



SHERMER L. SIBLEY
1913-1976

On July 16, 1976, death ended the distinguished career of Shermer L. Sibley. During 40 years of service with Pacific Gas and Electric Company, he rose from a modest initial job to President and then Chairman of the Board. He became a dedicated civic leader and an industrial statesman of national stature.

He played a major role for the past quarter century in the Company's achievements in serving the rapidly expanding energy demands of Northern and Central California. At a time of concern over the national energy crisis, he served in the highest post of the nation's electric utility industry as Chairman of the Edison Electric Institute.

He was admired and respected for his warm friendliness, for the energy and wisdom he devoted to educational and charitable institutions, and for his good humor and boundless talents.

With profound respect and affection this 1976 Annual Report is dedicated to the memory of Shermer L. Sibley.

Highlights

	1976	1975	Increase (Decrease)
Operating Revenues	\$2,646,728,000	\$2,233,371,000	19 %
Net Income	\$ 301,984,000	\$ 251,579,000	20 %
Earnings Available for Common	\$ 238,299,000	\$ 203,278,000	17 %
Earnings Per Common Share	\$2.90	\$2.67	9 %
Dividends Per Common Share	\$1.88	\$1.88	—
Total Assets	\$7,344,832,000	\$6,620,883,000	11 %
Capital Expenditures	\$ 599,278,000	\$ 630,589,000	(5)%
Sales of Electricity to Customers (KWH)	56,559,826,000	52,786,443,000	7 %
Sales of Gas to Customers (MCF)	610,953,000	670,865,000	(9)%
Total Customers	5,708,567	5,570,185	2 %
Number of Stockholders	337,271	305,635	10 %
Number of Employees	24,583	24,987	(2)%

COVER

As twilight envelops the Bay Area, commercial center of PG&E's service territory, stately Victorian homes of San Francisco stand firm against the downtown skyline, symbolizing the Company's diversity of service.

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To Stockholders

In this Report last year we expressed the belief that "earnings growth and an adequate return on investment to shareholders are in the process of being re-established." Significant progress was made during 1976 toward the achievement of this objective, and we are pleased to report that year-end 1976 earnings per share were \$2.90, an increase of 23 cents over 1975. As a result, and in recognition of the expanding investment by our stockholders, the Board of Directors has increased the common stock dividend from \$1.88 to \$2.00 on an annual basis effective with the April 1977 dividend payment.

We have diligently sought regulatory approval for rate increases that will assure adequate service to our customers and provide a reasonable return for our stockholders. The decisions of the California Public Utilities Commission on our requested rate adjustments have been sufficiently responsive to our needs to justify guarded optimism for the future.

In April the California Commission authorized a new Energy Cost Adjustment Clause (ECAC) for our electric rate schedules. This superseded a method of adjusting rates on the basis of projected fossil fuel costs with a procedure based upon the actual costs of all fuels used for electric

generation and the cost of purchased energy. Under the new ECAC procedure, dramatic swings in energy mix or energy costs resulting from weather or other conditions will no longer affect our earnings.

The Company has received approval by the Commission of a somewhat similar procedure for adjusting gas rates to offset higher prices charged for natural gas by our suppliers. This procedure, together with the ECAC, insures recovery of costs which collectively account for approximately 50% of the Company's total annual revenues.

In August the Commission rendered its decision in our general rate case. This decision authorized increases in electric and gas rates which are expected to produce an additional \$176 million in annual revenues. The Commission concluded that this increase should provide a 9.2% overall return and a 12.83% return on common equity. Although these levels of return remain below those which the Company considers to be fair and reasonable, we are encouraged by the improvement this decision represents over the 8.65% overall return and 12.00% return on equity approved by the Commission for the Company a year earlier. The Commission reduced regulatory lag in this case by deciding it only ten months after the prehearing conference. As a further indication of its intention to reduce regulatory lag, the Commission expressed a willingness to consider rate adjustments necessitated by major additions to plant, such as the Company's Diablo Canyon nuclear units, when they become operable rather than delay such adjustments to the time of a general rate case decision. The Commission's expressed determination to reduce regulatory lag in future

rate proceedings will improve the prospects for earning our allowed rate of return. To date, however, rapidly rising costs have prevented the Company from earning the returns found reasonable by the Commission, and we intend to apply at about the end of April for additional increases in our general gas and electric rates.

The ability to obtain timely regulatory approvals for new electric generating and natural gas facilities is at the forefront of the challenges confronting the Company. Despite our continuing emphasis on, and the effectiveness of, energy conservation, sales of electricity increased nearly 7% over the prior year. Although much of this increase was attributable to a stronger industrial demand resulting from improved economic conditions and greater agricultural irrigation pumping caused by below-average precipitation, our studies show that a long-term growth rate of 5% annually in the demand for electricity can be expected in our service area.

To meet this growth we are pursuing plans to develop many sources for electric generation, for it is our belief that no single source should be depended upon to supply all future needs. It is clear, however, that for future additions to our system, primary reliance must be on nuclear power and coal, the nation's two most abundant energy sources. Approximately 40% of our capacity additions for the next five years will be represented by the two nuclear units at Diablo Canyon when they become operational. In addition, we are preparing to file a "Notice of Intention" with the California State Energy Commission for our second two-unit nuclear plant on one of three

sites being considered in the Central Valley area of California. The Company is also investigating four sites for the location of its first coal-fired power plant. Development of our geothermal power capacity is continuing in The Geysers area, and construction is under way on our Helms pumped storage hydroelectric project.

The diversity of our generating resources has been a hallmark of the PG&E system. It has withstood the test of time from the standpoint of service reliability and cost effectiveness, and remains our goal in meeting the energy needs of the future. This is the subject of our special report beginning on page 11. In furtherance of this goal we have increased our support of research in the fields of solar, wind, and other electric generating technologies.

Your Company also made significant progress in 1976 toward the purchase of coal and uranium reserves required for future electric generation. After nearly a year of confirmation drilling, the Company exercised its option to purchase a coal reserve located near Price, Utah. This reserve, estimated to contain 150 million tons of low-sulfur coal, will provide a portion of the fuel needs for our proposed coal-fired generating units planned for completion in the 1980's. To supplement our existing uranium supplies, the Company also executed an agreement providing for extraction and purchase rights of uranium from properties located in Texas, and is negotiating for the purchase of an interest in uranium properties located in Wyoming.

In recent years, deliveries of natural gas to us have declined

as a result of the dwindling supplies available from El Paso Natural Gas Company and California producers. This has resulted in reduced supplies of gas to our power plants and frequent curtailments of service to interruptible industrial customers since 1972. If our supplies of natural gas from existing sources come reasonably close to current projections, residential and other high priority customers will continue to be fully served until the middle 1980's.

Accordingly, we have intensified our efforts to procure additional long-term supplies from other sources. Our proposed liquefied natural gas projects, based upon reserves in Alaska and Indonesia, both joint ventures with Southern California Gas Company, are still awaiting authorization from the Federal Power Commission. If granted timely regulatory approvals, these projects could provide approximately 20% of our gas supplies by the early 1980's.

Your Company has also continued its active participation in the Arctic Gas pipeline project, which would connect Alaskan gas fields in Prudhoe Bay and Canadian gas fields in the Mackenzie Delta region with markets east and west of the Rockies in the U.S. and in Canada. The Administrative Law Judge assigned to the Arctic Gas proceeding before the Federal Power Commission has recommended approval of this project. A recommendation by the Federal Power Commission must be forwarded to the President by May 1, 1977, and the President must submit his decision to Congress for ratification on or about September 1, 1977. If the Arctic Gas Project is selected, additional gas supplies could be available to the California market by the early


1980's. We are also continuing our gas exploration efforts in the Rocky Mountain area, and we have recently applied to the California Commission for customer funding to permit an expansion in our overall exploration program.

On July 21 the Board of Directors elevated the undersigned to their present positions. Later in the year additional changes were made in order to achieve a better-balanced organization and strengthen the management capability of the Company. These are described in a special section which follows on page 10.

We have made significant progress in many aspects of our business this past year and believe we have established a solid foundation for meeting the many challenges of the future. We commend the efforts of our employees who have made this possible and sincerely thank them for their dedication in meeting the growing needs of our customers.



President and
Chief Executive Officer



Chairman of the
Board of Directors

For the Board of Directors,
February 24, 1977

Financial and Rates

Operating revenues for 1976 amounted to \$2 billion 647 million, an increase of \$413 million, or 19%, over 1975. Electric revenues contributed about 59% of the total, and gas revenues 41%. Operating expenses were \$2 billion 243 million, an increase of \$357 million, or 19%, over 1975. This increase resulted primarily from the higher cost of natural gas, increased usage of expensive fuel oil for electric generation due to the dry year, and increased purchases of power from other producers.

Net income for the year amounted to \$302 million, an increase of \$50 million over 1975. After preferred dividend requirements of

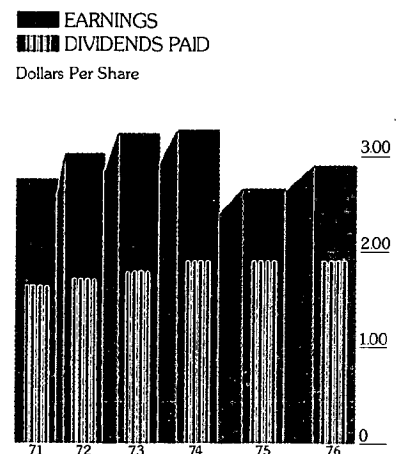
\$64 million, \$238 million was available for common stockholders. This was equivalent to \$2.90 a share, an increase of 9% over the \$2.67 a share earned last year. The number of outstanding common shares was increased during the year by 11% to a total of 88,610,611.

The quarterly common stock dividend was increased 3 cents a share effective with the April 15, 1977 payment. The annual dividend rate now in effect is \$2.00 per share. Dividends declared on the common stock during 1976 amounted to \$155 million, or 65% of the total earnings available for common stock.

Several rate decisions during 1976 were the primary reason for the increase in operating revenues. The most significant of these occurred on April 27 when the California Public Utilities Commission adopted a new Energy Cost Adjustment Clause. This permits the Company to recover the actual cost of energy used in generating electricity. Previously, rates were based upon estimated oil and gas fuel costs for average-year hydroelectric conditions. The new procedure provides for semiannual

adjustments in electric rates based upon the costs actually incurred during the preceding 12-month period for all fuels used to generate electricity and for electric energy purchased from others. Costs in excess of those currently billed to customers are deferred for accounting purposes from the time they are incurred until they are recovered, with interest, through rate adjustments. Such unbilled recoverable electric energy costs, together with interest thereon, approximated \$252 million at the end of 1976. Since these costs are currently deductible for tax purposes, the Company will receive a substantial Federal income tax refund for the year 1976. This also explains in large measure why, as previously reported, 100% of the Company's common and preferred stock dividends during 1976 were excludable from gross income for individual Federal tax purposes.

