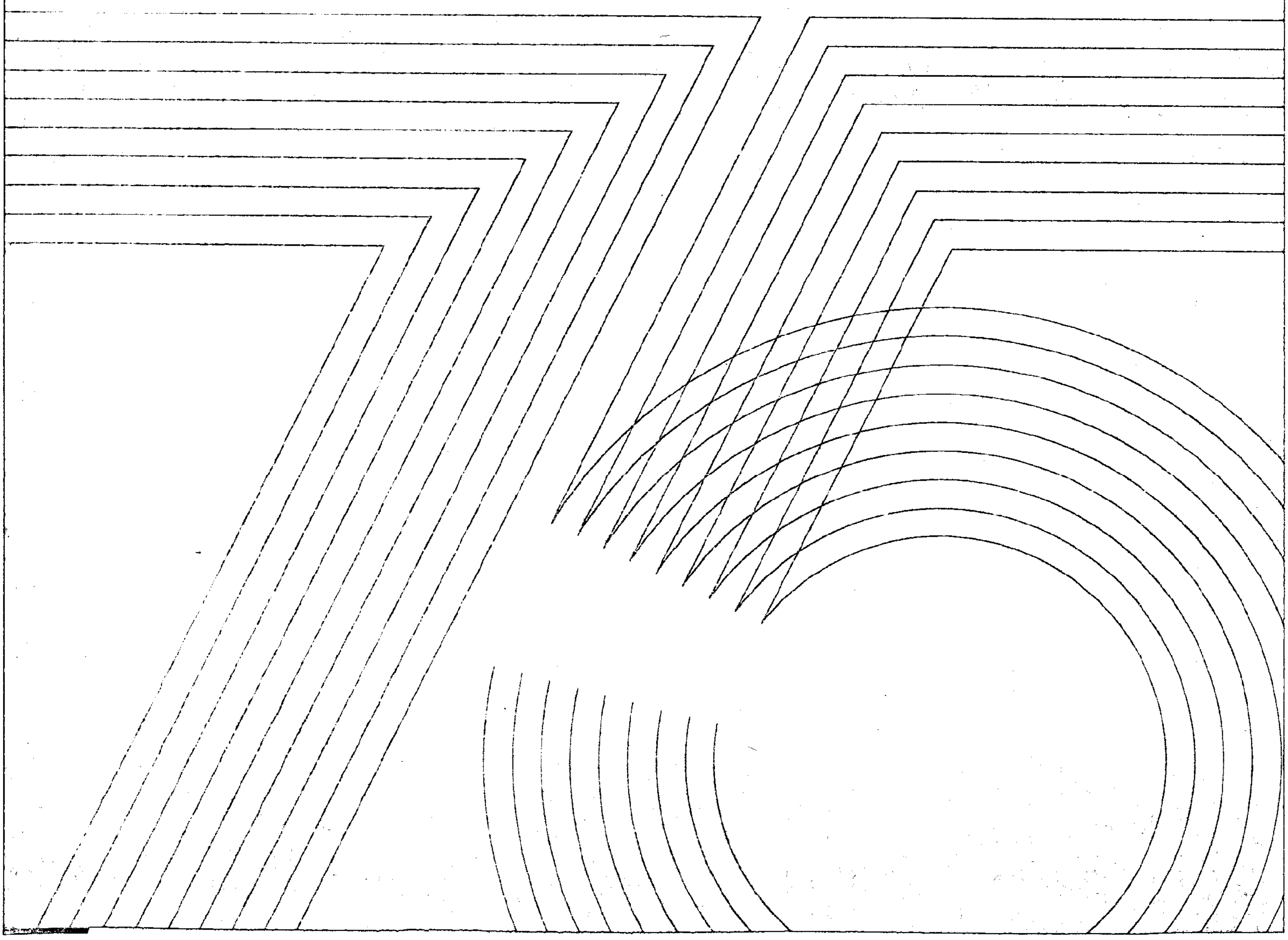
PACIFIC GAS AND ELECTRIC COMPANY

1975 ANNUAL REPORT



STOCKHOLDERS' CALENDAR

Schedule of
Dividend Payment Dates—1976

COMMON STOCK	PREFERRED STOCK
January 15	February 17
April 15	May 15
July 15	August 16
October 15	November 15

STOCK EXCHANGE LISTINGS

Common stock of the Company is listed on the New York, Pacific and Honolulu Stock Exchanges. Preferred stocks of the Company are listed on the American and Pacific Stock Exchanges.

ANNUAL MEETING

The Management will solicit proxies for the annual meeting to be held at the Masonic Auditorium, 1111 California Street, San Francisco, California, on Wednesday, April 21, 1976 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 12, 1976.

STOCK TRANSFER AGENT

Office of the Company (W. Roby, Transfer Agent), San Francisco

REGISTRAR OF STOCK

Wells Fargo Bank, N.A., San Francisco

EXECUTIVE OFFICE

Pacific Gas and Electric Company,
77 Beale Street, San Francisco,
California 94106

ANNUAL REPORT FOR 1975 ON FORM 10-K

A copy of the Company's report for 1975 filed with the Securities and Exchange Commission on Form 10-K will be provided to stockholders upon written request to the Corporate Secretary at the above address.

Highlights

	1975	1974	Increase (Decrease)
Operating Revenues	$2,233,371,000	$1,726,755,000	29%
Net Income	$ 251,579,000	$ 261,237,000	(4%)
Earnings Available for Common	$ 203,278,000	$ 215,984,000	(6%)
Earnings Per Common Share	$2.67	$3.27	(18%)
Dividends Per Common Share	$1.88	$1.88	—
Total Assets	$6,620,883,000	$6,019,481,000	10%
Capital Expenditures	$ 630,589,000	$ 645,660,000	(2%)
Sales of Electricity to Customers (KWH)	52,786,443,000	50,261,946,000	5%
Sales of Gas to Customers (MCF)	670,865,000	671,549,000	—
Total Customers	5,570,185	5,448,660	2%
Number of Stockholders	305,635	288,599	6%
Number of Employees	24,987	26,333	(5%)

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To Stockholders

Earnings per share of common stock for the year 1975 were $2.67, down from the $3.27 earned in 1974. This downturn resulted from additional shares outstanding and increases in the costs of doing business that were not fully offset by rate relief. The Company has filed timely applications for rate adjustments and has endeavored to facilitate its rate proceedings, but unanticipated delays were encountered in such procedures during 1975.

Hearings were concluded in February 1975 on the Company's August 1973 application to the California Public Utilities Commission for a general rate increase of $233 million annually in its electric, gas and steam rates. The decision was not rendered by the Commission until September 1975, and the requested amount was reduced to $213 million. This decision came too late in the year to arrest materially the decline in earnings. In addition, the Commission suspended for most of 1975 the fuel cost adjustment procedure for companies under its jurisdiction. The suspension of this procedure, which would have allowed for the recovery of rising costs of oil and gas used for electric generation, also affected adversely the earnings for the year.

However, recent changes in the Commission's procedures for hearing general rate cases and the anticipated resumption of fuel cost adjustments improve the outlook for the future. Hearings on the Company's pending application for general rate relief, which requests $466 million annually in electric and gas rate increases based upon a 15% rate of return on common equity investment, began on February 3, 1976 and are scheduled to conclude on June 1. With this prospect for general rate relief and with the benefit of a resumption of the fuel cost adjustment, we are confident that earnings growth and an adequate return on investment to shareholders are in the process of being re-established.

The Board of Directors declared a dividend of 47 cents per share of common stock for each quarter of 1975, maintaining the annual rate of $1.88 per share. This marked the fifty-sixth consecutive year of quarterly common dividend payments.

The Company raised $415 million during 1975 through sales of common and preferred stock and mortgage bonds. Our financing requirements in 1976 again will be large. We hope to satisfy a portion of these requirements through the recently announced changes in our Dividend Reinvestment Plan, which will allow the issuance of new common shares to participating common and preferred stockholders. To enable the Company to initiate this new Plan, stockholders are being asked to vote at the 1976 annual meeting for the elimination of preemptive rights.

The first of our two 1,060,000-kilowatt nuclear units at Diablo Canyon is nearing completion after nearly eight years of construction. It is estimated that when these two nuclear units are in full operation, they will save approximately 24 million barrels of fuel oil per year. Commercial operation is dependent on the time of issuance of an operating license by the Nuclear Regulatory Commission.

During 1975 a peak demand of 11,632,800 kilowatts was recorded, representing a slight decrease from the previous year. However, despite the effects of economic recession and the Company's emphasis on energy conservation, the total energy sold to electric customers increased by 5% in 1975.

The Company is facing an increasingly serious challenge, in this decade and beyond, in respect to its ability to supply sufficient electric energy and natural gas to preserve the economic vitality of Northern and Central California. Despite our dedication to seeking ways to bring about conservation and shift energy use to off-peak hours, additional electric generating facilities will be required. We expect that electric energy usage in our service area will increase an average of 5½% annually over the next 10 years. This forecast assumes a moderate growth of population and employment, a gradual improvement in people's standard of living and a continuing substitution of electricity for other forms of energy.

Among the factors the Company must take into consideration in planning to meet this increasing demand for electric energy is the impact that would result from passage of the "Nuclear Power Plants Initiative." If adopted by California voters in June 1976, and if not invalidated by the courts, the measure would eventually shut down existing nuclear power plants and would prohibit construction of new nuclear power plants unless certain conditions not required by federal law are met. If nuclear energy should become unavailable, the Company would have to revise substantially its plans as reported last year to concentrate on non-fossil-fueled generating projects for future sources of power. Such projects account for approximately 76% of the proposed 5.2 million-kilowatt capacity additions during the next six years, of which 2.1 million kilowatts would be nuclear. If restrictions are imposed on nuclear power, the Company will have to increase its future dependence upon oil and coal. Although we are actively supporting research in alternative energy sources, such alternatives—solar, wind, solid waste, fusion and other developing technologies—are either not well enough advanced or not of sufficient resource potential to make a significant contribution to California's electric supply before the year 2000.

During 1975 the Commission, in recognition of the growing scarcity of natural gas, established a system of statewide priorities for the allocation of this dwindling resource and placed a virtual moratorium on all new or increased uses of natural gas greater than 50,000 cubic feet per day. The Company is actively engaged in several projects to secure additional supplies of natural gas from Northern Alaska, Canada and the Rocky Mountains. We recently reached an agreement with Pacific Lighting to share in their South Alaska and Indonesian liquefied natural gas projects on an equal basis. These are major gas acquisition and transportation ventures which are designed to provide essential additions to gas supply for at least the next two decades.

The progress made in meeting the energy challenge, the preparation for meeting the future needs of our growing service area and the courteous and reliable service maintained despite vigorous belt-tightening measures reflect most favorably upon the Company's industrious and dedicated employees.

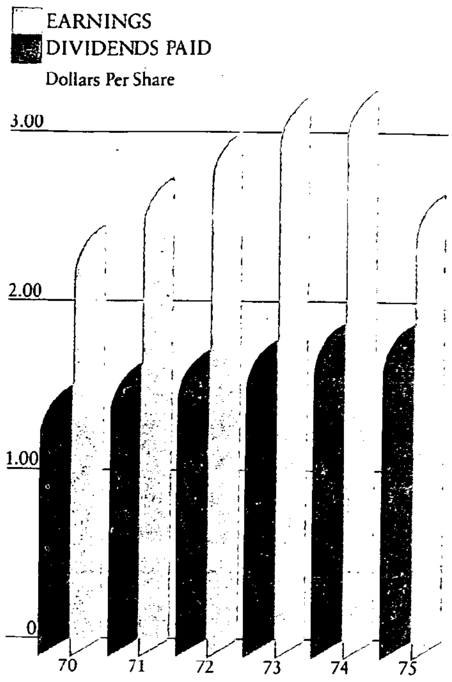
Chairman of the Board

President

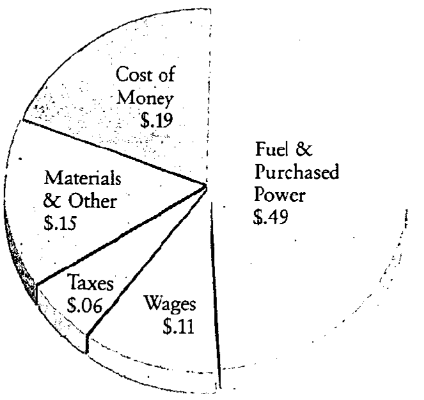
Richard H. Peterson

Vice Chairman of the Board

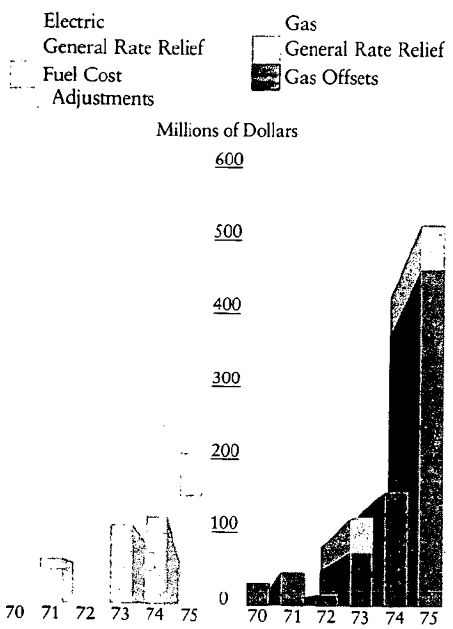
For the Board of Directors, February 23, 1976



USE OF THE 1975 REVENUE DOLLAR



RATE RELIEF GRANTED



Financial and Rates

The Company's objective with respect to its overall financial condition is to seek such rate relief as is necessary to provide a reasonable return to its stockholders, preserve its financial integrity, and enable it to attract sufficient capital on reasonable terms to provide adequate and reliable service to both present and future customers.

