

Pacific Gas and Electric Company 1979 Annual Report



*Service
That
Never
Stops*

Energy from Pacific Gas and Electric Company flows night and day across Northern and Central California, touching the lives of nine million people.

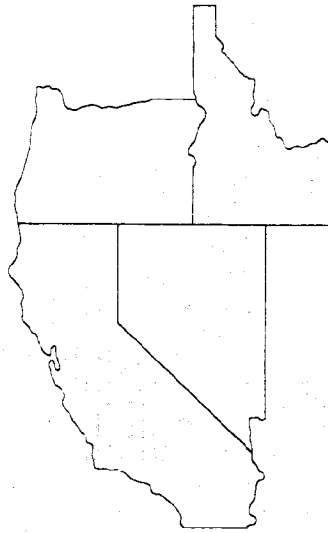
This land we are privileged to serve stretches from the Pacific Coast to the Sierra Nevada, from redwood forests to the California deserts. It's an area equal in size to the Eastern Seaboard from Massachusetts to North Carolina.

Behind a network of transmission and distribution lines that could circle the globe five times, are 12 thermal electric plants, 64 hydroelectric powerhouses, and a geothermal complex of 13 units, serving 3.4 million electric customers.

The gas line portion of this network connects 2.8 million customers with production fields in Canada, New Mexico, Texas, California, Utah, and Wyoming.

But what really sustains this huge flow of natural gas and those kilowatts of electric power is still another kind of energy—human energy, generated by almost 27,000 employees. In ways often uncommon, the men and women of PG&E have been providing reliable service to people in this land of colorful history, dynamic growth and bright future for more than 100 years.

As we enter the 1980s, it will be, as always, service that never stops.



Our Cover

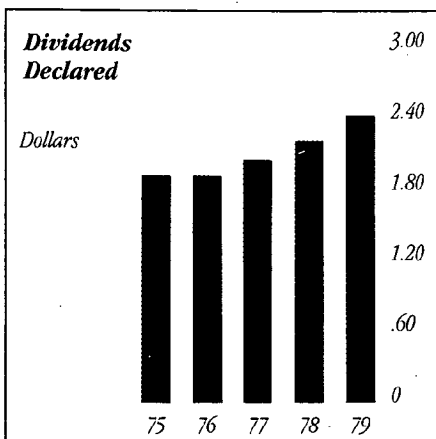
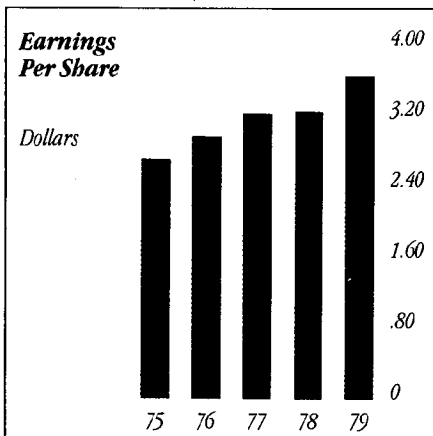
The sun has dipped below the ocean horizon and darkened a lonely stretch of the Northern California coast. Here, a customer needs assistance. And a PG&E troubleman is there to provide it.

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Financial Highlights

	1979	1978	Increase
Operating Revenues	\$ 4,372,220,000	\$3,569,373,000	22%
Net Income	\$ 458,234,000	\$ 400,451,000	14%
Earnings Available for Common	\$ 365,943,000	\$ 317,114,000	15%
Earnings Per Common Share	\$3.55	\$3.18	12%
Declared Dividends Per Common Share	\$2.38	\$2.16	10%
Total Assets	\$10,310,763,000	\$8,665,160,000	19%
Capital Expenditures	\$ 1,149,308,000	\$ 859,113,000	34%
Sales of Electricity to Customers (KWH)	59,728,452,000	56,135,915,000	6%
Sales of Gas to Customers (MCF)	600,180,000	513,139,000	17%
Total Customers	6,181,714	6,019,135	3%
Number of Stockholders	394,252	384,133	3%
Number of Employees	26,877	26,445	2%



To Our Stockholders

We are pleased to report that earnings per share of common stock were \$3.55, an increase of 37 cents, or 11.6 percent, over 1978 earnings.

This is the fourth consecutive year of increased earnings per share. During these years, we have substantially narrowed the gap between actual earnings and those held to be fair and reasonable by the California Public Utilities Commission (CPUC).

This earnings improvement would not have been possible without the progressive steps taken by the CPUC to reduce regulatory lag in responding to rapidly rising utility costs.