The California Commission authorized the first rate increase under this new procedure on June 15 in the amount of



\$73 million annually. An additional increase of \$144 million for the first six months of 1977 became effective January 5, 1977.

During 1976 the Company also received approval for seven separate changes aggregating \$215 million annually to offset price increases from our suppliers of natural gas.

On August 24, 1976, the Commission issued an interim decision in our general rate case authorizing increases in the Company's electric and gas rates in amounts expected to produce additional annual revenues of \$106 million and \$70 million, respectively. The Commission determined that a 9.2% overall rate of return and a 12.83% rate of return on common equity were fair and reasonable. Hearings are still in progress on the issues of conservation, rate design, and the reasonableness of the allowance for income taxes. Unfortunately, the rates charged for our services have lagged markedly

behind the costs incurred to provide them. Although the Commission has expressed its determination to reduce regulatory lag and is diligently working toward this end, rapidly increasing costs have prevented the Company from achieving the authorized levels of return. Accordingly, we intend to apply for additional general rate relief by the end of April 1977.

Rate proceedings still pending include an application for a Gas Exploration and Development Adjustment rate provision. This would permit periodic rate adjustments to offset the costs incurred for Commission-approved gas exploration and development projects.

Construction expenditures amounted to \$599 million during 1976. The external financing requirements for these and other expenditures were supplied by three security issues. In March \$106 million was raised through the issuance of preferred stock at a cost to the Company of 9.59%; in September \$163 million was obtained through the direct sale of common stock; and in November \$175 million of First Mortgage Bonds was issued at a cost to the Company of 8.35%. An additional \$25 million was

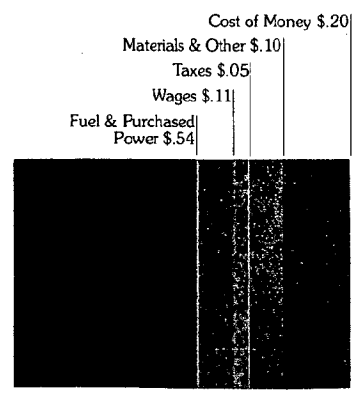
raised through the issuance of common stock to the Dividend Reinvestment Plan and the Employees Stock Purchase Plan.

The Company's capitalization at year end totaled \$6.5 billion consisting of 48.1% in mortgage bonds, 13.5% in preferred stock and 38.4% in common stock equity. There were then more than 210,000 common shareholders and 120,000 preferred shareholders.

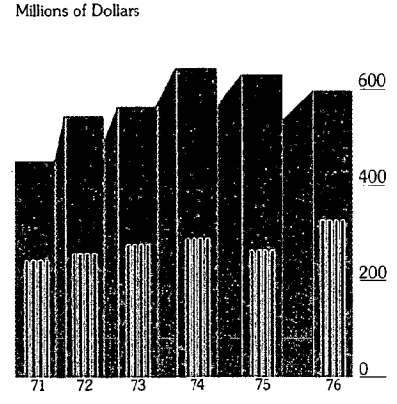
Electric

The Company's electric operations in 1976 showed the effects of the severe drought throughout PG&E's service territory. Electric energy sales increased 7% to 56.6 billion kilowatt-hours. A significant portion of the increase was due to drought-induced heavy pumping loads for agricultural irrigation. Industrial sales

USE OF THE 1976 REVENUE DOLLAR



CAPITAL EXPENDITURES
INTERNAL FUNDS



were also substantially higher, reflecting improved economic conditions.

Because of adverse hydroelectric conditions, the proportion of thermal-electric generation was much higher in 1976. Of the total system output, approximately 62% was provided by thermal-electric generation at the Company's own plants. The remaining 38% was provided by hydroelectric generation at Company plants and by purchases from other producers. This reversed the trend of the previous two years, when very favorable water conditions enabled PG&E to use less expensive hydroelectric generation for more than half its output.

Under the drought conditions experienced in 1976, the Company burned nearly 27 million barrels of low-sulfur oil in its thermal generating plants, an increase from 11 million barrels burned in 1975.

On June 28 a new record peak demand of 12,245,800 kilowatts was recorded, representing an increase of 5.3% over the previous year's peak. Our studies indicate that sales of electricity will continue to grow in our service area despite our continuing emphasis on energy conservation. To meet this growth, additional generating capacity will be required. In recognition of the growing scarcity of oil and gas, we have planned the major portion of these additions to use other fuels.

Our two nuclear units at Diablo Canyon represent 43% of the capacity additions expected to become operational during the next five years. When in full operation, these two units will save about 24 million barrels of fuel oil annually.

The Geysers will be the site of nearly 13% of our capacity additions during the next five years. It is already the world's largest geothermal facility, providing 502,000 kilowatts of capacity. Construction has started on four additional units which will bring the capacity to 908,000 kilowatts in 1979. We expect that at least two million kilowatts of capacity ultimately will be available from geothermal sources in The Geysers area.

Construction began this year on the Company's 1,125,000-kilowatt capacity pumped storage hydroelectric project on the north fork of the Kings River. Upon its completion, expected in 1981, the Helms Project will provide additional peaking capacity. Peaking generation will be accomplished by discharging water stored in Courtright Lake through turbine generators located at Lake Wishon. The water then will be pumped back to Courtright Lake during off-peak hours, using power from thermal and other base-load plants to drive the pumps.

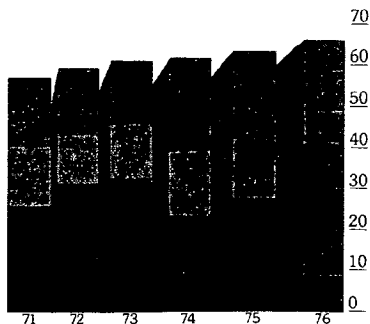
The Company is also proposing to construct an underground hydroelectric plant with a capacity of 140,000 kilowatts on the San Joaquin River. The plant would be located between two existing reservoirs and would require no new dams.

Coal is expected to become the Company's next source of energy for electric generation, supplementing the five sources currently available: nuclear, hydro, geothermal, oil and natural gas.

SOURCES OF ELECTRIC ENERGY

Thermal
 Hydro
 Received From Others (Primarily Hydro)

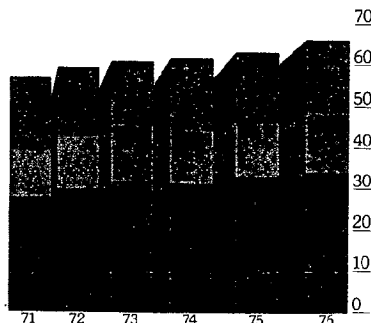
Billions of Kilowatt Hours



USES OF ELECTRIC ENERGY

Residential & Commercial
 Industrial
 Other Uses

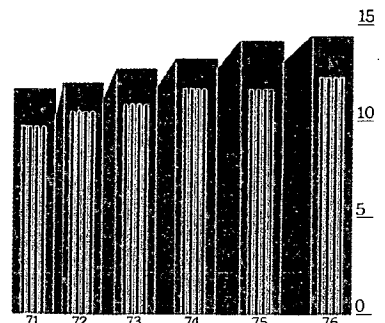
Billions of Kilowatt-Hours



ELECTRIC PEAK AND CAPABILITY

Capability
 Peak

Millions of Kilowatts



Two 800,000-kilowatt capacity coal-fired generating units are planned for construction in the 1980's.

The Company is undertaking to purchase currently a portion of its long-term supplies of fuel for future base-load thermal plants. This past year the Company purchased a coal reserve in Utah of sufficient tonnage to supply one 800,000-kilowatt generating unit for 40 years. Our future nuclear fuel requirements will be met in part from uranium properties located in Texas that were acquired in 1976. In addition, the Company is negotiating for the purchase of an interest in uranium properties located in Wyoming. Ownership interests in fuel supplies will help to stabilize the Company's costs of energy in future years.

Now, as in the past, PG&E's management must face the challenge of providing the energy needs of a growing and dynamic service area. No single source of energy is the answer to our needs. All feasible sources must

be developed and conservation must be vigorously pursued. Accordingly, we are investigating the feasibility of all promising methods of generating electricity, including fusion and breeder reactors, solar and wind power, and supporting research on a number of them. For additions to generating capacity in the next two or three decades, however, primary reliance must be placed on commercially available methods of generation and on the nation's most abundant fuel resources, uranium and coal.

Gas

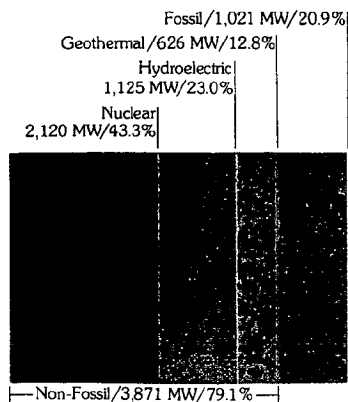
The Company currently obtains its natural gas supply from three sources: El Paso Natural Gas Company, which delivers gas from the southwestern part of the United States; Pacific Gas Transmission Company, a PG&E subsidiary which transports gas from Canada; and producers in northern and central California.

During 1976 the Company purchased 836 billion cubic feet of natural gas from these sources: 38% was obtained from El Paso, 45% came from PGT and the

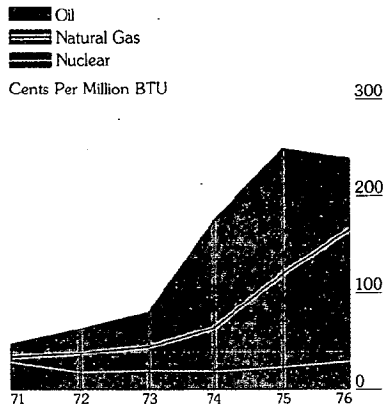
remaining 17% was from California producers. The total volume acquired was 3% less than in 1975 and the lowest amount purchased since 1967. The reduced availability of natural gas is attributable to El Paso's declining supply and the manner in which that supply is being allocated by the Federal Power Commission and also to the declining deliverability of California wells.

As a result, the Company's low priority customers have periodically been curtailed during the past few winters, as have such classes of consumers elsewhere in the country. Gas supplies currently under contract are adequate to meet the needs of residential customers until the middle 1980's. By then, assuming timely governmental actions, the projects we have planned will be providing substantial additional supplies.