Unfortunately, unanticipated delays in rate proceedings were encountered during 1975. As a result, the combined effect of accelerating costs for fuel, material, labor and capital were not fully offset by increases in rates. Although operating revenues for 1975 increased 29% over the prior year to $2 billion 233 million, expenses rose by 35% to a level of $1 billion 886 million. The combination of greater preferred dividend requirements and the issuance of additional common shares further contributed to the decline in earnings per share, which fell 18% to $2.67 from the $3.27 earned the previous year.

In September of last year, the California Public Utilities Commission granted the Company an additional $213 million in annual revenues from its electric and gas operations. Although the authorized $150 million increase in electric rates and $63 million in gas rates represented 91% of the Company's request, the original application filed in August 1973 was predicated on a need for general rate relief effective in January 1975. Accordingly, the decision came too late in the year to permit the Company to earn the level of return found fair and reasonable.

In this decision, the Commission further implemented a rate policy which it had initiated earlier in the year, and which the State Legislature subsequently enacted into law effective January 1, 1976. This new concept is frequently referred to as the "lifeline rate" because it results in reduced charges for the low user of natural gas and electricity.

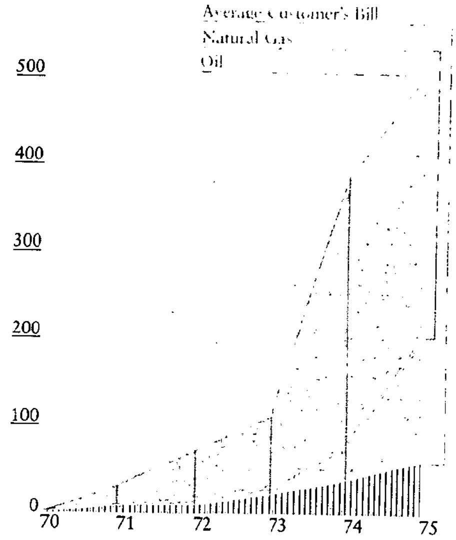
Essentially, the Commission determined that residential rates for basic minimum quantities of gas and electricity should remain unchanged until the average of rates for all other classes of service exceed those levels by 25%. The Commission has scheduled generic hearings to implement the new law on a statewide basis, and some modifications in the Company's current rate structure for low usage customers may result from this proceeding.

A major portion of the increase in operating revenues for 1975 was attributable to rate increases designed specifically to offset the higher costs of natural gas and fuel oil. These adjustments to rates have become particularly important during the past five years during which the price of fuel oil has increased sixfold and the average price for natural gas has tripled.

During 1975 the Commission authorized increases totaling $524 million under these procedures. Of this total, $61 million was

PERCENTAGE CHANGES IN THE PURCHASE PRICE OF FOSSIL FUEL AND THE AVERAGE CUSTOMER'S BILL

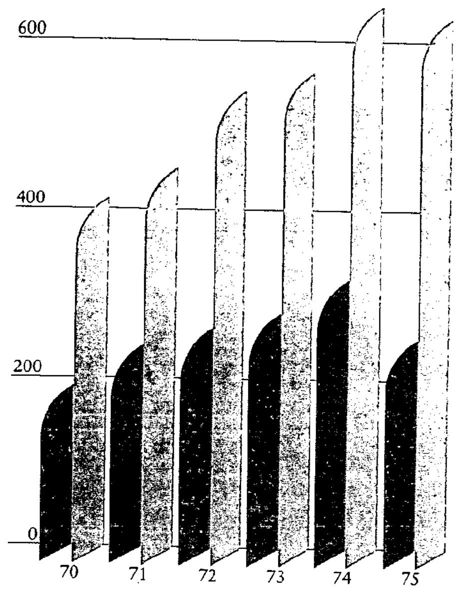
Percent



CAPITAL EXPENDITURES

INTERNAL FUNDS

Millions of Dollars



granted early in the year to offset the cost of fuel used for electric generation and $463 million was authorized to cover the higher cost of natural gas.

Earnings available for common stock were $203 million, down approximately 6% from the level achieved in 1974. Of this amount, $146 million, or 72%, was paid out in dividends on common stock at the rate of $1.88 per share, and the remaining $57 million was reinvested in Company facilities.

Capital expenditures for 1975 amounted to $631 million, approximately 40% of which was obtained through reinvested earnings and depreciation charges. The external financing requirements for this past year were supplied by three security issues. In May $149 million was raised through the sale of common stock; in October $175 million of First Mortgage Bonds due in 1985 were issued at a cost to the Company of 9.71%; and in November an additional $93 million was obtained through the issuance of preferred stock at a cost to the Company of 9.83%.

The Company's capitalization at year end totaled $6 billion, consisting of 50.4% in mortgage bonds, 12.9% in preferred stock, and 36.7% in common stock equity. Our stockholder family now consists of 198,137 common shareholders and 107,498 preferred shareholders.

We foresee a continuing need for large amounts of additional capital in the years ahead. The recently proposed modifications of the Company's Dividend Reinvestment Plan will satisfy a portion of those needs. Under the new plan preferred and common shareholder participants will be eligible to invest their dividends and additional cash in newly-issued shares of common stock. So that this plan may be initiated this year, shareholders are being asked to vote for the elimination of preemptive rights at the 1976 Annual Meeting. The Company will absorb the costs of administering the plan.

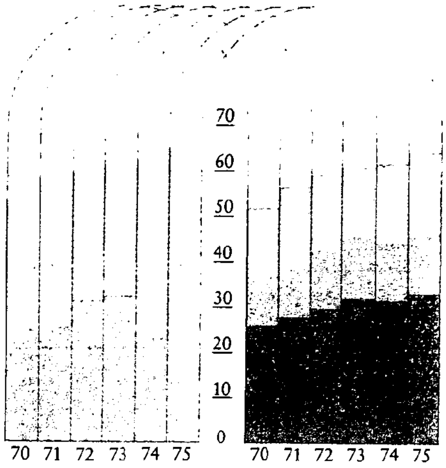
In recognition of the continuing need for rate relief during 1976, the Company recently recommended a new fuel cost adjustment procedure to the California Public Utilities Commission. This would replace the method suspended by the Commission early in 1975, whereby fuel utilization was estimated on the basis of average year hydroelectric conditions, and base future rate adjustments upon the actual fuel quantities used for generating electricity. A request for rates which would yield an increase of $70 million annually in revenues under the proposed procedure is now pending.

Although recent efforts to obtain adequate and timely rate relief have been disappointing the Company is hopeful that regulatory lag for California utilities will be reduced. Hearings in the Company's pending general rate case commenced on February 3 and are scheduled to conclude on June 1. The Commission has adopted several

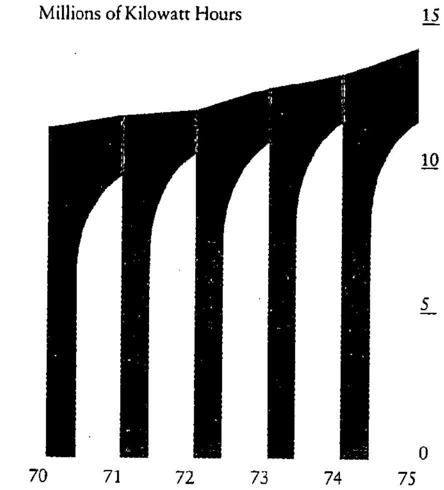
SOURCES OF ELECTRIC ENERGY
Thermal
Hydro
Received From Others (Primarily Hydro)

USES OF ELECTRIC ENERGY
Residential & Commercial
Industrial
Other Uses

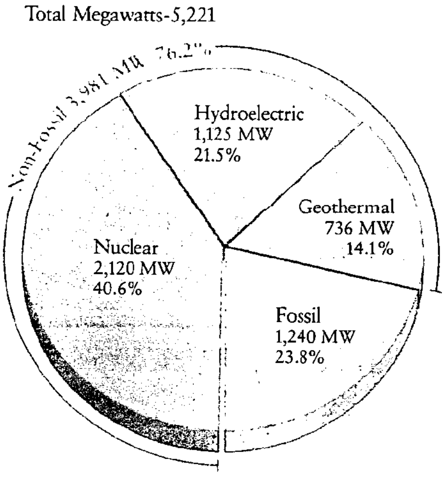
Billions of Kilowatt Hours



ELECTRIC PEAK AND CAPABILITY
Peak
Capability at Peak
Millions of Kilowatt Hours



PLANNED CAPACITY ADDITIONS 1976-1981
Total Megawatts-5,221



procedural changes designed to speed up the hearing process. This application requests $466 million annually in electric and gas rate increases based upon a 15% rate of return on common equity investment and a 1976 test year.

Electric

The Company's electric system output in 1975 totaled 63.4 billion kilowatt hours, an increase of 4.1% over 1974. Heavy rainfall and snow in California and the Pacific Northwest during the 1974-75 precipitation year resulted in approximately 56% of the total system energy being provided by hydroelectric generation at the Company's own plants and by purchases from other producers under firm contract. Thermal-electric generation, mainly at Company plants, accounted for the remainder.

On July 25 a peak demand of 11,632,800 kilowatts was recorded. This represented nearly 82% of the total 14,216,000 kilowatts of capacity available to the Company at that time. Of this total, 10,449,900 kilowatts were available through Company facilities and 3,766,100 kilowatts were available under firm contracts with other producers.

At year end the Company was serving 3,005,518 electric customers. To satisfy the anticipated future needs of our growing service area, additional generating capacity will be required. In an effort to reduce its dependence upon fossil fuel, the Company has planned relatively large capacity additions for the next six years in geothermal, hydroelectric, and nuclear plants, with a lesser emphasis on those that are fossil-fueled. Of the 5,221,000 kilowatts of planned capacity additions, 736,000 kilowatts will be geothermal, 1,125,000 kilowatts hydroelectric, 2,120,000 kilowatts nuclear, and 1,240,000 kilowatts from fossil-burning plants.

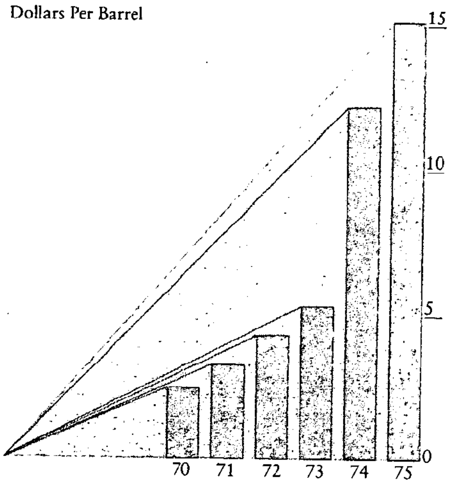
The largest additions will be the two nuclear units at Diablo Canyon, which will each add over one million kilowatts of capacity. When these two units are in full operation, they will save about 24 million barrels of fuel oil annually. Commercial operation awaits the issuance of an operating license by the Nuclear Regulatory Commission. At the public hearing which must precede the issuance of a license, it is anticipated that seismological data and plant design will be among the subjects reviewed. The Company believes that the plant is designed to withstand any earthquake which may occur in the general area of the plant site.

The Helms Pumped Storage Project, located on the Kings River, is a 1,125,000 kilowatt hydroelectric capacity addition scheduled for operation in 1981. This major addition will generate electricity during peak demand periods by releasing water through a tunnel to an underground plant located between two existing Company-owned reservoirs. At periods of low demand, water will be pumped back from the lower to the upper reservoir for reuse in periods when the demand is high.