In recognition of the current earnings level and the increased investment by common stockholders through reinvested earnings, the common stock dividend was raised twice during 1979 and again early in 1980.

The first increase raised the quarterly rate by 4 cents per share, or 7.4 percent, to 58 cents effective with the April 15, 1979 payment. This was followed by a 3 cent per share, or 5.2 percent, increase to 61 cents effective with the October 15, 1979 payment.

The third increase was 4 cents per share, or 6.6 percent, effective with the April 15, 1980 payment. The new annual dividend is \$2.60.

Earnings Outlook

The outlook for continued

earnings improvement is favorable. On December 18, 1979, the CPUC granted the Company a \$201 million general rate increase effective January 1, 1980.

In this decision, the Commission established rates intended to enable the Company to earn a return on common equity averaging 13.5 percent over the two-year period of 1980-81.

Although in this era of rapidly accelerating costs the intended goal may not be achieved, we do expect significant improvement over the 11.5 percent return on common equity recorded for 1979.

The Company, therefore, should be in a favorable position to meet its challenging capital requirements.

During 1979, we raised approximately \$800 million in long-term capital, a new high for the Company. For 1980 and 1981, we estimate a need for approximately \$1.8 billion in new capital.

We are confident that California regulation will remain responsive to these large financial needs.

Record Electric Sales

During 1979, the Company sold 59.7 billion kilowatt hours of electricity—the highest sales in our history.

Record peak demands, too, were met—further reflecting the expanding economy, growing population and still-rising per

capita consumption of electric energy in our service area.

Were it not for intensive conservation efforts, this demand would have been still higher, and would have added greatly to the Company's difficulties in meeting the energy requirements of its customers.

Electric and Gas Resources

To meet the future needs of our customers, the Company has a diversified electric supply plan designed to reduce dependence on foreign oil as a fuel for generation.

Besides nuclear power from the Diablo Canyon plant, and pumped-storage hydroelectric generation at the Helms Creek Project, we are planning major coal-fired generation, additional generation from geothermal steam at The Geysers, and substantial development of co-generation projects, where electricity can be generated in conjunction with industrial processes using heat or fuel sources that otherwise would be wasted.

Small hydroelectric projects, a plant using garbage as a fuel source, and a wind-powered generating plant are also included in our electric resource plans.

To secure new gas supplies, the Company is continuing its aggressive programs outlined in previous reports to stockholders. Planning is being actively pursued on major projects designed to bring gas from Canada, the Rocky Mountain area, and Alaska

by pipeline, and to import liquefied natural gas by tanker from Indonesia and Alaska.

Nuclear Power

President Carter's response late last year to the accident at Three Mile Island was a constructive contribution toward avoiding a serious energy problem in America.

The President said—and we agree—that this nation needs all sources of energy and cannot shut the door on nuclear power. He has recommended that licensing of new nuclear power plants go forward in as short a time as possible.

This gives us confidence that our Diablo Canyon Nuclear Power Plant—which will be made fully compatible with the lessons learned at Three Mile Island—can be licensed and generating power soon.

Early operation of Diablo Canyon is essential to assure reliable service to our customers and reduce our use of oil and gas to generate electricity.

Conservation

Because new supplies of electricity and gas can be obtained only at high cost in today's economy, slowing the growth in the need for such new supplies benefits both customers and stockholders.

Customers are aided by a slowing in the rise of energy costs. And stockholders gain by a lessened need to finance

new facilities at high capital costs which depress earnings.

We believe the Company's programs to encourage conservation by its customers are the most advanced in the nation.

Launched little more than five years ago, the programs have grown into a 50-project, \$80 million-a-year effort.

Our Employees

As in past years, the progress made by the Company in 1979 could not have been achieved without an industrious and dedicated work force.

We acknowledge with sincere appreciation the sustained efforts of our employees in carrying out the Company's public service obligations.

To them, we dedicate our special section "Service That Never Stops."



Frederick W. Mielke, Jr. Barton W. Shackelford

Frederick W. Mielke, Jr.
Chairman of the Board and
Chief Executive Officer

Barton W. Shackelford
President and
Chief Operating Officer

February 22, 1980



Service That Never Stops The forces of nature—rain, snow, wind, a lightning bolt flashing out of the night sky—can trigger the start of a workday for people at PG&E who keep gas and electricity flowing around the clock.

During the same dark hours that a storm-lashed crew locates and repairs a downed power line, other employees are on night shifts in power plants and energy dispatching and computer centers.