PLANNED CAPACITY ADDITIONS
1977-1981 Total Megawatts - 4,892



UNIT COST OF FUEL USED FOR
ELECTRIC GENERATION



The Arctic Gas Project, a multi-company consortium of U.S. and Canadian companies, proposes to transport up to 4.5 billion cubic feet per day of gas from Alaska's Prudhoe Bay and the Mackenzie River Delta area of Canada for use in the United States and Canada. Applications for approval of this project are before regulatory agencies in both Canada and the United States. Hearings on the applications of Arctic Gas and two competing projects have been completed by the Federal Power Commission. On February 1, 1977, the Administrative Law Judge rendered his decision in favor of the Arctic Gas Project and the matter is now before the Commission for its review. Under the provisions of recently enacted Federal legislation, the Commission's recommendation must be forwarded to the President by May 1, 1977, and the President must submit his decision to Congress for ratification on or about

September 1, 1977. If the Arctic Gas Project is selected, natural gas deliveries could commence in 1982 or 1983.

The Company is also participating in a joint venture with Southern California Gas Company that would bring liquefied natural gas supplies by ship from Indonesia and from South Alaska's Cook Inlet. If approved, these projects could ultimately provide an additional 470 million cubic feet of gas per day for PG&E's customers. Hearings on these projects are in process before the Federal Power Commission.

The Company is continuing its exploration program in the Rocky Mountain area of the United States through two of its subsidiary companies, Natural Gas Corporation of California and Pacific Gas Transmission Company. Small volumes of gas from the Rockies are scheduled to flow into our system beginning this year, but sufficient data are not available to assess fully the future deliverability of gas from this source. Natural gas discovered in this area may someday be augmented with synthetic natural gas from coal to achieve quantities making pipeline transportation economically feasible.

Each of the Company's potential incremental supplies of gas will

be more costly than present supplies because of the great distances and new technologies involved in bringing this gas to market. Even the cost of current supplies has risen dramatically in recent years. The average 1976 price of \$1.34 per thousand cubic feet has quadrupled over the price of gas paid just five years ago.

The Company is also augmenting its gas storage capability and its ability to deliver gas from storage to meet its peak requirements. The Company has three underground storage facilities and one liquefied petroleum gas installation for auxiliary peaking that are capable of a maximum daily delivery totaling 1.5 billion cubic feet.

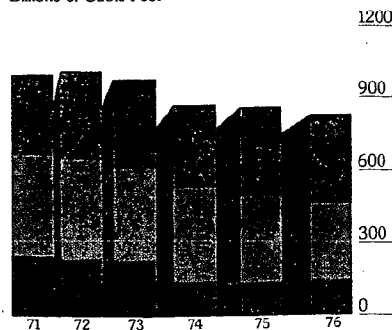
Regulation

The Company is subject to regulation by four principal agencies:

The California Public Utilities Commission has the authority,

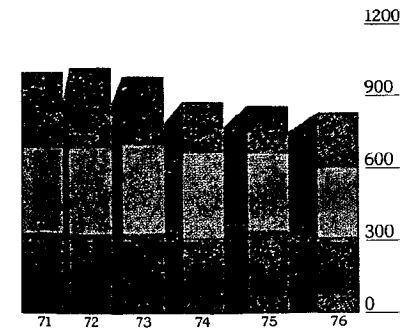
SOURCES OF NATURAL GAS

California
 El Paso
 Canadian
 Billions of Cubic Feet



USES OF NATURAL GAS

Residential & Commercial
 Industrial
 Electric Generation & Other Uses
 Billions of Cubic Feet



among other things, to establish rates, regulate security issues and prescribe rates of depreciation and uniform systems of accounts.

The Federal Power Commission has authority to regulate rates for interstate transmission and sales of electricity for resale, and to regulate the acquisition and disposition of certain property, licensing of hydroelectric projects and accounting. Pursuant to the Natural Gas Act, the FPC also exercises jurisdiction over the operations of the Company's domestic subsidiaries involved in the supply and transmission of natural gas in interstate commerce.

The California State Energy Resources Conservation and Development Commission has responsibility for forecasting electric energy requirements and for developing contingency plans for electric energy shortages. In addition, it has the authority to certify thermal-electric power plant sites and related facilities within California.

The Federal Nuclear Regulatory Commission has jurisdiction over the construction and operation of the Company's nuclear generating plants.

Conservation

Since the onset of the energy crisis in 1973, the Company has steadily intensified efforts to help its customers conserve energy. Increased conservation can reduce the need for construction of new, high-cost utility plant and stretch scarce and costly supplies of gas, oil and other sources of energy.

In keeping with its commitment to treat energy conservation as the equivalent of another energy source, the Company has established an Energy Conservation and Services Department. In 1976 this department administered a program involving the expenditure of more than \$6 million designed to produce substantial energy savings for our customers. These efforts are being increased in 1977.

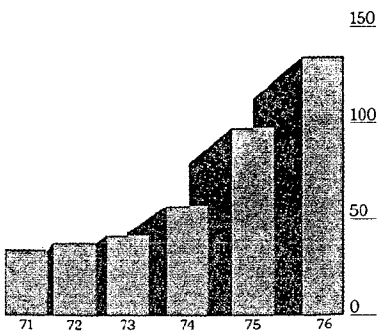
To expand still further our conservation programs, the Company is seeking authority from the California Public Utilities Commission to make additional expenditures for conservation under a procedure that would adjust customer rates to offset the costs of Commission-approved PG&E conservation programs. The proposed programs include low-cost Company-funded home insulation

loans, technical analyses of larger customers' energy use and the allocation of additional funds for solar research and development. Our conservation policy is a logical complement to the planning essential in meeting the future energy needs of northern and central California.

Personnel

There were 24,583 men and women employed by the Company at the end of 1976. Approximately 70% were represented by the International Brotherhood of Electrical Workers (AFL-CIO), and 8% by the Engineers and Scientists of California. The Company has reached an agreement with the representatives of the IBEW, subject to membership ratification, which provides for increases in benefits as well as wage increases of 7¼% effective January 1, 1977 and 6% effective

AVERAGE COST OF PURCHASED NATURAL GAS
Cents Per MCF



January 1, 1978. Negotiations with the Engineers and Scientists of California are still in progress.

The Company's Affirmative Action Program has continued to achieve excellent results. Minority employees now represent over 22% of PG&E's work force, a figure which compares favorably with the minority working age population in our service area. In addition, advancement of minorities and women into supervisory and management positions has been actively encouraged. The Company is gratified by the success of its efforts to provide upward mobility for men and women of all backgrounds. More than 3,700 PG&E supervisors and foremen have attended in-company Supervisors Training Workshops, where they are trained in practical management skills and techniques.

PG&E employees are continuing their long-standing tradition of personal involvement in their communities. Many Company

employees serve on the governing bodies or staffs of school boards, planning commissions, youth groups, and other civic and charitable organizations. We are proud of the good citizenship displayed by our employees.

Executive Changes

Following the death of Shermer L. Sibley, the Board of Directors on July 21, 1976 elected John F. Bonner President and Chief Executive Officer, Richard H. Peterson Chairman of the Board, and Frederick W. Mielke, Jr., Executive Vice President and a Director.

In order to achieve a better-balanced organization and strengthen the management of the Company, substantial organizational changes were made on December 15, 1976. On that date the Directors advanced J. Dean Worthington, Senior Vice President, to Executive Vice President and elevated three Vice Presidents — Barton W. Shackelford, Stanley T. Skinner and John A. Sproul — to Senior Vice President. Nolan H. Daines, formerly Land Department Manager, was elected Vice President — Planning and Research; Malcolm A. MacKillop, Assistant General

Counsel, became Vice President — Governmental Relations; and Paul Matthew, previously Manager of Steam Generation, became Vice President and Assistant to the Executive Vice President, Mr. Worthington.

This new executive structure relieves some of the burdens that had been placed upon the President and the Chairman of the Board by the growth of the Company, permits additional delegation of authority, and provides greater depth of senior management.

It is with great sorrow that we report the deaths of two of our Directors. On December 21, 1976, after having served on our Board of Directors for six years, Rudolph J. Drews passed away. Mr. Drews had resigned from his duties as a PG&E Director just one week earlier in anticipation of extensive travel abroad. Mr. Karl L. Wente, who had been elected a Director in October, died unexpectedly on January 22, 1977 at the age of 49.

PG&E's DIVERSE ENERGY SOURCES

PG&E EMPLOYS FIVE SOURCES OF PRIMARY ENERGY—FALLING WATER (hydro power), OIL, NATURAL GAS, NUCLEAR FUEL AND NATURAL STEAM (geothermal). All are used to produce the electricity for PG&E's system. They are drawn upon to the limits of availability (with oil the balancing fuel supply) to generate power at the highest efficiency and lowest possible cost.

We have available to us one of the nation's great hydroelectric systems. In normal rain and snowfall years, hydroelectric power provides about 50% of our electric energy. This type of electric generation neither contaminates nor consumes the water itself, but returns it to the rivers undiminished to serve agriculture and other vital needs. Hydroelectric facilities are expensive to build, but generally economical to operate. The resulting low energy cost is one reason why our rates, despite recent increases, remain among the lowest in the nation.

But since nearly all economically acceptable hydro sites have already been developed, oil and natural gas have become more prominent in our energy mix in recent years. Unfortunately, the costs of these fossil fuels have been skyrocketing. In just five years, the price for gas has quadrupled and the cost per barrel of low-sulfur fuel oil has quintupled.

One alternative to oil and gas is uranium. Nuclear power plants can produce electricity at significantly less cost than can an oil-fired plant. When operational, our two nuclear units at Diablo Canyon will save approximately 24 million barrels of expensive imported oil a year.

The remaining source of primary energy currently employed within our system is geothermal steam. We have the nation's only geothermal power development, the largest in the world, and we are expanding it. However, we estimate it will supply only about 10% of our needs when fully developed.

COAL WILL SOON BECOME THE SIXTH ENERGY SOURCE FOR PG&E. Reserves already purchased in Utah this past year and others which are being investigated will be used as fuel for two 800-megawatt coal-fired generating plants planned for operation in the mid-1980's.

CONSERVATION CAN BE CALLED OUR SEVENTH SOURCE OF ENERGY. In order to supply the energy needs of our customers now and in the future, conservation must play an increasingly prominent role. The key to the effectiveness of our conservation effort is explaining the realities of an energy situation which is truly serious to a public which is only now coming to understand and respond to it. Too many people, as polls and experience alike demonstrate, fancy that the energy problem is nonexistent or trumped

up. But the hard fact is that the energy problem is very real. It will not go away and, unfortunately, will get worse before remedial actions can take effect.