The Company's planned geothermal capacity will total more than 1.2 million kilowatts in the Geysers area by 1981. We look forward to continued development of this resource as another means of reliev-ing our dependence upon fossil-fueled electric generation.

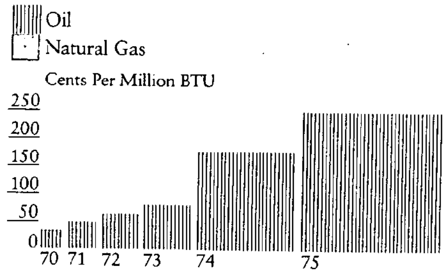
Prior to the early 1970's, natural gas was a major source of fuel for electric generation. However, as a result of gas allocation orders by the Federal Power Commission affecting domestic interstate supplies, the declining deliverability of older fields in California not offset by new discoveries, export limitations which blocked plans to increase gas supplies from Canada, and the imposition of state-wide priorities for the use of natural gas in California, the Company has had to substitute very expensive low-sulfur oil for gas during the past few years. In 1975 the Company burned 11.6 million barrels of oil at an average cost of about $15 per barrel.

AVERAGE COST OF PURCHASED LOW SULFUR OIL



Our fuel oil requirements are expected to increase in the next few years. Because of this the Company is expanding its fuel oil procurement program to insure the future availability of oil. To meet a portion of these demands, the Company has entered into an agreement with Standard Oil of California for the purchase of 15 million barrels of low-sulfur oil annually for the next ten years. This supply, in combination with other contracted supplies and resources available in the open market, will enable the Company to meet its oil needs in the years ahead.

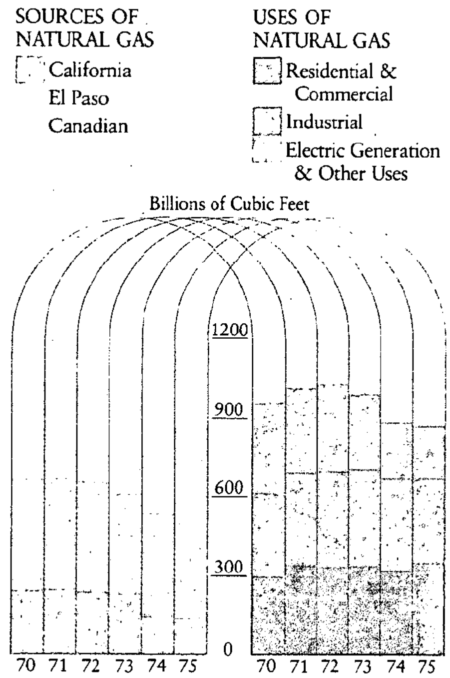
UNIT COST OF FUEL USED FOR ELECTRIC GENERATION

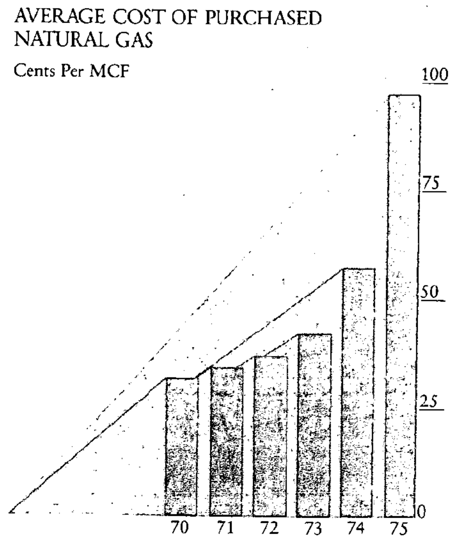


The Company has a vital interest in improvements in the technology used to generate and transmit electricity. Through support of industry-wide research efforts and its own research program, the Company is involved in advanced research projects which may ulti-mately result in new methods for the commercial generation of electricity. These projects are discussed in the section entitled, "Meeting the Energy Challenge."

Gas

The Company obtains its natural gas supply from three sources: the southwestern United States, through the facilities of El Paso Natural Gas Company; Alberta, Canada, through the 700-mile pipeline system of our subsidiaries, Alberta Natural Gas Company Ltd. and Pacific Gas Transmission Company; and California, through the Company's own facilities. Purchases of gas for 1975 totaled 862 billion cubic feet, a decrease of 2% from the 1974 total. As explained previously, declining gas supply has shifted fuel requirements for electric generation from gas to oil. It also forced moderate curtail-ments of sales to low priority gas users. At present the Company has an adequate supply of natural gas under contract to meet the requirements of our high priority customers for a number of years.





However, Company steam plants and other low priority users will continue to be subject to greater curtailment each year unless substantial additional supplies of gas can be acquired.

One result of the natural gas shortage is a continuing increase in the average price paid for our natural gas supplies. The average 1975 price of 97 cents per thousand cubic feet represents a 70% increase over the 1974 price and a 205% increase over the 1970 price.

The Company has undertaken several programs designed to insure the availability of sufficient quantities of natural gas to meet its future requirements. It recently entered into an agreement with Pacific Lighting Corporation to share equally liquefied natural gas supplies from Indonesia and South Alaska's Cook Inlet. Initial deliveries of Alaskan gas in the amount of 200 million cubic feet a day could commence as early as 1979, increasing to an anticipated 400 million cubic feet a day by 1981. Deliveries of natural gas from Indonesia are estimated at 500 million cubic feet a day, and initial deliveries from this source could commence by 1979. Hearings are in progress before the Federal Power Commission on the application for the Indonesian project, and are expected to begin later this year on the application for the South Alaska project.

The Company is also seeking additional supplies of gas in Alaska from the Prudhoe Bay field. An agreement entered into with Exxon Company, U.S.A. last March granted the Company the exclusive right to negotiate for approximately 200 million cubic feet of gas per day for 20 years. However, because the California Public Utilities Commission and the Federal Power Commission raised questions as to whether the financing arrangements complied with recently altered Federal Power Commission policies, the contract was rescinded by mutual agreement. The Company intends actively to pursue, either directly or through one of its subsidiaries, the acquisition of gas supplies in this region, and hopes to renegotiate its agreement with Exxon on terms acceptable to both regulatory agencies.

We have also contracted, through a subsidiary, for future gas supplies from the Mackenzie River Delta area in Canada. These supplies, if authorized for export by the Canadian government, together with gas quantities contracted for in the Prudhoe Bay area, could be transported to California through the proposed Arctic Gas pipeline system. This ambitious, multi-billion dollar project is being sponsored by a consortium of companies, in which PG&E and certain of its subsidiary corporations are participants, for the purpose of bringing the vast natural gas reserves in these regions to markets in the United States and Canada.

The Company is continuing development of its underground gas storage field capability to provide greater potential delivery during peak demand periods. The Company is also participating with other gas utilities in research projects designed to develop more economic processes to convert coal to gas. The implementation of these and other projects aimed at increasing our gas delivery capability has become necessary to meet the continuing demand for gas in Northern California.

By developing the sources available to us and by continuing research into alternatives, the Company is seeking to secure gas supplies capable of meeting the future needs of our customers.

Regulation

The Company is subject to extensive regulation by four principal agencies. The California Public Utilities Commission has the authority, among other things, to establish rates, regulate security issues, and to prescribe rates of depreciation and uniform systems of accounts. The Company is also subject to regulation by the Federal Power Commission under the Federal Power Act. The FPC has authority to regulate electric resale and interstate transmission rates, acquisition and disposition of certain property, licensing of hydroelectric projects, and accounting. The FPC also exercises jurisdiction under the Natural Gas Act over the operations of two of the Company's subsidiaries, Pacific Gas Transmission Company and Standard Pacific Gas Line Inc.

The Company is also subject to the jurisdiction of the California State Energy Resources Conservation and Development Commission. This Commission has responsibility for forecasting peak demands and energy requirements, developing energy shortage and contingency plans and developing and coordinating a program of energy research and development. In addition, the Commission has the authority to certify thermal-electric power plant sites and related facilities within California. The Company is also subject to the jurisdiction of the Nuclear Regulatory Commission as to the construction and operation of its nuclear generating plants.

Personnel

There were 24,987 men and women employed by the Company at the end of 1975, approximately 1,300 less than at the end of 1974. The International Brotherhood of Electrical Workers (AFL-CIO) represents 77% of the Company's employees, while another 7.5% are represented by the Engineers and Scientists of California. Under provision of agreements with these unions, an 8.5% wage increase became effective January 1, 1975. Appropriate wage and salary increases were made for employees not covered by these labor agreements. As a result, wages and other benefits were increased by $35 million, of which about 60% is chargeable to operations and the balance to construction.

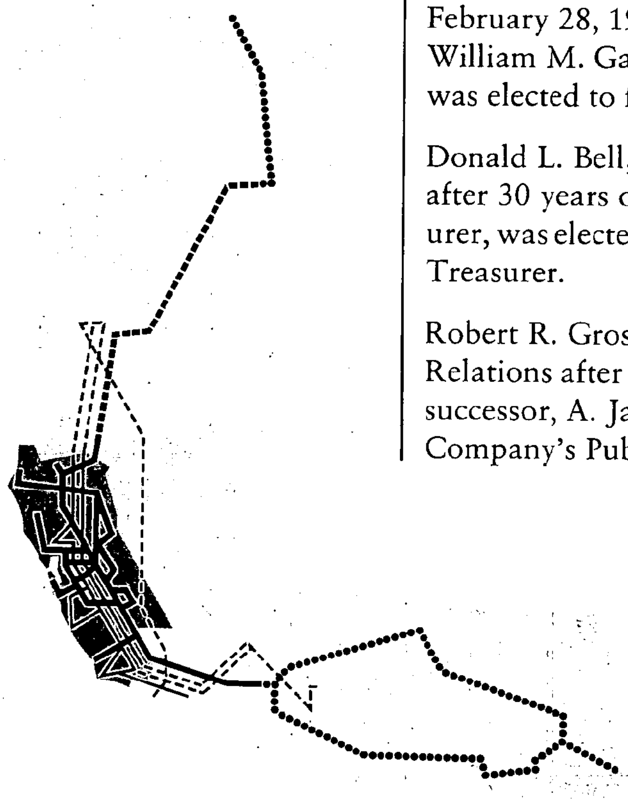
The downturn in the economy and substantially lower construction activities during 1975 caused the reduction in the Company's work force. Although this overall decrease caused the loss of some employees of minority racial groups, their percentage representation increased to 22% of all Company employees. This percentage has increased markedly over the past five years and now corresponds closely to the minority percentage of working age of our service area.

In the past year, women have become the focal point of change in composition of the Company's employee categories. While women continued to move into management positions at a steady rate, a rather significant increase occurred in physical jobs held by women. Despite our reduced hiring rate in this category, women were placed in over 10% of the available vacancies, and their representation in physical jobs rose almost 23%.

John F. Roberts, Jr., Vice President—Rates and Valuation, retired February 28, 1975, after a 38-year career with the Company. William M. Gallavan, formerly Manager of the Rate Department, was elected to fill this position.

Donald L. Bell, Vice President—Finance, retired on January 1, 1976, after 30 years of service. Stanley T. Skinner, the Company's Treasurer, was elected to succeed him, and James T. Doudiet was elected Treasurer.

Robert R. Gros retired January 31, 1976 as Vice President—Public Relations after a 38-year career of service to the Company. His successor, A. James McCollum, was formerly Manager of the Company's Public Information Department.

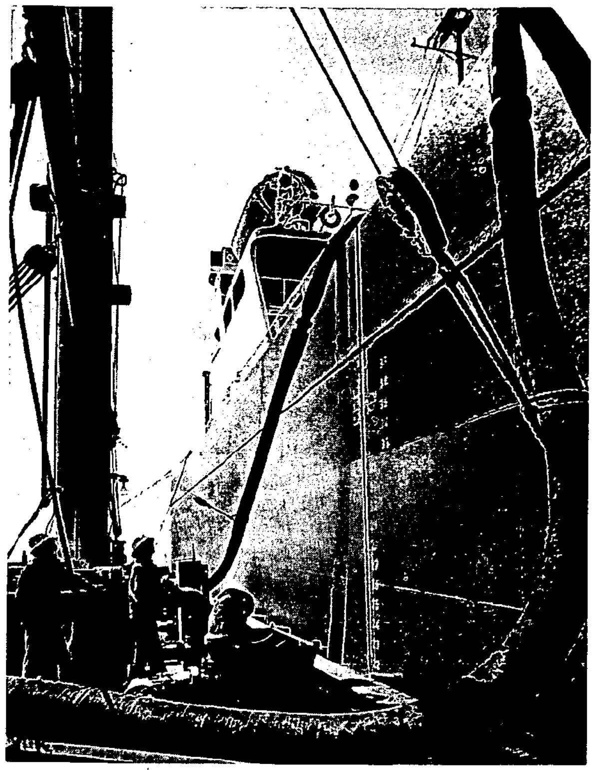


MEETING THE ENERGY CHALLENGE

OUR ECONOMY runs on energy.
Only about one percent of America's physical work is done by man or beast. The rest is done by machine. Until recently, machines have been powered mainly by abundant and economical domestic energy resources. This combination of technology and readily available energy, enhanced by the American system of economic and individual freedoms, has produced a remarkably progressive and generally prosperous society.