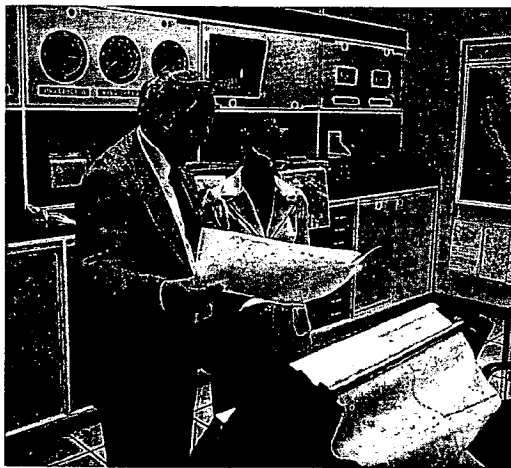
Company weather forecasters, as midnight approaches, warn gas dispatchers of an incoming cold front. Millions more cubic feet of gas must begin to flow through pipelines to customers facing the increased chill.

In summer, forecasts of a heat wave tell electric dispatchers that more air conditioning and extra farm irrigation pumping will put high demands on the PG&E system. Every available source of generation, including purchases of electricity from neighboring utilities, may be called upon to meet the coming day's peak.

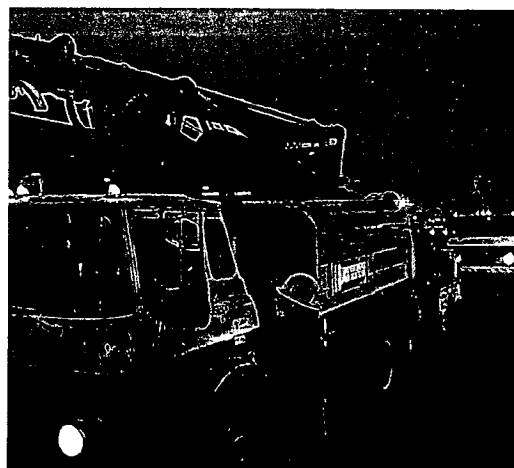
Should generating capacity be insufficient, arrangements are in place with other utility systems in California to share any shortage of capacity as equitably as possible.

The rhythms and routines may vary with the seasons but the vigilance to meet nature's ever-changing whims and consumers' ever-shifting needs is constant.

With dawn and the start of a normal workday, service



Weather forecasts by PG&E meteorologists give gas and electric dispatchers the advance information they need to meet customer demands.



Oakland Service Center crews and trucks move out to job sites under a cold winter dawn.



to customers takes form in a thousand different ways. Quality service is comprised of a mosaic of activities, a few colorful pieces of which are presented on these pages.

As the day begins, experts from PG&E start their daily rounds, helping to further the prosperity of California's \$10 billion-a-year farm and livestock industry.

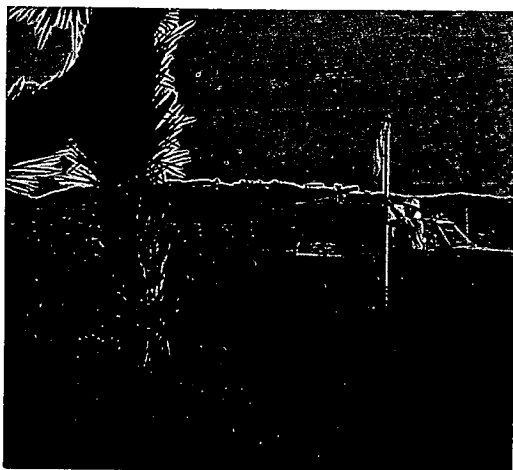
Close partnership with the farmer dates back to 1899 when PG&E demonstrated how electric motors driving irrigation pumps could turn arid wasteland into green fields that yield two, sometimes three, crops a year.

Today, irrigation still is the most important farm chore in California. Company pump testers last year made more than 8,500 calls to keep pumps running at top efficiency.

Other PG&E agricultural representatives make daily rounds, showing farmers and ranchers new techniques to avoid wasting energy, and encouraging them to avoid irrigating when high electric demands in summer cut into reserves of generating capacity.

While Company experts are on farms and ranches, other employees are in factories and stores offering on-site surveys of businesses and equipment. This new dimension of service, energy audits, helps these customers hold down their energy consumption. All customers, regardless of size, are offered these audits.