No company, no industry, can serve its customers or its stockholders effectively when faced with massive and frequently critical public misunderstanding of the most fundamental facts of its operation.

Faced with the need to explain to its customers the realities of the energy situation and to tell them what the Company is doing about it, PG&E continued a major educational campaign in 1976.

Central to the 1976 effort was the widespread use of a series of dramatic advertisements in newspapers and magazines. The series (reproduced in reduced form here) depicted the Company's diverse sources of primary energy and was titled accordingly, "Sources of Energy".

In pointing out the realities of the energy crisis and the need for conservation, the advertisements described briefly our sources of energy and why no single source can supply the needs of our customers—why all must be developed. They also called attention to PG&E's efforts to develop additional resources, including solar, wind, garbage and others. Realistically, they noted, some of these sources may take years to prove out and some may not make it at all—yet *"in the meantime, we must meet your demands for electricity"*.

Each of the advertisements concluded with the frank statement: *"For your part, the effective way to help control the spiraling cost of energy is to use less of it. We encourage you to do so because the energy you use is too precious... and too costly... to waste."*

PG&E will continue this kind of customer communication so long as the need itself continues.

Sources of Energy—No. 2 of a series

If California let off enough steam, electricity would be cheaper.

It's hot down below

PG&E has to maintain a steady production of power to meet the needs of the State. The Government in Southern California is now trying to get the steam turbines working with the help of natural gas. We have to produce electricity. We have to generate it in a safe and economical way.

How does it work? At its core, the earth is a big hot rock. As it cools, it forms a crust. The heat makes the magma, a hot liquid, beneath the crust. Where there are cracks, the magma can be pushed to the surface under certain conditions.

Our geothermal power plants use that power generated by cooling off. Here, the heat of the magma is used to produce the electricity for PG&E's interconnected network system. They are "mixed" for maximum efficiency to generate power at the lowest possible cost.

To harness water for power, we have built one of the nation's greatest hydroelectric systems. In "average" rain and snowfall years, hydro provides about 50% of our electric energy. The force of falling water makes the wheels go round in the generating plants.

Hydro generation neither contaminates nor consumes the water itself. It is returned to the rivers undiminished, to serve agriculture and other vital needs.

Building hydroelectric facilities is expensive, but they are economical to operate. The low cost of hydroelectricity is one reason why our rates, despite recent increases, remain among the lowest in the nation.

Diversity: Other sources of energy

PG&E employs five sources of primary energy—oil, natural gas, natural steam, geothermal, nuclear fuel and falling water (hydro power)—to turn turbo-generators which produce the electricity for its interconnected network system. They are "mixed" for maximum efficiency to generate power at the lowest possible cost.

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more prominent in our energy mix in recent years. Unfortunately the costs of these local systems, at home and abroad, are hurting nuclear plants.

most continue, but conservation efforts alone will not eliminate our need to build ahead today.

Sources of Energy—No. 1 of a series

If it rained all the time, electricity would be cheaper.

PG&E employs five sources of primary energy—oil, natural gas, natural steam, geothermal, nuclear fuel and falling water (hydro power)—to turn turbo-generators which produce the electricity for its interconnected network system. They are "mixed" for maximum efficiency to generate power at the lowest possible cost.

To harness water for power, we have built one of the nation's greatest hydroelectric systems. In "average" rain and snowfall years, hydro provides about 50% of our electric energy. The force of falling water makes the wheels go round in the generating plants.

Hydro generation neither contaminates nor consumes the water itself. It is returned to the rivers undiminished, to serve agriculture and other vital needs.

Building hydroelectric facilities is expensive, but they are economical to operate. The low cost of hydroelectricity is one reason why our rates, despite recent increases, remain among the lowest in the nation.

Diversity: Other sources of energy

Oil and natural gas have become more prominent in our energy mix in recent years because nearly all economically acceptable hydro sites have been developed. But the costs of these fossil fuels have been skyrocketing. In just 5 years, the prices for gas have more than doubled and the cost per barrel of low-sulfur fuel oil has quintupled. All but two of the PG&E electric rate increases requested in the past five years were to offset these higher fuel costs.

The alternative to oil and gas, which are getting more scarce and more costly, is uranium. Nuclear power plants can produce electricity at half the cost of a new oil-fired plant. Our two nuclear units at Diablo Canyon will save our having to buy 24 million barrels of expensive imported oil a year.

These are the good reasons why PG&E and other utility systems, at home and abroad, are building nuclear plants.

PG&E operates The Geysers, the nation's only geothermal power plant. Although a relatively inexpensive source of power, it presently supplies only about 4% of our customers' needs. Its most optimistic potential would supply only about 10%.

Coal one day may be our sixth source of primary energy. We are in the process of acquiring reserves in Utah.

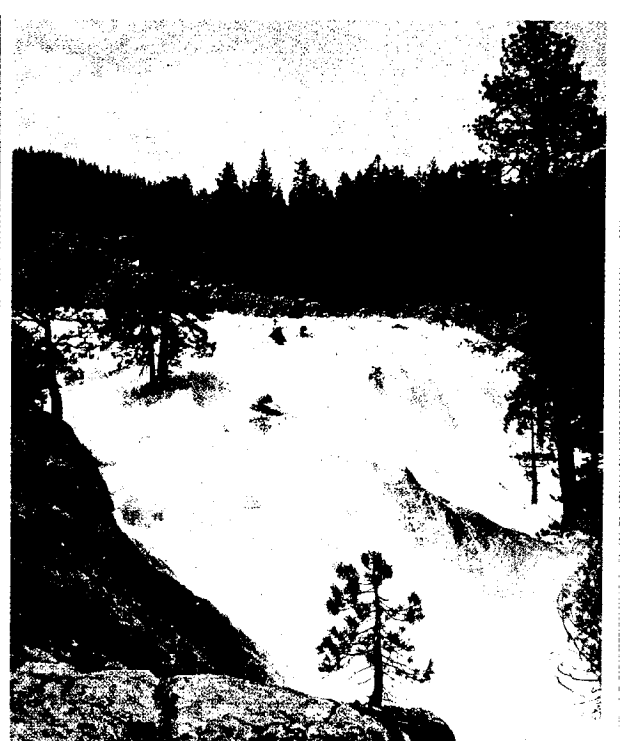
Recent developments in solar power show interesting promise, but its use as a major source is at best, many years away. Tidal and wind power are still in limited development, and may never become practical for large-scale commercial use, but research continues.

The demand for electricity continues to grow, partly because population itself continues to grow. In 1974 alone, about 100,000 more people were added to PG&E's service area.

Energy conservation efforts must continue, but conservation efforts alone will not eliminate our need to build ahead today for your tomorrow.

It's our job to keep you provided with adequate energy and reliable service at the lowest possible cost. And for our part, we intend to do just that.

For your part, we hope you will continue your efforts to conserve energy. It is so precious to waste.



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Summary of Operations

Pacific Gas and Electric Company / For the Five Years Ended December 31, 1976

	Thousands				
	1976	1975	1974	1973	1972
OPERATING REVENUES:					
Electric	\$1,571,842	\$1,293,551	\$1,104,715	\$ 947,500	\$ 856,824
Gas	1,074,886	939,820	622,040	542,656	493,789
TOTAL	2,646,728	2,233,371	1,726,755	1,490,156	1,350,613
OPERATING EXPENSES:					
Operation	1,787,844	1,474,201	961,682	744,109	668,823
Maintenance	96,277	90,853	90,631	77,083	66,913
Depreciation	199,491	178,978	166,605	158,329	142,461
Taxes on Income	16,579	13,783	54,203	72,559	73,774
Property and Other Taxes	142,667	128,303	123,025	120,556	117,731
TOTAL	2,242,858	1,886,118	1,396,146	1,172,636	1,069,702
OPERATING INCOME	403,870	347,253	330,609	317,520	280,911
OTHER INCOME AND INCOME DEDUCTIONS	121,369	108,771	100,147	69,748	64,355
INTEREST EXPENSE	223,255	204,445	169,519	143,661	129,922
NET INCOME	301,984	251,579	261,237	243,607	215,344
PREFERRED DIVIDEND REQUIREMENTS	63,685	48,301	45,253	36,682	31,109
EARNINGS AVAILABLE FOR COMMON	\$ 238,299	\$ 203,278	\$ 215,984	\$ 206,925	\$ 184,235
AVERAGE COMMON SHARES OUTSTANDING	82,138	76,265	66,146	64,140	61,086
EARNINGS PER COMMON SHARE	\$2.90	\$2.67	\$3.27	\$3.23	\$3.02
DIVIDENDS DECLARED PER COMMON SHARE	\$1.88	\$1.88	\$1.88	\$1.78	\$1.72

Quarterly Common Stock Prices and Declared Dividends

Pacific Gas and Electric Company / December 31, 1976 and 1975

	1976				1975			
	4th	3rd	2nd	1st	4th	3rd	2nd	1st
High	\$24 $\frac{1}{8}$	\$23 $\frac{3}{4}$	\$21 $\frac{3}{4}$	\$23 $\frac{1}{8}$	\$21 $\frac{7}{8}$	\$22	\$21 $\frac{7}{8}$	\$23 $\frac{1}{2}$
Low	20 $\frac{3}{4}$	20 $\frac{1}{8}$	20	20	19 $\frac{1}{2}$	19 $\frac{3}{8}$	18 $\frac{1}{8}$	19 $\frac{1}{4}$
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, 1976

OPERATING REVENUES

Operating revenues have increased significantly in each year primarily because of increases in rates and sales volume. The following table sets forth the amounts by which the Company's electric and gas revenues during each of the last four years exceeded the revenues for the preceding year, together with the estimated increases and decreases attributable to these major factors.

	Millions			
	1976	1975	1974	1973
ELECTRIC REVENUES:				
Rate Increases:				
Energy and Fuel Cost	\$ 52.3	\$ 94.0	\$153.6	\$50.3
General	146.8	34.4	2.3	1.9
Sales Volume and Other Changes	79.2	60.4	1.3	38.5
Net Increase	\$278.3	\$188.8	\$157.2	\$90.7
GAS REVENUES:				
Rate Increases:				
Cost of Gas Purchased	\$166.9	\$291.1	\$ 99.2	\$18.4
General	49.7	13.4	1.7	38.7
Sales Volume and Other Changes	(81.5)	13.3	(21.5)	(8.2)
Net Increase	\$135.1	\$317.8	\$ 79.4	\$48.9

OPERATING EXPENSES

The major increase in operating expenses resulted from increases in the cost of electric energy and cost of gas sold.

