

RETURN TO
GENERAL SUPT FILES

PACIFIC GAS AND ELECTRIC COMPANY

THIRTY-FIFTH ANNUAL REPORT
1940





GENERAL OFFICES, SAN FRANCISCO

Pacific Gas and Electric Company

245 Market Street
SAN FRANCISCO, CALIFORNIA

BOARD OF DIRECTORS

JAMES B. BLACK	San Francisco	HERBERT C. FREEMAN	New York
ALLEN L. CHICKERING	San Francisco	NORMAN B. LIVERMORE	San Francisco
JOHN P. COGHLAN	San Francisco	CHAS. K. MCINTOSH	San Francisco
W. W. CROCKER	San Francisco	JOHN D. MCKEE	San Francisco
P. M. DOWNING	San Francisco	C. O. G. MILLER	San Francisco
JAMES F. FOGARTY	New York	HENRY D. NICHOLS	San Francisco
D. H. FOOTE	San Francisco	SILAS H. PALMER	San Francisco
A. EMORY WISHON	San Francisco		

EXECUTIVE COMMITTEE

ALLEN L. CHICKERING	JAMES B. BLACK	C. O. G. MILLER
NORMAN B. LIVERMORE		SILAS H. PALMER

OFFICERS

JAMES B. BLACK	President	San Francisco
P. M. DOWNING	Vice-President and General Manager	San Francisco
A. EMORY WISHON	Vice-President and Assistant General Manager	San Francisco
JOHN P. COGHLAN	Vice-President and Assistant to the President	San Francisco
D. H. FOOTE	Vice-President and Secretary-Treasurer	San Francisco
W. G. VINCENT	Vice-President and Executive Engineer	San Francisco
R. E. FISHER	Vice-President in Charge of Public Relations and Sales	San Francisco
E. J. BECKETT	Assistant Treasurer	J. D. ROSIE Assistant Secretary
O. H. BARTHOL	Assistant Treasurer	R. KINDIG Assistant Secretary
E. W. BILLEB	Assistant Treasurer	C. L. HORNBERGER Assistant Secretary

STOCK TRANSFER AGENCIES

OFFICE OF COMPANY (C. E. HOLT, Transfer Agent)	San Francisco
BANKERS TRUST COMPANY	New York

REGISTRARS OF STOCK

THE AMERICAN TRUST COMPANY	San Francisco
THE NEW YORK TRUST COMPANY	New York

This Company makes no charge for stock transfers except as to documentary stamps or other charges that may be required by law.

HEADS OF DEPARTMENTS

LEGAL	Wm. B. Bosley	<i>General Counsel</i>
	T. J. Straub	<i>General Attorney</i>
	R. W. Duval	<i>Attorney, Rate Department</i>
ELECTRICAL CONSTRUCTION AND OPERATION	F. R. George	<i>Engineer of Operation</i>
	O. W. Peterson	<i>Engineer of General Construction</i>
	E. H. Steele	<i>Engineer of Line Construction</i>
	Geo. H. Bragg	<i>Engineer of Maintenance</i>
GAS CONSTRUCTION AND OPERATION	R. S. Fuller	<i>Engineer of Operation</i>
	Frederick F. Doyle	<i>Manager Natural Gas Division</i>
	Frank Willis	<i>Engineer of Production</i>
	H. J. Smith	<i>Engineer of Construction</i>
ENGINEERING	W. G. B. Euler	<i>Chief Engineer</i>
	J. P. Jollyman	<i>Chief of Division of Hydro-Electric and Transmission Engineering</i>
	S. J. Lisberger	<i>Chief of Division of Electric Distribution</i>
	I. C. Steele	<i>Chief of Division of Civil Engineering</i>
	R. C. Powell	<i>Chief of Division of Steam Engineering</i>
	F. M. Harris	<i>Chief of Bureau of Specifications and Estimates</i>
	O. A. Knopp	<i>Chief of Bureau of Tests and Inspection</i>
EXECUTIVE ENGINEERING	J. T. Ryan	<i>Consulting Valuation Engineer</i>
	G. M. Thomas	<i>Valuation Engineer</i>
	B. B. Beckett	<i>Rate Engineer</i>
	C. H. Prouty	<i>Manager Land Department</i>
PUBLIC RELATIONS AND SALES	O. R. Doerr	<i>General Sales Manager</i>
	N. R. Sutherland	<i>Manager Commercial Department</i>
	Don C. Ray	<i>Manager Bureau of Public Relations</i>
	H. N. Carroll	<i>Manager Commercial and Industrial Sales</i>
	A. M. Frost	<i>Manager Agricultural Sales</i>
	Forrest U. Naylor	<i>Administrative Assistant, Sales</i>
	B. W. Reynolds	<i>Manager Domestic Sales</i>
ACCOUNTING AND TAX	E. W. Hodges	<i>Comptroller</i>
	D. G. Martin	<i>General Auditor</i>
	H. T. Terry	<i>Auditor of Division Accounts</i>
	M. D. Lack	<i>Manager Tax Department</i>
CREDIT AND STOCK SALES	Geo. H. Rand	<i>Manager</i>
PURCHASES AND STORES	Fred P. Hanson	<i>Manager</i>
PUBLICITY	Al C. Joy	<i>Manager</i>
PERSONNEL	L. J. Nevraumont	<i>Manager</i>
AUTOMOTIVE	S. B. Shaw	<i>Automotive Engineer</i>

DIVISION MANAGERS

COAST VALLEYS DIVISION	T. W. Snell	Salinas
COLGATE DIVISION	E. C. Johnson	Marysville
DE SABLA DIVISION	J. H. Fagg	Chico
DRUM DIVISION	J. R. Johnson	Auburn
EAST BAY DIVISION	L. F. Newbert	Oakland
HUMBOLDT DIVISION	J. W. Coons	Eureka
NORTH BAY DIVISION	Clifford Bartlett	San Rafael
SACRAMENTO DIVISION	E. W. Florence	Sacramento
SAN FRANCISCO DIVISION	Henry Bostwick	San Francisco
SAN JOAQUIN POWER DIVISION	E. P. Smith (Asst. to Vice-President)	Fresno
SAN JOSE DIVISION	I. B. Adams	San Jose
SHASTA DIVISION	G. R. Milford	Red Bluff
STOCKTON DIVISION	H. B. Heryford	Stockton

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

SAN FRANCISCO, CALIF., MARCH 14, 1941.

TO THE STOCKHOLDERS:

Continued progress was made during 1940 in all important branches of the Company's operations. More gas and electricity were sold to more customers at lower rates than in any previous year; new peaks were recorded in the daily load of both these major departments; and gross revenues also established a new high record. Expenditures for additions and betterments to our properties, while not the largest in the Company's history, exceeded those in any year since 1930.

Deliveries of gas and electricity, which together constitute the source of almost 99% of gross revenues, registered increases of 10.51% and 5.95% respectively, compared with 1939.

Substantial gains in the use of our services by industrial customers, particularly in the latter part of the year, resulted in part from accelerated activity in this region induced by the national defense program. Increased industrial employment and payrolls were in turn reflected in greater domestic and commercial consumption, and the net addition during 1940 of almost 58,000 active meters in service affords encouraging assurance of further growth.

Gross operating revenues were \$2,805,000 more than in the preceding year. This gain, however, was more than offset by increased taxes, concerning which additional information appears on page 11.

After deducting expenses of all kinds, with appropriate allowances for depreciation and other reserves, and after provision for fixed charges and preferred stock dividends, the balance available for the common stock was \$2.68 per share upon 6,261,274 full shares outstanding at December 31, 1940, the close of the Company's fiscal year. This compares with \$2.84 per share upon 6,261,270 shares outstanding at the close of 1939.

Since the formation of the Company thirty-five years ago, the management has steadfastly endeavored to create in this territory a completely integrated utility system operating within the boundaries of a single state, with the simplest possible form of corporate and capital structure. The frequent acquisition of other utilities in this territory in the period prior to 1931, while serving to round out our system, inevitably complicated and delayed for a time the program of simplification.

The year 1940 marked the close of the first ten year period in the Company's history during which it acquired no new properties of importance nor effected any significant territorial expansion. It may be appropriate, therefore, to review very briefly what may be termed the normal development of our business during a decade which, for the utility industry in general, represented a period fraught with unusual difficulties and momentous changes.

In this ten year period more than 355,000 customers were connected to our distribution system, of whom almost three-fourths were added in the last five years. There were more than 1,600,000 active meters in service at the close of 1940.

Gross operating revenues of the consolidated system increased from approximately \$85,630,000 in 1930 to \$109,980,000 in 1940, a gain of \$24,350,000 or 28.4%.

Annual sales of electricity increased from 3,289,000,000 kilowatt-hours to 4,672,000,000 kilowatt-hours, a growth of 42.0%, while volume of gas sales more than trebled, increasing from approximately 23 billion cubic feet in 1930 to 77 billion cubic feet in 1940.

The ratio of gain in electric department gross revenues, 20.6%, was less than one-half of the growth in deliveries of energy to our customers, while the advance in gas department gross revenues, 62.2%, was little more than one-fourth of the percentage increase in volume of gas sold.

This wide disparity between the relative growth of sales volume and derived revenue was occasioned by progressively lower rates, increasing average consumption and, particularly in the gas department, rapidly expanding industrial use.

Reductions in gas and electric rates placed in effect from 1931 to 1940 inclusive aggregated \$22,500,000 annually, or almost as much as the gain in gross operating revenues during this period. This record reflects the persistent efforts of the management to increase sales volume on the one hand; and on the other to reduce fixed charges and keep operating costs at the lowest levels consistent with fair treatment of employees, high standards of public service and a reasonable return to our security holders.

Annual fixed charges, represented by bond interest and discount, were approximately \$4,236,000 less in 1940 than in 1930. This large reduction was effected chiefly through bond refunding operations, but the amount of bonds in the hands of the public was reduced during this period by almost \$24,300,000. The par value of outstanding preferred and common stocks increased about \$3,700,000 and \$14,600,000 respectively. This decrease in bonded debt and increase in equity capital not only improved the capital structure but also resulted in a net reduction of \$6,000,000 in total outstanding securities.

In the same interval the utility plant account of the consolidated system increased from approximately \$628,500,000 to \$742,000,000, a net gain of \$113,500,000 after deducting obsolete or abandoned property written off. The amount of depreciation reserve concurrently increased from \$47,300,000 to \$126,800,000.

The program of corporate simplification, already referred to, has now been substantially completed. In the past ten years the affairs of forty-one subsidiary or predecessor corporations were wound up and the companies dissolved, and there remains only a single subsidiary formerly engaged in the distribution of gas or electricity whose corporate existence has not yet been terminated. This subsidiary, the San Joaquin Light and Power Corporation, is now in process of dissolution.

During this ten year period thirty-nine bond issues of the Company and its subsidiaries were paid at maturity or called for redemption, only the Company's First and Refunding Mortgage Bonds and a relatively small issue of non-callable bonds of the San Joaquin Corporation still remaining outstanding. Also, ten issues of preferred stock of other system companies were retired after the Company, through purchase or exchange for its own securities, acquired the remaining shares, aggregating \$37,406,000 par value, outstanding in the hands of the public at the close of 1930.

Throughout its corporate life the Company has met fully and promptly all of its obligations to its bondholders. Dividends on its first preferred stock have also been paid regularly since its original issuance in 1914, and dividends on the common stock have been paid without interruption for more than twenty years. Except for a period of approximately three years during the depths of the depression, when dividends were reduced to an annual rate of \$1.50 per share, cash dividends on the common stock at the present rate of \$2.00 per share per annum have been paid regularly since 1924. During the past ten years these dividends have averaged \$1.84 per share.

The territory served by the Company continues to develop at a rate considerably above the national average. In the latest decennial census period the population of the counties reached by our distribution systems, approximately 3,200,000, increased 17.7% or two and one-half times the relative gain of 7.2% in the population of the entire country.

In view of the steady growth of our business and the prospects for its continuing expansion, reductions of approximately \$2,000,000 in electric rates and \$3,000,000 in gas rates were placed in effect in October, 1940.

We have frequently stated that the Company's rates were among the lowest in the nation. Recent studies by Federal and State regulatory agencies decisively confirm this statement. In its latest annual report to the Governor of California, the State Railroad Commission presents a tabulation of utility bills covering the average needs of an average family in California's two largest cities, compared with the cost of a similar amount of utility service in the 23 other largest cities of the country. On this basis, the combined average cost of electric and gas service for domestic use is lower in San Francisco than in any of the 25 largest cities. Rates in Oakland and adjoining cities on the eastern shore of San Francisco Bay are identical with those in San Francisco, and rates in other areas served by the Company are correspondingly low.

The long record of rate reductions and service improvements placed in effect throughout the Company's history are representative of what may be accomplished under the American system of private ownership and management, subject to sane and adequate public regulation.

The close of 1940 found the Company in sound financial and operating condition, with an experienced and efficient organization of almost 13,000 employees, well prepared to meet any demands arising out of this critical period of our national life.

A construction program of substantial proportions, designed to assure an adequate supply of power and gas to meet all requirements of the national defence program, as well as the normal needs of the territory served, is being carried forward vigorously. A brief outline of some of the major features may be found on page 22.