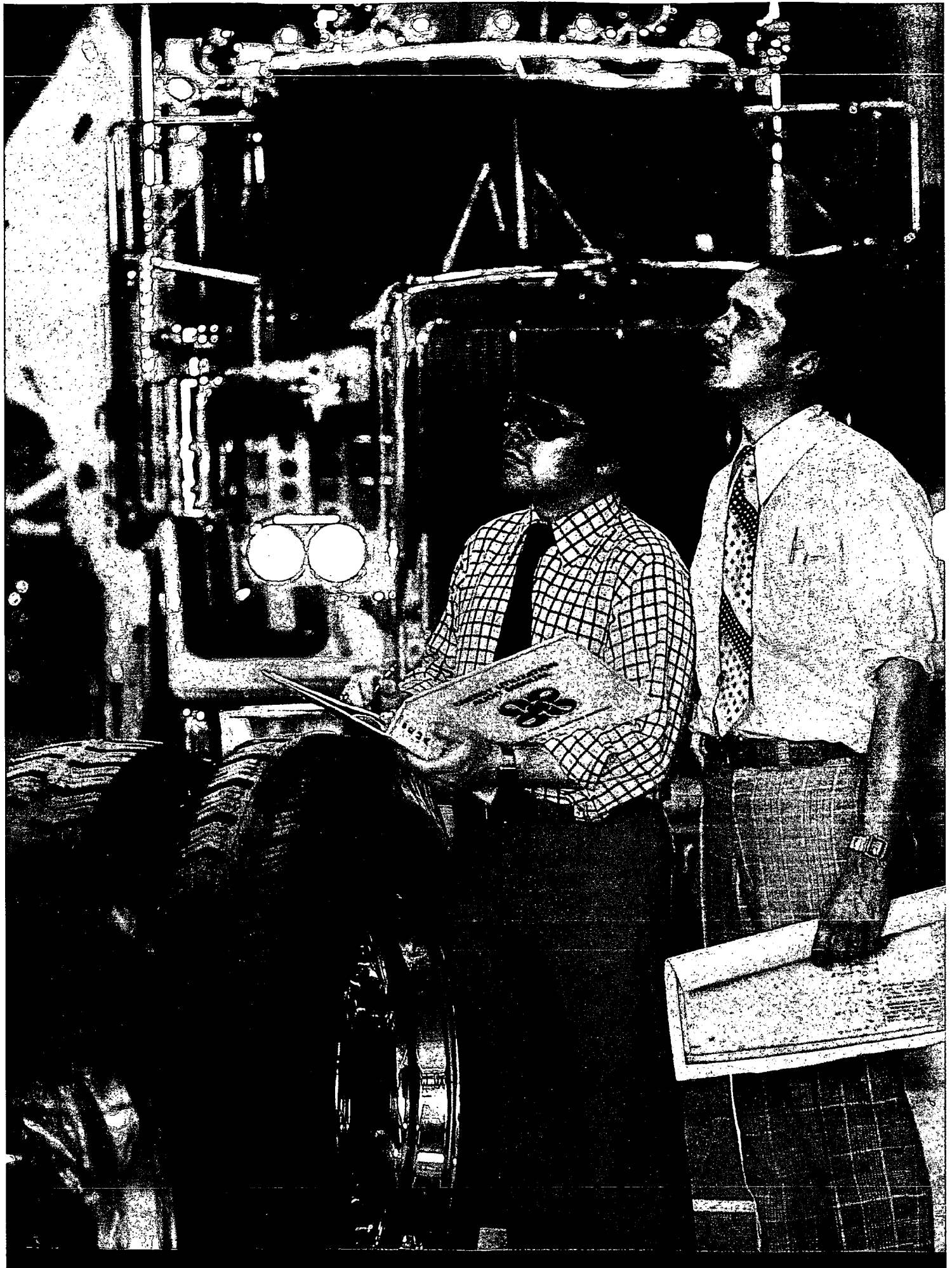
Besides audits, Company specialists assist these com-



Company air and ground patrols follow the path of gas pipelines crossing mountains, rivers and deserts before reaching customers.



Helicopters patrol several hundred miles of canals and waterways serving PG&E hydroelectric plants.



mercial and industrial customers in designing, carrying out and monitoring their own tailor-made conservation programs.

Programs developed by PG&E last year aided nearly 5,000 businesses, factories, stores, hospitals, schools and government buildings to become more energy-efficient.

At the same time, serving residential customers involves thousands of daily contacts, ranging from reading or checking meters to responding to service requests of all kinds. Such requests include lighting pilots, checking fuses or conducting home energy audits. More than six million other customer contacts were made during 1979 over the phone or over the counter at 117 local offices.

Meanwhile, as the day wears on, new homes, offices, buildings—new machines, new devices of every kind—are being plugged into our ever-growing utility system.

PG&E service includes working closely with private and public agencies to assist disadvantaged customers. The Company, for example, has opened a weatherization training center in Stockton. Here, more than 500 students from California community action agencies have been trained in basic weatherization and home repair. Graduates of the center put their new skills to work helping low-income, elderly and handicapped persons avoid wasting energy.