From April 1973 until April 1976 the Company's electric rates were adjustable on a quarterly basis, subject to the approval of the California Public Utilities Commission (CPUC), to reflect changes in the costs and relative quantities of natural gas and fuel oil expected to be consumed in the Company's generating plants assuming, among other things, average weather conditions. The effect of this procedure was that actual weather conditions produced large variations in the Company's earnings. No change in rates under this procedure was authorized by the CPUC after January 1, 1975.

Increased purchase prices of gas sold have not materially affected Company earnings because the CPUC has, historically, authorized changes in gas rates to customers that track the cost of gas sold.

In accordance with the requirements of the CPUC, the Company has, since March 31, 1976, deferred in a balancing account the difference between cost of its electric energy and the energy cost collected from its customers. Subsequently, the Company has been required to maintain similar accounts to record under-collections and overcollections of gas cost increases. The deferred amounts are amortized as corresponding changes are made in customer rates. The balancing account for unbilled recoverable electric energy costs totaled \$251,681,000 at December 31, 1976. As a result of the drought-induced need to use greater quantities of fuel oil for electric generation and purchased power during the early part of 1977, the Company anticipates that this balancing account will peak at approximately \$350,000,000 by the end of April 1977. Pending receipt of revenues pursuant to CPUC-authorized customer rate adjustments, the Company intends to continue financing such fuel oil expenditures through internally generated funds and the issuance of short-term notes. Although such deferred costs are deducted currently on federal and state income tax returns, for financial statement purposes such costs are recognized in the computation of income tax accruals as the deferred costs are amortized. The effect of using these balancing accounts is that changes in costs of electric energy and gas no longer affect the Company's earnings since energy costs are included in operating expenses when they are offset by revenues.

Transmission and distribution expense increased 13% in 1976 over 1975 largely due to the increased price of natural gas used in the compressor stations.

Other operation expense increased 15% in 1976 and 17% in 1975 principally as a result of the general inflationary trend and the added expense of complying with ever-increasing requirements of environmental and other regulatory agencies.

Taxes on income were lower in 1976 and 1975 due primarily to increased statutory deductions available in determining taxable income. Many of the Company's tax deductions are related to its investment in utility plant; accordingly, as the investment in utility plant has increased, deductions have increased, even though operating income before income taxes has not increased proportionately. (See Note 3 of Notes to Financial Statements.)

OTHER INCOME AND INCOME DEDUCTIONS

The amount of allowance for funds used during construction (ADC) has increased in recent years primarily due to the construction of Units 1 and 2 of the Company's Diablo Canyon nuclear generating plant. The portion of ADC recorded in 1976 which is estimated to be applicable to construction planned for completion in 1977, 1978 and 1979 is 89%, 2% and 2%, respectively. Substantially all of the ADC applicable to jobs planned for completion in 1977 represents ADC for the two nuclear units at Diablo Canyon. In connection with the August 24, 1976 interim decision on the Company's general rate increase, the CPUC stated that current ratemaking procedures are not well suited to the timely inclusion in rate base of significant additions to plant. Accordingly, the CPUC proposes to consider the addition of the Diablo Canyon nuclear generating plant in conjunction with an energy cost adjustment proceeding in order to grant timely rate treatment.

The gain on bonds purchased for the sinking fund declined in 1976 and 1975 as a result of purchasing bonds on the open market which were closer to maturity. The decline in 1976 was also due to a change in the accounting treatment of the gain on bonds purchased. (See Note 1 of Notes to Financial Statements.)

In addition, the prime reason other income increased over the last few years was because more interest expense has been applicable to property not included in rate base, thereby increasing the related income tax reduction. (See Note 3 of Notes to Financial Statements.)

INTEREST EXPENSE AND PREFERRED DIVIDEND REQUIREMENTS

The increased interest expense and preferred dividend requirements over the years are a reflection of the issuance of more long-term debt and preferred stock at higher rates to finance the ongoing construction program.

Lines of Business

Pacific Gas and Electric Company / For the Five Years Ended December 31, 1976

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
1972	63%	37%	83%	17%
1973	64%	36%	81%	19%
1974	64%	36%	90%	10%
1975	58%	42%	73%	27%
1976	59%	41%	71%	29%

Revenues and Sales

Pacific Gas and Electric Company / For the Years Ended December 31, 1976 and 1975

	Thousands		Increase (Decrease)	
	1976	1975	Amount	Percent
ELECTRIC DEPARTMENT				
REVENUES:				
Residential	\$ 517,574	\$ 465,818	\$ 51,756	11.1 %
Commercial	536,938	443,601	93,337	21.0
Industrial (1000 KW demand or over)	277,694	197,221	80,473	40.8
Agricultural Power	115,952	87,006	28,946	33.3
Public Street and Highway Lighting	24,537	20,454	4,083	20.0
Other Electric Utilities	61,664	52,478	9,186	17.5
Miscellaneous	33,727	23,733	9,994	42.1
Other	3,756	3,240	516	16.0
TOTAL	\$1,571,842	\$1,293,551	\$ 278,291	21.5 %
SALES — KWH:				
Residential	17,147,610	16,582,796	564,814	3.4 %
Commercial	17,162,248	16,571,989	590,259	3.6
Industrial (1000 KW demand or over)	14,258,149	12,811,653	1,446,496	11.3
Agricultural Power	4,601,147	3,781,864	819,283	21.7
Public Street and Highway Lighting	465,387	448,046	17,341	3.9
Other Electric Utilities	2,925,285	2,590,095	335,190	12.9
Total Sales to Customers	56,559,826	52,786,443	3,773,383	7.1
Delivered for the Account of Others	4,492,231	5,359,037	(866,806)	(16.2)
TOTAL	61,052,057	58,145,480	2,906,577	5.0 %
GAS DEPARTMENT				
REVENUES:				
Residential	\$ 416,660	\$ 407,181	\$ 9,479	2.3 %
Commercial	130,878	117,692	13,186	11.2
Industrial	502,942	395,381	107,561	27.2
Other Gas Utilities	13,492	11,958	1,534	12.8
Miscellaneous	10,914	7,608	3,306	43.5
TOTAL	\$1,074,886	\$ 939,820	\$ 135,066	14.4 %
SALES — MCF:				
Residential	243,258	262,363	(19,105)	(7.3)%
Commercial	74,718	83,244	(8,526)	(10.2)
Industrial	284,261	315,799	(31,538)	(10.0)
Other Gas Utilities	8,716	9,459	(743)	(7.9)
Total Sales to Customers	610,953	670,865	(59,912)	(8.9)
Company Use (electric generation)	194,950	159,135	35,815	22.5
TOTAL	805,903	830,000	(24,097)	(2.9)%

Comparative Statistics

Pacific Gas and Electric Company / For the Eleven Years Ended December 31, 1976

	1976	1975	1974	1973
PER COMMON SHARE:				
Earnings	\$ 2.90	\$ 2.67	\$ 3.27	\$ 3.23
Dividends Declared	\$ 1.88	\$ 1.88	\$ 1.88	\$ 1.78
Dividend Payout Ratio	64.8%	70.4%	57.5%	55.1%
Book Value (end of year)	\$28.16	\$27.71	\$28.18	\$27.80
Market Price — High	24 $\frac{1}{8}$	23 $\frac{1}{2}$	24 $\frac{7}{8}$	32 $\frac{5}{8}$
Market Price — Low	20	18 $\frac{1}{8}$	17	21 $\frac{1}{2}$
Market Price — Close	23 $\frac{1}{8}$	20 $\frac{3}{4}$	20 $\frac{1}{8}$	22 $\frac{7}{8}$
CAPITAL EXPENDITURES (Thousands):				
Electric Department	\$502,059	\$525,143	\$515,493	\$444,344
Gas Department	84,720	81,870	97,714	89,186
Other	12,499	23,576	32,453	32,009
TOTAL	\$599,278	\$630,589	\$645,660	\$565,539
ELECTRIC STATISTICS:				
Net System Output (Millions of KWH)	66,416	63,402	60,932	60,572
Net System Output — Percent				
Hydroelectric Plants	12.2%	22.6%	25.6%	21.5%
Thermal Electric Plants	62.0	43.6	38.1	53.4
Other Producers	25.8	33.8	36.3	25.1
Total	100.0%	100.0%	100.0%	100.0%
System Capability — KW (at annual peak)				
Hydroelectric Plants (adverse conditions)	2,419,900	2,396,900	2,396,900	2,384,800
Thermal Electric Plants	8,261,000	8,053,000	7,947,000	7,841,000
Other Producers (adverse conditions)	3,743,400	3,766,100	2,948,700	2,554,700
Total	14,424,300	14,216,000	13,292,600	12,780,500
Net System Peak Demand — KW	12,245,800	11,632,800	11,648,800	10,867,800
Average Annual Residential Consumption — KWH	6,509	6,462	6,260	6,417
Total Customers (end of year)	3,087,300	3,005,518	2,936,106	2,854,585
Customers Per Mile of Distribution Line	37.7	37.2	36.9	36.5
GAS STATISTICS:				
Gas Purchased (Thousands of MCF)	836,333	861,860	876,537	984,061
Sources of Gas Purchased — Percent				
From California	16.8%	16.2%	16.8%	23.6%
From Other States	38.2	41.4	43.7	38.4
From Canada	45.0	42.4	39.5	38.0
Total	100.0%	100.0%	100.0%	100.0%
Average Cost of Gas Purchased — MCF				
From California	96.1¢	56.7¢	42.7¢	37.0¢
From Other States (at Calif.-Ariz. border)	83.0	72.7	55.8	43.0
From Canada (at Calif.-Ore. border)	192.1	136.8	65.4	44.1
Average	134.2¢	97.3¢	57.4¢	42.0¢
Peak Day Sendout — MCF	3,348,909	3,352,881	3,020,215	3,423,896
Average Annual Residential Consumption — MCF	100.8	111.1	104.5	113.4
Total Customers (end of year)	2,611,551	2,555,216	2,503,203	2,443,889
Customers Per Mile of Distribution Main	96.8	96.4	96.1	95.9