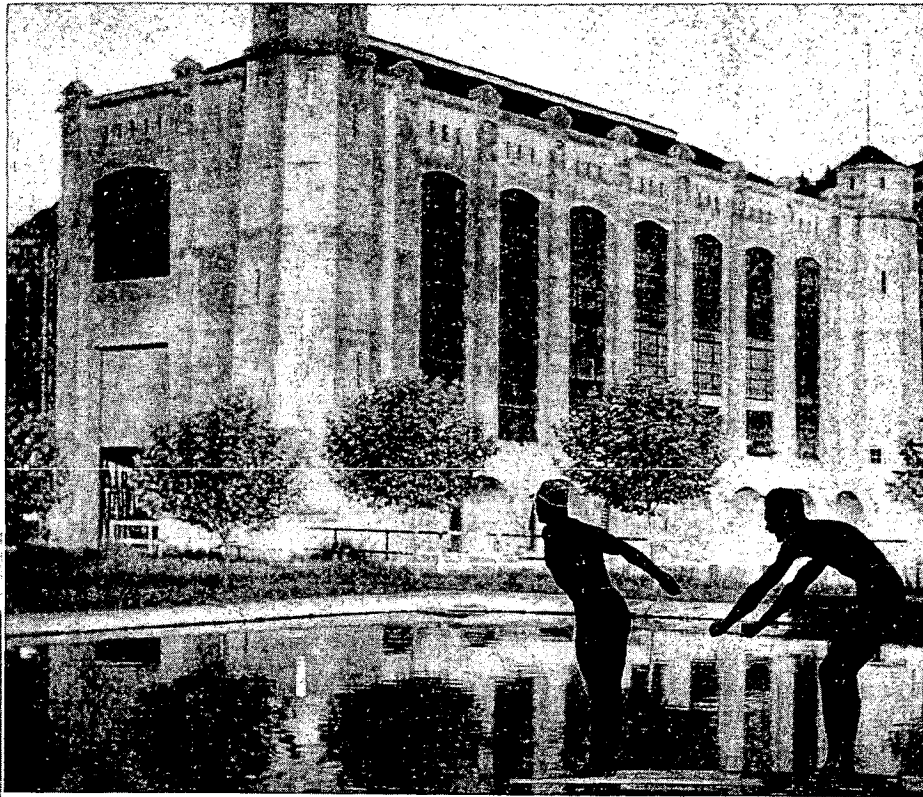
The management will continue to devote its best efforts to promoting the interests of stockholders, employees and customers, and to fulfilling all obligations imposed on the Company as a constructive factor in state and national development.

Below is a comparative summary of earnings for the past two years, prepared by our own accountants for the convenience of stockholders. Further details concerning operations during 1940, and financial statements prepared and certified by independent auditors, appear in the following pages.

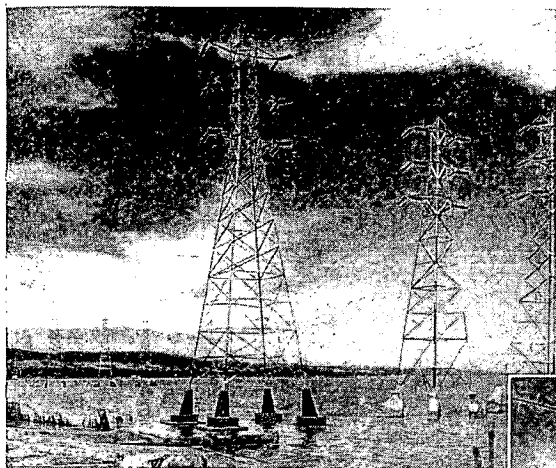
SUMMARY OF CONSOLIDATED INCOME ACCOUNT AND DIVIDENDS
ON CAPITAL STOCKS, YEARS 1940-1939

	1940	1939	Increase	Decrease
Gross Operating Revenue	\$109,980,302	\$107,175,353	\$2,804,949	
Deduct:				
Maintenance, Operating and Administrative Expenses, Taxes (except Federal Income Tax) and Provision for Insurance, Casualties, Uncollectible Accounts and Pensions	50,037,730	49,334,465	703,265	
Provision for Depreciation	15,741,166	14,991,472	749,694	
Total	\$ 65,778,896	\$ 64,325,937	\$ 1,452,959	
Net Operating Revenue	\$ 44,201,406	\$ 42,849,416	\$ 1,351,990	
Miscellaneous Income	212,076	319,968		\$ 107,892
Gross Income	\$ 44,413,482	\$ 43,169,384	\$ 1,244,098	
Bond and other Interest, Discount and other Income Deductions	11,669,771	12,751,731		1,081,960
Net Income before Provision for Federal Income Tax	\$ 32,743,711	\$ 30,417,653	\$ 2,326,058	
Provision for Federal Income Tax	8,070,803	4,739,502	3,331,301	
Net Income to Surplus	\$ 24,672,908	\$ 25,678,151		\$ 1,005,243
Dividends of Subsidiaries on Capital Stocks Held by Public	1,440	2,475		1,035
Remainder Applicable to Pacific Gas and Electric Company	\$ 24,671,468	\$ 25,675,676		\$ 1,004,208
Dividends on Preferred Stock	7,909,822	7,909,821	1	
Remainder Applicable to Common Stock	\$ 16,761,646	\$ 17,765,855		\$ 1,004,209
Dividends on Common Stock	12,522,544	12,522,540	4	
Balance	\$ 4,239,102	\$ 5,243,315		\$1,004,213

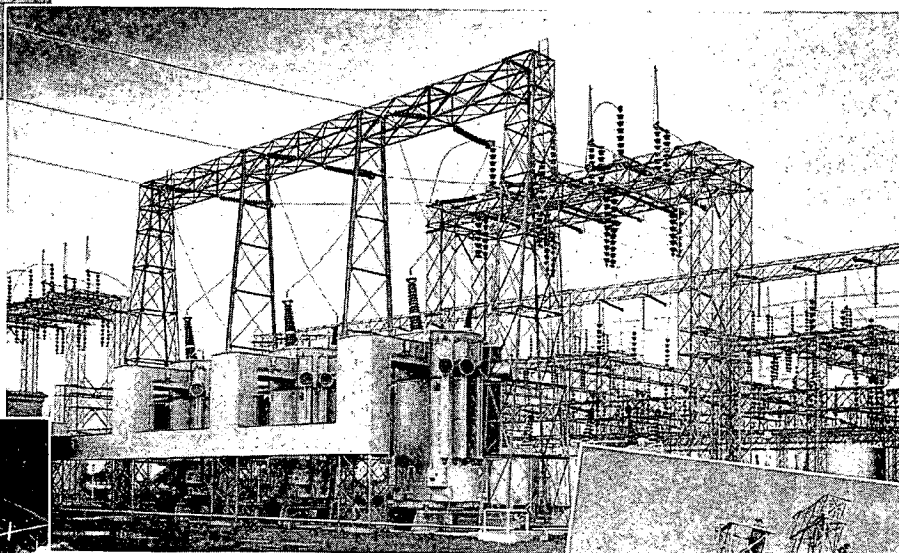
A
FAR - FLUNG
SYSTEM



Pit No. 1 Powerhouse, Shasta County. Swimming pool in foreground.

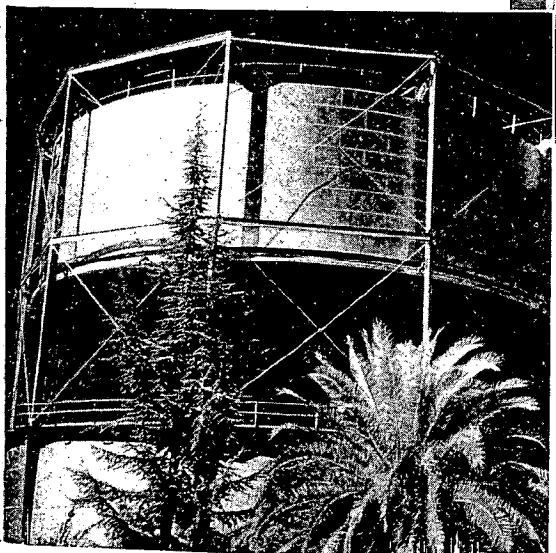


Steel transmission line towers along the bay shore south of San Francisco.

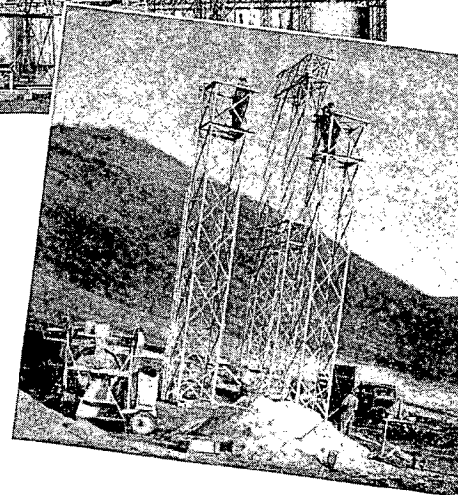


Natural Gas is stored in holders for distribution to homes and industries.

Part of the bus structure at Newark Substation, one of the major electric power pools supplying the Company's transmission network.



Structural steel going up for the new Piedra Substation for enlargement of interconnection facilities with Southern California Edison Company.



COMMENTS ON THE INCOME ACCOUNT

Gross Operating Revenue:

The total amount receivable by the Company for supplying electric, gas and other utility services during 1940 was \$109,980,000, an increase of 2.6% over 1939.

About 71% of the year's business was derived from electric department operations, which produced a gross revenue of \$78,370,000, or \$2,515,000 more than in the preceding year.

Deliveries of energy to approximately 162,000 industrial and commercial customers accounted for about one-half of electric department revenue, and four-fifths of the increase over 1939. The gain of 10.6% in kilowatt-hours sold to these customers, however, was almost double the relative increase of 5.8% in dollars payable for the additional service.

Slightly less than one-third of electric department revenues was derived from service to an average of 713,000 residential customers, who received 8.4% more electricity than in 1939, with an increase in their annual bills of but 4.5%.

Agricultural power sales, because of better water conditions, yielded a gross revenue 4.5% less than in the preceding twelve months, while sales of power for street railway operation continued the downward trend of recent years.

The gas department produced gross revenues of \$30,367,000 and accounted for 28% of the year's business. Although volume of gas sales increased almost seven and one-half billion cubic feet, or 10.5%, our customers paid for this additional service only \$333,000, or 1.1% more than in 1939. The contrast between the relative gains in sales volume and revenues was thus even more marked than in the electric department, and was attributable not only to lower rates, but to the substantial increase in sales at low unit cost to wholesale customers on an interruptible supply basis. Service to these customers may be temporarily discontinued during periods of peak load in order to assure adequate capacity to meet all demands of the regular or firm gas customers.

An average of 584,000 domestic gas customers, whose business accounts for almost two-thirds of total gas department revenues, received 7.7% more gas for only 1.2% more money than in the preceding twelve months.

Sales of both electricity and gas again received a temporary impetus during the summer of 1940 through the re-opening of the San Francisco Bay Exposition for a period of about four months. In the later months of the year, as already mentioned, our business was stimulated by increasing expenditures for Federal housing projects, shipbuilding and other activities connected with national re-armament.

Operating Expenses:

Cost of operation, with the exception of taxes, continued on a fairly stable basis. The payroll of all employees, excluding those engaged in construction activities, amounted to \$18,019,000. This was an advance of \$727,000 over the preceding year, attributable almost entirely to a general increase in the compensation of employees in the wage and lower salary brackets effective February 1, 1940.

A more adequate water supply than in 1939, with a consequent increase in power generated in its hydro electric plants, enabled the Company to reduce its purchases of power from other producers and also to generate in its steam electric stations a considerably smaller proportion of total power output. There was also a slight decrease in the average field prices of natural gas and fuel oil. As a result, the Company's outlay of \$11,862,000 for power from other sources and for natural gas and other fuels was approximately half a million dollars less than in the preceding year.

Slightly less than \$5,400,000 was spent for materials and supplies and other miscellaneous items of operating expense, and about \$1,900,000 was set aside in reserves to provide for insurance and casualties, uncollectible accounts and pensions.

The year's provision for depreciation, computed on the customary sinking fund basis, was \$15,741,000, an increase of \$750,000 compared with 1939. Including the amount spent in maintenance and repairs, the total provision for the upkeep of the properties was \$20,176,000, equivalent to 18.3% of gross operating revenues. This compares with an average of 17.2% for the past twenty years.

Altogether, these various items of operating expense, exclusive of taxes, amounted to \$52,915,000, or \$646,000 more than in the preceding year.

Taxes:

Taxes were once more by far the largest item of expense.

The total provision for all kinds of taxes, including certain items which, under the accounting classification prescribed by the State Railroad Commission, are charged to other accounts, amounted in 1940 to \$22,531,000, or \$4,481,000 more than in 1939. About three-fourths of this increase was represented by a gain of \$3,331,000, or almost ten thousand dollars per day, in Federal income taxes chargeable against the year's operations.

The total tax charge was equivalent to slightly more than twenty cents out of every dollar received by the Company from its customers, and exceeded the payroll of the entire operating personnel by more than four and one-half million dollars. Otherwise stated, taxes last year were approximately double the interest paid to the Company's bondholders, and were equivalent to an average of \$20.00 per month per stockholder, exceeding by more than two million dollars the combined dividends paid to the 96,000 owners of preferred and common stocks.

The growth of taxation to which enterprises of this character have been subjected, particularly in recent years, is graphically illustrated by the chart on page 36. Thirty years ago annual taxes payable by the Company averaged \$1.58 for each meter in service. This figure increased to \$4.49 per meter in 1920, \$7.38 in 1930, and \$14.07 in 1940.

In the latter year the disbursement of rate refund checks to natural gas customers entitled the Company to a reduction in Federal income taxes and State franchise taxes estimated to aggregate \$1,160,000. In the 1940 income statement taxes are presented on the basis of normal operation, the amount of this non-recurring tax saving being transferred to the pension reserve.

Fixed Charges and Other Income Deductions:

Interest on borrowed capital, represented at the close of the year by approximately \$287,000,000 of bonds, amounted in 1940 to \$11,513,000, and the year's proportion of debt discount and expense to \$917,000. Total fixed charges on funded debt were \$12,430,000 and were earned 3.57 times, compared with 3.44 times in 1939.