Now it appears as if our nation's readily recoverable supplies of oil and natural gas may be in their twilight years. In response to actual and threatened shortages and spurred by inflation, energy costs are rising sharply. Energy conservation has become imperative, but it is only part of the answer to the problem. Now, on the dawn of America's Third Century, it seems appropriate to take a look at the energy challenge that will shape our nation's destiny—and to report on some of the ways your Company is meeting this challenge.

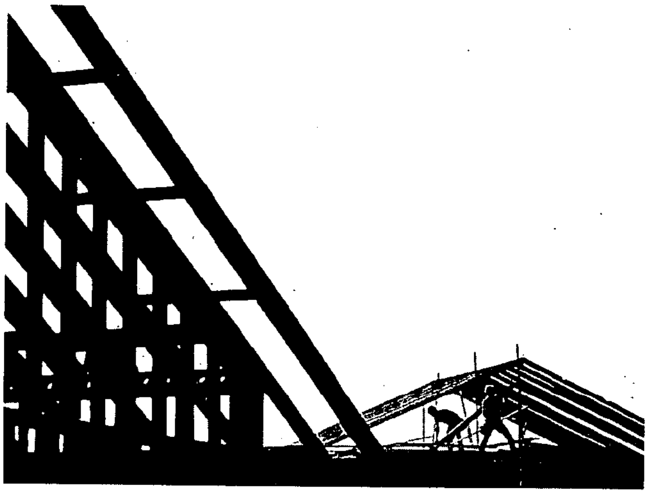
DEMAND & DIMINISHING RESOURCES



Anchored at PG&E's 2 million kilowatt Pittsburg Power Plant, a tanker is pumping low-sulfur fuel oil into storage tanks beside the plant. At $15 a barrel, the ship's cargo of 120,000 barrels cost PG&E almost $2 million. In the winter that much oil can be consumed in only three days.

Fortunately, oil is not yet used at this rate year-round at Pittsburg and other plants on PG&E's system. Electricity from the Company's 65 hydro plants and from other producers, from nuclear and geothermal units and from still-available supplies of natural gas — all act to slow the growing thirst for oil. But the barrel count is mounting: from 360,000 in 1970 to 6 million in 1973, 12 million in 1975 and perhaps more than 30 million in 1976.

With domestic supplies of low-sulfur oil and natural gas declining, PG&E is vigorously promoting energy conservation programs. At the same time, it is developing other sources of energy, for while consumers can trim waste, there still must be enough energy to meet the needs of an expanding economy. This means the continued growth of the energy industry. Despite our nation's best intentions to be energy self-sufficient, there will be a growing reliance on foreign sources, at least for the short term.

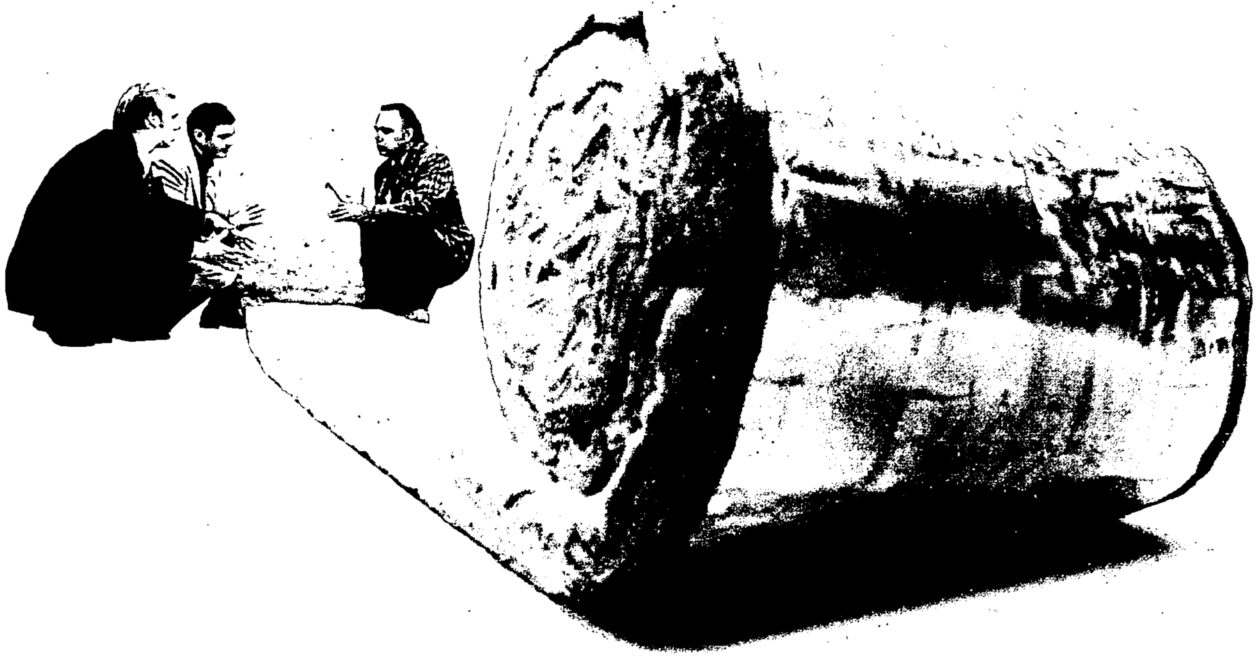


According to even the most conservative estimates, electric energy requirements for PG&E's service area will increase. Electric load, which had been rising at over 7 percent a year until the "energy crisis" of 1973, is expected to expand by a still substantial 5½ percent annually for the next 10 years. This is due to a growing population and more new families. During the next decade almost 700,000 new households will be formed in Northern California. They will be needing more homes, more jobs, more services — and more energy.

Energy conservation and environmental protection goals combine to increase the demand for electric power. Short supplies and higher prices have further accelerated the shift from other fuels to the use of electricity. For example, a single Bay Area Rapid Transit (BART) train can represent as many as 600 rush-hour automobiles removed from the highways.

With domestic sources of natural gas declining, with foreign supplies of low-sulfur oil and of natural gas uncertain and increasingly costly, with few practical hydro sites remaining, what is the outlook for continued reliable service to PG&E consumers? It is, in fact, still quite encouraging.

USING CURRENT TECHNOLOGY & CONSERVATION TECHNIQUES

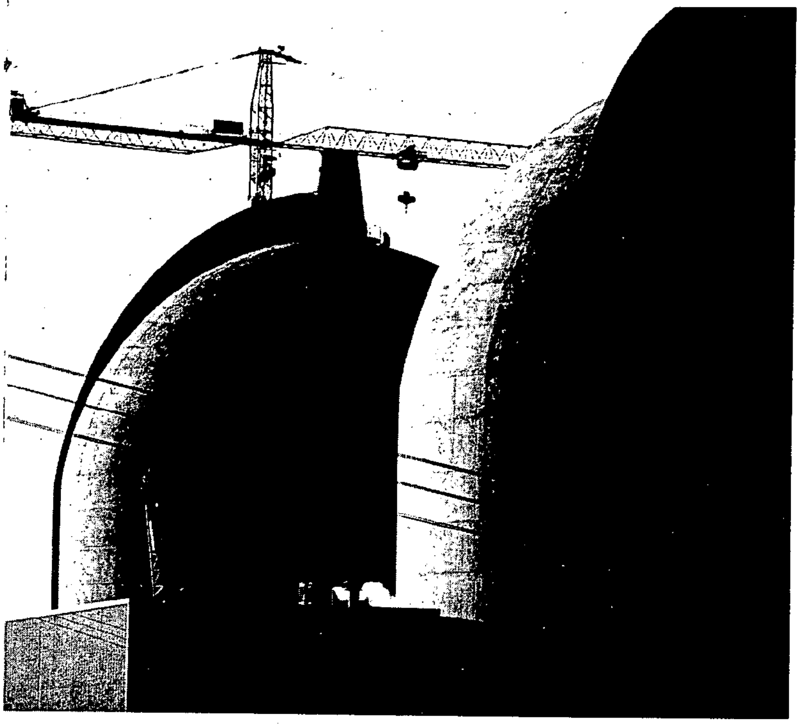


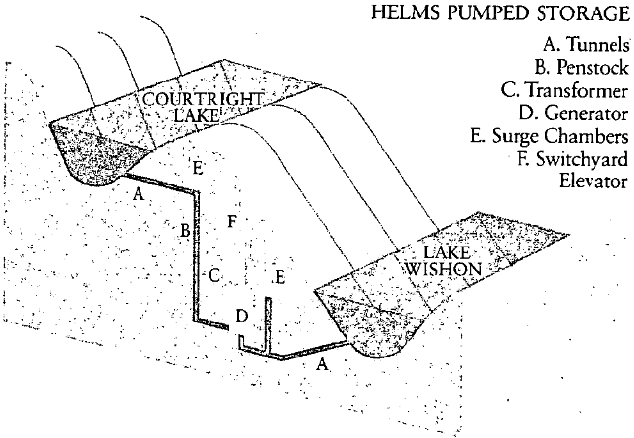
From the Pacific Ocean shoreline to the Sierra Nevada and in the hills and valleys between, PG&E is working to develop varied sources of energy that will lessen our dependence on fossil fuels. Using current technology, the Company will be adding generating units that will have minimal adverse impact on the environment. From now through 1981, PG&E contemplates the need to add generating capacity at an average rate of about one million kilowatts a year, and 76 percent of this would be non-fossil-fueled.

Our two big nuclear units at Diablo Canyon, with a combined capacity of more than two million kilowatts, will be able to generate power equal to what could be obtained from the burning of about 24 million barrels of fuel oil annually.

As rapidly as permits can be secured, PG&E will continue adding geothermal generating units. By the time the fifteenth unit at The Geysers comes on the line in 1979, there will be more than 900,000 kilowatts of geothermal capacity on PG&E's system. Field developers estimate that the underground steam reservoirs in this area might support two million kilowatts of generation by 1990. But this would account for only about 10 percent of system capacity.

Using two high mountain reservoirs that are already a part of PG&E's Kings River hydroelectric system, the Company is planning to build one of the nation's largest pumped storage hydro projects. The Helms Project, for which permits are now being asked, would provide 1,125,000 kilowatts of peaking capacity from an underground powerhouse. Power from base load plants



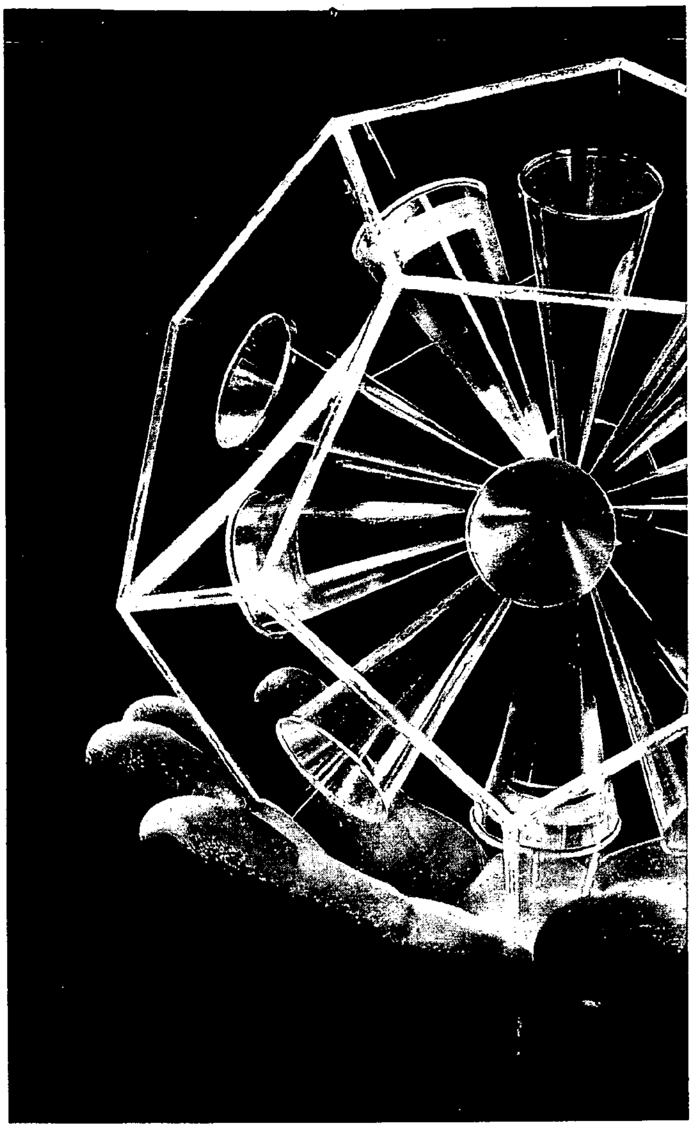


located elsewhere on the Company's system will pump water from Wishon Reservoir up to Courtright Reservoir during off-peak periods. Then the water will be released to run back down through turbine-generators to generate electricity at times of peak demand.

