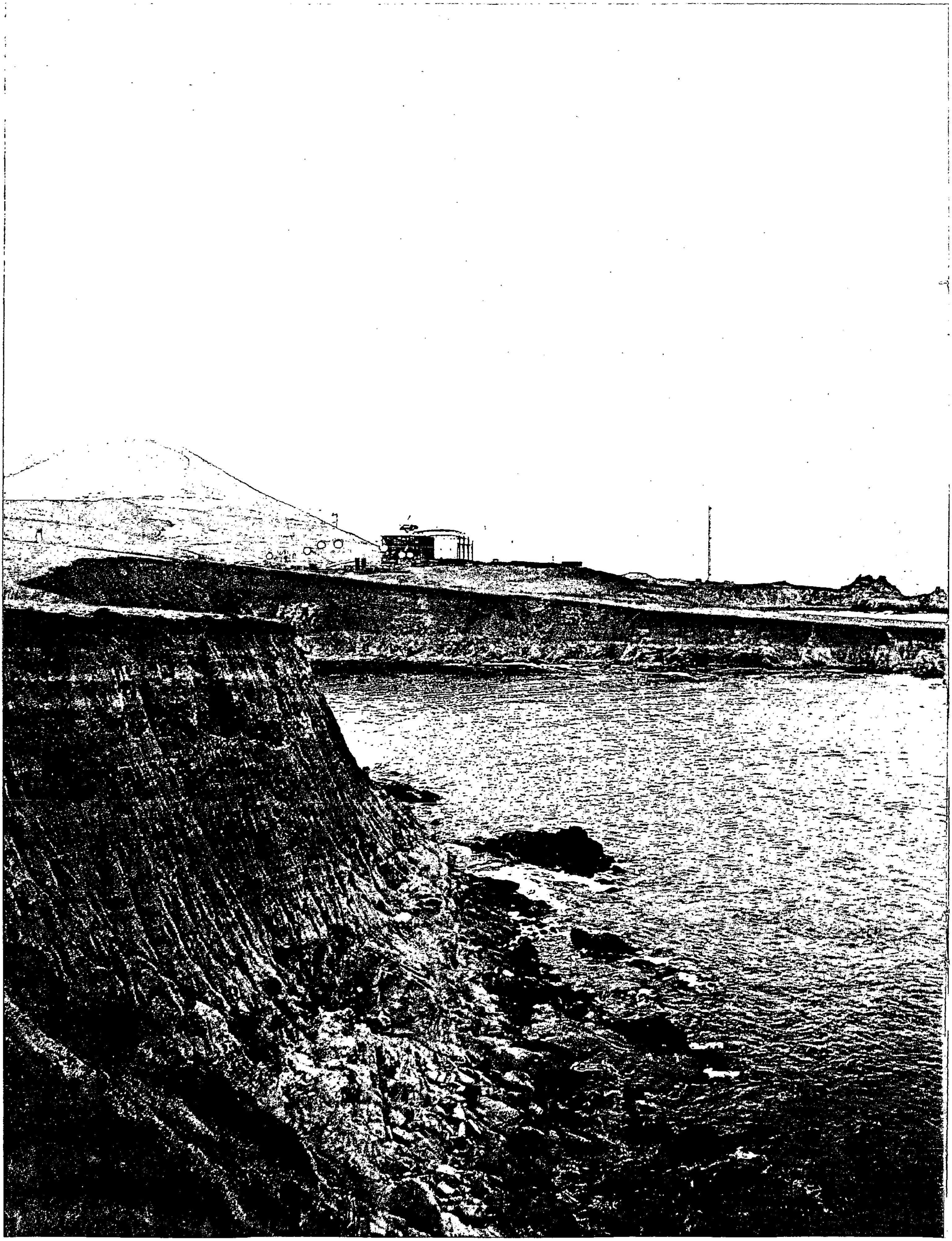
"Contrary to the notion that our use of energy must necessarily deplete our planet's resources or despoil nature, I believe that our wise use of energy—and considerably more than we are using now—can restore nature and rejuvenate man.

"It can help us to turn green again much of that desert wasteland that was once natural gardens. It can help us clean up our man-made environment and rebuild, with the same materials we may have misused or wasted, the lives of men and the lands and cities they inhabit . . . In short, the future of energy is the future of man. Without it we become nothing. With it we become whatever we wish and strive to be."

To provide abundant energy for a California which we and future generations can be proud of—that is PG&E's challenge and its destiny.



New technologies that are being used to improve our environment depend on increasing quantities of electricity and natural gas. TOP: An unusual gas-fired furnace which drops sewage sludge through a series of hearths is in use in the city of San Mateo. The pollution-free incinerator converts the problem waste into an easily-disposed of sterile dust. ABOVE: Big new compressor units on PG&E's gas pipelines are enabling the Company to import greater quantities of this clean-burning fuel. AT RIGHT: An electrically-powered test train flashes through an East Bay station of the Bay Area Rapid Transit District. The transit system is expected to reduce materially the amount of automotive emissions which would otherwise be added to the atmosphere.