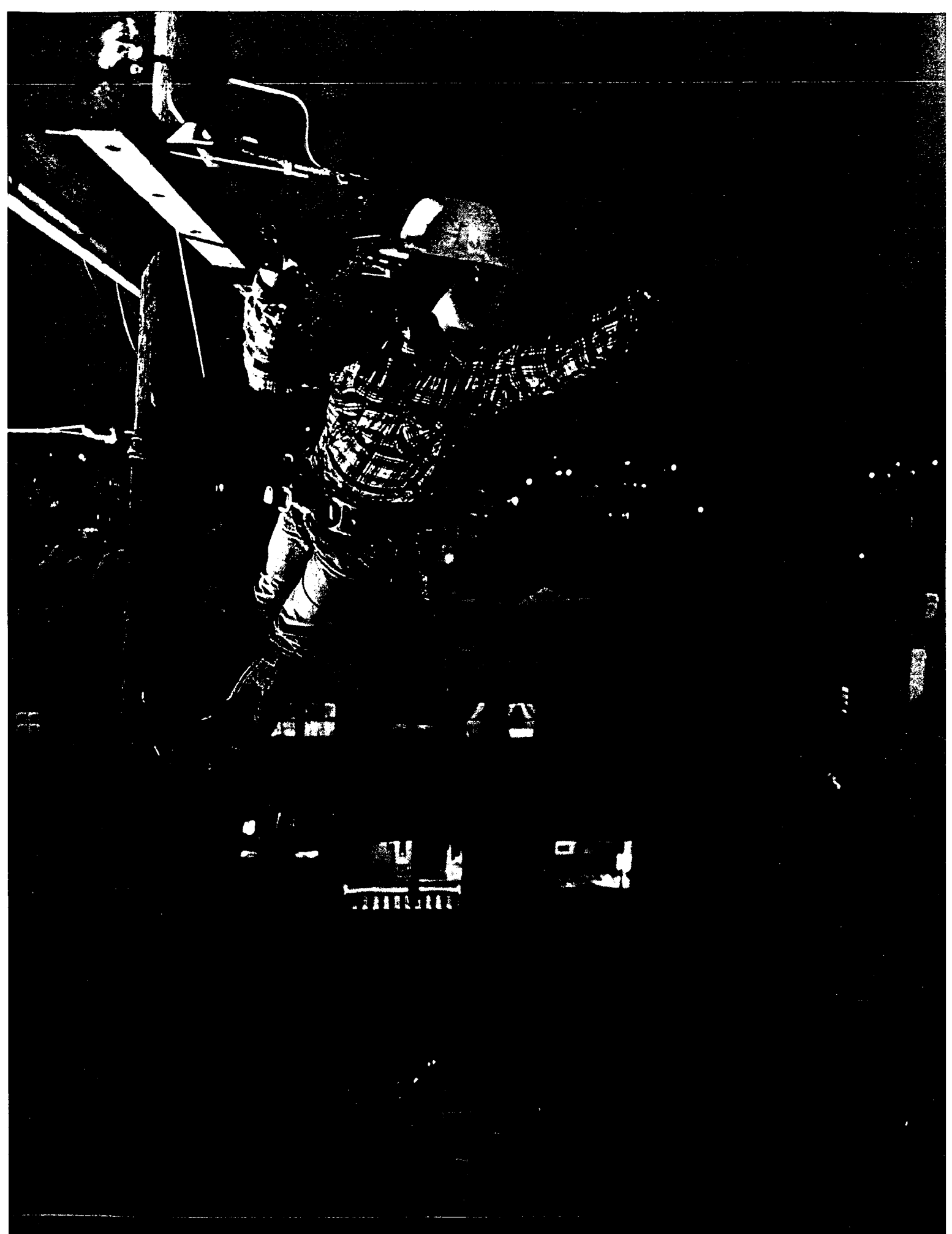
As part of its land use policy, PG&E service has been extended to developing and maintaining campsites and picnic areas for public use on its hydroelectric watershed.



Residential customers who request energy audits learn how insulating attics and other steps can help them conserve.



Energy audits for commercial customers show managers of restaurants, stores and offices how to cut waste.