1972	1971	1970	1969	1968	1967	1966
\$ 3.02	\$ 2.75	\$ 2.47	\$ 2.58	\$ 2.55	\$ 2.49	\$ 2.23
\$ 1.72	\$ 1.64	\$ 1.50	\$ 1.50	\$ 1.45	\$ 1.40	\$ 1.30
57.0%	59.7%	60.9%	58.2%	57.0%	56.3%	58.4%
\$26.36	\$24.91	\$23.66	\$22.79	\$21.71	\$20.62	\$19.53
33%	36%	35	39½	38%	38	36¾
26%	28%	22½	29½	30%	31%	27
32%	32%	34%	32¾	38%	35%	35¾
\$432,781	\$355,242	\$297,930	\$240,468	\$200,763	\$235,707	\$220,241
71,345	60,432	68,320	61,428	58,834	50,536	55,596
39,514	36,177	49,081	38,094	29,803	24,748	21,292
\$543,640	\$451,851	\$415,331	\$339,990	\$289,400	\$310,991	\$297,129
59,124	54,665	51,277	48,885	46,994	43,663	41,392
19.8%	25.6%	26.9%	31.4%	23.8%	32.9%	26.6%
52.7	46.5	48.6	45.2	62.2	47.1	61.4
27.5	27.9	24.5	23.4	14.0	20.0	12.0
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
7,062,000	6,956,000	6,942,400	6,962,400	6,302,600	6,289,600	5,447,300
2,609,900	2,438,700	2,098,000	1,560,700	1,056,200	1,110,100	815,300
12,041,700	11,759,600	11,405,300	10,771,000	9,636,100	9,678,200	8,487,000
10,469,800	9,713,000	8,807,700	8,227,100	8,126,200	7,757,900	7,146,500
6,213	6,048	5,697	5,545	5,181	5,000	4,661
2,767,978	2,675,942	2,597,314	2,536,703	2,483,480	2,429,306	2,383,907
36.0	35.4	34.8	34.5	34.3	34.0	33.8
1,015,319	1,004,547	950,652	878,484	888,075	802,221	808,062
23.5%	24.8%	25.2%	25.2%	27.5%	26.3%	31.0%
40.3	41.2	43.7	45.3	45.5	48.3	48.6
36.2	34.0	31.1	29.5	27.0	25.4	20.4
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¢
39.4	37.5	33.9	31.4	27.9	28.4	29.4
36.9	32.7	30.4	28.2	28.0	29.3	31.2
37.2¢	34.3¢	31.9¢	30.1¢	28.6¢	29.1¢	30.0¢
3,918,844	3,798,462	3,633,341	3,445,626	3,338,669	3,363,503	3,032,844
115.7	121.7	107.7	116.2	109.7	112.4	107.5
2,383,609	2,317,686	2,258,285	2,208,046	2,160,569	2,110,510	2,064,045
95.6	95.0	94.1	94.0	93.8	93.5	93.5

Statement of Income

Pacific Gas and Electric Company / For the Years Ended December 31, 1976 and 1975

	Thousands	
	1976	1975
OPERATING REVENUES:		
Electric	\$1,571,842	\$1,293,551
Gas	1,074,886	939,820
TOTAL	2,646,728	2,233,371
OPERATING EXPENSES:		
Operation:		
Cost of Electric Energy	624,114	477,546
Cost of Gas Sold	796,186	675,609
Transmission and Distribution	114,910	101,710
Other	252,634	219,336
Total	1,787,844	1,474,201
Maintenance	96,277	90,853
Depreciation	199,491	178,978
Taxes on Income (Note 3)	16,579	13,783
Property and Other Taxes	142,667	128,303
TOTAL	2,242,858	1,886,118
OPERATING INCOME	403,870	347,253
OTHER INCOME AND INCOME DEDUCTIONS:		
Allowance for Funds Used During Construction	79,162	70,351
Gain on Bonds Purchased for Sinking Fund (Note 1)	5,483	15,106
Other — net	36,724	23,314
TOTAL	121,369	108,771
INCOME BEFORE INTEREST EXPENSE	525,239	456,024
INTEREST EXPENSE	223,255	204,445
NET INCOME	\$ 301,984	\$ 251,579
EARNINGS PER COMMON SHARE	\$2.90	\$2.67
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, 1976 and 1975

	Thousands	
	1976	1975
ASSETS		
UTILITY PLANT— At Original Cost:		
Electric	\$5,344,976	\$5,072,331
Gas	1,653,846	1,575,127
Construction Work in Progress	1,399,552	1,197,662
Total Utility Plant	8,398,374	7,845,120
Accumulated Depreciation	2,095,304	1,926,948
UTILITY PLANT— NET	6,303,070	5,918,172
INVESTMENTS IN SUBSIDIARIES (Note 5)	101,502	51,500
CURRENT ASSETS:		
Cash	24,962	32,614
Short-term Investments— at cost which approximates market	—	8,000
Accounts Receivable (less allowance for uncollectible accounts: 1976, \$4,972; 1975, \$4,202)	268,182	226,505
Estimated Federal Income Tax Refund	75,000	—
Materials and Supplies	34,006	36,166
Fuel Oil	209,491	236,195
Unbilled Recoverable Energy Costs (Note 1):		
Electric	251,681	—
Gas	24,174	—
Gas Stored Underground	90,298	67,984
Prepayments	25,612	30,657
TOTAL CURRENT ASSETS	1,003,406	638,121
DEFERRED CHARGES	11,854	13,090
TOTAL	\$7,419,832	\$6,620,883
CAPITALIZATION AND LIABILITIES		
CAPITALIZATION:		
Common Stock — at par (Schedule I)	\$ 886,106	\$ 799,673
Additional Paid-in Capital	488,976	381,745
Reinvested Earnings	1,120,301	1,034,472
Common Stock Equity	2,495,383	2,215,890
Preferred Stock — at par (Schedule I)	877,451	777,451
Total Stockholders' Equity	3,372,834	2,993,341
Mortgage Bonds (Schedule II) (Note 2)	3,128,038	3,039,351
TOTAL CAPITALIZATION	6,500,872	6,032,692
CURRENT LIABILITIES:		
Commercial Paper (Note 4)	265,995	117,150
Accounts Payable	244,114	196,219
Taxes Accrued	122,155	21,137
Dividends Payable	41,620	37,585
Mortgage Bonds — current portion (Schedule II) (Note 2)	54,914	57,272
Other	54,747	48,354
TOTAL CURRENT LIABILITIES	783,545	477,717
CUSTOMER ADVANCES FOR CONSTRUCTION	53,334	42,077
DEFERRED INVESTMENT TAX CREDITS	24,843	11,625
OTHER DEFERRED CREDITS	19,755	16,344
DEFERRED INCOME TAXES ON DEFENSE FACILITIES	37,483	40,428
TOTAL	\$7,419,832	\$6,620,883

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, 1976 and 1975

	Thousands	
	1976	1975
FUNDS PROVIDED:		
Funds Derived from Operations:		
Net Income	\$ 301,984	\$ 251,579
Non-fund Items in Net Income:		
Depreciation (including charges to other accounts)	203,865	189,325
Gain on Bonds Purchased for Sinking Fund	(5,483)	(15,106)
Allowance for Funds Used During Construction	(79,162)	(70,351)
Other — net	(6,624)	(2,052)
Total Funds Derived from Operations	414,580	353,395
Common Stock Sold — net proceeds	187,770	149,346
Preferred Stock Sold — net proceeds	105,894	92,985
Mortgage Bonds Sold — net proceeds	172,804	172,394
Utility Plant Sold and Salvaged	5,981	3,647
Other Changes — net	(6,699)	7,656
TOTAL	\$ 880,330	\$ 779,423
FUNDS APPLIED:		
Capital Expenditures	\$ 599,278	\$ 630,589
Allowance for Funds Used During Construction	(79,162)	(70,351)
Funds Used for Capital Expenditures	520,116	560,238
Fuel Oil Inventory Change	(26,704)	59,108
Unbilled Recoverable Energy Costs	275,855	—
Mortgage Bonds Purchased for Sinking Fund (at cost)	37,446	30,293
Matured Mortgage Bonds Retired	38,387	2,000
Dividends — preferred and common stock	216,155	193,370
Changes in Other Working Capital Items (a)	(180,925)	(65,586)
TOTAL	\$ 880,330	\$ 779,423
(a) Changes in Other Working Capital Items:		
Short-term Investments	\$ (8,000)	\$ (4,971)
Accounts Receivable — net	41,677	72,387
Short-term Borrowings	(148,845)	(117,150)
Other Changes in Working Capital	(65,757)	(15,852)
Total — increase (decrease)	\$(180,925)	\$ (65,586)

Statement of Stockholders' Equity

Pacific Gas and Electric Company / For the Years Ended December 31, 1976 and 1975

	Thousands			
	Preferred Stock	Common Stock	Additional Paid-In Capital	Reinvested Earnings
Balance, January 1, 1975	\$689,951	\$710,820	\$315,767	\$ 976,263
Net Income — for year				251,579
Preferred Stock Sold (3,500,000 Shares)	87,500		5,485	
Common Stock Sold (8,885,255 Shares)		88,853	60,493	
Dividends Declared — Cash:				
Preferred Stock				(47,208)
Common Stock				(146,162)
Balance, December 31, 1975	777,451	799,673	381,745	1,034,472
Net Income — for year				301,984
Preferred Stock Sold (4,000,000 Shares)	100,000		5,894	
Common Stock Sold (8,643,315 Shares)		86,433	101,337	
Dividends Declared — Cash:				
Preferred Stock				(61,556)
Common Stock				(154,599)
Balance, December 31, 1976	\$877,451	\$886,106	\$488,976	\$1,120,301

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, 1976

	Redemption Price	Shares Authorized	Thousands	
			Outstanding—	Held by Public
			Shares	Amount
COMMON, PAR VALUE \$10 PER SHARE		125,000	88,611	\$886,106
PREFERRED, CUMULATIVE, PAR VALUE \$25 PER SHARE				
REDEEMABLE:				
10.46% (\$2.615 a share)	\$30.10	3,500	3,500	\$ 87,500
10.18% (\$2.545 a share)	30.00	4,000	4,000	100,000
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)	29.25	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		24,871	—	—
TOTAL REDEEMABLE		54,215	29,313	732,830
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	35,098	\$877,451

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

Schedule II Mortgage Bonds

Pacific Gas and Electric Company / December 31, 1976

Maturity	Interest Rate (%)	Series	Thousands		Maturity	Interest Rate (%)	Series	Thousands	
			Held in Treasury	Outstanding Held by Public				Held in Treasury	Outstanding Held by Public
1977	3	N		\$ 47,156	1995	4¼	II	\$ 219	\$ 25,024
1978	3¾	CC		47,600	1996	4½	JJ	3,976	38,139
1979	3	M	\$ 100	66,973	1996	4½	KK	3,450	29,283
1980	2⅞	Q	25	51,405	1997	4⅝	LL	3,469	39,523
1981	2¾	P		21,117	1998	5⅞	MM	210	71,668
1982	3⅞	R	123	63,750	1998	5¾	NN	175	75,437
1982	9.85	74B		150,000	1999	5½	OO	300	76,454
1983	3	S	375	55,318	1999	6⅞	PP		79,910
1984	3⅞	X	1,053	35,623	2000	6⅞	QQ		49,928
1984	3⅞	W	1,890	23,173	2000	6¾	RR		59,822
1985	9½	75A		175,000	2001	7½	SS		79,900
1985	3⅞	U	1,286	24,991	2001	9	TT		80,000
1986	4½	AA	2,231	26,217	2002	8⅞	UU		74,984
1987	3⅞	Y	210	17,832	2002	8⅞	VV		100,000
1988	3⅞	Z	78	6,335	2003	8	WW		149,950
1989	5	BB	1,080	56,620	2003	7½	XX		125,000
1990	4½	DD	502	48,624	2004	7½	YY		124,600
1991	5	EE	593	59,222	2005	7¾	ZZ		150,000
1992	4⅝	FF	780	50,300	2005	7¾	73A		149,250
1993	4½	GG	1,285	54,137	2006	9⅞	74A		150,000
1994	4⅞	HH	752	45,637	2006	9⅞	74C	250	169,750
					2008	8¼	76A		175,000
TOTAL MORTGAGE BONDS								\$24,412	3,200,652
Mortgage Bonds Included in Current Liabilities (Note 2)									54,914
Unamortized Discount—net									17,700
Mortgage Bonds Included in Capitalization									\$3,128,038

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

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 (FPC) and adopted by the California Public Utilities Commission (CPUC).