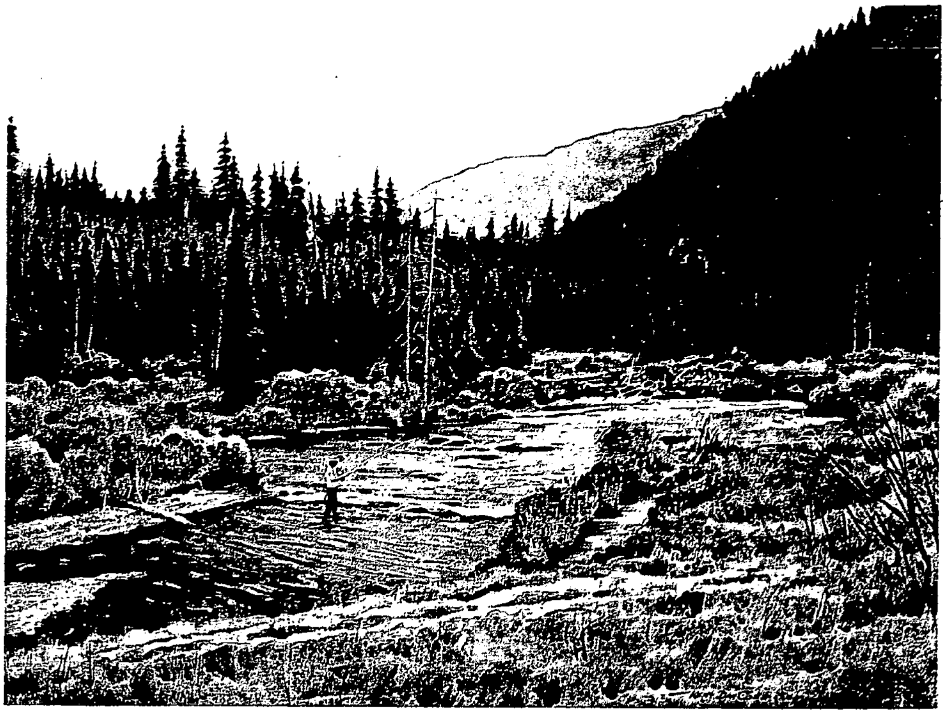
ENVIRONMENTAL AWARD

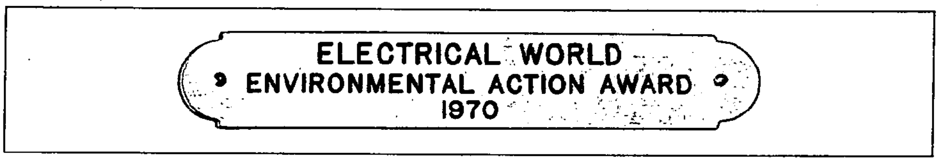
The Company's long-standing environmental protection policies won for PG&E a significant national honor last year. The first annual Environmental Action Award was presented to the Company in July by *Electrical World* magazine, a McGraw-Hill publication.

PG&E's programs and policies, in the opinion of the national magazine's editors, "best exemplify the concern of the electric utility industry for the preservation and enhancement of our environment." There were 40 power systems, government-owned and investor-owned, nominated for consideration.

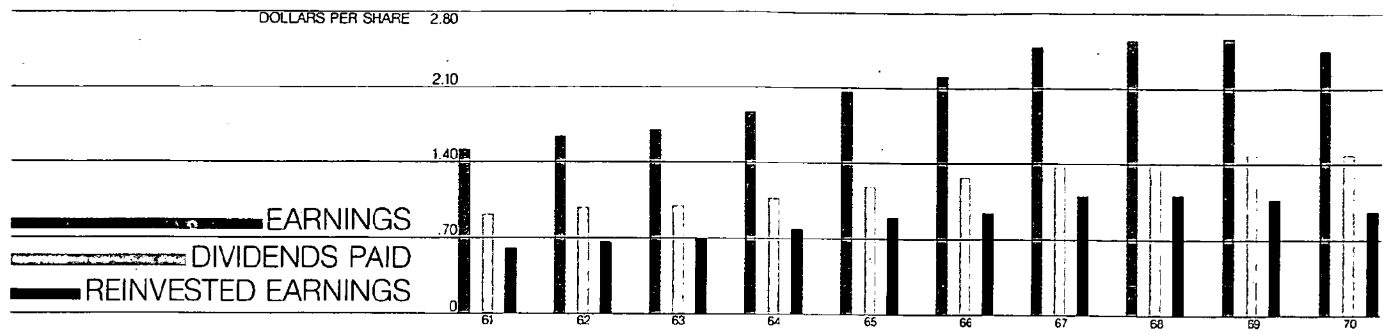
The Company was cited for "early and continuing concern for the public interest in preserving and protecting its air, water and land resources as expressed in an ongoing program of environmental action." The citation took note of PG&E's combining "advanced research and modern technology to minimize the impact of broadening energy needs on air and water quality." PG&E's development of public recreation facilities and wildlife preserves was also cited as examples of "environmental efforts . . . in the highest standards of public interest."

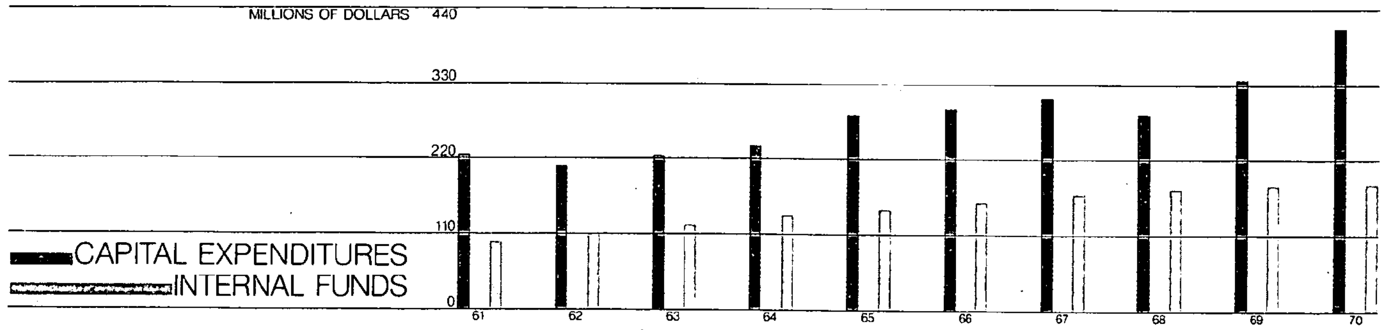
The *Electrical World* Award was in the form of a watercolor painted by Kent Day Coes on the Feather River, a region in which PG&E has developed a chain of hydroelectric powerhouses and public recreation areas.