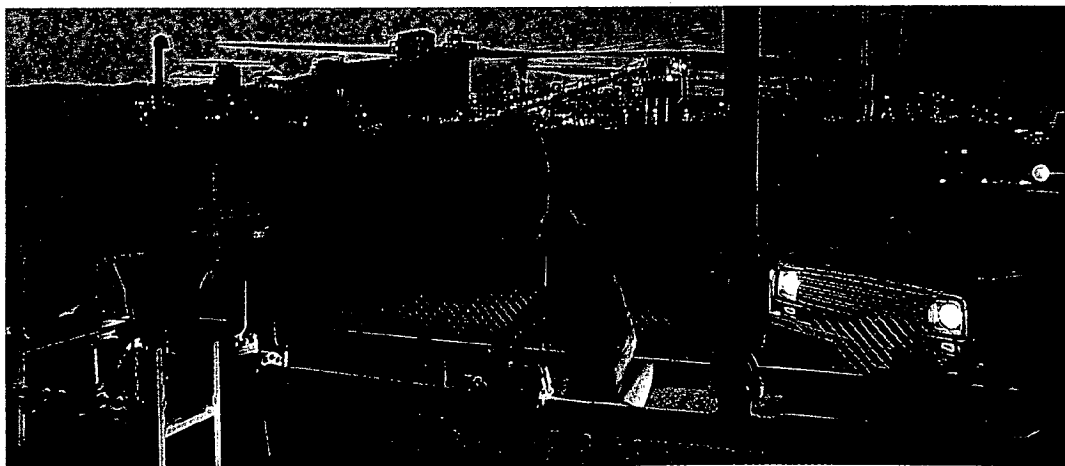
lands. In urban areas, the Company has cooperated in the development of parks and playgrounds along transmission rights of way.

Indirectly, customers of all types are served with important information by reports to news media, by advertising and by enclosures sent with bills. Through such communications, customers learn not only how to conserve, but also why—even when they do conserve—bills still can go up because of the increasing cost of providing gas and electric service, particularly the high prices PG&E must pay for gas supplies and for fuel oil used to generate electricity.

As the hands of the clock signal the end of a normal workday, many employees carry a tradition of service into their private lives. Some serve on city councils and public bodies such as school boards. Others are involved with youth work, charity drives, or other programs to make their communities better places in which to live.

And when night falls again, service around-the-clock continues unbroken on the PG&E system. Somewhere, there's a troubleman atop a pole restoring power and light to a neighborhood. Hundreds of miles away, a serviceman is making sure that natural gas flows uninterrupted to a large industrial customer.

They—and nearly 27,000 others—stand for PG&E service that never stops.



Gas from the Southwest serves this industrial plant as PG&E pipelines cross the California desert on their way to major population centers.

Operation Review

Finance and Rates

The year 1979 marks the fourth consecutive year of improvement in earnings per share and return on common equity.

These improvements were made possible because of a number of changes in regulatory procedures put into effect by the California Public Utilities Commission (CPUC) under its policy to reduce regulatory lag.

In conformity with this policy, the CPUC in December 1979 granted the Company a general rate increase designed to increase revenues by \$201 million annually.

This decision was based upon forecasted 1980 test year costs. In recognition of high financing costs

now faced by the Company, the Commission determined that a fair and reasonable return on common equity should be 14.1 percent in the first year of a two-year period, in contrast to the previously allowed 12.83 percent.

Further regulatory refinements may be required, however, to enable the Company to actually earn its allowed return during this era of rapidly escalating costs.

During 1979, the CPUC authorized rate changes, in addition to the previously mentioned general rate decision, necessary to produce additional revenues of \$547 million annually.

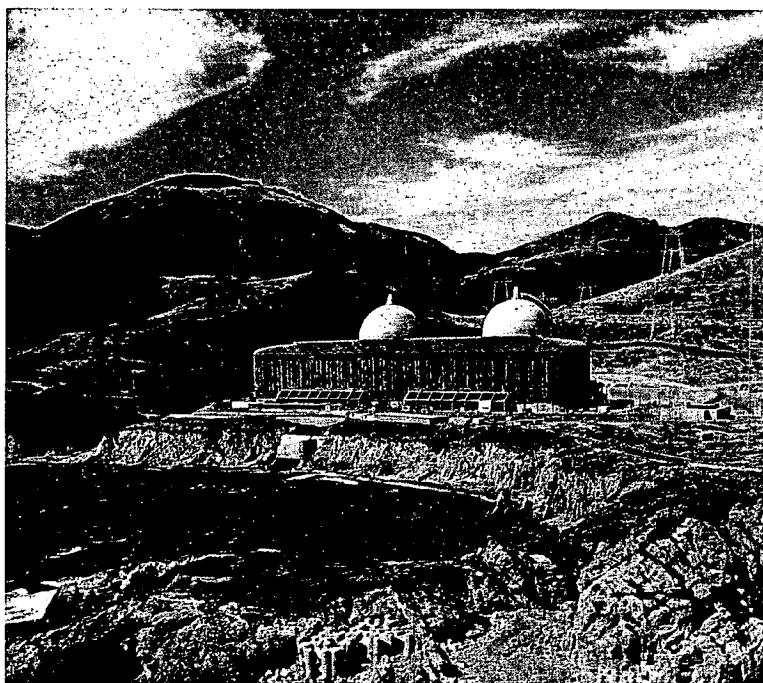
The major increases, totaling \$485 million annually, were to offset the high cost of purchased gas—primarily from Canadian sources.