As a result of the larger volume of uncompleted construction work in 1940, the credit to income account for interest chargeable to construction was \$435,000 more than in the preceding year.

The total charge against income to cover bond and other interest, amortization of bond discount and expense, and miscellaneous income deductions was \$11,670,000, a decrease of \$1,082,000.

After providing \$8,071,000 for Federal income taxes, already briefly discussed, net income amounted to \$24,673,000, or \$1,005,000 less than in 1939.

Dividends to Stockholders:

Dividends at the established rates on the Company's 6% and 5½% preferred stocks aggregated \$7,910,000, leaving a balance of \$16,762,000 available for the common stock, compared with \$17,766,000 in the preceding year. Dividends at the annual rate of \$2.00 per share on the common stock were paid in both years.

Disposition of the Customers' Dollar:

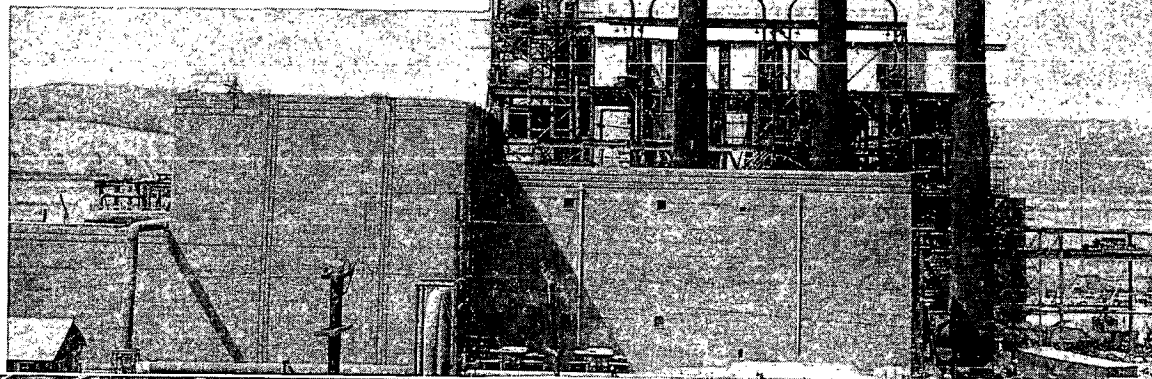
Of each dollar derived from service to our customers, about 20 cents was absorbed by taxation; wages and salaries of all operating employees amounted to 16 cents; and another 16 cents was spent for natural gas, oil and other fuel, power received from other producers, materials and supplies used in operation, and other miscellaneous items. The year's provision for depreciation, pensions, casualties, insurance and uncollectible accounts also amounted to about 16 cents.

In addition, 11 cents of our customers' dollar was represented by bond interest and discount and miscellaneous income deductions; 7 cents was paid in dividends on the preferred stock, and 11 cents went to the common stockholders. These amounts represented, in the aggregate, the rental paid for the use of their funds to the holders of more than \$577,000,000 par value of the Company's bonds and stocks outstanding with the public.

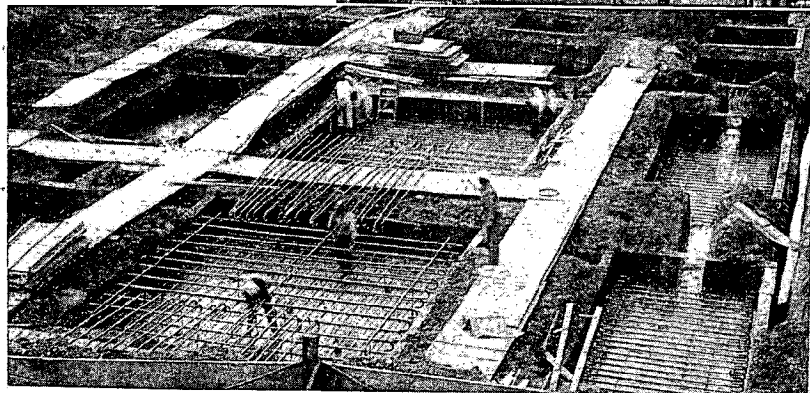
After all these deductions from our incoming dollar, there remained a balance of between 3 and 4 cents as the unappropriated surplus from the year's operations. For a company, as for an individual, the desirability of saving some portion of earnings to provide a bulwark against future contingencies is self-evident. This relatively small but highly important margin of income over outgo, now and in the past, is largely responsible for the Company's excellent credit, and enables it to obtain additional funds at favorable rates when needed for the expansion of its business.

AVON STATION

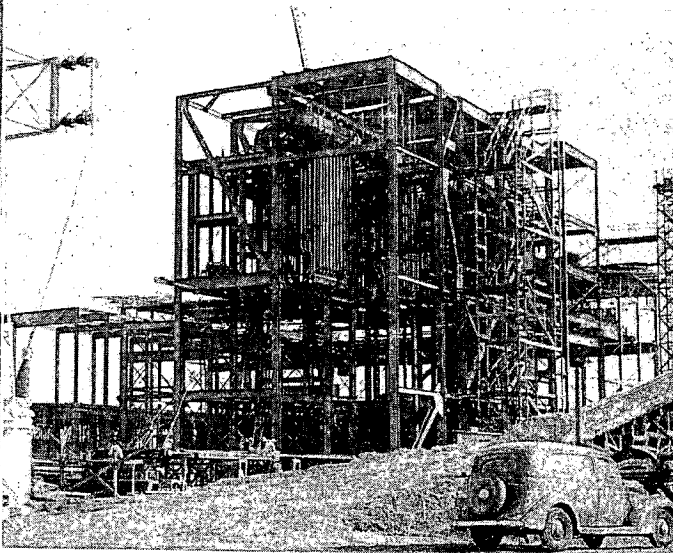
First of Three New Steam Operated Electric
Generating Plants in Contra Costa County.
Installed capacity of each plant 67,000 h. p.
Avon placed in commission December 16, 1940.



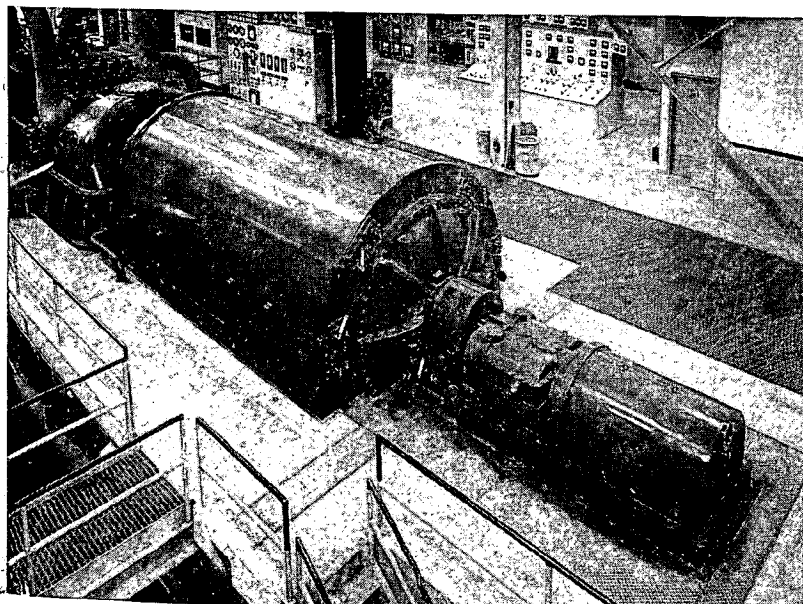
Exterior view of the completed plant.



Progress picture during pouring of concrete for boiler foundations.



Mammoth boilers as they appeared while under construction.



The turbo generator, shown at left, uses 675,000 lbs. of steam per hour at 1,400 lbs. pressure and 940 degrees F. temperature.

COMMENTS ON THE BALANCE SHEET

Plants and Properties:

The cost to the Company of its plants and properties, after the deduction of property retired, amounted at the close of 1940 to \$741,974,000. Expenditures for construction during the year amounted to \$28,855,000, while \$7,863,000 of property previously on the books was written off by reason of being worn out, obsolete or inadequate for present needs, the net addition to plant account amounting to \$20,992,000.

Capitalization:

Except for the retirement of \$708,000 of bonds purchased in the open market for sinking fund purposes, outstanding capitalization at December 31, 1940 was the same as at the close of 1939.

Funded debt in the hands of the public at the close of the year consisted of \$277,664,000 par value of First and Refunding Mortgage bonds of the Company, and \$8,973,000 par value of assumed bonds of the San Joaquin Light and Power Corporation.

Outstanding share capitalization consisted of \$134,270,625 par value of preferred stock and \$156,533,925 par value of common stock of the Company. In addition, 353 shares of common stock of the San Joaquin Corporation, now in process of dissolution, still remained outstanding.

Bonds constituted 45.4% of total capitalization and surplus; preferred stock 21.2%; and common stock and surplus 33.4%. The bond ratio was the lowest in the Company's history.

Reserves:

The provision made out of past earnings for depreciation of the Company's properties, after writing off plant retired from service, amounted at December 31, 1940 to \$126,806,000, or \$10,493,000 more than in 1939. The reserve for pensions to employees for service prior to January 1, 1937, the date that the present contributory retirement plan became effective, amounted to \$6,304,000, an increase of \$1,228,000.

Other reserves included those provided for uncollectible accounts, insurance, injuries and damages, and depreciation of the Company's investment in the Stanpac gas line. The provision for these items in 1940 was of a routine character.

The Company has practically completed the work, begun in 1939, of making refunds to natural gas customers entitled to receive them in connection with the gas rate controversy referred to in preceding reports. Some years ago a reserve of \$5,983,000 was provided in the balance sheet pending the outcome of litigation on this subject. As a result of the issuance of refund checks during the past two years, this reserve was reduced to \$1,215,000 by the close of 1939, and the remaining balance absorbed during 1940.

MATTERS OF GENERAL INTEREST

Central Valley Project:

Construction work on this Project was carried forward actively by the United States Bureau of Reclamation throughout 1940. The estimated cost of the Project, originally \$170,000,000, was increased during the year to \$228,000,000 of which approximately \$73,000,000 has been appropriated or made available to date, and an additional appropriation of \$25,000,000 recommended to Congress by the President.

The primary purposes of the Project are to conserve the water resources of the great Sacramento and San Joaquin Valleys; to aid navigation and prevent floods; and to control salinity in the delta areas of the Sacramento and San Joaquin Rivers. Provision is also made for the erection of a large hydro electric power plant at Shasta, located near the northern extremity of the Sacramento Valley. This plant will have an initial capacity of 400,000 horsepower, which may later be raised to 500,000 horsepower.

The area which it is anticipated will be affected by the operation of the Central Valley Project is located to a considerable extent within territory already adequately served by our electric transmission and distribution systems.

It is understood that about one-third of the annual energy output of the Shasta plant will be required for pumping purposes in connection with Project activities.

With a view to cooperating with governmental authorities in the most economical and efficient distribution of the remainder of the power to be generated at this plant, the Company has planned its development program to provide for growth of electric load in Northern and Central California until 1944, and has announced its willingness to enter immediately into a firm contract to absorb, beginning in 1945, up to 267,000 horsepower of the capacity and up to two-thirds of the expected average annual energy production of the Shasta plant; also to purchase all energy available from the plant in excess of that which the Company will take initially on a firm contract basis, in amounts which it can absorb into its system without financial loss. The Company has offered to pay for such capacity and energy a price equal to what the equivalent thereof would cost the Company if obtained from other sources, and has also offered to operate its electric system, and particularly its storage reservoirs, in coordination with the Shasta power plant and reservoir in whatever manner will prove to the greatest advantage in the absorption of energy generated at the Shasta plant in excess of that taken initially on a firm contract basis. The Company has further offered to undertake, through an exchange arrangement, to provide the energy required by the Project at its pumping plants; compensation for this service to be determined by negotiation.

The delivery of all energy from the Shasta plant could be made into our system at that point. The Company has an unused capacity of over 100,000 kilowatts on its Pit River transmission lines, which pass within 27 miles of the Shasta plant, and also has a right-of-way for another double-circuit line from Pit River to Contra Costa substation, near Antioch, one of the Company's major distribution centers.

With the additional steam electric plants recently completed or under construction, the Company will have ample generating capacity to provide adequate standby service and "firm up" the output of hydro power from the Shasta plant.

Hetch-Hetchy Power:

For several months negotiations have been actively conducted between representatives of the Company and the City of San Francisco in an effort to formulate a plan for the distribution of power from the City's Hetch-Hetchy system which will comply with the provisions of the Raker Act.

Such a plan was formulated and approved in principle by the Company and by the Mayor and Public Utilities Commission of the City. The Secretary of the Interior, in a letter addressed to the Mayor of San Francisco on December 3, 1940, stated that he believed the plan would probably effect formal compliance with the requirements of the Act. A definitive agreement between the City and Company embodying the provisions of the plan has since been prepared and submitted to the Secretary for his approval. It will also be subject to approval by the Public Utilities Commission and the Board of Supervisors of the City and by the California Railroad Commission.

Meanwhile, the effective date of the injunction heretofore issued by the United States District Court for the Northern District of California has been extended to June 30, 1941, pursuant to stipulations by the United States and the City.

In substance, the plan provides that during the life of the agreement all electric energy required by customers in San Francisco (with minor exceptions) will be supplied by the City at rates and subject to rules and regulations prescribed by it. The Company will lease its electric distribution system in San Francisco to the City for an agreed annual rental. The City will deliver the output of its Hetch-Hetchy development at the Company's substation at Newark for transmittal to San Francisco by the Company, and will purchase from the latter the balance of the electric energy required to supply the needs of electric customers in this city.