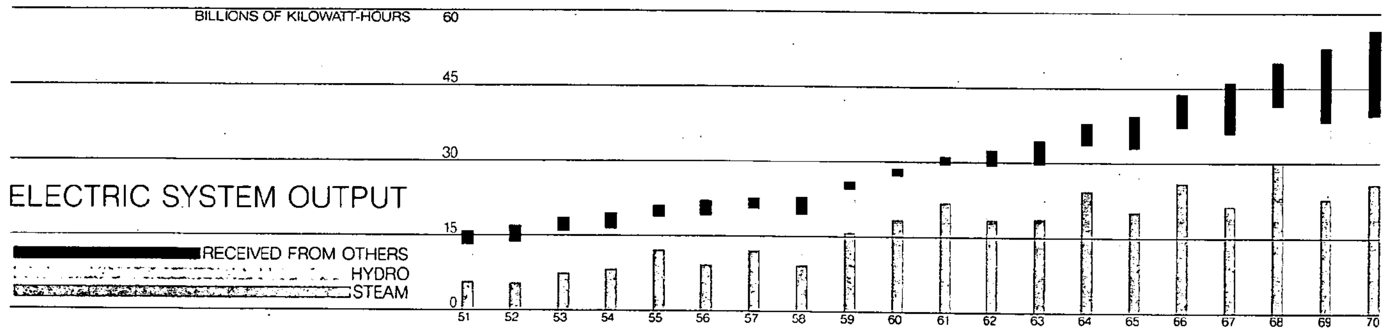


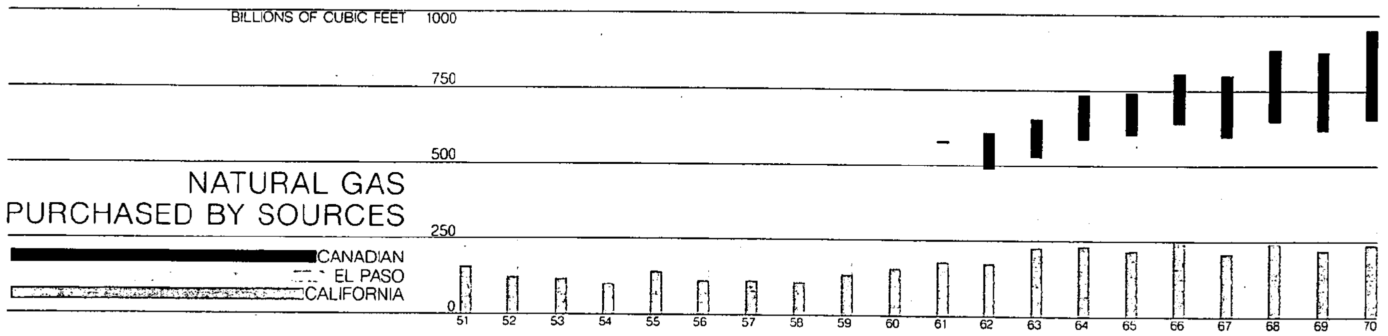


LEFT: Steelwork for PG&E's 1,060,000 kilowatt nuclear power unit takes shape at Diablo Canyon on the San Luis Obispo County coast. Nuclear energy, a safe and clean source of electric power, will play an increasingly larger role in PG&E's electric operations.


DOLLARS PER SHARE
2.80
2.10
1.40
.70
0
EARNINGS
DIVIDENDS PAID
REINVESTED EARNINGS
61
62
63
64
65
66
67
68
69
70


MILLIONS OF DOLLARS
440
330
220
110
0
CAPITAL EXPENDITURES
INTERNAL FUNDS
61
62
63
64
65
66
67
68
69
70


BILLIONS OF KILOWATT-HOURS
60
45
30
15
0
ELECTRIC SYSTEM OUTPUT
RECEIVED FROM OTHERS
HYDRO
STEAM
51
52
53
54
55
56
57
58
59
60
61
62
63
64
65
66
67
68
69
70


BILLIONS OF CUBIC FEET
1000
750
500
250
0
NATURAL GAS
PURCHASED BY SOURCES
CANADIAN
EL PASO
CALIFORNIA
51
52
53
54
55
56
57
58
59
60
61
62
63
64
65
66
67
68
69
70

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

ELECTRIC DEPARTMENT	Thousands			
REVENUES:	1970	1969	Increase (Decrease) Amount	Percent
Residential	$260,069	$249,070	$10,999	4.4 %
Commercial	247,829	237,379	10,450	4.4
Industrial (1000 KW demand or over)	98,071	94,474	3,597	3.8
Agricultural Power	53,339	47,413	5,926	12.5
Public Street and Highway Lighting	12,520	11,754	766	6.5
Other Electric Utilities	12,675	14,308	(1,633)	(11.4)
Miscellaneous	18,701	17,592	1,109	6.3
TOTAL	$703,204	$671,990	$31,214	4.6 %
SALES—KWH:				
Residential	12,575,722	11,946,102	629,620	5.3 %
Commercial	13,208,252	12,602,286	605,966	4.8
Industrial (1000 KW demand or over)	10,630,113	10,278,768	351,345	3.4
Agricultural Power	3,737,285	3,099,272	638,013	20.6
Public Street and Highway Lighting	356,417	334,946	21,471	6.4
Other Electric Utilities	1,705,750	2,026,264	(320,514)	(15.8)
Total Sales to Customers	42,213,539	40,287,638	1,925,901	4.8
Delivered for the Account of Others	4,558,712	4,710,932	(152,220)	(3.2)
TOTAL	46,772,251	44,998,570	1,773,681	3.9%