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 (ADC) is included in construction work in progress and credited to other income. A composite rate for this allowance (8% for 1976 and 1975), 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 CPUC as an appropriate cost of funds for 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 Statement of Income 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.

In accordance with the requirements of the CPUC, the Company has, since March 31, 1976, deferred in a balancing account the difference between cost of its electric energy and the energy cost collected from its customers. Subsequently, the Company has been required to maintain balancing accounts to record undercollections and overcollections of gas cost increases. The deferred amounts are amortized as corresponding changes are made in customer rates. Although such deferred costs are deducted currently on federal and state income tax returns, for financial statement purposes such costs are recognized in the computation of income tax accruals as the deferred costs are amortized. The effect of using these balancing accounts is that changes in costs of electric energy and gas no longer affect the Company's earnings since energy costs are included in operating expenses when they are offset by revenues.

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 provisions for depreciation, expressed as a percentage of the average balances of depreciable plant, were 3.1% for 1976 and 3.0% for 1975. For federal income tax purposes, depreciation is generally computed using the most liberalized methods allowed by the Internal Revenue Code. The CPUC requires that the Company include in net income the current tax differences arising from certain timing differences in connection with depreciation, ADC and other overhead costs of construction, gain on bonds purchased for sinking fund, and investment tax credit. 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 CPUC.

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Bond issuance premium or discount and related expenses are being amortized over the lives of the issues to which they pertain. Prior to September 1976 gain on reacquisition of bonds to satisfy sinking fund requirements was credited to other income in the year of acquisition, thereby conforming to the requirements of the Financial Accounting Standards Board and the ratemaking of the CPUC. Beginning in September 1976 the CPUC changed its method of recognizing such gain or loss for ratemaking purposes. The new method requires amortization of gain or loss over the remaining life of the reacquired issues. In accordance with the requirements of the FPC the Company on that date adopted the same method of accounting for book purposes. The federal income tax on such gain is recognized over the average life of remaining property.

Retirement plan costs are accrued in accordance with an actuarial cost method (individual entry age normal method). At December 31, 1976, 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 64% and 60% of the cost of the Company's natural gas purchased in the years 1976 and 1975 were from Pacific Gas Transmission Company, a 53% owned subsidiary. The price paid is regulated by the FPC.

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 December 1, 1977 to September 1, 2008. 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 1977 for bonds outstanding at December 31, 1976 amount to \$32,170,000. This amount, less treasury bonds of \$24,412,000 plus Series N Bonds of \$47,156,000 maturing on December 1, 1977, is included in current liabilities.

NOTE 3—TAXES ON INCOME:

Taxes on income generally reflect amounts currently payable or refundable with two exceptions. Investment tax credits are used to reduce federal income taxes through the use of a five-year moving average, and energy costs are recognized in recorded income tax expense when the energy costs are included in bills to customers (see Note 1). Approximately \$276,000,000 of unbilled recoverable energy costs are deductible in the 1976 federal income tax return because federal and state income tax regulations require that energy costs be deducted on tax returns in the years such costs are incurred. Therefore, the Company expects a federal income tax refund of approximately \$75,000,000 for the year 1976 which represents the amount of prior years taxes available for such refund. In addition, the Company will have available tax credits of approximately \$58,000,000 to reduce federal income tax payments for years after 1976.

A reconciliation between the amount of reported income tax expense and the amount computed by multiplying the income before taxes by the statutory federal income tax rate for the years 1976 and 1975 is as follows:

	1976		1975	
	Amount (Thousands)	Percent of Pretax Income	Amount (Thousands)	Percent of Pretax Income
Computed provision	\$143,772	48.0 %	\$118,902	48.0 %
Adjustments multiplied by the statutory federal income tax rates—increase (decrease):				
Tax depreciation in excess of book depreciation	(22,281)	(7.4)	(29,081)	(11.8)
Allowance for funds used during construction	(37,998)	(12.7)	(33,768)	(13.6)
Other overhead construction costs	(12,623)	(4.2)	(11,190)	(4.5)
Repair allowance	(18,720)	(6.3)	(4,320)	(1.8)
Gain on bonds purchased for sinking fund	(2,669)	(.9)	(7,251)	(2.9)
Property removal expenses	(5,959)	(2.0)	(6,480)	(2.6)
Property taxes deductible in excess of book taxes	(8,993)	(3.0)	(5,695)	(2.3)
Other—net	(6,155)	(2.1)	(2,135)	(.9)
Adjustment of prior years accruals	(16,000)	(5.3)	(10,000)	(4.0)
Investment tax credit	(19,239)	(6.4)	(15,935)	(6.4)
State tax on income	4,406	1.5	3,087	1.2
Total	\$ (2,459)	(.8)%	\$ (3,866)	(1.6)%

Income tax expense (credit) is included in the financial statements as follows:

	Thousands	
	1976	1975
Included in operating expenses:		
Tax on operating income	\$ 19,524	\$ 16,728
Amortization of deferred taxes on defense facilities	(2,945)	(2,945)
Total	16,579	13,783
Included in other income	(19,038)	(17,649)
Total	\$ (2,459)	\$ (3,866)

The components of income tax expense (credit) are:

	Thousands	
	1976	1975
Currently payable:		
Federal	\$ (75,000)	\$ (7,108)
State	—	6,187
Tax related to unbilled recoverable energy costs:		
Federal	133,000	—
State	8,000	—
Less federal portion carryforward for tax purposes	(58,000)	—
Amortization of deferred taxes on defense facilities:		
Federal	(2,694)	(2,694)
State	(251)	(251)
Other federal adjustments—net	(7,514)	—
Total	\$ (2,459)	\$ (3,866)

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

Lines of credit for loans at prevailing prime interest rates were maintained with sixteen banks at December 31, 1976. The unused portion was \$349,870,000 at December 31, 1976.

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, 1976 and December 31, 1975, there were \$265,995,000 and \$117,150,000 of the Company's commercial paper outstanding at average interest rates of 4.8% and 5.6%, respectively. The maximum amounts of aggregate short-term borrowings outstanding at any month end during the years 1976 and 1975 were \$354,670,000 and \$140,550,000, respectively. During the years 1976 and 1975, the approximate weighted average interest rates for short-term borrowings were 5.3% and 6.1%, respectively, and the approximate average short-term borrowings outstanding were \$227,587,000 and \$71,800,000, respectively. These weighted average interest rates were computed on a daily basis weighted for the amounts borrowed at each rate.

The usual terms of short-term borrowings are 90 days for bank loans and 10 to 90 days for commercial paper.

NOTE 5—COMMITMENTS AND OTHER MATTERS:

Capital expenditures for the year 1977 are estimated at \$640,000,000.

Total research and development costs incurred during the years 1976 and 1975 were approximately \$31,000,000 and \$25,000,000, of which \$21,000,000 and \$16,000,000 were capitalized as part of the cost of construction projects.

The Company provides retirement and savings fund plans for substantially all employees. The costs of these plans, charged to expense and utility plant, were \$51,438,000 and \$45,423,000 for the years 1976 and 1975.

The Company has executed a guarantee, with all necessary approvals of the CPUC, of Canadian bank loans to a wholly-owned subsidiary, Alberta and Southern Gas Co., Ltd. (A & S). At December 31, 1976, these loans approximated \$77,000,000 and may be increased to \$100,000,000 under agreements with the banks. Interest on these loans has been allowed as one of the costs of service deductible from the Canadian-regulated price of gas purchased by A & S, but Alberta authorities administering the gas pricing laws have objected to future inclusion of the interest on a substantial portion of these loans. A & S, whose principal function is the acquiring of natural gas in Canada and providing for its transportation to the United States border, lends funds to oil and gas companies for the exploration and development of natural gas reserves in Canada and makes advances based on proven reserves. At December 31, 1976, approximately \$70,000,000 was loaned to Canadian subsidiaries of large oil and gas companies and is subject to repayment without regard to the success of the exploration and development efforts. The balance of approximately \$7,000,000 has been advanced against proven reserves and is refundable out of production.

Operating revenues, operating income, net income and earnings per common share for the four quarters of 1976 are shown in the table below. Due to the seasonal nature of the utility business, the annual amounts are not generated evenly by quarter during the year.

	(Unaudited) Quarter Ended			
	December 31, 1976	September 30, 1976	June 30, 1976	March 31, 1976
Operating revenues	\$704,093,000	\$642,351,000	\$618,280,000	\$682,004,000
Operating income	\$110,371,000	\$109,691,000	\$106,445,000	\$ 77,363,000
Net income	\$ 87,793,000	\$ 82,608,000	\$ 80,230,000	\$ 51,353,000
Earnings per common share	\$.81	\$.82	\$.80	\$.47

NOTE 7—REPLACEMENT COST:

The Securities and Exchange Commission (SEC) requires that the Company disclose in financial statements filed with the SEC the estimated current "replacement cost" of certain of its assets, accumulated replacement cost depreciation applicable to those assets, and the amount of depreciation based on "replacement cost". There is considerable controversy over the usefulness of such information in assessing the current economics of the Company in an inflationary economy. The Company believes that the calculations necessary to provide the estimated "replacement cost" as required by the SEC are not appropriate in determining the impact of inflation on regulated utilities such as the Company. The Company's operations, including substantially all of its revenues, are subject to regulation by the CPUC. It is the practice of the CPUC to authorize rates at a level to allow the Company to recover its actual investment in facilities used in providing utility service. Therefore, when facilities are replaced at costs higher than the cost of existing facilities, rates can be changed to cover any changes in depreciation and other costs including the return on any additional investment required. The impact on earnings can reasonably be expected, therefore, to be zero.