A virtual resource in itself is energy conservation. We hope that by husbanding our supplies of natural gas, PG&E can continue to meet the essential needs of most of its consumers until such time as new or alternate sources are developed. Reducing electric use also helps hold down PG&E's fuel bills. And to the extent that peak demands for electricity can be trimmed, energy conservation helps conserve investment capital, because it helps lessen the amount of new plant needed.

Thus, the Company has embarked upon a wide-ranging program to promote energy conservation among its various classes of customers. Ceiling insulation campaigns have been set up in several communities. PG&E home economists have monitored the efficiency of home appliances and are advising youth groups and consumers generally how to save energy in the home. Large industrial, commercial and agricultural customers are being called upon personally and energy-saving guidebooks are distributed at clinics staged by Company engineers.

DEVELOPING OUR DOMESTIC ENERGY SOURCES



PG&E is exploring a wide range of new possibilities in its efforts to keep its customers supplied with gas and electricity. Because it is obvious that California cannot continue to rely on ever-increasing amounts of oil and natural gas for power generation, the Company is expanding its options to include coal as well as nuclear fuel.

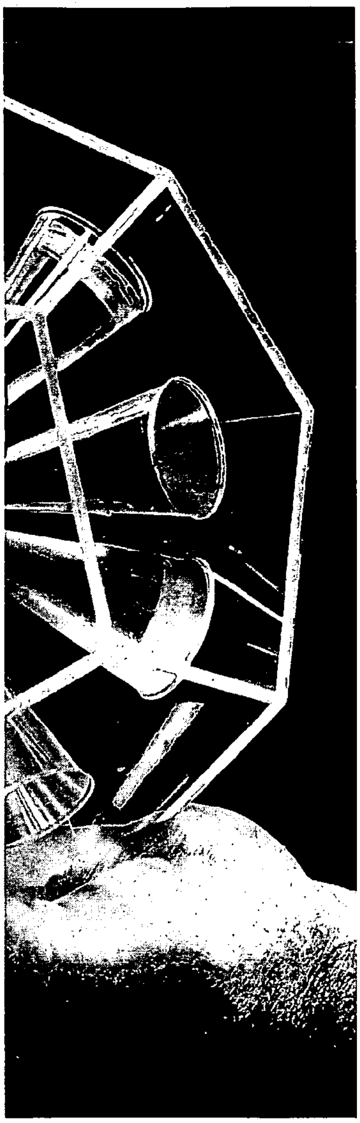
As there are no significant coal reserves in California, PG&E moved to the Rocky Mountain region for its first purchase of a coal reserve (near Price, Utah). This low-sulfur content coal could be burned directly in an electric generating plant, or the coal could be converted to gas. PG&E is participating in research designed to develop improved technology for converting coal to gas.

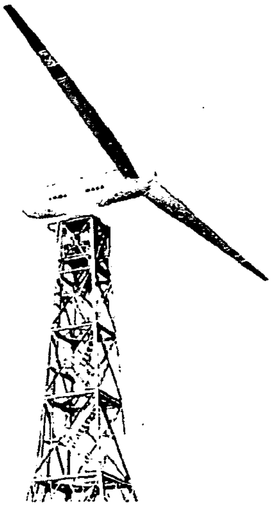
The $25 million PG&E spent last year on research included support of projects to develop the liquid metal breeder reactor and to advance research into the possibilities of nuclear fusion as an energy source. The application of laser technology is among a number of fusion research projects being supported by the Electric Power Research Institute, of which PG&E is a member. Use of high energy lasers to initiate fusion is one approach being explored in several research centers across the nation. The model above shows a concept in which a circle of high energy laser beams are focused on a central point, intercepting a tiny pellet of heavy hydrogen and imploding it to cause fusion and a release of energy. Even the most optimistic of researchers, however, do not foresee the commercial application of fusion power before the end of the century.

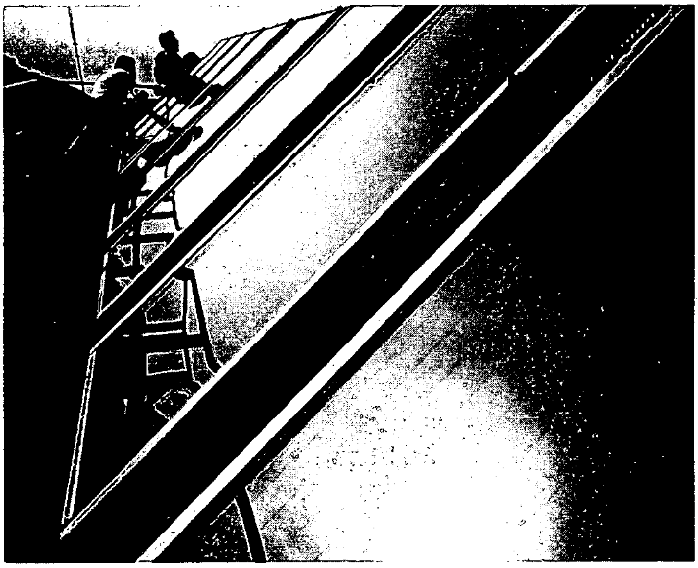
At the same time, age-old methods of harnessing energy are being revived through new technologies. PG&E is supporting a number of experiments and pilot installations designed to use solar energy for space and water heating and to assist in the drying of crops. Solar heaters for swimming pools are already commercially available from several sources.

These kinds of solar energy applications can help extend limited supplies of natural gas. For this reason, they are included as part of PG&E's energy conservation program.

PG&E has also proposed that an







experimental wind machine which can generate electric power be placed at a Company-owned site on the Mendocino coast. Meteorological data gathered at the site by PG&E shows that winds averaging 14 miles an hour are among some of the highest recorded in California. The Company has offered use of the site and operational assistance to the National Aeronautics and Space Administration. NASA, the manager of the Energy Research and Development Administration's national five-year wind energy program, is awaiting funds to install several prototype wind machines across the nation.

One of the projects of the greatest significance, however, is the proposal to import natural gas from the Arctic to help provide energy for PG&E's customers. Applications have been filed with U.S. and Canadian government agencies by a multi-company consortium seeking permission to build and operate a natural gas pipeline from Alaska and the Canadian Arctic. The line would bring large quantities of gas from Prudhoe Bay and from the Mackenzie Delta to consumers in Canada and the United States.

The Company is also participating with Pacific Lighting Corporation in an ambitious joint project to bring liquefied natural gas supplies from Indonesia and South Alaska's Cook Inlet to California. Deliveries of this new gas could commence as early as 1979.

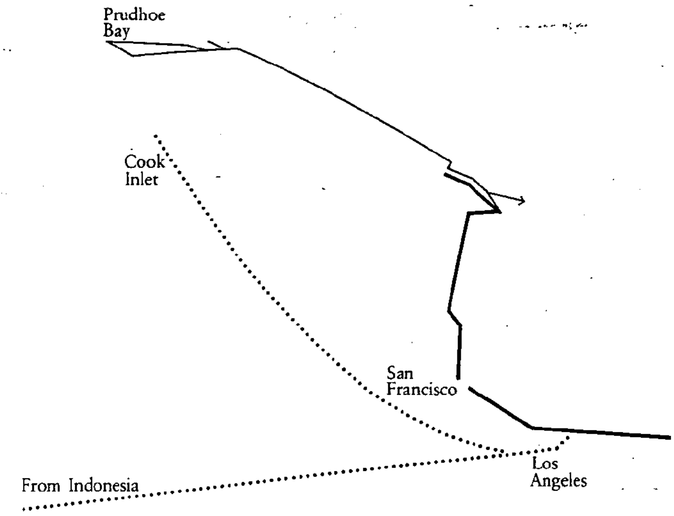
Unusual sources close to home are

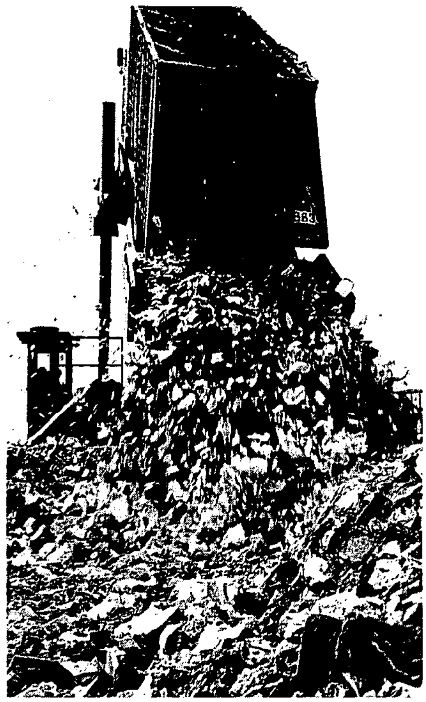
PROPOSED AND EXISTING NATURAL GAS SUPPLY ROUTES TO PG&E

Proposed Arctic Gas Transmission System

Proposed PG&E-Pacific Lighting Liquefied Natural Gas Systems

Existing Natural Gas Pipelines





also being investigated. PG&E, in cooperation with the City of Mountain View and the Environmental Protection Agency, is drilling test wells to recover methane gas from the Mountain View dump. The pilot project is expected to recover some one million cubic feet a day of raw gas generated by decomposing garbage. After treatment to remove impurities and to increase the heating value, about 600,000 cubic feet a day of processed gas would be available to PG&E customers. Although this quantity is relatively small, the experiment may presage similar gas recovery programs at other dumps. Studies commissioned by PG&E also show that methane gas can be removed from municipal sewage treatment plants.

Agricultural wastes left in fields after crops are harvested may provide another source of gas or electricity. PG&E has signed a contract with the University of California-Davis for a study of the feasibility of collecting rice straw, manure or other farm wastes and processing them at a central location. We anticipate that these wastes could be used to generate gas or as solid fuel to be burned directly in an electric power plant.

No one single source of energy is the answer to our needs—yet no source can be ignored if our customers and our country are to be well served. PG&E feels confident that, in partnership with the people we are privileged to serve, we will meet the energy challenge.

Summary of Operations

Pacific Gas and Electric Company | For the Five Years Ended December 31, 1975

	Thousands				
	1975	1974	1973	1972	1971
OPERATING REVENUES:					
Electric	$1,293,551	$1,104,715	$ 947,500	$ 856,824	$ 792,382
Gas	939,820	622,040	542,656	493,789	467,963
TOTAL	2,233,371	1,726,755	1,490,156	1,350,613	1,260,345
OPERATING EXPENSES:					
Operation	1,474,201	961,682	744,109	668,823	600,467
Maintenance	90,853	90,631	77,083	66,913	62,980
Depreciation	178,978	166,605	158,329	142,461	131,326
Taxes on Income	13,783	54,203	72,559	73,774	83,773
Property and Other Taxes	128,303	123,025	120,556	117,731	114,886
TOTAL	1,886,118	1,396,146	1,172,636	1,069,702	993,432
OPERATING INCOME	347,253	330,609	317,520	280,911	266,913
OTHER INCOME AND INCOME DEDUCTIONS	108,771	100,147	69,748	64,355	42,896
INTEREST EXPENSE	204,445	169,519	143,661	129,922	116,695
NET INCOME	251,579	261,237	243,607	215,344	193,114
PREFERRED DIVIDEND REQUIREMENTS	48,301	45,253	36,682	31,109	25,399
EARNINGS AVAILABLE FOR COMMON	$ 203,278	$ 215,984	$ 206,925	$ 184,235	$ 167,715
AVERAGE COMMON SHARES OUTSTANDING	76,265	66,146	64,140	61,086	61,086
EARNINGS PER COMMON SHARE	$2.67	$3.27	$3.23	$3.02	$2.75
DIVIDENDS DECLARED PER COMMON SHARE	$1.88	$1.88	$1.78	$1.72	$1.64

Quarterly Common Stock Prices and Declared Dividends

Pacific Gas and Electric Company | December 31, 1975 and 1974

	1975				1974			
	4th	3rd	2nd	1st	4th	3rd	2nd	1st
High	$21⅞	$22	$21⅞	$23½	$20⅞	$23⅜	$24¾	$24⅞
Low	19½	19⅜	18⅛	19¼	17	17⅜	20	22⅜
Dividend	47¢	47¢	47¢	47¢	47¢	47¢	47¢	47¢

Management's Discussion and Analysis of the Summary of Operations

Pacific Gas and Electric Company | For the Five Years Ended December 31, 1975

OPERATING REVENUES

In 1975 and 1974, the substantial increase in electric and gas revenues was principally the result of higher rates granted to offset the accelerating cost of natural gas and fuel oil. A general rate increase was granted in 1975 to compensate the Company for the effects of inflation and high interest rates, but this increase was effective for only the fourth quarter and had a minor impact on 1975 revenues.