GAS DEPARTMENT				
REVENUES:				
Residential	$192,647	$189,090	$ 3,557	1.9 %
Commercial	50,017	48,793	1,224	2.5
Industrial	133,142	123,759	9,383	7.6
Other Gas Utilities	21,921	18,380	3,541	19.3
Miscellaneous	180	175	5	2.6
TOTAL	$397,907	$380,197	$17,710	4.7 %
SALES—MCF:				
Residential	223,874	235,793	(11,919)	(5.1)%
Commercial	70,957	73,358	(2,401)	(3.3)
Industrial	317,449	302,900	14,549	4.8
Other Gas Utilities	61,524	49,499	12,025	24.3
Total Sales to Customers	673,804	661,550	12,254	1.9
Company Use (Electric generation)	215,357	185,248	30,109	16.3
TOTAL	889,161	846,798	42,363	5.0 %

FIVE YEARS IN BRIEF Pacific Gas and Electric Company

	Thousands				
SOURCES OF INCOME:	1970	1969	1968	1967	1966
Electric Revenues	$ 703,204	$ 671,990	$ 646,831	$599,876	$578,609
Gas Revenues	397,907	380,197	356,374	342,685	337,063
Other Operating Revenues	2,147	2,124	2,010	2,486	2,485
Other Income and Income Deductions—Net	35,608	23,062	21,251	21,089	10,371
TOTAL	$1,138,866	$1,077,373	$1,026,466	$966,136	$928,528
DISPOSITION OF INCOME:					
Natural Gas Purchased	$ 292,222	$ 259,781	$ 254,470	$230,843	$252,639
Power Purchased	36,785	25,084	15,087	18,562	11,930
Other Production	25,511	26,845	31,580	29,037	22,919
Transmission	12,855	11,331	10,823	9,529	8,315
Distribution	50,318	46,770	43,869	42,028	38,123
Customer Accounts	38,205	34,722	32,071	30,694	28,187
Marketing	10,187	9,884	9,372	9,095	8,094
Administrative and General	50,838	45,935	41,383	36,383	35,474
Maintenance	56,430	53,066	45,995	44,757	39,329
Depreciation	122,218	115,474	109,063	102,118	98,395
Taxes	176,397	194,111	189,114	180,622	175,264
Interest	100,681	84,621	75,815	68,117	60,827
Dividends on Preferred Stock	18,559	18,336	18,336	18,336	18,336
Dividends on Common Stock	89,868	88,106	85,168	82,231	76,358
Reinvested Earnings	57,792	63,307	64,320	63,784	54,338
TOTAL	$1,138,866	$1,077,373	$1,026,466	$966,136	$928,528
AVERAGE NUMBER OF SHARES OF					
COMMMON STOCK OUTSTANDING—(Thousands)	59,728	58,737	58,737	58,737	58,737
EARNINGS PER SHARE OF COMMON STOCK	$2.47	$2.58	$2.55	$2.49	$2.23
DIVIDENDS PER SHARE OF COMMON STOCK:					
Declared Basis	$1.50	$1.50	$1.45	$1.40	$1.30
Paid Basis	1.50	1.50	1.42½	1.37½	1.27½

TAXES AND FRANCHISE PAYMENTS Pacific Gas and Electric Company

	Thousands		
LOCAL TAXES AND FRANCHISE PAYMENTS:	1970	1969	Increase (Decrease)
Ad Valorem Property Taxes	$108,345	$104,567	$ 3,778
Franchise Payments	6,926	6,623	303
TOTAL	115,271	111,190	4,081
STATE TAXES:			
Corporation Franchise: Current	11,274	10,647	627
Corporation Franchise: Deferred	(251)	(251)	—
Unemployment Insurance	1,589	1,437	152
Automobile	1,131	1,112	19
TOTAL	13,743	12,945	798
CITY AND STATE SALES AND USE TAXES	7,305	6,475	830
FEDERAL TAXES:			
Corporation Income: Current	53,986	75,058	(21,072)
Corporation Income: Deferred	(2,694)	(2,694)	—
Unemployment Insurance	419	293	126
Insurance Contributions	8,775	8,574	201
Other	89	88	1
TOTAL	60,575	81,319	(20,744)
TOTAL TAXES AND FRANCHISE PAYMENTS	$196,894	$211,929	$(15,035)
CHARGED TO:			
Expense as Taxes	$176,397	$194,111	$(17,714)
Expense as Franchise Payments	6,926	6,623	303
Utility Plant and Other Accounts	13,571	11,195	2,376
TOTAL TAXES AND FRANCHISE PAYMENTS	$196,894	$211,929	$(15,035)