The SEC requires that this annual report refer to the replacement cost information contained in the Company's 10-K report for 1976. A copy of that report may be obtained upon written request to the Corporate Secretary.

Accountants' Opinion

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

HASKINS & SELLS

We have examined the balance sheet of Pacific Gas and Electric Company as of December 31, 1976 and 1975 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, 1976 and 1975 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 8, 1977

Haskins & Sells

Departmental Organization

January 1, 1977

ELECTRIC OPERATIONS

Managers:

F. C. Buchholz, Hydro Generation
D. H. Colwell, System Protection
T. R. Ferry, Communications
E. F. Kaprielian, Power Control
G. A. Maneatis, Steam Generation
H. J. Stefanetti, Transmission and
Distribution
J. N. Ylarraz, Substations

GAS OPERATIONS

Managers:

J. A. Fairchild, Gas Distribution
S. A. Haavik, Natural Gas Production
C. A. Miller, Gas Utilization
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:

G. H. Aster, Design-Drafting
R. V. Bettinger, Civil Engineer
W. R. Johnson, Electrical Engineer
D. V. Kelly, Mechanical and Nuclear
Engineer
J. J. McCann, Engineering Services
G. V. Richards, Engineering Quality
Control

CUSTOMER OPERATIONS

Managers:

J. S. Cooper, Energy Conservation and
Services
A. D. Owen, Customer Services
J. M. Stearns, Commercial

INTERNAL AUDITING

E. C. Suess, Manager

PLANNING AND RESEARCH

Chiefs:

R. F. Cayot, Engineering Research
E. E. Hall, Siting 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:

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

STOCK TRANSFER

W. Roby, Manager

FINANCE

J. A. Crockwell, Insurance Manager

TREASURER

Managers:

W. M. Cracknell, Credit and Collection
J. F. Helms, Financial Planning and
Analysis
G. E. Lavinger, Banking and Money
Management

PERSONNEL AND GENERAL SERVICES

Managers:

L. J. Abell, Automotive and Equipment
T. V. Adams, Personnel Relations
I. W. Bonbright, Industrial Relations
J. W. Page, Land

GENERAL CONSTRUCTION

Managers:

R. S. Bain, Station Construction
H. G. Cooke, General Construction
Personnel
W. Funabiki, Gas Construction
R. F. Irons, General Construction
Services
C. G. Sparrowe, Line Construction
J. W. Woodward, Civil-Hydro
Construction

SAFETY, HEALTH AND CLAIMS

R. W. White, Manager

MATERIALS

R. P. Benton, Manager

PUBLIC RELATIONS

Managers:

L. R. McDonnell, Public Information
R. L. Sawyier, 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

R. A. Draeger, Marysville

DE SABLE

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

G. N. Radford, 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 Executive Officer

RANSOM M. COOK*
Chairman of the
Management Committee,
Systron-Donner Corporation
(precision measuring devices
and control systems)

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*
Honorary Chairman of the Board,
BanCal Tri-State Corporation
(bank holding company)

ALFRED W. EAMES, JR.*
Chairman of the Board,
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 and land acquisition)

FREDERICK W. MIELKE, JR.
Executive Vice President

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

RICHARD H. PETERSON*
Chairman of the Board

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

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

KARL L. WENTE†
President,
Wente Brothers
(viticulture and wine production)

Executive Officers

JOHN F. BONNER
President and Chief Executive Officer

RICHARD H. PETERSON
Chairman of the Board

ROBERT H. GERDES
Chairman of the Executive Committee

FREDERICK W. MIELKE, JR.
Executive Vice President

J. DEAN WORTHINGTON
Executive Vice President

BARTON W. SHACKELFORD
Senior Vice President

STANLEY T. SKINNER
Senior Vice President

JOHN A. SPROUL
Senior Vice President

HOWARD P. BRAUN
Vice President—Electric Operations

NOLAN H. DAINES
Vice President—Planning and Research

JOSEPH Y. DE YOUNG
Vice President—Customer Operations

WILLIAM M. GALLAVAN
Vice President—Rates and Valuation

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

MALCOLM A. MACKILLOP
Vice President—Governmental
Relations

PAUL MATTHEW
Vice President and Assistant to the
Executive Vice President

FERDINAND F. MAUTZ
Vice President—Engineering

A. JAMES MCCOLLUM
Vice President—Public Relations

RICHARD K. MILLER
Vice President—Personnel and
General Services

JOHN C. MORRISSEY
Vice President and General Counsel

FRANK A. PETER
Vice President and Comptroller

CHARLES H. SEDAM
Vice President—General Construction

EDWARD F. SIBLEY
Vice President—Gas Operations

JAMES T. DOUDIET
Treasurer

JOHN F. TAYLOR
Secretary

ANTHONY J. DUFFY
Assistant Treasurer

GARY E. LAVERING
Assistant Treasurer

DAVID B. ALLISON
Assistant Secretary

BRIAN L. MCGRATH
Assistant Secretary

*Member Executive Committee
Robert H. Gerdes, Chairman

**Member Audit Committee
Emmett G. Solomon, Chairman

◊Member Advisory Nominating Committee
John F. Bonner, Chairman

†Deceased January 22, 1977

PG&E Service Area

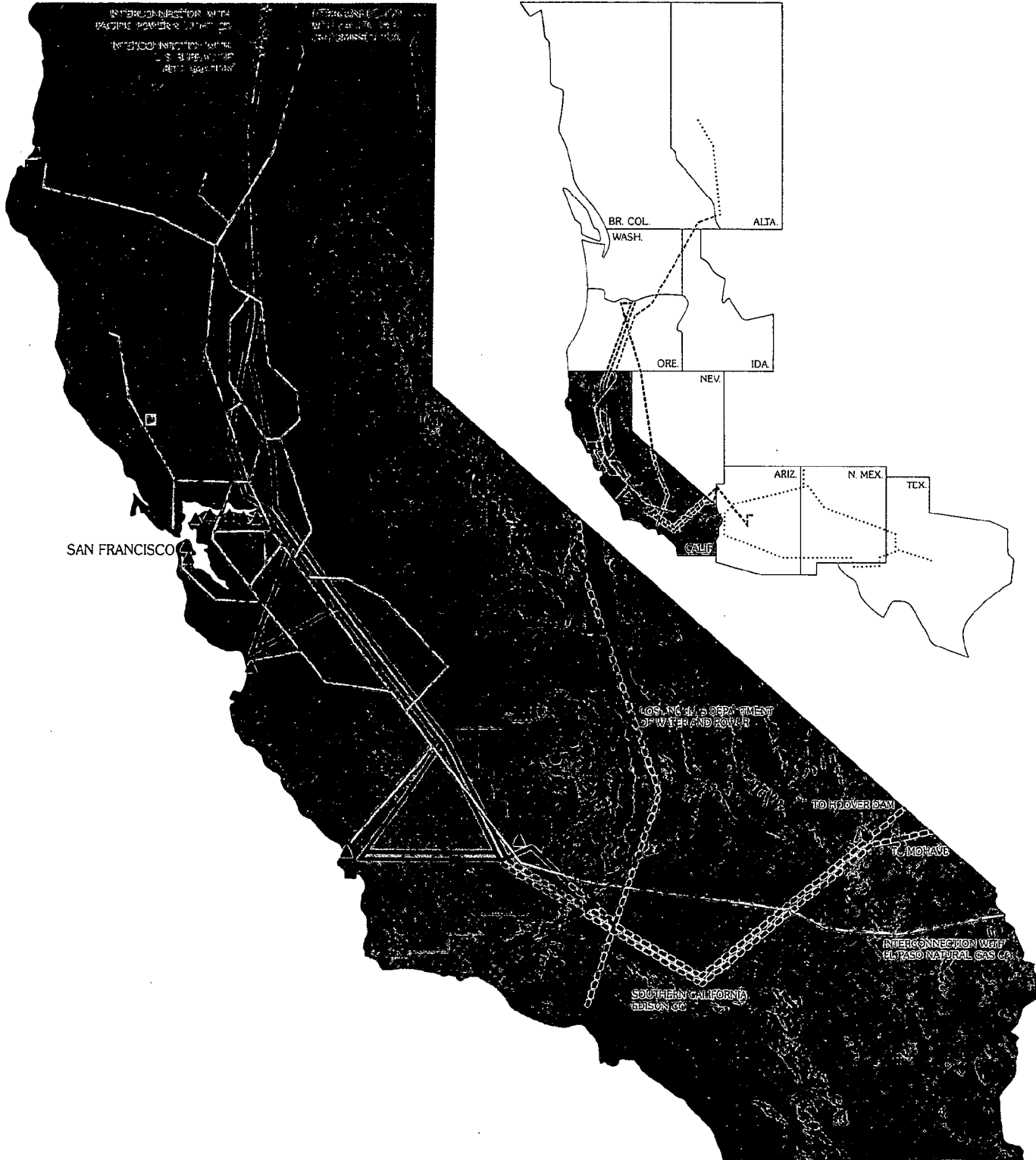
ELECTRIC GENERATING PLANTS

- HYDRO ●
- FOSSIL ▲
- GEOTHERMAL ◻
- NUCLEAR ■
- SERVICE AREA ■

Energy Interties

ELECTRIC SYSTEMS

- PG&E _____
 - OTHER - - - - -
- ## GAS SYSTEMS
- PG&E _____
 - PG&E AFFILIATES - - - - -
 - OTHER



PG&E's service territory covers more than 94,000 square miles in Northern and Central California with a population of more than 8 million. As shown on the lower map, the San Francisco Bay Area is centrally located in the Company's extensive service area.

PG&E has developed far-flung sources of natural gas and electric energy. As indicated on the upper map, natural gas pipelines reach 1,400 miles northward into Canada and almost an equal distance southeasterly to the Permian Basin of Texas and New Mexico. In addition, PG&E's electric generating system is augmented by major interconnections with other sources. The Pacific Intertie links the hydroelectric plants of the Columbia River Basin with the thermal generating resources in Northern and Southern California.

STOCKHOLDERS' CALENDAR

Schedule of Dividend Payment Dates — 1977

COMMON STOCK	PREFERRED STOCK
January 15	February 15
April 15	May 16
July 15	August 15
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 20, 1977 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 18, 1977.

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 1976 ON FORM 10-K

A copy of the Company's report for 1976 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.

PACIFIC GAS AND ELECTRIC COMPANY
77 BEALE STREET
SAN FRANCISCO, CA 94106