During 1979 the Canadian government raised the price of its exported natural gas by 60 percent from \$2.16 to \$3.45 per million Btu.

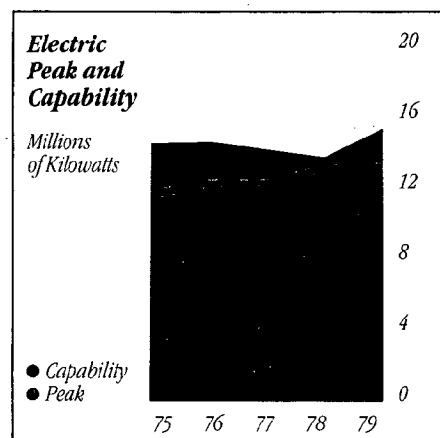
On February 13, 1980, the Company was authorized to increase its revenues by an additional \$336 million annually to offset these higher gas costs.

Effective February 17, 1980, the Canadians increased their export price by an additional 30 percent to \$4.47 per million Btu. This necessitated a further gas offset request by the Company, now pending before the CPUC, to increase rates by an additional \$401 million annually.

Electric rate changes during 1979 included an Energy Cost Adjustment Clause (ECAC) decrease of \$144 million annually in the fuel related component of electric revenues. This



PG&E's 2,200,000 kilowatt Diablo Canyon Nuclear Power Plant is located on an isolated stretch of the Central California coastline.



decrease, in February 1979, resulted from greatly improved hydroelectric conditions during 1978. During the 1979 year, however, fuel related costs rose again, resulting in an increase in electric rates under the ECAC mechanism yielding \$128 million annually.

Then on February 13, 1980, the CPUC authorized the Company to increase its electric rates by \$455 million annually to offset again the higher cost of fuel to generate electricity.

To offset still further escalation in such costs, the Company has an \$523 million ECAC rate adjustment pending before the CPUC for an expected April 1, 1980 effective date. This request is in accordance with a CPUC decision to match more closely rate increases with

fuel related cost increases.

Electric Operations

Meeting Electric Growth

Demand for electricity on the PG&E system reached a new all-time peak during the summer of 1979 when power use exceeded 13 million kilowatts.

A 12 percent reserve margin, up from 8 percent at the time of 1978's record peak, resulted primarily from firm power purchased from other utilities.

The 1979 all-time high came despite vigorous conservation efforts, including "time-of-use" rates which give businesses and industries incentives to curtail electric use during peak periods.

Customers used 6 percent or 3.6 billion kilowatt hours more

electricity during 1979 than in 1978.

We forecast further growth in electric energy sales to be about an average annual rate of 4 percent between now and the year 2000.

Much of the new capacity we plan for serving this growth will not be dependent on oil or gas for fuel, but will be derived from nuclear, hydroelectric, geothermal, cogeneration, and coal-fueled facilities. Alternate sources, such as wind turbines, are planned to be added to the Company's resources as they become technologically and economically feasible.

Geothermal

The pace of geothermal power development quickened during 1979 when two additional units raised to 667,000 kilowatts our generating capacity at The Geysers—the only



System dispatchers call on power produced in 77 Company-owned power plants and 33 power plants of other agencies connected with the PG&E system.

commercial geothermal power plant in the United States and the largest in the world.

The 13 units now in operation produce about 6 percent of PG&E's total generating capacity. Five units, now in various stages of construction or planning, are scheduled to add another 575,000 kilowatts of capacity by 1983. This total of nearly 1.25 million kilowatts will then represent about 8.2 percent of PG&E's total generating capacity.

Most of the newer units are 110,000 kilowatts in capacity, and each saves the burning of more than one million barrels of oil a year.

Hydroelectric

PG&E's 64 hydroelectric plants, fed by near-normal precipitation during 1979, together with purchases of hydro power from other

producers in California and the Pacific Northwest, supplied about 30 percent of our system's electric load last year.

At year's end, our 1.1 million-kilowatt Helms Pumped Storage Project on the Kings River was more than 40 percent complete. This \$480 million project is due for completion early in 1982. More than five miles of tunnel and a huge underground chamber for the pumps and generators have been carved through mountain rock, and major items of the plant equipment are now being moved into the site.