COMPARATIVE STATISTICS Pacific Gas and Electric Company

PER SHARE OF COMMON STOCK[1]:	1970	1969	1968
Earnings	$ 2.47	$ 2.58	$ 2.55
Dividends Declared	$ 1.50	$ 1.50	$ 1.45
Dividend Payout Ratio	60.9%	58.2%	57.0%
Book Value (End of the Year)	$23.66	$22.79	$21.71
Market Price — High	35	39½	38⅞
Market Price — Low	22½	29½	30¾
Market Price — Close	34⅝	32¾	38⅛
CAPITAL EXPENDITURES (Thousands):			
Electric Department	$297,930	$240,468	$200,763
Gas Department	68,320	61,428	58,834
Other	49,081	38,094	29,803
TOTAL	$415,331	$339,990	$289,400
DEPRECIATION RESERVE RATIO	24.3%	24.2%	24.0%
ELECTRIC STATISTICS:			
Total Gross System Output (Million KWH)	56,764	53,307	50,487
Gross System Output — In percent			
Hydroelectric Plants	24.4%	28.9%	22.3%
Steam-electric Plants	45.6	43.2	60.2
Received from Other Sources	30.0	27.9	17.5
Total	100.0%	100.0%	100.0%
Number of Generating Plants			
Hydroelectric Plants	65	65	64
Steam-electric Plants	12	12	13
Total	77	77	77
Gross Normal Operating Capacity — KW			
Hydroelectric Plants	2,521,300	2,521,300	2,404,300
Steam-electric Plants	7,182,000	7,202,000	7,308,000
Total from Company Plants	9,703,300	9,723,300	9,712,300
Available from Others	2,438,700	1,551,600	1,146,600
Peak Demand — KW	8,950,300	8,440,500	8,318,300
Total Customers at End of Year	2,597,314	2,536,703	2,483,480
Customers Per Mile of Distribution Line	34.8	34.5	34.3
Average Annual Residential Consumption — KWH	5,697	5,545	5,181
GAS STATISTICS:			
Total Natural Gas Purchased — MCF	950,651,887	878,483,866	888,074,653
Sources of Gas Purchased — In percent			
From California	25.2%	25.2%	27.5%
From Other States	43.7	45.3	45.5
From Canada	31.1	29.5	27.0
Total	100.0%	100.0%	100.0%
Average Cost of Gas Purchased — MCF			
From California	30.2¢	29.9¢	30.3¢
From Other States (at California-Arizona border)	33.9	31.4	27.9
From Canada (at California-Oregon border)	30.4	28.2	28.0
Average — All Sources	31.9¢	30.1¢	28.6¢
Peak Day Sendout — MCF	3,633,341	3,445,626	3,338,669
Total Customers at End of Year	2,258,285	2,208,046	2,160,569
Customers Per Mile of Gas Distribution Main	94.1	94.0	93.8
Average Annual Residential Consumption — MCF	107.7	116.2	109.7

[1] After giving effect to 1961 3-for-1 common stock split.

1967	1966	1965	1964	1963	1962	1961	1960
$ 2.49	$ 2.23	$ 2.08	$ 1.87	$ 1.70	$ 1.64	$ 1.52	$ 1.38
$ 1.40	$ 1.30	$ 1.20	$ 1.10	$ 1.00	$ 1.00	$ .93	$ .87
56.3%	58.4%	57.8%	58.9%	59.0%	61.2%	61.3%	62.8%
$20.62	$19.53	$18.44	$17.54	$16.23	$15.51	$14.85	$13.81
38	36¾	40⅜	35⅜	34⅝	36⅞	36	25⅝
31⅝	27	33⅞	30⅝	30⅛	25	24½	20
35⅝	35¾	36½	34¼	31¼	31⅞	34	25¼
$235,707	$220,241	$218,479	$181,810	$167,438	$147,379	$139,468	$117,480
50,536	55,596	46,057	40,484	43,568	46,337	75,587	45,759
24,748	21,292	22,172	17,777	15,070	16,009	13,031	9,887
$310,991	$297,129	$286,708	$240,071	$226,076	$209,725	$228,086	$173,126
23.7%	23.4%	23.3%	22.9%	22.3%	21.7%	21.4%	21.2%
46,499	43,743	40,042	38,178	34,692	32,874	31,355	28,809
31.0%	25.4%	32.7%	23.8%	31.7%	33.2%	23.6%	30.4%
46.4	60.6	50.3	64.3	54.0	56.7	70.8	64.4
22.6	14.0	17.0	11.9	14.3	10.1	5.6	5.2
100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
66	66	68	64	64	62	62	63
13	14	14	14	14	14	14	14
79	80	82	78	78	76	76	77
2,436,800	2,378,300	2,372,600	2,074,000	2,074,000	1,973,500	1,959,500	1,972,500
6,517,000	5,656,000	5,656,000	5,447,000	4,787,500	4,393,000	4,063,000	3,635,500
8,953,800	8,034,300	8,028,600	7,521,000	6,861,500	6,366,500	6,022,500	5,608,000
1,132,000	1,007,000	791,000	825,000	600,000	550,000	530,000	470,000
7,950,200	7,392,600	6,836,400	6,327,100	5,921,500	5,538,500	5,414,700	5,130,000
2,429,306	2,383,907	2,323,896	2,254,267	2,177,610	2,103,569	2,038,687	1,976,575
34.0	33.8	33.5	33.2	32.5	31.9	31.4	31.1
5,000	4,661	4,454	4,249	4,038	3,828	3,664	3,451
802,221,367	808,062,244	749,410,192	736,597,764	653,786,964	611,983,411	580,584,538	539,127,300
26.3%	31.0%	29.1%	31.0%	34.7%	28.6%	30.9%	29.2%
48.3	48.6	50.7	49.3	45.9	52.1	67.9	70.8
25.4	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%
30.2¢	30.1¢	29.8¢	30.0¢	30.0¢	30.2¢	30.2¢	29.8¢
28.4	29.4	29.6	30.1	33.3	34.6	32.7	31.4
29.3	31.2	33.6	34.4	37.1	35.4	34.5	—
29.1¢	30.0¢	30.5¢	30.9¢	32.9¢	33.5¢	32.0¢	30.9¢
3,363,503	3,032,844	3,110,309	2,775,582	2,779,629	2,497,276	2,271,482	1,915,456
2,110,510	2,064,045	2,008,623	1,994,503	1,874,743	1,803,989	1,745,030	1,690,523
93.5	93.5	93.3	92.8	92.5	91.3	91.4	91.4
112.4	107.5	110.6	113.1	108.3	108.1	104.2	101.1