EXPENSES

The Company has available a large capability for hydroelectric generation. Changes in hydroelectric generation, which result from variations in annual precipitation in the watershed area, cause fluctuations of fuel expenses. Hydroelectric generation was approximately 20% above normal in 1975 and 34% above normal during 1974.

Operation expenses have increased substantially in recent years as a result of the rapid increase in the cost of fossil fuels, both natural gas and oil. Other expenses reflect a general inflationary trend. Taxes on income were lower in 1975 and 1974 principally because of the reduction in taxable income (See Note 3 of Notes to Financial Statements).

ALLOWANCE FOR FUNDS USED DURING CONSTRUCTION

The amount of allowance for funds used during construction, which is included in other income, has increased in recent years due to the construction of Units 1 and 2 of the Company's Diablo Canyon nuclear generating plant. Construction of these units is scheduled to be completed in 1976 and 1977, respectively.

INTEREST EXPENSE AND PREFERRED DIVIDEND REQUIREMENTS

Interest expense and preferred dividend requirements have increased due to higher interest rates and the issuance of additional debt and preferred stock.

Lines of Business

Pacific Gas and Electric Company | For the Five Years Ended December 31, 1975

The approximate percentage of operating revenues and operating income, exclusive of taxes on income, attributable to each principal line of business was as follows:

	Operating Revenues		Operating Income	
	Electric	Gas	Electric	Gas
1971	63%	37%	83%	17%
1972	63%	37%	83%	17%
1973	64%	36%	81%	19%
1974	64%	36%	90%	10%
1975	58%	42%	73%	27%

Revenues and Sales

Pacific Gas and Electric Company | For the Years Ended December 31, 1975 and 1974

	Thousands		Increase (Decrease)	
	1975	1974	Amount	Percent
ELECTRIC DEPARTMENT				
REVENUES:				
Residential	$ 465,818	$ 411,001	$ 54,817	13.3%
Commercial	443,601	382,682	60,919	15.9
Industrial (1000 KW demand or over)	197,221	169,993	27,228	16.0
Agricultural Power	87,006	75,612	11,394	15.1
Public Street and Highway Lighting	20,454	18,135	2,319	12.8
Other Electric Utilities	52,478	22,262	30,216	135.7
Miscellaneous	23,733	22,585	1,148	5.1
Other	3,240	2,445	795	32.5
TOTAL	$ 1,293,551	$ 1,104,715	$ 188,836	17.1%
SALES—KWH:				
Residential	16,582,796	15,658,439	924,357	5.9%
Commercial	16,571,989	15,746,918	825,071	5.2
Industrial (1000 KW demand or over)	12,811,653	12,618,192	193,461	1.5
Agricultural Power	3,781,864	3,581,124	200,740	5.6
Public Street and Highway Lighting	448,046	427,982	20,064	4.7
Other Electric Utilities	2,590,095	2,229,291	360,804	16.2
Total Sales to Customers	52,786,443	50,261,946	2,524,497	5.0
Delivered for the Account of Others	5,359,037	5,525,856	(166,819)	(3.0)
TOTAL	58,145,480	55,787,802	2,357,678	4.2%
GAS DEPARTMENT				
REVENUES:				
Residential	$ 407,181	$ 288,681	$ 118,500	41.0%
Commercial	117,692	76,081	41,611	54.7
Industrial	395,381	247,068	148,313	60.0
Other Gas Utilities	11,958	6,876	5,082	73.9
Miscellaneous	7,608	3,334	4,274	128.2
TOTAL	$ 939,820	$ 622,040	$ 317,780	51.1%
SALES—MCF:				
Residential	262,363	241,664	20,699	8.6%
Commercial	83,244	74,756	8,488	11.4
Industrial	315,799	346,548	(30,749)	(8.9)
Other Gas Utilities	9,459	8,581	878	10.2
Total Sales to Customers	670,865	671,549	(684)	(0.1)
Company Use (Electric generation)	159,135	123,194	35,941	29.2
TOTAL	830,000	794,743	35,257	4.4%

Comparative Statistics

Pacific Gas and Electric Company | For the Eleven Years Ended December 31, 1975

	1975	1974	1973
PER COMMON SHARE:			
Earnings	$ 2.67	$ 3.27	$ 3.23
Dividends Declared	$ 1.88	$ 1.88	$ 1.78
Dividend Payout Ratio	70.4%	57.5%	55.1%
Book Value (End of Year)	$27.71	$28.18	$27.80
Market Price—High	23½	24⅞	32⅝
Market Price—Low	18⅛	17	21½
Market Price—Close	20¾	20⅛	22⅞
CAPITAL EXPENDITURES (Thousands):			
Electric Department	$525,143	$515,493	$444,344
Gas Department	81,870	97,714	89,186
Other	23,576	32,453	32,009
TOTAL	$630,589	$645,660	$565,539
ELECTRIC STATISTICS:			
Net System Output (Millions of KWH)	63,402	60,932	60,572
Net System Output—Percent			
Hydroelectric Plants	22.6%	25.6%	21.5%
Thermal Electric Plants	43.6	38.1	53.4
Other Producers	33.8	36.3	25.1
Total	100.0%	100.0%	100.0%
System Capability—KW (at annual peak)			
Hydroelectric Plants (adverse conditions)	2,396,900	2,396,900	2,384,800
Thermal Electric Plants	8,053,000	7,947,000	7,841,000
Other Producers (adverse conditions)	3,766,100	2,948,700	2,554,700
Total	14,216,000	13,292,600	12,780,500
Net System Peak Demand—KW	11,632,800	11,648,800	10,867,800
Average Annual Residential Consumption—KWH	6,462	6,260	6,417
Total Customers (End of Year)	3,005,518	2,936,106	2,854,585
Customers Per Mile of Distribution Line	37.2	36.9	36.5
GAS STATISTICS:			
Gas Purchased (Thousands of MCF)	861,860	876,537	984,061
Sources of Gas Purchased—Percent			
From California	16.2%	16.8%	23.6%
From Other States	41.4	43.7	38.4
From Canada	42.4	39.5	38.0
Total	100.0%	100.0%	100.0%
Average Cost of Gas Purchased—MCF			
From California	56.7¢	42.7¢	37.0¢
From Other States (at Calif.-Ariz. border)	72.7	55.8	43.0
From Canada (at Calif.-Ore. border)	136.8	65.4	44.1
Average	97.3¢	57.4¢	42.0¢
Peak Day Sendout—MCF	3,352,881	3,020,215	3,423,896
Average Annual Residential Consumption—MCF	111.1	104.5	113.4
Total Customers (End of Year)	2,555,216	2,503,203	2,443,889
Customers Per Mile of Distribution Main	96.4	96.1	95.9

1972	1971	1970	1969	1968	1967	1966	1965
$ 3.02	$ 2.75	$ 2.47	$ 2.58	$ 2.55	$ 2.49	$ 2.23	$ 2.08
$ 1.72	$ 1.64	$ 1.50	$ 1.50	$ 1.45	$ 1.40	$ 1.30	$ 1.20
57.0%	59.7%	60.9%	58.2%	57.0%	56.3%	58.4%	57.8%
$26.36	$24.91	$23.66	$22.79	$21.71	$20.62	$19.53	$18.44
33⅜	36⅜	35	39½	38⅞	38	36¾	40⅜
26⅜	28⅜	22½	29½	30¾	31⅝	27	33⅞
32⅝	32⅜	34⅝	32¾	38⅛	35⅝	35¾	36½
$432,781	$355,242	$297,930	$240,468	$200,763	$235,707	$220,241	$218,479
71,345	60,432	68,320	61,428	58,834	50,536	55,596	46,057
39,514	36,177	49,081	38,094	29,803	24,748	21,292	22,172
$543,640	$451,851	$415,331	$339,990	$289,400	$310,991	$297,129	$286,708
59,124	54,665	51,277	48,885	46,994	43,663	41,392	38,190
19.8%	25.6%	26.9%	31.4%	23.8%	32.9%	26.6%	34.1%
52.7	46.5	48.6	45.2	62.2	47.1	61.4	50.3
27.5	27.9	24.5	23.4	14.0	20.0	12.0	15.6
100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
2,369,800	2,364,900	2,364,900	2,247,900	2,277,300	2,278,500	2,224,400	2,210,800
7,062,000	6,956,000	6,942,400	6,962,400	6,302,600	6,289,600	5,447,300	5,447,300
2,609,900	2,438,700	2,098,000	1,560,700	1,056,200	1,110,100	815,300	787,100
12,041,700	11,759,600	11,405,300	10,771,000	9,636,100	9,678,200	8,487,000	8,445,200
10,469,800	9,713,000	8,807,700	8,227,100	8,126,200	7,757,900	7,146,500	6,686,400
6,213	6,048	5,697	5,545	5,181	5,000	4,661	4,454
2,767,978	2,675,942	2,597,314	2,536,703	2,483,480	2,429,306	2,383,907	2,323,896
36.0	35.4	34.8	34.5	34.3	34.0	33.8	33.5
1,015,319	1,004,547	950,652	878,484	888,075	802,221	808,062	749,410
23.5%	24.8%	25.2%	25.2%	27.5%	26.3%	31.0%	29.1%
40.3	41.2	43.7	45.3	45.5	48.3	48.6	50.7
36.2	34.0	31.1	29.5	27.0	25.4	20.4	20.2
100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
33.7¢	31.7¢	30.2¢	29.9¢	30.3¢	30.2¢	30.1¢	29.8¢
39.4	37.5	33.9	31.4	27.9	28.4	29.4	29.6
36.9	32.7	30.4	28.2	28.0	29.3	31.2	33.6
37.2¢	34.3¢	31.9¢	30.1¢	28.6¢	29.1¢	30.0¢	30.5¢
3,918,844	3,798,462	3,633,341	3,445,626	3,338,669	3,363,503	3,032,844	3,110,309
115.7	121.7	107.7	116.2	109.7	112.4	107.5	110.6
2,383,609	2,317,686	2,258,285	2,208,046	1,160,569	2,110,510	2,064,045	2,008,623
95.6	95.0	94.1	94.0	93.8	93.5	93.5	93.3

Statement of Income

Pacific Gas and Electric Company | For the Years Ended December 31, 1975 and 1974

	Thousands 1975	1974
OPERATING REVENUES:		
Electric	$1,293,551	$1,104,715
Gas	939,820	622,040
TOTAL	2,233,371	1,726,755
OPERATING EXPENSES:		
Operation:		
Natural Gas	819,192	470,929
Fuel Oil	186,904	131,337
Power Purchased	106,469	66,904
Transmission and Distribution	101,710	93,432
Other	259,926	199,080
Total	1,474,201	961,682
Maintenance	90,853	90,631
Depreciation	178,978	166,605
Taxes on Income (Note 3)	13,783	54,203
Property and Other Taxes	128,303	123,025
TOTAL	1,886,118	1,396,146
OPERATING INCOME	347,253	330,609
OTHER INCOME AND INCOME DEDUCTIONS:		
Allowance for Funds Used During Construction	70,351	57,598
Gain on Bonds Purchased for Sinking Fund	15,106	20,039
Other—net	23,314	22,510
TOTAL	108,771	100,147
INCOME BEFORE INTEREST EXPENSE	456,024	430,756
INTEREST EXPENSE	204,445	169,519
NET INCOME	$ 251,579	$ 261,237
EARNINGS PER COMMON SHARE	$2.67	$3.27
DIVIDENDS DECLARED PER COMMON SHARE	$1.88	$1.88