In addition to the rental for the use of the electric distribution system in San Francisco, the City will pay the Company for transmitting Hetch-Hetchy power from Newark, for standby service, and for power sold by the Company to the City, and will also reimburse the Company for expenses incurred by the latter in the operation and maintenance of its local distribution system.

The agreement is to continue in effect for ten years unless terminated by either party on six months' notice, or by the Company on thirty days' notice under certain circumstances.

In 1940 approximately one-seventh of the Company's gross revenues from all sources was derived from the sale of electricity in San Francisco. It is estimated that its annual net revenues will not be substantially changed as a result of operation under the proposed plan.

Ownership of Securities:

Ownership of the Company at the close of 1940 was vested in approximately 59,000 preferred stockholders and 37,000 common stockholders. Almost three-fourths of these partners in our business are California residents. The remainder are spread over every other state in the Union and many foreign countries.

Numbered among our stockholders are more than 45,000 women, 30,000 men, 18,000 joint tenancies (usually husband and wife) and over 2,000 trust estates, insurance companies, banks and other corporations and institutions.

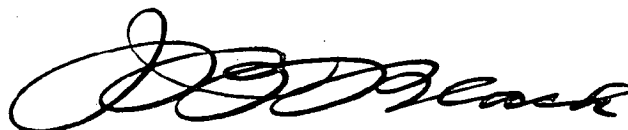
The great majority of our stockholders are people of small or relatively moderate means, as evidenced by the fact that upwards of 80,000 holders own lots of from one to 100 shares, and another 15,000 own lots of from 101 to 1,000 shares of \$25 par value. There are only 675 holdings of more than 1,000 shares, most of these representing investments by institutions whose ownership is in turn distributed among a very large number of individuals.

A report by [REDACTED] Vice-President and General Manager, on the Company's physical operations, construction and sales activities, and personnel, appears on the ensuing pages, followed by certified financial statements, statistical tables and charts.

The management is keenly aware that a loyal and efficient personnel is a most valuable asset of any business enterprise, and every effort is made not only to provide just and fair treatment of employees, but to develop a progressive, responsible, and well informed working organization.

Our employees have again demonstrated during the past year their desire to cooperate in rendering a character of service measuring up to the most exacting standards, and in closing this report I wish to pay a sincere tribute to their effective support in the conduct of the Company's business.

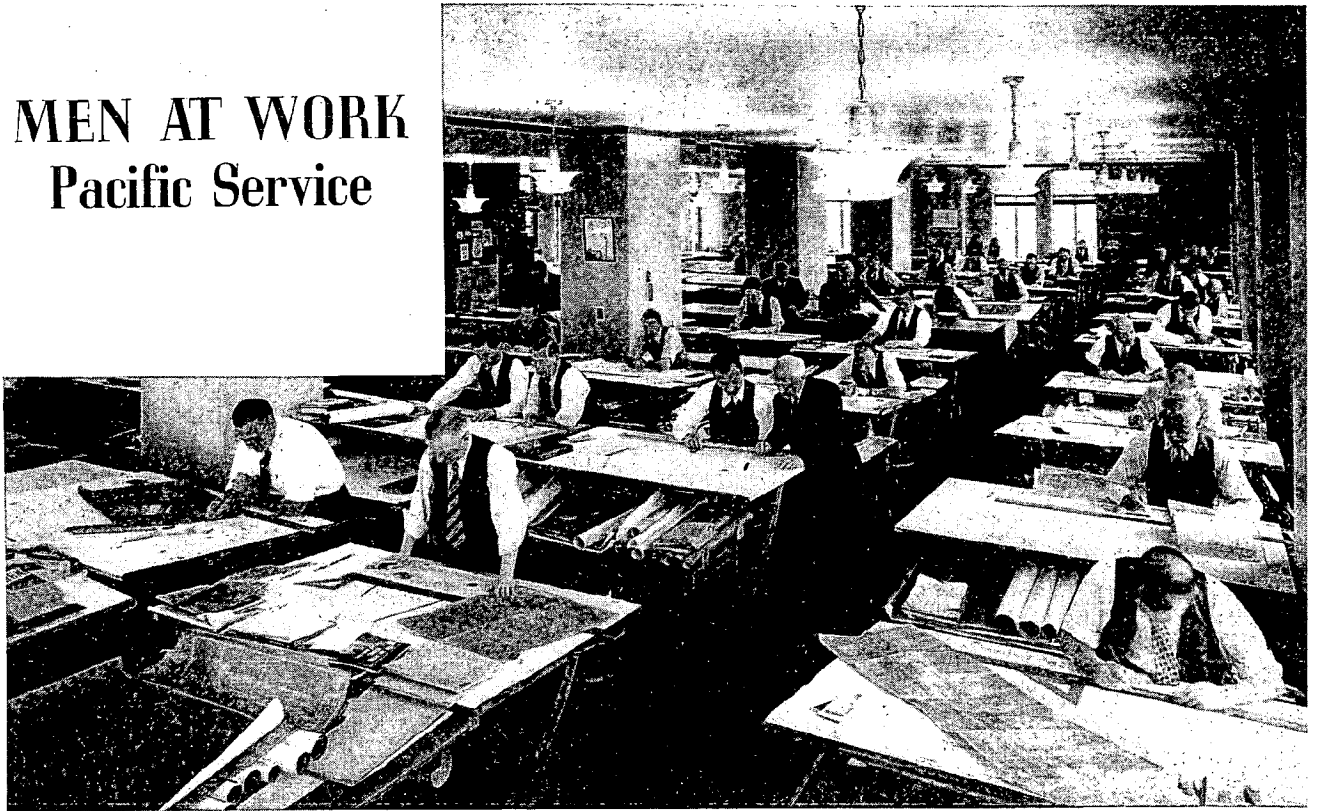
For the Board of Directors,



President.

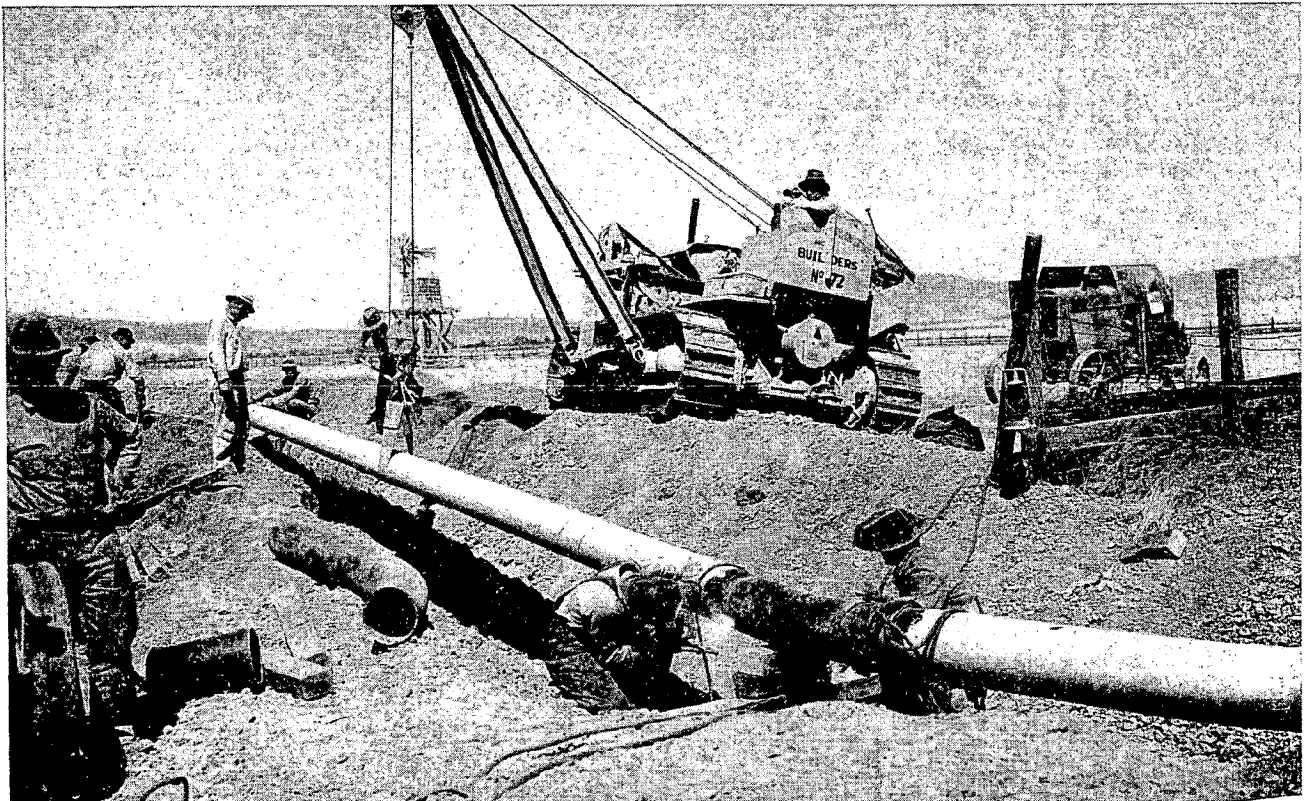
MEN AT WORK

Pacific Service



In the midst of a \$50,000,000 construction program. A portion of the engineering drafting department, General Office building, San Francisco, where detailed plans and designs are prepared.

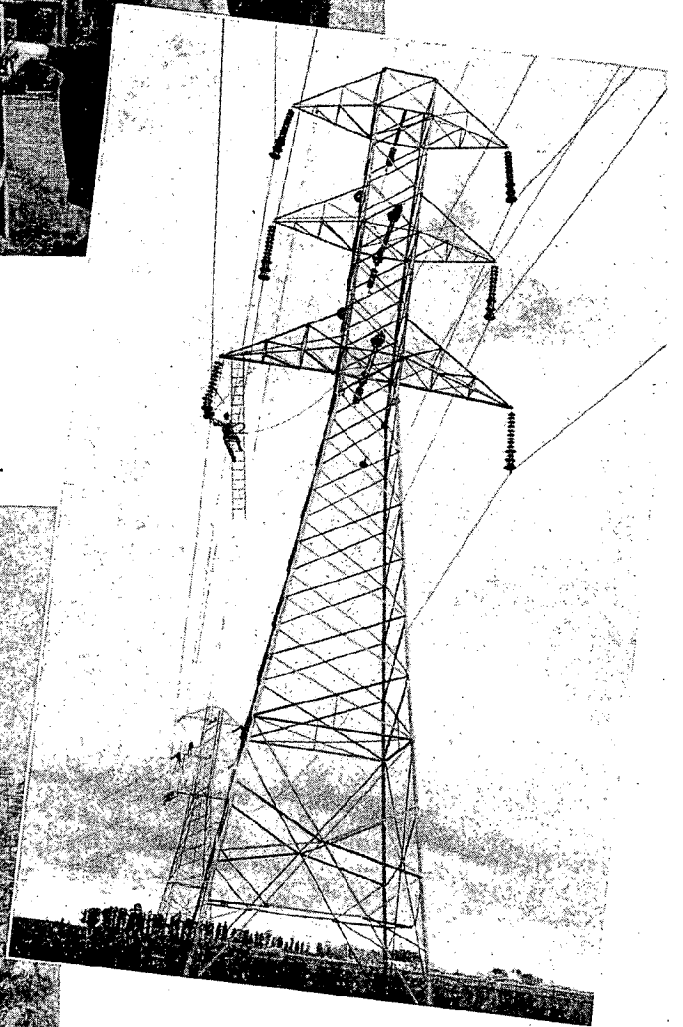
Welding the pipe line connecting Rio Vista natural gas field with P. G. and E. network.





This San Joaquin Power Division shop is typical of the system-wide activities required to maintain Pacific Service at highest efficiency.

In winter snow, a ski crew patrols the Sierra-Spaulding transmission line.



Linemen installing new Corona shields and clamps on 220 kv. line from Pit River plants to Vaca-Dixon substation.

REPORT OF VICE PRESIDENT AND GENERAL MANAGER

Customers:

At the close of 1940 the Company was furnishing service to 930,175 electric customers, 658,830 gas customers and 12,582 water and steam customers, a total of 1,601,587. There was a net gain during the year of 57,874 active meters in service, one of the largest increases on record. The steady growth of population in this territory is evidenced by the fact that an average of one thousand additional customers has been connected to our lines in each week of the past five years.

The increase during 1940 in the number of customers receiving each class of service is shown by the following comparative summary:

	Customers at December 31st		
	1940	1939	Increase
Electric Customers	930,175	897,792	32,383
Gas Customers	658,830	633,793	25,037
Water Customers	11,842	11,343	499
Steam Customers	740	785	45*
Total	1,601,587	1,543,713	57,874

*Decrease

Electric Department Operations:

The year was one of about average water supply, making possible normal operation of the Company's hydro electric plants, which generated 22.7% more kilowatt-hours than in 1939, a year of deficient precipitation. This permitted a substantially reduced use of the steam electric stations, the output of which was 42.7% less than in the preceding year. Including power received from other producers, the gross output of the consolidated system for 1940 was 6,136,063,037 kilowatt-hours, a new high record 5.5% in excess of the 1939 total.

A comparative summary showing the sources of electric energy during the past two years follows:

	1940		1939	
	KWH	% of Total	KWH	% of Total
Generated in Plants operated by Company:				
Hydro electric plants	4,264,784,315	69.5%	3,475,745,945	59.8%
Steam electric plants	502,291,600	8.2	875,979,400	15.1
Power from other sources	1,368,987,122	22.3	1,461,867,014	25.1
Total	6,136,063,037	100.0%	5,813,592,359	100.0%

On December 11, 1940 a new maximum peak demand of 1,125,700 kilowatts was recorded, exceeding the 1939 peak by 65,900 kilowatts, or 6.2%. This is the first time in more than ten years that a winter peak, attributable to increased industrial power and lighting load, has been established.