ACCOUNTANTS' OPINION

HASKINS & SELLS
CERTIFIED PUBLIC ACCOUNTANTS

44 MONTGOMERY STREET
SAN FRANCISCO 94104

January 27, 1971

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, 1970 and the related statements of income, reinvested earnings, and source and application of funds 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, 1970 and the results of its operations and the source and application of its funds 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

SOURCE AND APPLICATION OF FUNDS

Pacific Gas and Electric Company
For the Years Ended December 31, 1970 and 1969

	Thousands 1970	1969
SOURCE OF FUNDS:		
Funds Derived from Operations:		
Net Income	$166,219	$169,749
Nonfund Items in Net Income:		
Depreciation (including charges to other accounts)	129,504	121,780
Gain on Bonds Purchased for Sinking Fund	(14,099)	(8,351)
Allowance for Funds Used During Construction	(18,153)	(10,393)
Other—Net	(4,879)	(4,550)
Total Funds Derived from Operations	258,592	268,235
Preferred and Common Stock Sold—Net	66,699	—
Mortgage Bonds Sold—Net	174,183	159,912
Utility Plant Sold and Salvaged	18,885	15,250
Increase in Short-term Borrowing	55,350	—
Decrease in Other Working Capital Items	—	30,352
Other Changes—Net	977	—
TOTAL	$574,686	$473,749
APPLICATION OF FUNDS:		
Capital Expenditures	$415,331	$339,990
Allowance for Funds Used During Construction	(18,153)	(10,393)
Funds Used for Capital Expenditures	397,178	329,597
Mortgage Bonds Retired (at cost)	39,390	22,672
Dividends—Preferred and Common Stock	108,204	106,442
Decrease in Short-term Borrowing	—	3,800
Increase in Other Working Capital Items	29,914	—
Other Changes—Net	—	11,238
TOTAL	$574,686	$473,749

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

STATEMENT OF INCOME Pacific Gas and Electric Company • For the Years Ended December 31, 1970 and 1969

	Thousands 1970	1969
OPERATING REVENUES:		
Electric	$ 703,204	$ 671,990
Gas	397,907	380,197
Other	2,147	2,124
TOTAL	1,103,258	1,054,311
OPERATING EXPENSES:		
Operation:		
Natural Gas Purchased	292,222	259,781
Power Purchased	36,785	25,084
Other Production	25,511	26,845
Transmission	12,855	11,331
Distribution	50,318	46,770
Customer Accounts	38,205	34,722
Marketing	10,187	9,884
Administrative and General	50,838	45,935
Total	516,921	460,352
Maintenance	56,430	53,066
Depreciation (Note 4)	122,218	115,474
Federal Income Taxes (Notes 1 and 4)	52,774	73,251
Other Taxes	123,623	120,860
TOTAL	871,966	823,003
OPERATING INCOME	231,292	231,308
OTHER INCOME AND INCOME DEDUCTIONS:		
Allowance For Funds Used During Construction	18,153	10,393
Gain on Bonds Purchased For Sinking Fund (Note 3)	14,099	8,351
Other—Net	3,356	4,318
TOTAL	266,900	254,370
INTEREST CHARGES:		
Interest On Mortgage Bonds	96,247	82,892
Net Bond Discount and Expense and Miscellaneous Interest	4,434	1,729
TOTAL	100,681	84,621
NET INCOME	$ 166,219	$ 169,749
EARNINGS PER COMMON SHARE	$2.47	$2.58

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

STATEMENT OF REINVESTED EARNINGS Pacific Gas and Electric Company For the Years Ended December 31, 1970 and 1969

	Thousands 1970	1969
BALANCE, JANUARY 1	$ 583,500	$ 520,193
NET INCOME	166,219	169,749
TOTAL	749,719	689,942
DIVIDENDS DECLARED—CASH		
Preferred Stock	18,336	18,336
Common Stock ($1.50 per share)	89,868	88,106
TOTAL	108,204	106,442
BALANCE, DECEMBER 31	$ 641,515	$ 583,500

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

BALANCE SHEET Pacific Gas and Electric Company • December 31, 1970 and 1969

ASSETS

	Thousands 1970	1969
UTILITY PLANT—At original cost:		
Electric	$3,619,306	$3,488,370
Gas	1,105,398	1,044,241
Other Departments and Common	293,480	226,441
Construction Work in Progress	308,369	206,157
Total Utility Plant	5,326,553	4,965,209
Accumulated Depreciation (Note 4)	1,296,338	1,204,378
UTILITY PLANT—NET	4,030,215	3,760,831
INVESTMENTS—At cost:		
Subsidiaries (Notes 1 and 3)	24,777	23,817
Nonutility Property and Other	4,056	3,234
TOTAL INVESTMENTS	28,833	27,051
CURRENT ASSETS:		
Cash	23,645	22,376
Accounts Receivable (less allowance for uncollectible accounts: 1970, $2,272; 1969, $1,803)	104,425	77,452
Materials and Supplies—At average cost	29,122	30,835
Gas Stored Underground—At average cost	20,111	11,923
Prepayments	70,479	72,653
TOTAL CURRENT ASSETS	247,782	215,239
DEFERRED DEBITS:		
Unamortized Bond Discount and Expense—Net	8,068	7,730
Other	3,934	3,651
TOTAL DEFERRED DEBITS	12,002	11,381
TOTAL	$4,318,832	$4,014,502