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

Balance Sheet

Pacific Gas and Electric Company | December 31, 1975 and 1974

	Thousands 1975	1974
ASSETS		
UTILITY PLANT—At Original Cost:		
Electric	$5,072,331	$4,744,359
Gas	1,575,127	1,472,334
Construction Work in Progress	1,197,662	1,050,579
Total Utility Plant	7,845,120	7,267,272
Accumulated Depreciation	1,926,948	1,786,745
UTILITY PLANT—NET	5,918,172	5,480,527
INVESTMENTS IN SUBSIDIARIES	51,500	49,126
CURRENT ASSETS:		
Cash	32,614	27,146
Temporary Cash Investments—at cost which approximates market	8,000	12,971
Accounts Receivable (less allowance for uncollectible accounts: 1975, $4,202; 1974, $3,447)	226,505	154,118
Materials and Supplies	36,166	39,681
Fuel Oil	236,195	177,087
Gas Stored Underground	67,984	53,631
Prepayments	30,657	15,382
TOTAL CURRENT ASSETS	638,121	480,016
DEFERRED CHARGES	13,090	9,812
TOTAL	$6,620,883	$6,019,481
CAPITALIZATION AND LIABILITIES		
CAPITALIZATION:		
Common Stock—at par (Schedule I)	$ 799,673	$ 710,820
Additional Paid-in Capital	381,745	315,767
Reinvested Earnings	1,034,472	976,263
Common Stock Equity	2,215,890	2,002,850
Preferred Stock—at par (Schedule I)	777,451	689,951
Total Stockholders' Equity	2,993,341	2,692,801
Mortgage Bonds (Schedule II) (Note 2)	3,039,351	2,952,772
TOTAL CAPITALIZATION	6,032,692	5,645,573
CURRENT LIABILITIES:		
Commercial Paper (Note 4)	117,150	—
Accounts Payable	196,219	143,265
Taxes Accrued	21,137	37,141
Dividends Payable	37,585	33,408
Mortgage Bonds—current portion (Schedule II) (Note 2)	57,272	18,074
Other	48,354	44,859
TOTAL CURRENT LIABILITIES	477,717	276,747
CUSTOMER ADVANCES FOR CONSTRUCTION	42,077	41,094
DEFERRED CREDITS	27,969	12,694
DEFERRED INCOME TAXES ON DEFENSE FACILITIES	40,428	43,373
TOTAL	$6,620,883	$6,019,481

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

Statement of Changes in Financial Position

Pacific Gas and Electric Company | For the Years Ended December 31, 1975 and 1974

	Thousands 1975	1974
FUNDS PROVIDED:		
Funds Derived from Operations:		
Net Income	$251,579	$ 261,237
Non-fund Items in Net Income:		
Depreciation (including charges to other accounts)	189,325	177,031
Gain on Bonds Purchased for Sinking Fund	(15,106)	(20,039)
Allowance for Funds Used During Construction	(70,351)	(57,598)
Other—net	(2,052)	(5,625)
Total Funds Derived from Operations	353,395	355,006
Common Stock Sold—net proceeds	149,348	92,592
Preferred Stock Sold—net proceeds	92,983	81,904
Mortgage Bonds Sold—net proceeds	172,394	462,745
Utility Plant Sold and Salvaged	3,647	16,641
Other Changes—net	7,656	5,667
TOTAL	$779,423	$1,014,555
FUNDS APPLIED:		
Capital Expenditures	$630,589	$ 645,660
Allowance for Funds Used During Construction	(70,351)	(57,598)
Funds Used for Capital Expenditures	560,238	588,062
Mortgage Bonds Purchased for Sinking Fund (at cost)	30,293	32,728
Matured Mortgage Bonds Retired	2,000	109,101
Dividends—preferred and common stock	193,370	169,350
Changes in Other Working Capital Items (a)	(6,478)	115,314
TOTAL	$779,423	$1,014,555
(a) Changes in Other Working Capital Items:		
Temporary Cash Investments	$ (4,971)	$ (20,872)
Accounts Receivable—net	72,387	23,319
Fuel Oil	59,108	127,204
Short-term Borrowings	(117,150)	—
Other Changes in Working Capital	(15,852)	(14,337)
Total—increase (decrease)	$ (6,478)	$ 115,314

Statement of Stockholders' Equity

Pacific Gas and Electric Company | For the Years Ended December 31, 1975 and 1974

	Thousands Preferred Stock	Common Stock	Additional Paid-In Capital	Reinvested Earnings
Balance, January 1, 1974	$614,951	$651,585	$275,506	$884,376
Net Income—for year				261,237
Preferred Stock Sold (3,000,000 Shares)	75,000		6,904	
Common Stock Sold (5,923,503 Shares)		59,235	33,357	
Dividends Declared—Cash:				
Preferred Stock				(44,069)
Common Stock				(125,281)
Balance, December 31, 1974	689,951	710,820	315,767	976,263
Net Income—for year				251,579
Preferred Stock Sold (3,500,000 Shares)	87,500		5,483	
Common Stock Sold (8,885,255 Shares)		88,853	60,495	
Dividends Declared—Cash:				
Preferred Stock				(47,208)
Common Stock				(146,162)
Balance, December 31, 1975	$777,451	$799,673	$381,745	$1,034,472

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

Schedule I Capital Stock Pacific Gas and Electric Company | December 31, 1975

	Redemption Price	Shares Authorized	Thousands Outstanding—Held by Public Shares	Amount
COMMON, PAR VALUE $10 PER SHARE		125,000	79,967	$799,673
PREFERRED, CUMULATIVE, PAR VALUE $25 PER SHARE				
REDEEMABLE:				
10.46% ($2.615 a share)	$30.10	3,500	3,500	$ 87,500
9.48% ($2.37 a share)	30.25	3,000	3,000	75,000
9.28% ($2.32 a share)	28.00	707	707	17,674
9% ($2.25 a share)	29.875	881	881	22,027
8.20% ($2.05 a share)	30.00	2,000	2,000	50,000
8.16% ($2.04 a share)	29.375	3,000	3,000	75,000
8% ($2.00 a share)	30.00	2,000	2,000	50,000
7.84% ($1.96 a share)	29.50	2,000	2,000	50,000
5% ($1.25 a share)	26.75	2,861	2,861	71,524
5%—Series A ($1.25 a share)	26.75	1,750	1,719	42,985
4.80% ($1.20 a share)	27.25	1,517	1,517	37,934
4.50% ($1.125 a share)	26.00	1,128	1,128	28,186
4.36% ($1.09 a share)	25.75	1,000	1,000	25,000
Unclassified in Series		28,871	—	—
TOTAL REDEEMABLE		54,215	25,313	632,830
NON-REDEEMABLE:				
6% ($1.50 a share)		4,212	4,212	105,292
5.50% ($1.375 a share)		1,173	1,173	29,329
5% ($1.25 a share)		400	400	10,000
TOTAL NON-REDEEMABLE		5,785	5,785	144,621
TOTAL PREFERRED		60,000	31,098	$777,451

Schedule II Mortgage Bonds Pacific Gas and Electric Company | December 31, 1975

Maturity	Interest Rate (%)	Series	Thousands Held in Treasury	Thousands Outstanding Held by Public
1976	2⅞	T	$5,135	$ 38,387
1977	3	N		47,962
1978	3¾	CC		56,860
1979	3	M		73,635
1980	2⅞	Q	175	52,526
1981	2¾	P	75	21,312
1982	3⅛	R		64,673
1982	9.85	74B		150,000
1983	3	S		57,989
1984	3⅛	X	250	37,629
1984	3⅛	W		25,088
1985	9½	75A		175,000
1985	3⅜	U	183	26,383
1986	4½	AA	25	29,258
1987	3⅜	Y	15	18,267
1988	3⅜	Z	26	6,413
1989	5	BB		57,700
1990	4½	DD	76	49,226
1991	5	EE		59,815
1992	4⅝	FF	10	51,480
1993	4½	GG	60	55,617
1994	4⅜	HH	290	46,421
1995	4¼	II	$ 394	$ 25,293
1996	4½	JJ	437	42,357
1996	4½	KK	640	32,763
1997	4⅝	LL	2,330	43,402
1998	5⅜	MM	74	71,926
1998	5¾	NN	100	75,650
1999	5½	OO	139	76,861
1999	6⅞	PP	85	79,915
2000	6⅝	QQ	62	49,938
2000	6¾	RR	153	59,847
2001	7½	SS	100	79,900
2001	9	TT		80,000
2002	8⅝	UU	16	74,984
2002	8⅞	VV		100,000
2003	8	WW	50	149,950
2003	7½	XX		125,000
2004	7½	YY	400	124,600
2005	7¾	ZZ		150,000
2005	7¾	73A	750	149,250
2006	9⅛	74A		150,000
2006	9⅝	74C	250	169,750
TOTAL MORTGAGE BONDS			$12,300	3,113,027
Mortgage Bonds Included in Current Liabilities (Note 2)				57,272
Unamortized Discount—net				16,404
Mortgage Bonds Included in Capitalization				$3,039,351

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

Notes to Financial Statements

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accounting records of the Company are maintained in accordance with the uniform system of accounts prescribed by the Federal Power Commission and adopted by the California Public Utilities Commission.

The cost of additions to utility plant and replacements of retirement units of property is capitalized. Cost includes labor, material and similar items and indirect charges for such items as engineering, supervision and transportation. An allowance for funds used during construction is included in construction work in progress and credited to other income. A composite rate (8% for 1975 and 1974), which assumes that funds used for construction were provided by debt and preferred and common equity, is applied to construction work in progress. This accounting practice results in the inclusion in construction work in progress of amounts considered by the California Public Utilities Commission as an appropriate cost of funds for the purposes of establishing rates for utility charges to customers. Research and development costs related to specific construction projects and a portion of general engineering research costs are capitalized. Other research and development costs are charged to expense as incurred. Costs of repairing major units of property and replacement of minor items of property are included in the income statement as maintenance. Costs of depreciable units of plant retired are eliminated from utility plant accounts and such costs plus removal expenses and less salvage are charged to accumulated depreciation. Materials and supplies, fuel oil, and gas stored underground are stated at average cost. Revenues from residential and commercial customers are recorded as meters are read on a cycle basis throughout each month.

For financial statement purposes, depreciation of utility plant is computed on a straight-line remaining life basis at rates based on the estimated useful lives of properties. The annual provision for depreciation, expressed as a percentage of the average balance of depreciable plant, was 3.0% for 1975 and 1974. For federal income tax purposes, depreciation is generally computed using the most liberalized methods allowed by the Internal Revenue Code. In accordance with requirements of the California Public Utilities Commission, the Company includes in net income the current tax differences arising from timing differences which are principally depreciation, allowance for funds used during construction and other overhead costs of construction, gain on bonds purchased for sinking fund and investment tax credits. Investment tax credits are applied as a reduction of federal income tax expense, through the use of a five year moving average method. Such tax differences are reflected in customer rates authorized by the Commission.

Bond issuance premium or discount and related expenses are being amortized over the lives of the issues to which they pertain. Gain on reacquisition of bonds to satisfy sinking fund requirements is credited to other income in the year of acquisition in accordance with a statement of the Financial Accounting Standards Board. Similar recognition of such gain is made by the California Public Utilities Commission in its rate-making proceedings. The federal income tax on such gain is recognized over the average life of remaining property.

[redacted] [redacted]

Retirement plan costs are accrued in accordance with an actuarial cost method (individual entry age normal method). At December 31, 1975, the value of retirement plan assets exceeded the estimated vested benefits of the plan.

Investments in subsidiaries are stated in accordance with the equity method. The assets, revenues, and earnings of the subsidiaries are not significant in relation to those of the Company. Approximately 60% and 45% of the cost of the Company's natural gas purchased in 1975 and 1974 was from Pacific Gas Transmission Company, a 53% owned subsidiary. The price paid is regulated by the Federal Power Commission.

Earnings per common share were computed by dividing earnings available for common stock by the weighted average number of common shares outstanding. The weighted average number of common shares outstanding is computed by dividing the aggregate of the number of common shares outstanding at the beginning of each month during each year by twelve.

NOTE 2—MORTGAGE BONDS:

The First and Refunding Mortgage Bonds are issued in series, bear annual interest from 2¾% to 9.85% and mature from June 1, 1976 to December 1, 2006. Subject to indenture provisions as to earnings coverages and bondable property available for security, additional bonds may be issued up to an outstanding aggregate amount of $5,000,000,000. The Board of Directors may from time to time increase the amount authorized. 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.

The Company is required, according to provisions of the First and Refunding Mortgage, to make semiannual sinking fund payments on February 1 and August 1 of each year for the retirement of the bonds of any series equal to ½ of 1% of the aggregate bonded indebtedness outstanding on the preceding November 30 and May 31, respectively. Bonds of any series may be used to satisfy this requirement.