The average load throughout the year was 62.1% of the maximum peak. So high a load factor is clearly an aid to economical operation, and under normal

conditions can only be achieved by utilities, such as this Company, operating in a large territory with an unusually stable and diversified load.

Sales of electricity to customers totaled 4,671,952,518 kilowatt-hours, an increase of 262,384,858 kilowatt-hours, or about 6.0%, in spite of considerably reduced consumption by agricultural and street railway power customers. Excluding sales to these two branches of industry, more than two billion kilowatt-hours, or about 43% of all energy sales, were used by general industrial customers, whose consumption in every month of the year exceeded that of the corresponding months of 1939.

The Company received an average of 1.67 cents per kilowatt hour for all electricity sold, the lowest average unit price in its history.

With a view to supplementing its own construction program to provide for the growth of demand in this territory during the next few years, the Company in 1940 arranged to secure from the Southern California Edison Company an additional 100,000 horsepower of standby capacity, to be made available in the southern part of our system for a three year period beginning January 1, 1942. This will bring potential deliveries from the Edison Company's Big Creek development up to 200,000 horsepower, with the option on our part to continue a portion of this standby capacity after December 31, 1944.

On August 19, 1940 the Company's electric distribution properties within the boundaries of the Modesto Irrigation District were sold to the latter for \$325,000. The District agreed to purchase from the Company during the next fourteen years all electric energy it may require in excess of the output of its own generating facilities.

Gas Department Operations:

Average temperatures during 1940 were somewhat above normal but the volume of gas sold, 77,283,044,000 cubic feet, again established a new maximum 10.5% in excess of deliveries during the preceding year. All major classifications of our gas business shared in this gain, the most noteworthy increase occurring, as might be expected, in the industrial load.

More than 99% of all gas sold was natural gas, and the Company continues to substitute this fuel for manufactured gas wherever the development of new sources of supply makes the transition feasible. In line with this policy, a transmission line is being built to connect our distribution system in the city of Eureka with the recently developed Tompkins Hill gas field, located in the most northerly section of the territory served.

Aside from this new field, many existing gas fields are constantly being enlarged or gas drawn from deeper levels, and drilling operations by various oil and gas producers continue actively. Altogether, 341 producing wells, with a potential output of approximately one billion cubic feet of gas daily, were completed in 1940 in the general area from which the Company draws its supplies.

At the close of the year six gas generating plants, with a daily capacity of 3,372,400 cubic feet, were supplying manufactured gas to towns not at present connected with the natural gas transmission lines. In addition, nine plants with a daily capacity of 149,092,248 cubic feet are located in the major gas distributing centers and used to provide standby service in the event of interruptions to natural gas supply, or at times of peak demand.

Construction Activities:

The Company is carrying forward a comprehensive construction program designed to meet all possible demands upon its system resulting from load growth in this territory during the next few years.

Including the recently completed steam electric generating plant at Avon, the program outlined will add approximately 500,000 horsepower of generating capacity by the close of 1944. This is equivalent to increasing the capacity of the Company's own plants by almost one-third within a period of five years, aside from the additional 100,000 horsepower of capacity to be available from the Southern California Edison Company from 1942 to 1944, inclusive.

The 67,000 horsepower Avon plant was placed in operation late in 1940. A similar plant at Martinez will be ready for use in the spring of 1941, and a third plant of like capacity at Oleum is scheduled for completion during the summer of this year. These plants, located adjacent to the refineries of three large oil companies in Contra Costa County, on the shores of San Francisco Bay, involve an expenditure of more than \$15,000,000, excluding transmission. Their combined capacity of approximately 200,000 horsepower of steam generated energy assures ample additional power supply for present needs. The installation of a second unit at Oleum, which will double the capacity of that plant, will be undertaken at once.

Late in 1940 work was begun on the construction of a 4-mile tunnel to convey water from the Bear River through a new 28,000 horsepower plant to be built near Dutch Flat, and scheduled for completion in 1942. Meanwhile, the recently completed Colgate tunnel, which will divert water from the Yuba River through Colgate power house, will eliminate considerable flume maintenance, improve operating efficiency, and permit of adding about 12,000 horsepower to the generating capacity of the Colgate plant.

Early in 1941 contracts were placed for generators and turbines for two additional hydro electric plants at Cresta and Pulga, on the Feather River. These units, of 93,000 and 110,000 horsepower respectively, will be among the largest water power plants on our system. They will be ready for operation in two or three years.

Considerable work was done during 1940 in modernizing certain of the older and smaller steam and hydro plants, some of which are being converted from manual to automatic operation, with resultant economies in operating costs. About \$2,000,000 was spent on substation construction and another \$2,000,000 on miscellaneous line construction to provide for the continuing growth of load.

In the gas department additional gathering lines were built in oil fields located in the San Joaquin Valley and Rio Vista areas to bring added supplies of natural gas to the main transmission lines. A new gas line is being built from Rio Vista to connect with the trunk line between Stockton and Sacramento. This field, located in the southern section of the Sacramento Valley, is proving a productive area, ranking in importance with many of the San Joaquin Valley fields.

Sales Activities:

A revival of shipbuilding in the San Francisco Bay area is already well under way. During 1940 commitments were made providing for the construction of 21 United States Maritime Commission ships, 30 cargo vessels for England and 41 United States Naval craft, with a total contract value in excess of \$550,000,000.

The Company now has a connected load of almost 50,000 horsepower for shipbuilding, accounting for the sale of 63,565,000 kilowatt hours of electricity in 1940. Many of the new ships are electrically welded, a technological advance since the last wartime activity of riveted ships. The electric welding method has greatly increased the tonnage output per employee in hull fabrication.

Other important power loads connected during the year included 8,350 horsepower in the chemical industry, 8,300 horsepower in the construction of Friant Dam in the San Joaquin Valley and 40,000 horsepower for the Moffett Field Aeronautical Research Laboratory.

Demands for power and gas for military establishments and defense purposes began to be felt early in 1940. Twenty-six installations under this category were connected during the year, with an estimated annual revenue exceeding \$250,000. Pending jobs and negotiations in progress presage a considerable increase in business of this character in 1941.

Commercial and industrial lighting, including fluorescent illumination, was actively promoted throughout 1940.

New residential building in this territory showed an increase of 9% over 1939, there being 27,677 new homes constructed and connected to our lines during the year.

The value of our long-established policy of industry cooperation, aided by aggressive sales promotion and consistently decreasing rates, is reflected in a steady growth in average use per customer. The average annual use of our 713,000 domestic electric customers increased from 1,008 kilowatt hours in 1939 to 1,050 kilowatt hours in 1940. Our 578,000 domestic natural gas customers showed an average annual use in 1940 of 42,700 cubic feet, an increase in average use per customer of 1,600 cubic feet compared with 1939.

In 1940 the sale of \$37,200,000 of domestic electric appliances and installations, and \$14,300,000 of domestic gas appliances and installations contributed to this increased usage. This represents an average new investment of \$52.00 for each domestic electric customer and \$24.50 for each domestic gas customer.

An example of increasing public acceptance is reflected in domestic electric refrigeration sales. During the year 78,186 refrigerators were sold in our territory, a gain of 44% over 1939.

National Awards are Won:

The Company in 1940 won five awards, two of them national and three regional, in the annual Better Copy contest of the Public Utilities Advertising Association. The national awards were for first place in electric load building newspaper copy,

and for the radio program of classical music sponsored by the Company. The regional awards were for excellence of copy in outdoor advertising, gas load building and institutional advertising in the Pacific Coast area.

The Company was also awarded the Thomas W. Martin bronze plaque for outstanding achievement during 1939 in promoting and serving the field of rural electrification. Statistics showed that more than 69,000 of the 73,000 California farms located within one mile of our power lines were receiving electric service, at average rates approximately one-half the national average for rural areas outside of this territory.

Personnel:

An average of 12,737 men and women was employed in the Company's service during 1940, with a total payroll of \$25,853,000. Approximately 70% of this amount was paid to operating employees, and the balance to those engaged in construction work.

A general increase in the pay of all employees in the wage and lower-salaried brackets was placed in effect on February 1, 1940. As in the past, our wage scales continue to compare favorably with those paid for similar work by other employers in this territory.

Aside from the payment of fair wages, the management for many years has tried consistently to provide employees with opportunities for self-improvement and advancement during their working years, and with financial security after their retirement from the service.

Payments made by the Company during 1940 under the Social Security Act for old age benefits and unemployment insurance amounted to \$968,000, and \$487,000 was contributed by employees through payroll deductions. In addition to these compulsory payments under the Act, the Company paid \$779,000 and employees paid \$461,000 to the insurance companies administering the contributory retirement plan placed in effect by the Company four years ago. Membership under this plan includes more than 95% of all eligible employees. Actual disbursements to pensioned employees during 1940 amounted to \$432,000, there being 609 former employees on the pension payroll at the close of the year.

Educational, social and recreational activities are conducted by the Pacific Service Employees Association, a voluntary organization with a membership of approximately 9,400, governed by the employees themselves, but supported in part by annual appropriations made by the Company. The educational work of the Association has been carried on for almost a quarter of a century and is of a most comprehensive and outstanding character, approximately 2,800 certificates being awarded for completion of courses in the last educational fiscal year. The attendance at lectures and visual educational programs, supplementing the formal courses, exceeded 11,000.

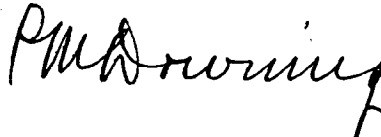
The Association also pays death benefits to the dependents of deceased members, and administers a Disability Plan with a membership of more than 7,000.

Upwards of 3,300 employees were also members of the Pacific Service Employees Credit Union at the close of 1940.

The Employees Welfare Committee, inaugurated almost twenty years ago, continues to provide unrestricted opportunities for frank and full discussion by elected representatives of the employees and Company executives concerning matters affecting the personnel.

That employment conditions within the Company have proven generally satisfactory may be inferred from the very small turn-over of the operating personnel for a period of many years. We sincerely hope for a continuance of the present cordial relationships.

Respectfully submitted,



Vice-President and General Manager.

ACCOUNTANTS' CERTIFICATE

The Board of Directors of Pacific Gas and Electric Company:

We have examined the consolidated balance sheet of Pacific Gas and Electric Company and its subsidiary companies as of December 31, 1940, the related statement of consolidated net income and summary of consolidated surplus for the year ended that date, and the balance sheet of Pacific Gas and Electric Company as of December 31, 1940, have reviewed the systems of internal control and the accounting procedures of the companies, and have examined or tested their accounting records and other supporting evidence in accordance with generally accepted auditing standards applicable in the circumstances and employing all relevant auditing procedures to the extent we deemed necessary.

In our opinion, the accompanying balance sheets and related statement of consolidated net income and summary of consolidated surplus, with their footnotes, fairly present the financial condition of the companies at December 31, 1940 and the results of their operations for the year ended that date, in conformity with generally accepted accounting principles and practices followed by the companies on bases consistent with those of the preceding year.

Haskins & Sells.

San Francisco, February 21, 1941.

**PACIFIC GAS AND ELECTRIC COMPANY
AND SUBSIDIARY COMPANIES**

STATEMENT OF CONSOLIDATED NET INCOME FOR THE YEAR
ENDED DECEMBER 31, 1940

GROSS OPERATING REVENUE:			
Electric department		\$78,370,067.03	
Gas department		30,367,053.39	
Other		1,243,181.97	
	Total		\$109,980,302.39
OPERATING EXPENSES:			
Maintenance and repairs		\$ 4,435,155.67	
Production expenses:			
Purchased and consigned power	\$5,509,721.24		
Natural gas purchased	5,986,744.70		
Other production expenses	2,900,762.82	14,397,228.76	
Transmission expenses		1,242,580.37	
Distribution expenses		5,866,914.15	
Street railway department expenses		344,440.89	
Customers' accounting and collecting expenses		4,015,478.86	
Sales promotion expenses		1,826,580.66	
Provision for depreciation and amortization		15,741,165.96	
Taxes, other than Federal taxes on income		12,864,820.51	
Administrative and general expenses		3,149,815.66	
Provision for doubtful notes and accounts		300,000.00	
Provision for insurance and injuries and damages		499,624.31	
Provision for pensions		1,095,090.07	
	Total		65,778,895.87
NET OPERATING REVENUE			\$ 44,201,406.52
MISCELLANEOUS INCOME:			
Dividends		\$ 29,000.50	
Interest on bank balances and notes and accounts receivable		157,896.32	
Other (net)		25,179.33	
	Total		212,076.15
GROSS INCOME			\$ 44,413,482.67
DEDUCT:			
Interest on funded debt		\$11,512,900.00	
Amortization of bond discount and expense		917,119.80	
Taxes assumed on interest		11,047.37	
Miscellaneous interest		22,835.09	
Miscellaneous income deductions		224,940.12	
	Total	\$12,688,842.38	
Less interest charged to construction		1,019,071.36	
	Net deductions		11,669,771.02
NET INCOME BEFORE PROVISION FOR FEDERAL TAXES ON INCOME			\$ 32,743,711.65
PROVISION FOR FEDERAL TAXES ON INCOME (includes excess-profits tax of \$1,163,608.68) (see Note on page 27)			8,070,803.55
NET INCOME CARRIED TO SUMMARY OF CONSOLIDATED SURPLUS			\$ 24,672,908.10

EXHIBIT A

**PACIFIC GAS AND ELECTRIC COMPANY
AND SUBSIDIARY COMPANIES**

SUMMARY OF CONSOLIDATED SURPLUS FOR THE YEAR
ENDED DECEMBER 31, 1940

EARNED SURPLUS:

Balance, January 1, 1940	\$50,859,205.98	
Net income, from statement of consolidated net income	24,672,908.10	
Addition to earned surplus—Reduction of Federal and State taxes based on income, arising from refunds to gas consumers (transferred to reserve for pensions; see below) (see Note below)	1,160,198.79	
Total		\$ 76,692,312.87
Deductions from earned surplus, other than dividends:		
Excess of cost over face value of bonds reacquired, plus unamortized discount and expense applicable thereto	\$ 434,267.23	
Additional appropriation for reserve for pensions (see contra amount above)	1,160,198.79	
Amounts expended in connection with refunds to gas consumers in excess of reserve originally provided therefor	539,527.20	
Miscellaneous—net	49,169.90	
Total		\$ 2,183,163.12
Dividends on capital stocks held by public—cash:		
Pacific Gas and Electric Company:		
Preferred—6% cumulative	\$ 6,296,596.44	
Preferred—5½% cumulative	1,613,225.51	
Common	12,522,544.50	
Subsidiary company—Valley Electrical Supply Company—common	1,440.00	
Total		20,433,806.45
Increase for 1940 in minority interest in earned surplus of subsidiary since date of acquisition by Pacific Gas and Electric Company		48.93
Total charges to earned surplus		\$ 22,617,018.50
Balance, December 31, 1940		\$ 54,075,294.37
CAPITAL SURPLUS—Balance, January 1 and December 31, 1940		606,401.16
TOTAL SURPLUS, December 31, 1940		\$ 54,681,695.53

Note: During the years 1939 and 1940, as required by Decision No. 26512 of the Railroad Commission of the State of California, the Company made refunds to certain gas consumers, and charged such refunds, together with the related interest and expenses, to a reserve which had been created by charges to earned surplus, \$5,983,000.00 in periods prior to 1939, and \$539,527.20 during 1940, the latter amount representing the deficiency of the reserve earlier created. The aggregates of the charges are deductible for the purpose of Federal taxes on income in the stated years; however, in order to present such taxes on the basis of normal operations, and comparably from year to year, the provision for Federal taxes on income as shown in Exhibit A, consistent with the treatment thereof in 1939, is without giving effect to such deductions and is accordingly greater by approximately \$969,000 than the amount estimated to be payable under the effective tax laws and regulations. California state franchise tax for any given year is based on the income of the preceding year. Such tax for the year 1940 is stated on the same basis as Federal taxes on income for the years 1939 and 1940 as set forth above, and is accordingly greater by approximately \$191,000 than the corresponding liability. The aggregate of the excessive tax provisions for 1940 discussed herein, approximately \$1,160,000, was transferred from the related liability accounts to the Company's reserve for pensions through the earned surplus account.

The provision for Federal taxes on income for the year 1940, as recited in Exhibit A, contains an amount of \$1,163,608.68 in respect of excess-profits tax of the Company, computed by the average-earnings method under the Second Revenue Act of 1940; of this amount approximately \$594,000 is included in the amount of \$969,000 discussed in the preceding paragraph of this note; it is not practicable at this time to determine or estimate the alternative excess-profits tax on the basis of invested capital. The consolidated subsidiaries will incur no tax of this class for 1940.

EXHIBIT B

[27]

PACIFIC GAS AND ELECTRIC COMPANY
CONSOLIDATED BALANCE

ASSETS

PROPERTY, PLANT, AND EQUIPMENT (Note 1).....		\$741,974,331.10
INVESTMENTS:		
Capital stock of unconsolidated subsidiary—at cost (Note 2)...	\$	687,492.88
Other security investments—at cost (Note 3):		
Standard Pacific Gas Line Incorporated	\$ 4,179,000.00	
Other	356,820.18	4,535,820.18
Other investments—Long-term contracts, etc.....		1,636,084.91
Total investments		6,859,397.97
SINKING FUNDS AND SPECIAL DEPOSITS:		
Cash on deposit in sinking funds.....	\$	204,775.16
Other deposits with trustees of mortgages.....		45,842.00
Total sinking funds and special deposits.....		250,617.16
CURRENT ASSETS:		
Cash on hand, demand deposits, and time deposits.....	\$	6,788,735.02
Miscellaneous special deposits:		
For redemption of bonds	\$	51,765.00
Other	218,204.66	269,969.66
Notes receivable—Customers.....	\$	78,211.26
Notes receivable—Others.....		48,245.05
Accounts receivable—Customers (including installment accounts).....	10,061,227.42	
Accounts receivable—Others.....	446,447.74	
Total.....	\$10,634,131.47	
Less reserve for doubtful notes and accounts...	1,158,508.29	
Remainder.....		9,475,623.18
Materials and supplies (for operations and construction)—at average cost.....		5,268,749.40
Total current assets.....		21,803,077.26
DEFERRED CHARGES:		
Unamortized bond discount and expense (Note 4).....	\$19,126,684.04	
Unexpired taxes.....	175,630.25	
Unamortized valuation expense.....	34,403.28	
Other (charges, \$884,792.84; less credits, \$299,757.25).....	585,035.59	
Total deferred charges.....		19,921,753.16
TOTAL.....		<u>\$790,809,176.65</u>

For Notes 1 to 8, which are an integral part of this statement, see page 30.

EXHIBIT C

AND SUBSIDIARY COMPANIES
SHEET, DECEMBER 31, 1940

LIABILITIES

	First Preferred No. of Shares	Common No. of Shares	
CAPITAL STOCKS OF PACIFIC GAS AND ELECTRIC COMPANY:			
Authorized, \$25.00 par value each	<u>8,000,000</u>	<u>8,000,000</u>	
First preferred capital stock issued and outstanding	<u>5,370,825</u>		\$134,270,625.00
Common capital stock issued and out- standing		<u>6,261,357</u>	<u>156,533,925.00</u>
Total			\$290,804,550.00
Less net discount and expense on capital stock			<u>248,633.72</u>
Remainder—Capital stocks of Pacific Gas and Electric Com- pany, net			\$290,555,916.28
MINORITY INTEREST IN COMMON CAPITAL STOCK AND SURPLUS OF SUBSIDIARY COMPANIES .(Schedule 1) (Note 5) . .			
			51,551.09
FUNDED DEBT (Schedule 2):			
Issued (includes \$20,000,000.00 face amount maturing December 1, 1941)			\$286,696,000.00
Less—in treasury			<u>59,000.00</u>
Remainder—Funded debt (held by public)			286,637,000.00
CURRENT LIABILITIES:			
Bonds called but not redeemed			\$ 51,765.00
Accounts payable			3,521,289.78
Drafts outstanding			434,643.26
Customers' meter and line deposits			1,560,967.13
Dividends payable			3,130,739.49
Bond interest due			173,152.05
Accrued bond interest—not due			1,093,290.83
Accrued taxes for current and prior years			<u>13,184,293.01</u>
Total current liabilities			23,150,140.55
RESERVES:			
For depreciation and amortization			\$126,805,669.49
For pensions			6,304,126.49
For insurance, casualties, etc			1,052,636.86
For amortization of investment in Standard Pacific Gas Line In- corporated			<u>1,570,440.36</u>
Total reserves			135,732,873.20
SURPLUS, PER EXHIBIT B:			
Earned surplus			\$ 54,075,294.37
Capital surplus			<u>606,401.16</u>
Total surplus			54,681,695.53
TOTAL			<u><u>\$790,809,176.65</u></u>

For Notes 1 to 8, which are an integral part of this statement, see page 30.

EXHIBIT C

PACIFIC GAS AND ELECTRIC COMPANY AND SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED BALANCE SHEET, DECEMBER 31, 1940

1. The amount at which the property, plant, and equipment are carried does not purport to represent their present realizable value, or replacement or reproduction cost.

It has been the general practice of the Company to record properties and additions thereto at cost, taking as cost in the case of acquisitions through the issuance of securities the par value of such securities (the aggregate value of securities so issued, based on appropriate market quotations, exceeds their par value), and including in constructed additions interest and taxes during construction, direct engineering and supervision expenses, and proportions of administrative and general expenses determined by the Company to be applicable to construction; and to deduct retirements at actual or estimated cost.

The item of property, plant, and equipment includes both tangibles and intangibles as a complete segregation of intangibles is impracticable for the reason that no subdivision of accounts for such capital was maintained prior to January 1, 1913, the effective date of the original prescribed uniform systems of accounts, which required such segregations thereafter.

The present uniform system of accounts for electrical corporations prescribed by the Railroad Commission of the State of California, to which the Company is subject, requires that a reclassification be made of electric plant so as to state separately the amount representing original cost incurred by the person who first devoted the property to utility service; the Company has filed a report on this subject with the Commission but has made no changes in its accounts pending decision by the Commission with respect thereto.

2. The consolidated statements do not include Western Canal Company, 90.8% of the total outstanding capital stock of which is owned by the Company. Western Canal Company was organized in 1915 as a mutual water company and operated as such until the action of the Railroad Commission of the State of California on December 21, 1931, declaring it to be a public utility, was sustained by the Supreme Court of the State of California. Subsequent to this decision certain minority purchasers and holders of Canal Company stock commenced suits to recover amounts paid for their stock, and damages. Certain of these suits are still pending.

Of the Canal Company stock owned at the date of the above balance sheet, 168,681 shares (84.7% of the total outstanding stock) are held by the California trustee of the Company's first and refunding mortgage.

The equity of the Company in this unconsolidated subsidiary as shown by the latter's books at December 31, 1940 exceeded by \$134,012.29 its investment in the unconsolidated subsidiary as shown by its books at that date.

3. The stock of Standard Pacific Gas Line Incorporated and 4,579.33 shares of capital stock of Vallejo Electric Light and Power Company (the latter included under the caption "other") are held by the California trustee of the Company's first and refunding mortgage.
4. Bond discount and expense, including redemption premiums on refunded issues, is being written off over the lives of the various issues to which it pertains, or refunding issues, and items of this nature applicable to bonds reacquired, other than through refunding operations, are charged to earned surplus at time of reacquisition.
5. Pending adjudication of amounts to which the minority holders of common stock of San Joaquin Light and Power Corporation may be entitled in liquidation, their interest has been included in the consolidated balance sheet at \$35,300, the par value of the stock owned by such minority holders.
6. Except as to the suits referred to in Note 2, the matter covered in Note 5, and other matters involved in litigation, amounts for which are not definitely determinable, there are no known contingent liabilities not provided for by reserves.
7. In the above consolidated balance sheet all intercompany accounts have been eliminated, and the accounts have been consolidated and adjusted in such manner as to eliminate the investments in capital stocks of consolidated subsidiaries as shown by the books of the Company against the net worths of such subsidiaries at the respective dates of acquisition as shown by their books. As of December 31, 1940 the Company's equity in the subsidiaries consolidated, as shown by their books, exceeded by \$74,617.56 its investments in such subsidiaries, as shown by its books at that date; this amount represents the equity of the Company in net earned surplus of the subject subsidiaries since dates of acquisition and is included in consolidated earned surplus.

For pledges of capital stocks of subsidiaries eliminated in consolidation see Schedule 1.

8. The companies close their accounts promptly as of the end of each month, with the result that there are always overlapping items of expense from month to month and year to year; at the date of the above balance sheet the unrecorded liabilities and accruals for expenses were more than offset by the unrecorded and unbilled revenues accrued at that date.

EXHIBIT C

**PACIFIC GAS AND ELECTRIC COMPANY
AND SUBSIDIARY COMPANIES**
CAPITAL STOCKS AND MINORITY INTEREST IN SURPLUS OF
CONSOLIDATED SUBSIDIARY COMPANIES, DECEMBER 31, 1940

DESCRIPTION	Shares Authorized	Par Value Per Share	Amount of Minority Interest	Shares Issued			Total
				Held By Public	Owned by Pacific Gas and Electric Company		
					In Treasury	Pledged Under Mortgage	
PREFERRED CAPITAL STOCK—San Joaquin Light and Power Corporation:							
7% prior cumulative	250,000	\$100			24,496	91,862	116,358
6% prior series A cumulative	500,000	100			5,679	19,668	25,347
7% series A cumulative	185,000	100			3,589	60,309	63,898
6% series B cumulative	65,000	100			286	30	316
TOTAL					34,050	171,869	205,919
COMMON CAPITAL STOCK:							
Arlington Properties Company, Ltd.	50,000	No par				5,000	5,000
Crystal Lake Company, Ltd. (wholly-owned subsidiary of Arlington Properties Company, Ltd.)	1,000	No par			*1,000		1,000
San Joaquin Light and Power Corporation	500,000	\$100	\$35,300.00	353	13	128,854	129,220
Valley Electrical Supply Company	500	100	900.00	9	171		180
TOTAL			\$36,200.00	362	1,184	133,854	135,400
MINORITY INTEREST IN SURPLUS OF CONSOLIDATED SUBSIDIARY — Valley Electrical Supply Company (see Note 5 to consolidated balance sheet)			15,351.09				
TOTAL MINORITY INTEREST IN COMMON CAPITAL STOCK AND SURPLUS OF CONSOLIDATED SUBSIDIARY COMPANIES			\$51,551.09				

*Indirect ownership, through wholly-owned subsidiary as stated.

Schedule 1

FUNDED DEBT, DECEMBER 31, 1940

TITLE OF ISSUE	Int. Rate %	Maturity	Amount Authorized By Indenture	Amount Outstanding — Held By Public	Amount in Treasury
PACIFIC GAS AND ELECTRIC COMPANY:					
First and refunding mortgage			\$500,000,000		
Series B	6	Dec. 1, 1941		\$ 20,000,000	
Series G	4	Dec. 1, 1964		91,428,000	
Series H	3 3/4	Dec 1, 1961		116,236,000	
Series I	3 1/2	June 1, 1966		50,000,000	
TOTAL			\$500,000,000	\$277,664,000	
SUBSIDIARY COMPANY IN PROCESS OF LIQUIDATION (funded debt assumed by Pacific Gas and Electric Company)—San Joaquin Light and Power Corporation—unifying and refunding mortgage					
Series B	6	Mar. 1, 1952	150,000,000	8,973,000	\$59,000
+TOTAL FUNDED DEBT			\$650,000,000	\$286,637,000	\$59,000

+Represents funded debt of Company alone and in consolidation, as subsidiaries have no funded debt and own no portions thereof.