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

BALANCE SHEET Pacific Gas and Electric Company • December 31, 1970 and 1969

LIABILITIES

	Thousands 1970	1969
CAPITALIZATION:		
Common Stock (Note 2) (Schedule 1)	$ 610,861	$ 587,366
Excess of Premiums Over Discount and Expense On Outstanding Shares (Note 2)	193,166	167,636
Reinvested Earnings	641,515	583,500
Common Stock Equity	1,445,542	1,338,502
Preferred Stock (Note 2) (Schedule 1)	367,924	350,250
Total	1,813,466	1,688,752
Mortgage Bonds (Note 3) (Schedule 2)	2,063,121	1,946,283
TOTAL CAPITALIZATION	3,876,587	3,635,035
CURRENT LIABILITIES:		
Notes Payable	63,550	8,200
Accounts Payable	87,315	83,828
Customer Deposits	6,072	6,439
Taxes Accrued (Note 4)	82,955	84,574
Interest Accrued	9,701	9,453
Dividends Payable	22,908	22,028
Mortgage Bonds—Current portion (Note 3) (Schedule 2)	30,940	26,267
TOTAL CURRENT LIABILITIES	303,441	240,789
CUSTOMER ADVANCES FOR CONSTRUCTION	17,725	13,986
DEFERRED CREDITS	3,971	6,307
RESERVE FOR INSURANCE AND CASUALTIES	3,409	4,995
CONTRIBUTIONS IN AID OF CONSTRUCTION	58,545	55,291
ACCUMULATED DEFERRED TAXES ON INCOME—Accelerated amortization	55,154	58,099
TOTAL	$4,318,832	$4,014,502

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

CAPITAL STOCK Pacific Gas and Electric Company • December 31, 1970 — Schedule 1

Description	Shares Authorized (Thousands)	Outstanding — Held by Public: Shares (Thousands)	Outstanding — Held by Public: Amount (Thousands)
COMMON, PAR VALUE $10 PER SHARE (Note 2)	75,000	61,086	$ 610,861
PREFERRED, CUMULATIVE, PAR VALUE $25 PER SHARE (Note 2):			
9.28% Redeemable	707	707	$ 17,674
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)	5,252		
TOTAL	20,000	14,717	$ 367,924

MORTGAGE BONDS Pacific Gas and Electric Company • December 31, 1970 — Schedule 2

Maturity	Interest Rate	Series	Outstanding — Held by Public (Thousands)	Held in Treasury (Thousands)
Jun. 1, 1971	3 %	K	$ 23,789	
Jun. 1, 1974	3	L	109,101	
Dec. 1, 1975	3	O	2,000	
Jun. 1, 1976	2⅞	T	43,522	
Dec. 1, 1977	3	N	47,962	
Dec. 1, 1978	3¾	CC	56,860	
Dec. 1, 1979	3	M	73,635	
Dec. 1, 1980	2⅞	Q	52,826	$ 250
Jun. 1, 1981	2¾	P	21,462	
Jun. 1, 1982	3⅛	R	65,124	59
Jun. 1, 1983	3	S	61,155	5,321
Jun. 1, 1984	3⅛	X	52,244	1,347
Dec. 1, 1984	3⅛	W	40,300	1,366
Dec. 1, 1985	3⅜	U	38,330	877
Dec. 1, 1986	4½	AA	29,283	65
Dec. 1, 1987	3⅜	Y	33,620	1,881
Dec. 1, 1988	3⅜	Z	14,009	465
Jun. 1, 1989	5	BB	57,700	
Jun. 1, 1990	4½	DD	50,312	
Jun. 1, 1991	5	EE	59,815	
Jun. 1, 1992	4⅝	FF	51,494	
Jun. 1, 1993	4½	GG	56,657	
Jun. 1, 1994	4⅜	HH	57,787	500
Jun. 1, 1995	4¼	II	50,549	1,923
Jun. 1, 1996	4½	JJ	63,600	
Dec. 1, 1996	4½	KK	61,750	
Jun. 1, 1997	4⅝	LL	69,425	
Jun. 1, 1998	5⅜	MM	72,000	
Dec. 1, 1998	5¾	NN	75,750	
Jun. 1, 1999	5½	OO	77,000	
Dec. 1, 1999	6⅞	PP	80,000	
Jun. 1, 2000	6⅝	QQ	50,000	
Dec. 1, 2000	6¾	RR	60,000	
Jun. 1, 2001	7½	SS	80,000	
Dec. 1, 2001	9	TT	80,000	
Jun. 1, 2002	8⅝	UU	75,000	
Dec. 1, 2002	8⅞	VV	100,000	
TOTAL MORTGAGE BONDS			2,094,061	$14,054
Mortgage Bonds Included In Current Liabilities (Note 3)			30,940	
Mortgage Bonds Included In Capitalization			$2,063,121	

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.

NOTES TO FINANCIAL STATEMENTS

Pacific Gas and Electric Company
December 31, 1970 and 1969

NOTE 1 FINANCIAL STATEMENTS: 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, 1970 and 1969 was $26,594,000 and $24,753,000 and in the results of operations for the years ended December 31, 1970 and 1969 was $2,254,000 and $1,503,000, respectively. Dividend income was $1,313,000 and $1,204,000 for the years 1970 and 1969, respectively.

Certain 1969 amounts have been reclassified to conform with changes made in the regulatory system of accounts which became effective January 1, 1970. Net income is not affected.

NOTE 2 CAPITAL STOCK: Additions during 1970 consisted of: common stock —$23,495,000, representing the par value of 2,349,467 shares sold; first preferred stock—$17,674,000, representing the par value of 706,960 shares sold; and excess of premium over discount and expense on outstanding shares—$25,530,000, representing primarily the excess of net proceeds over par value of common stock sold.

Preferred stock outstanding at December 31, 1970, included 8,932,126 shares subject to redemption, at the option of the Company, at par value ($25) per share plus a premium of $.75 to $3.00, 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 1971 for bonds outstanding at December 31, 1970 amounted to $21,205,000. This amount, less treasury bonds of $14,054,000, is included in current liabilities. Bonds of $23,789,000 (included in current liabilities) will mature in 1971. During the year 1970, the principal amounts of bonds issued and retired were $175,000,000 and $53,489,000, respectively.