Sinking fund requirements due in 1976 for bonds outstanding at December 31, 1975 amount to $31,185,000. This amount, less treasury bonds of $12,300,000 plus Series T Bonds of $38,387,000 maturing on June 1, 1976, is included in current liabilities.

NOTE 3—TAXES ON INCOME:

Income tax expense is composed of the following:	Thousands 1975	1974
Included in Operating Expenses:		
Federal tax on operating income	$ 7,607	$45,051
Amortization of deferred federal taxes on defense facilities	(2,694)	(2,694)
State tax on operating income	8,870	11,846
Taxes on income	13,783	54,203
Reduction in taxes applicable to Other Income:		
Federal tax	(14,715)	(10,056)
State tax	(2,934)	(2,006)
Taxes applicable to other income	(17,649)	(12,062)
Income tax expense payable (refundable)	$ (3,866)	$42,141

A reconciliation between the amount of reported income tax expenses and the amount computed by multiplying the income before taxes by the statutory federal income tax rate for the years 1975 and 1974 is as follows:

	1975		1974	
	Amount (Thousands)	Percent of Pretax Income	Amount (Thousands)	Percent of Pretax Income
Computed provision	$118,902	48.0%	$145,621	48.0%
Adjustments multiplied by the statutory federal income tax rates—increase (decrease):				
Tax depreciation in excess of book depreciation	(29,081)	(11.8)	(28,324)	(9.4)
Allowance for funds used during construction	(33,768)	(13.6)	(27,647)	(9.1)
Other overhead construction costs	(11,190)	(4.5)	(10,371)	(3.4)
Repair allowance	(4,320)	(1.8)	(5,760)	(1.9)
Gain on bonds purchased for sinking fund	(7,251)	(2.9)	(9,619)	(3.2)
Property removal expenses	(6,480)	(2.6)	(4,032)	(1.3)
Other—net	(7,830)	(3.2)	(10,684)	(3.5)
Adjustment of prior years accruals	(10,000)	(4.0)	—	—
Investment tax credit	(15,935)	(6.4)	(12,160)	(4.0)
State tax on income	3,087	1.2	5,117	1.7
Total	$ (3,866)	(1.6)%	$ 42,141	13.9%

NOTE 4—COMPENSATING BALANCES AND SHORT-TERM BORROWING ARRANGEMENTS:

Lines of credit for loans at prevailing prime interest rates were maintained with sixteen banks of which the unused portion amounted to $332,445,000 at December 31, 1975. The bank credit lines are not required to support commercial paper.

The Company follows the customary industry practice of maintaining average cash balances which compensate the banks for the available lines of credit, usage of the lines, and other banking services. The cash balances maintained at the banks are not legally restricted.

As of December 31, 1975, there was $117,150,000 (commercial paper) outstanding in short-term borrowings at an average rate of 5.6%, and none as of December 31, 1974. The maximum amount of aggregate short-term borrowings outstanding at any month end during 1975 was $140,550,000, and $158,500,000 during 1974. For the years 1975 and 1974, the approximate weighted average interest rate for short-term borrowings was 6.1% and 11.3%, respectively, and the approximate average short-term borrowings outstanding were $71,800,000 and $51,300,000, respectively. This weighted average interest rate was computed on a daily basis weighted for the amounts borrowed at each rate.

The usual terms of short-term borrowings are: bank loans—90 day note at the prevailing prime interest rate; commercial paper—10 to 45 days at the prevailing commercial paper interest rate.

NOTE 5—COMMITMENTS AND OTHER MATTERS:

Capital expenditures for the year 1976 are estimated at $620,000,000.

Research and development costs incurred during the years 1975 and 1974 were approximately $25,000,000 and $20,000,000, of which $16,000,000 and $13,000,000 were capitalized as part of the cost of construction projects.

The Company provides retirement and savings fund plans for substantially all employees. The amounts charged to expense and utility plant in connection with these plans were $45,423,000 and $37,860,000 for the years 1975 and 1974.

Alberta and Southern Gas Co., Ltd. (A&S), a wholly-owned subsidiary of the Company, has as its principal function the acquisition of natural gas in Canada and provision for its transportation to the United States border. A&S lends funds for the exploration and development of natural gas reserves in Canada and makes advances based on proven reserves. Such loans, amounting to approximately $68,000,000 as of December 31, 1975, are subject to repayment without regard to the success of the exploration and development efforts. Certain of the advances, amounting to approximately $2,500,000 as of December 31, 1975, are similarly refundable. Other advances, of approximately $6,500,000 are refundable out of production. To finance this program A&S has borrowed, as of December 31, 1975, approximately $77,000,000 from Canadian banks and, under an agreement with the banks, may increase these borrowings to a total of $100,000,000. The Company has undertaken, subject to receipt of all necessary approvals of the California Public Utilities Commission, to execute a guarantee of all such loans.

Accountants' Opinion

HASKINS & SELLS

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

We have examined the balance sheet of Pacific Gas and Electric Company as of December 31, 1975 and 1974 and the related statements of income, stockholders' equity, and changes in financial position for each of the years 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 present fairly the financial position of the Company at December 31, 1975 and 1974 and the results of its operations and the changes in its financial position for each of the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

San Francisco, California
February 13, 1976

Haskins & Sells

[redacted]

Departmental Organization January 1, 1976

ELECTRIC OPERATIONS
Managers:
D. H. Colwell, System Protection
H. R. Daniels, Hydro Generation
T. R. Ferry, Communications
E. F. Kaprielian, Power Control
P. Matthew, Steam Generation
H. J. Stefanetti, Transmission and Distribution
J. N. Ylarraz, Substations

GAS OPERATIONS
Managers:
C. E. Lanthier, 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
C. J. Tateosian, Gas System Design

GAS SUPPLY
Managers:
D. E. Fissell, Exploration
J. K. A. Harral, Gas Resources
D. L. McLeod, Gas Purchase

ENGINEERING
Chiefs:
R. V. Bettinger, Civil Engineer
K. L. C. Dorking, Design-Drafting
W. R. Johnson, Electrical Engineer
D. V. Kelly, Mechanical and Nuclear Engineer
J. J. McCann, Engineering Services

COMMERCIAL OPERATIONS
Managers:
S. O. Blois, Commercial, Industrial and Agricultural Marketing
W. Blumst, Marketing Research and Services
W. C. Brune, Jr., Area Services
J. S. Cooper, Commercial
A. D. Owen, Customer Services
R. L. Sawyier, Jr., Residential Marketing

INTERNAL AUDITING
E. C. Suess, Manager

PLANNING AND RESEARCH
Chiefs:
R. F. Cayot, Engineering Research
E. E. Hall, Siting Engineer
G. A. Maneatis, Computer Application Engineer
H. R. Perry, Planning Engineer

RATES AND VALUATION
Managers:
S. M. Andrew, Economics and Statistics
H. E. Crowhurst, Jr., Valuation
L. R. Gardner, Rate

COMPTROLLER
J. W. Hall, Assistant Comptroller
K. S. Taylor, Assistant Comptroller
Managers:
R. W. Beck, Corporate Accounting
A. W. Defoe, Disbursement Accounting
H. W. Gleason, Income Tax
L. M. Gustafson, Computer Operations
N. D. Hennings, Plant Accounting
R. E. Palmer, Property Tax
E. M. Schroeder, Customer Accounting

LAW
M. H. Furbush, Associate General Counsel
Assistant General Counsel:
M. A. MacKillop
C. T. Van Deusen
P. A. Crane, Jr.
H. J. La Plante
R. A. Clarke
J. B. Gibson

INFORMATION SYSTEMS
J. R. Kleespies, General Information Systems Manager
Managers:
R. W. Barbey, Information Systems Development
H. N. Liu, Computerized Systems Technology
L. J. Okonski, Information Systems Maintenance

FINANCE
J. A. Crockwell, Insurance Manager

TREASURER
Managers:
W. M. Cracknell, Credit and Collection
G. E. Lavering, Banking and Money Management

PERSONNEL AND GENERAL SERVICES
Managers:
T. V. Adams, Personnel Relations
I. W. Bonbright, Industrial Relations
N. H. Daines, Land
F. J. Ervin, Automotive and Equipment

GENERAL CONSTRUCTION
Managers:
R. S. Bain, Station Construction
H. G. Cooke, General Construction Personnel
R. F. Irons, General Construction Services
J. Pirtz, Civil-Hydro & Gas Construction
C. G. Sparrowe, Line Construction

SAFETY, HEALTH AND CLAIMS
R. W. White, Manager

MATERIALS
R. P. Benton, Manager

PUBLIC RELATIONS
Managers:
L. R. McDonnell, Public Information
R. W. Newell, Public Activities

OFFICE OF THE CHAIRMAN OF THE BOARD
R. B. Dewey, Assistant to the Chairman of the Board

OFFICE OF THE PRESIDENT
G. A. Blanc, Assistant to the President

GOVERNMENTAL AND PUBLIC AFFAIRS
A. R. Todd, Manager

Division Managers

COAST VALLEYS:
W. L. Murray, Salinas
COLGATE:
G. N. Radford, Marysville
DE SABLA:
C. R. Martin, Chico
DRUM:
R. E. Metzker, Auburn

EAST BAY:
W. D. Skinner, Oakland
HUMBOLDT:
G. F. Clifton, Jr., Eureka
NORTH BAY:
J. G. Foster, San Rafael
SACRAMENTO:
S. E. Howatt, Sacramento
SAN FRANCISCO:
J. H. Black, San Francisco

SAN JOAQUIN:
E. E. Foley, Fresno
SAN JOSE:
V. H. Lind, San Jose
SHASTA:
F. C. Marks, Red Bluff
STOCKTON:
H. M. McKinley, Stockton

Board of Directors

JOHN F. BONNER
President and Chief Operating Officer

RANSOM M. COOK*
Member of the Company's Executive Committee

RICHARD P. COOLEY
President and Chief Executive Officer, Wells Fargo Bank, N.A.

C. RAYMOND DAHL
President and Chief Executive Officer, Crown Zellerbach Corporation (paper products)

CHARLES de BRETTEVILLE*
Chairman of the Board, The Bank of California, N.A.

RUDOLPH J. DREWS
Financial Consultant

ALFRED W. EAMES, JR.**
Chairman of the Board and Chief Executive Officer, Del Monte Corporation (food products and related services)

ROBERT H. GERDES*
Chairman of the Company's Executive Committee

WALTER A. HAAS*
Honorary Chairman of the Board, Levi Strauss & Co. (apparel manufacturers)

JAMES M. HAIT**
Consultant

DORIS F. LEONARD
Secretary-Treasurer and Partner, Conservation Associates (park land acquisition)

LEON S. PETERS
President, Valley Foundry & Machine Works (manufacturer of winery equipment)

RICHARD H. PETERSON
Vice Chairman of the Board

PORTER SESNON*
General Partner, Porter Estate Company (farming, livestock, oil and gas production)

S. L. SIBLEY*
Chairman of the Board and Chief Executive Officer

EMMETT G. SOLOMON**
Chairman of the Executive Committee, Crocker National Bank

*Member Executive Committee
**Member Audit Committee

Executive Officers

S. L. SIBLEY
Chairman of the Board and Chief Executive Officer

JOHN F. BONNER
President and Chief Operating Officer

RICHARD H. PETERSON
Vice Chairman of the Board

ROBERT H. GERDES
Chairman of the Executive Committee

J. DEAN WORTHINGTON
Senior Vice President

H. P. BRAUN
Vice President—Electric Operations

JOSEPH Y. DE YOUNG
Vice President—Commercial Operations

WILLIAM M. GALLAVAN
Vice President—Rates and Valuation

E. B. LANGLEY, JR.
Vice President—Division Operations

F. F. MAUTZ
Vice President—Engineering

A. JAMES McCOLLUM
Vice President—Public Relations

FREDERICK W. MIELKE, JR.
Vice President and Assistant to the Chairman of the Board

RICHARD K. MILLER
Vice President—Personnel and General Services

JOHN C. MORRISSEY
Vice President and General Counsel

FRANK A. PETER
Vice President and Comptroller

C. H. SEDAM
Vice President—General Construction

BARTON W. SHACKELFORD
Vice President—Planning and Research

E. F. SIBLEY
Vice President—Gas Operations

STANLEY T. SKINNER
Vice President—Finance

JOHN A. SPROUL
Vice President—Gas Supply

JAMES T. DOUDIET
Treasurer

JOHN F. TAYLOR
Secretary

A. J. DUFFY
Assistant Treasurer

G. E. LAVERING
Assistant Treasurer

D. B. ALLISON
Assistant Secretary

B. L. McGRATH
Assistant Secretary