Schedule 2

**PACIFIC GAS AND
BALANCE SHEET,**

ASSETS

PROPERTY, PLANT, AND EQUIPMENT (Note 1)		\$741,472,137.56
INVESTMENTS:		
Subsidiary companies:		
Investments in capital stocks—at cost:		
Consolidated in consolidated balance sheet (Note 7)	\$33,110,651.73	
Not consolidated in consolidated balance sheet (Note 2)	687,492.88	
Total	\$33,798,144.61	
Advances	27,439,254.95	
Total	\$61,237,399.56	
Less excess of book value of assets transferred by subsidiary in partial liquidation over liabilities thereof assumed	59,890,254.59	\$ 1,347,144.97
Other security investments—at cost (Note 3):		
Standard Pacific Gas Line Incorporated	\$ 4,179,000.00	
Other	350,219.18	4,529,219.18
Other investments—Long-term contracts, etc.	1,636,084.91	
Total investments		7,512,449.06
SINKING FUNDS AND SPECIAL DEPOSITS:		
Cash on deposit in sinking funds	\$ 204,775.16	
Other deposits with trustees of mortgages	45,842.00	
Total sinking funds and special deposits		250,617.16
CURRENT ASSETS:		
Cash on hand, demand deposits, and time deposits	\$ 6,584,285.58	
Miscellaneous special deposits:		
For redemption of bonds	\$ 51,765.00	
Other	218,204.66	269,969.66
Notes receivable—Customers	\$ 78,211.26	
Notes receivable—Other	24,545.05	
Accounts receivable—Customers (including in- stallment accounts)	9,853,356.27	
Accounts receivable—Others	435,665.75	
Total	\$10,391,778.33	
Less reserve for doubtful notes and accounts ...	1,144,750.07	
Remainder		9,247,028.26
Materials and supplies (for operations and construction)—at average cost	5,184,024.37	
Total current assets		21,285,307.87
DEFERRED CHARGES:		
Unamortized bond discount and expense (Note 4)	\$19,126,684.04	
Unexpired taxes	174,000.00	
Unamortized valuation expense	34,403.28	
Other (charges, \$884,149.38; less credits, \$225,081.19)	659,068.19	
Total deferred charges		19,994,155.51
TOTAL		\$790,514,667.16

The notes indicated above refer to notes so numbered on the accompanying consolidated balance sheet, which are incorporated herein by reference as an integral part of this statement, together with the remaining notes on the consolidated balance sheet.

EXHIBIT D

ELECTRIC COMPANY

DECEMBER 31, 1940

LIABILITIES

CAPITAL STOCKS:	First Preferred No. of Shares	Common No. of Shares	
Authorized, \$25.00 par value each.....	8,000,000	8,000,000	
First preferred capital stock issued and outstanding.....	<u>5,370,825</u>		\$134,270,625.00
Common capital stock issued and out- standing.....		<u>6,261,357</u>	156,533,925.00
Total.....			\$290,804,550.00
Less net discount and expense on capital stock.....			<u>248,633.72</u>
Remainder—Capital stocks, net.....			\$290,555,916.28
FUNDED DEBT (Schedule 2):			
Issued (includes \$20,000,000.00 face amount maturing December 1, 1941).....			\$286,696,000.00
Less—in treasury.....			<u>59,000.00</u>
Remainder—Funded debt (held by public).....			286,637,000.00
CURRENT LIABILITIES:			
Bonds called but not redeemed.....			\$ 51,765.00
Accounts payable.....			3,455,701.28
Drafts outstanding.....			434,643.26
Customers' meter and line deposits.....			1,560,967.13
Dividends payable.....			3,130,739.49
Bond interest due.....			173,152.05
Accrued bond interest—not due.....			1,093,290.83
Accrued taxes for current and prior years.....			<u>13,166,939.60</u>
Total current liabilities.....			23,067,198.64
RESERVES:			
For depreciation and amortization.....			\$126,734,484.04
For pensions.....			6,294,054.29
For insurance, casualties, etc.....			1,048,495.58
For amortization of investment in Standard Pacific Gas Line In- corporated.....			<u>1,570,440.36</u>
Total reserves.....			135,647,474.27
SURPLUS:			
Earned surplus.....			\$ 54,000,676.81
Capital surplus.....			<u>606,401.16</u>
Total surplus.....			54,607,077.97
TOTAL.....			<u><u>\$790,514,667.16</u></u>

The notes indicated above refer to notes so numbered on the accompanying consolidated balance sheet, which are incorporated herein by reference as an integral part of this statement, together with the remaining notes on the consolidated balance sheet.

EXHIBIT D

{ 33 }

FINANCIAL STATISTICS

SUMMARIES SHOWING SOURCES OF GROSS EARNINGS 1940 COMPARED WITH 1939

I. GROSS OPERATING REVENUES BY DEPARTMENTS:

	1940	1939	Increase	Per Cent of Whole Contributed by Each Department in 1940
Electric Department.....	\$78,370,067	\$75,854,972	\$ 2,515,095	71.26%
Gas Department.....	30,367,053	30,034,505	332,548	27.61
Street Railway Department.....	527,696	523,985	3,711	.48
Water and Irrigation Department.....	442,533	437,333	5,200	.40
Steam Sales Department.....	272,953	324,558	* 51,605	.25
Total Gross Operating Revenue.....	\$109,980,302	\$107,175,353	\$ 2,804,949	100.00%

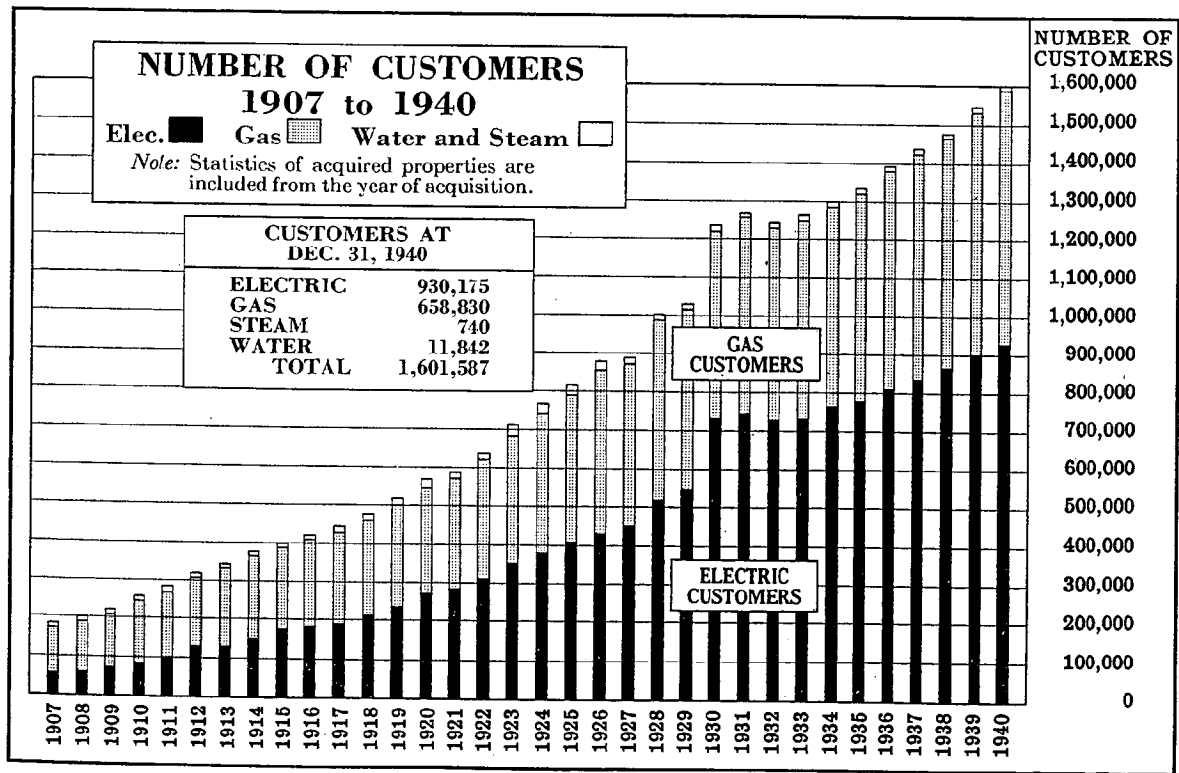
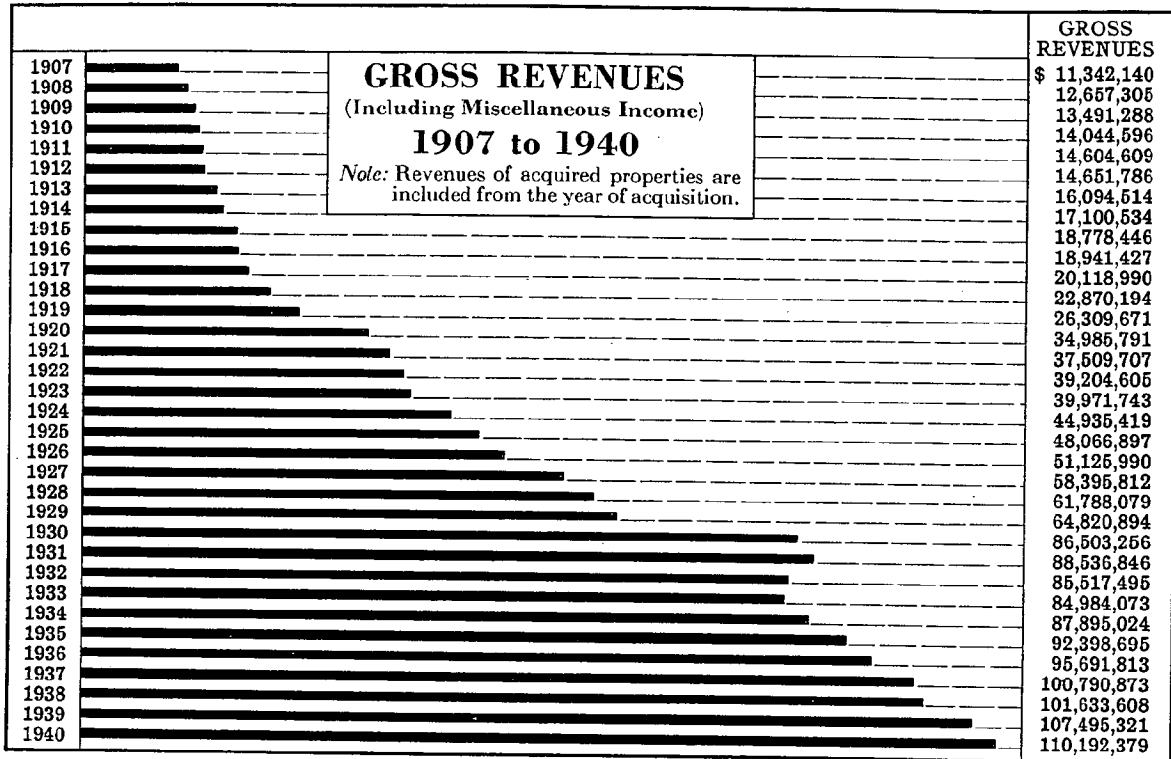
II. ELECTRIC DEPARTMENT GROSS REVENUES, BY CLASSES OF SERVICE:

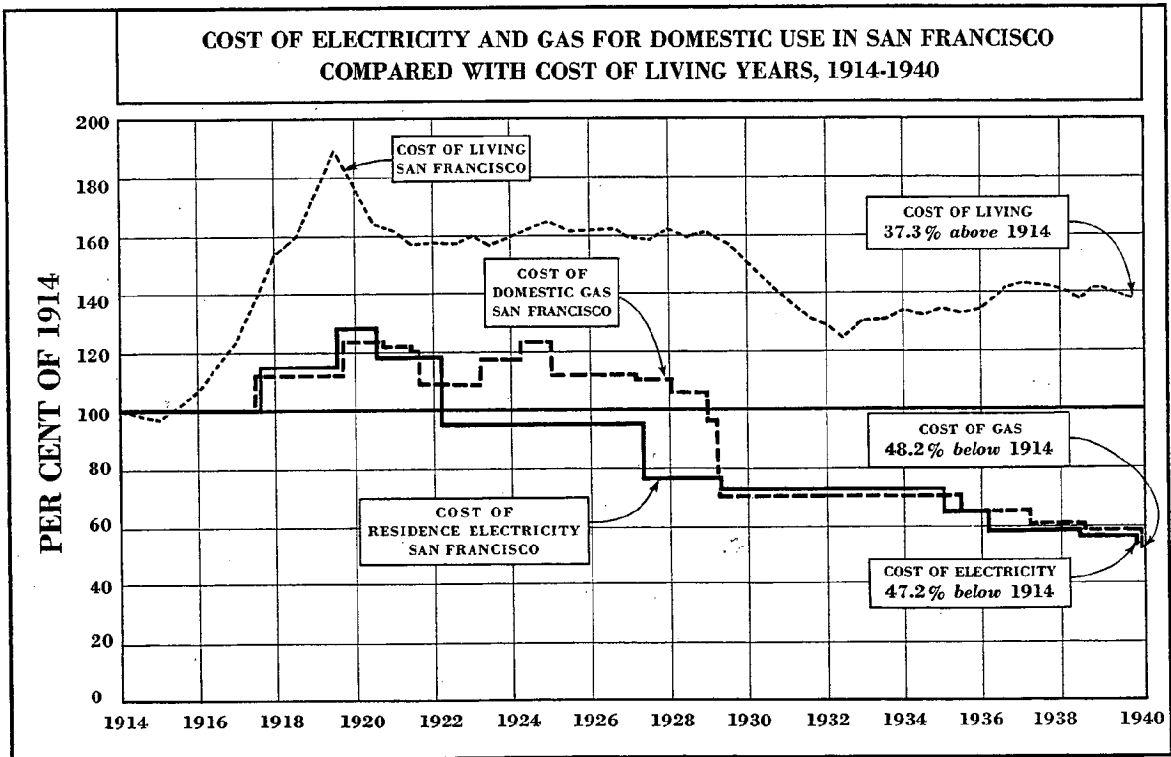
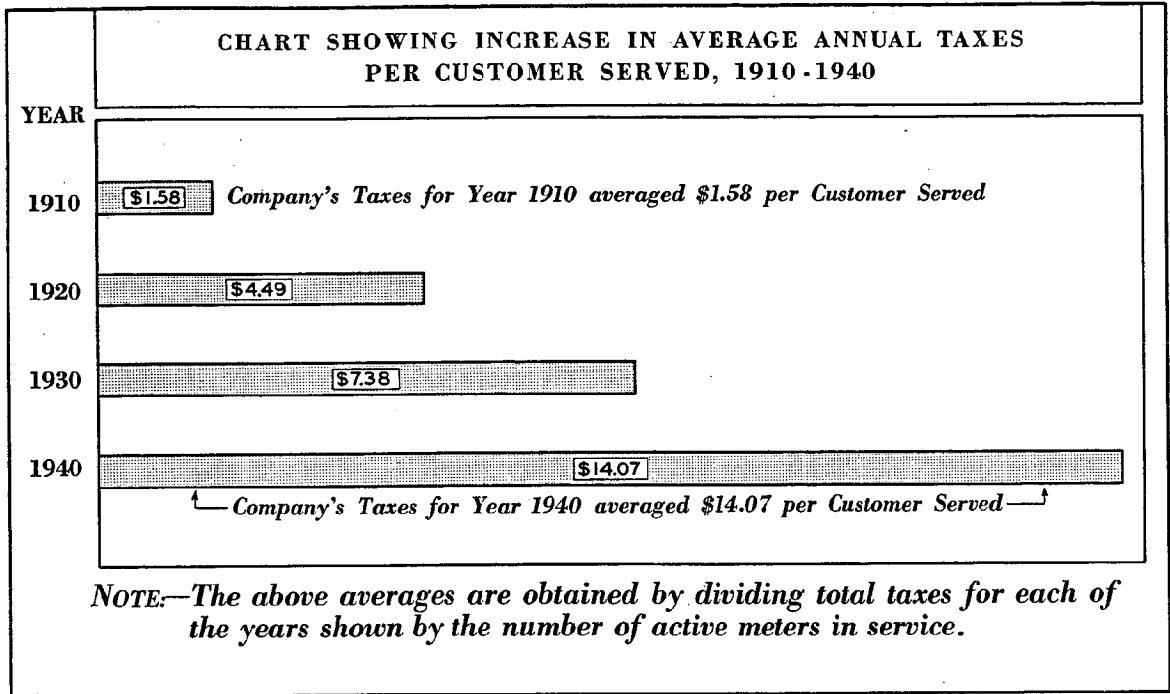
	1940	1939	Increase 1940 Compared with 1939	
			Amount	Per Cent
Agricultural Power Service.....	\$ 8,723,329	\$ 9,133,437	\$ * 410,108	* 4.49%
Domestic Service.....	24,029,235	23,005,429	1,023,806	4.45
Commercial, Industrial, and Public Service.....	39,072,206	37,018,683	2,053,523	5.55
Municipal Street Lighting.....	2,147,281	2,095,586	51,695	2.47
Street and Interurban Railways.....	1,948,684	2,197,938	* 249,254	*11.34
Sales for Resale:				
Municipal Electric Distributing Systems.....	789,865	729,093	60,772	8.34
Other Electric Companies.....	1,350,025	1,374,392	* 24,367	* 1.77
Miscellaneous.....	309,442	300,414	9,028	3.01
Gross Operating Revenue, Electric Department.....	\$78,370,067	\$75,854,972	\$ 2,515,095	3.32%

III. GAS DEPARTMENT GROSS REVENUES, BY CLASSES OF SERVICE:

	1940	1939	Increase 1940 Compared with 1939	
			Amount	Per Cent
Residential Sales.....	\$19,062,832	\$18,832,103	\$ 230,729	1.23%
Industrial Sales.....	5,505,933	5,393,589	112,344	2.08
Commercial Sales.....	5,582,605	5,594,354	* 11,749	* .21
Miscellaneous.....	215,683	214,459	1,224	.57
Gross Operating Revenue, Gas Department.....	\$30,367,053	\$30,034,505	\$ 332,548	1.11%









*Decrease.





O R E G O N

Legend

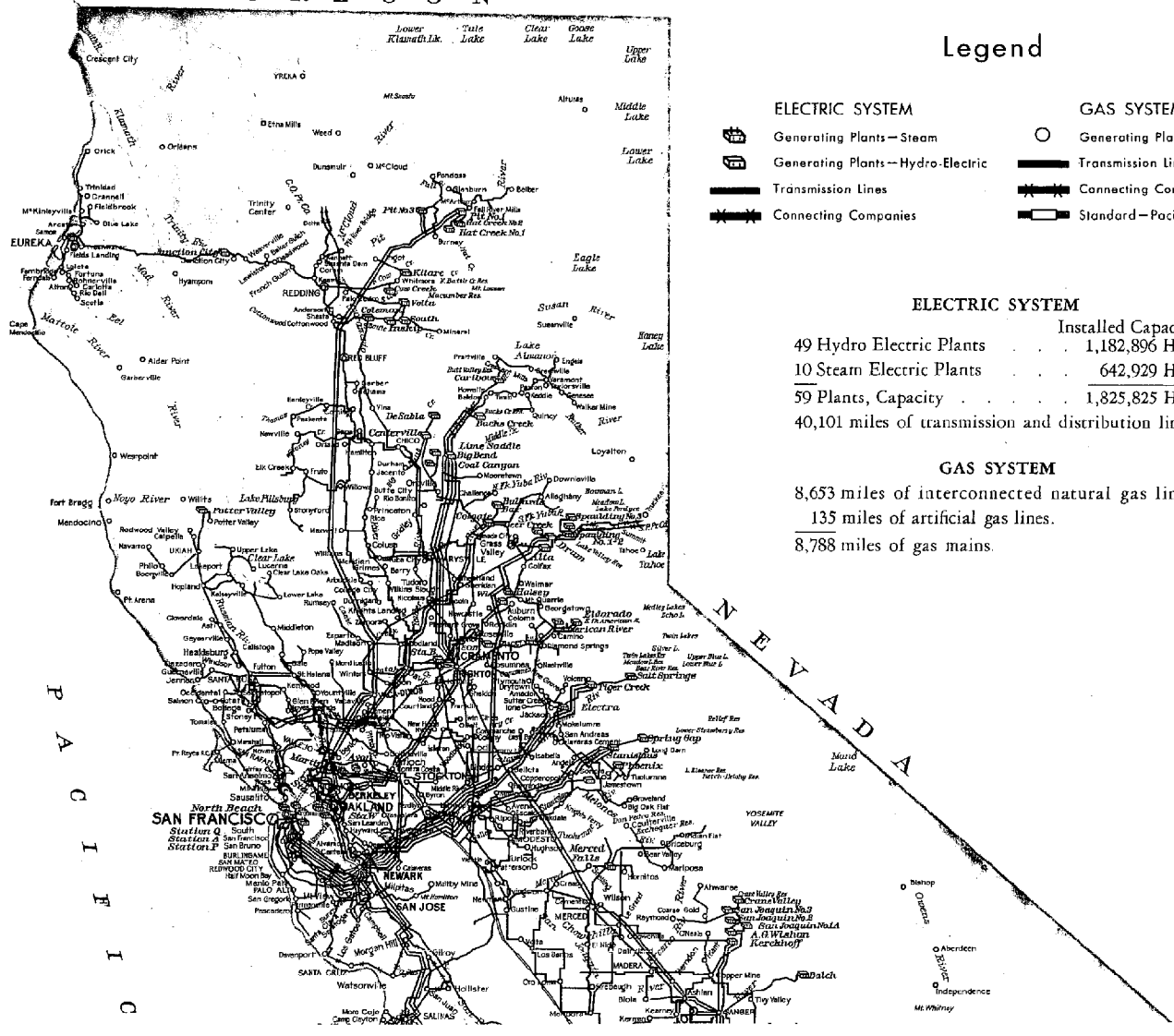
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|---|----------------------------------|---|---------------------------------|
| ELECTRIC SYSTEM | | GAS SYSTEM | |
|  | Generating Plants—Steam |  | Generating Plants |
|  | Generating Plants—Hydro-Electric |  | Transmission Lines |
|  | Transmission Lines |  | Connecting Companies |
|  | Connecting Companies |  | Standard—Pacific Gas Line, Inc. |

ELECTRIC SYSTEM

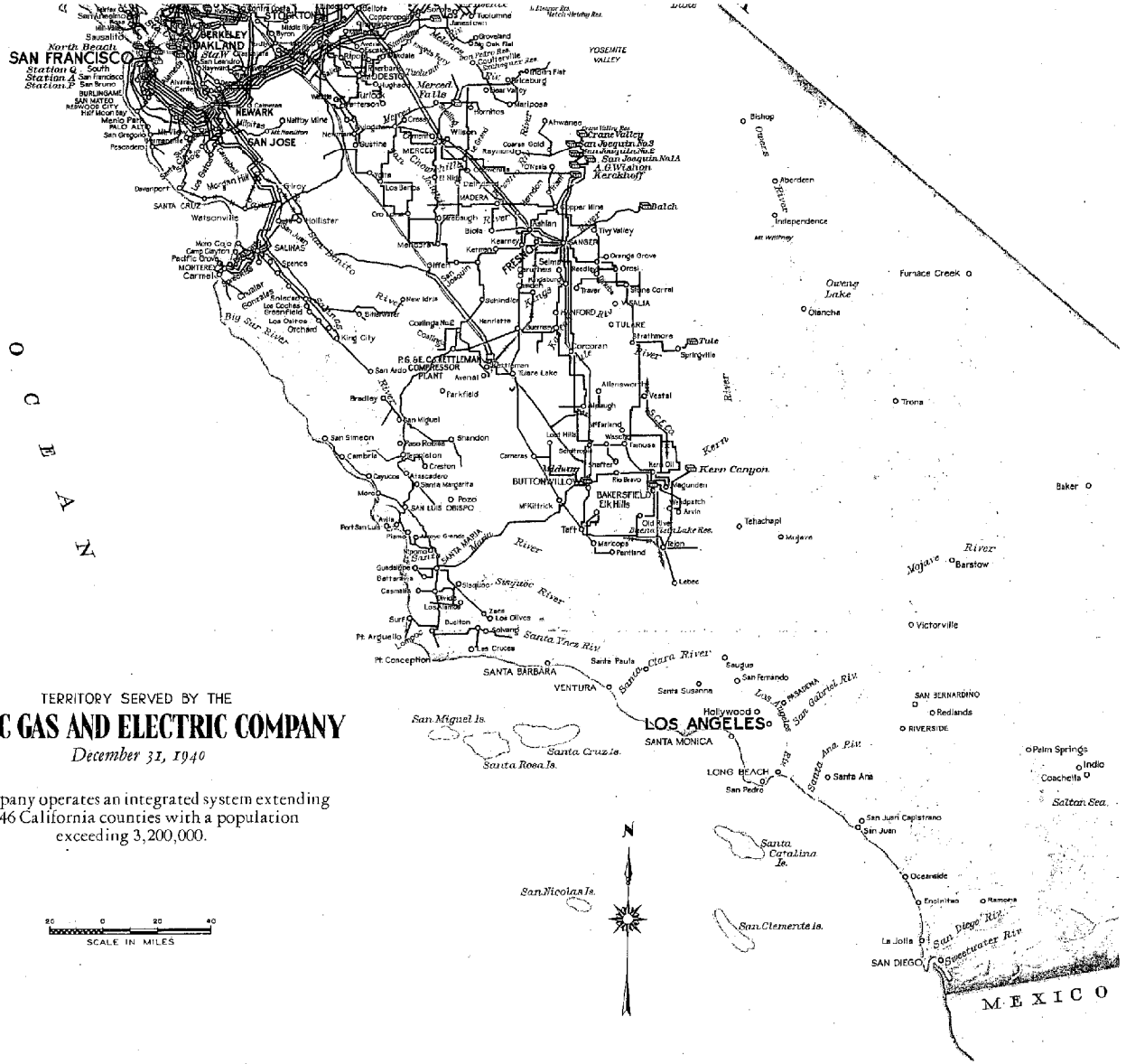
49 Hydro Electric Plants	Installed Capacity
10 Steam Electric Plants	1,182,896 H.P.
59 Plants, Capacity	642,929 H.P.
40,101 miles of transmission and distribution lines.	1,825,825 H.P.

GAS SYSTEM

8,653 miles of interconnected natural gas lines.
135 miles of artificial gas lines.
8,788 miles of gas mains.



PACIFIC OCEAN



TERRITORY SERVED BY THE
PACIFIC GAS AND ELECTRIC COMPANY
 December 31, 1940

The Company operates an integrated system extending into 46 California counties with a population exceeding 3,200,000.

SCALE IN MILES

MEXICO