The Federal Power Commission has held, in proceedings involving other companies, that for rate making purposes gains or losses from reacquired debt securities shall be equally amortized over the remaining life of the related debt issues and appropriately utilized to reduce or increase embedded debt costs. The Commission has also announced that it will initiate a rulemaking proceeding to determine what accounting treatment should be applied to discount and premium on reacquired debt securities. At this time it is not possible to determine what changes, if any, will be made in such accounting, but it is possible that the amount of discount or premium affecting current income would be substantially reduced.

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 1971 are estimated at $485,000,000.

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 years 1970 and 1969 were $17,092,000 and $15,283,000. The Company's policy is to fund the accrued amount of retirement plan cost. At December 31, 1970 and 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, 1970, 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 January 1, 1971

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
I. C. Odom — Gas System Planning
F. J. Parsons — Gas Control
H. P. Prudhomme — Pipe Line Operations
E. F. Sibley — Gas System Design

ENGINEERING
Thomas A. Bettersworth — Chief Electric Distribution Engineer
Ramon F. Cayot — Chief, Engineering Research
William R. Johnson — Chief Electric Generation and Transmission Engineer
Douglas V. Kelly — Chief Mechanical Engineer
George A. Maneatis — Chief Computer Application Engineer
James J. McCann — Chief, Engineering Services
Howard R. Perry — Chief Planning Engineer
Barton W. Shackelford — Chief Civil Engineer

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

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

COMPTROLLER
Granger F. Hill — Assistant Comptroller
L. D. Coughran — Assistant to the Comptroller
Managers:
John L. Counce — Computer Operations
H. W. Gleason — Income Tax
James W. Hall — Responsibility Accounting
Norris D. Hennings — Plant Accounting
R. E. Palmer — Property Tax
E. M. Schroeder — Customer Accounting
H. W. Swanson — General Acounting

INFORMATION SYSTEMS
Managers:
John R. Kleespies
Dexter Stoner — Computer Support Services

FINANCE
Managers:
J. A. Crockwell — Insurance
Earl C. Suess — Internal Auditing

TREASURER
Managers:
A. H. Catherall — Treasury Operations
E. C. Paddock — Credit and Collection

PERSONNEL AND GENERAL SERVICES
Managers:
Thomas V. Adams — Personnel Relations
I. Wayland Bonbright — Industrial Relations
Nolan H. Daines — Land
Gerald P. Larson — Automotive and Equipment

OFFICE OF THE PRESIDENT
Ralph B. Dewey — Assistant to

OFFICE OF THE EXECUTIVE VICE PRESIDENT
Elmer E. Hall — Assistant to

GOVERNMENTAL AND PUBLIC AFFAIRS DEPARTMENT
A. R. Todd — Manager

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 Marketing
Walter Blumst — Marketing Research and Services
Albert B. Cook — Commercial
Walter D. Howell — General Marketing
Allen D. Owen — Customer Services
R. L. Sawyier, Jr. — Residential Marketing
J. S. Walsh — Area Services

LAW DEPARTMENT
John C. Morrissey — Associate General Counsel
Assistant General Counsel:
William B. Kuder
William E. Johns
Malcolm H. Furbush
Charles T. Van Deusen
John A. Sproul
Malcolm A. MacKillop
Philip A. Crane, Jr.

CLAIMS AND SAFETY DEPARTMENT
R. W. White — Manager

MATERIALS DEPARTMENT
F. F. Mautz — 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

BOARD OF DIRECTORS

JOHN F. BONNER
San Francisco

RANSOM M. COOK
San Francisco

JAMES F. CRAFTS*
San Francisco

CHARLES de BRETTEVILLE
San Francisco

ALFRED W. EAMES, JR.
San Francisco

ROBERT H. GERDES*
San Francisco

WALTER A. HAAS*
San Francisco

JAMES M. HAIT
San Jose

ELLIOTT McALLISTER*
San Francisco

LEON S. PETERS
Fresno

RICHARD H. PETERSON
San Francisco

PORTER SESNON
San Francisco

S. L. SIBLEY*
San Francisco

EMMETT G. SOLOMON
San Francisco

CARL F. WENTE*†
San Francisco

* Member Executive Committee
†Deceased February 1, 1971, succeeded by Rudolph J. Drews on the Board of Directors and by Porter Sesnon on the 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

RICHARD H. PETERSON
Executive Vice President

C. E. GINOCHIO
Senior Vice President

DONALD L. BELL
Vice President—Finance

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

FRANK A. PETER
Vice President and Comptroller

JOHN F. ROBERTS, JR.
Vice President—Rates and Valuation

FREDERICK T. SEARLS
Vice President and General Counsel

C. H. SEDAM
Vice President—General Construction

JOHN G. SMITH‡
Vice President—Personnel
and General Services

J. DEAN WORTHINGTON
Vice President—Engineering

JOHN F. TAYLOR
Secretary

THEODORE M. WELP
Treasurer

A. H. CATHERALL
Assistant Secretary
and Assistant Treasurer

A. J. DUFFY
Assistant Treasurer

D. B. ALLISON
Assistant Secretary

J. N. GEHRE
Assistant Secretary

‡Deceased December 22, 1970, succeeded by Richard K. Miller

STOCKHOLDERS' CALENDAR

Schedule of Dividend Payment Dates—1971

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

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 27, 1971 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 22, 1971.

STOCK TRANSFER AGENTS

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

REGISTRARS OF STOCK

Wells Fargo Bank, N.A., San Francisco; Chemical Bank, New York

EXECUTIVE OFFICES

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