Nuclear

During 1979, our Diablo Canyon Nuclear Power Plant cleared the last major regulatory hurdles prior to being granted an operating license. But for the accident at Three Mile Island, this plant, in all likelihood,

would be operating today.

The lessons learned at TMI and the safety recommendations stemming from the investigation of that accident are in the process of being applied to the physical plant, operating procedures and operator training at Diablo Canyon.

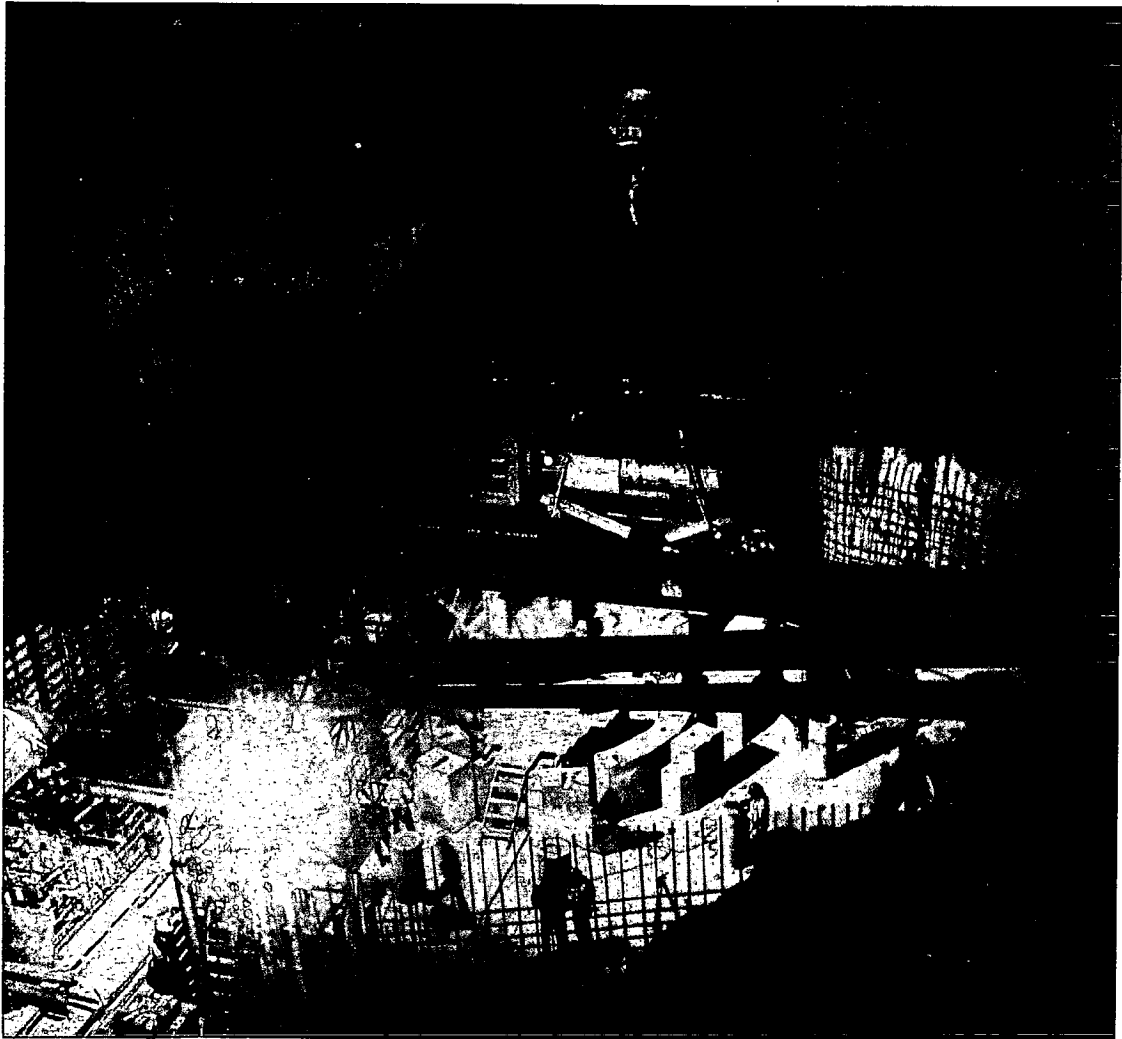
Diablo's more than two million kilowatts of new capacity will not only keep our reserve margins from falling dangerously low in the years just ahead, but also will save burning 20 million barrels of oil each year.

Combined Cycle

High on the list of primary new sources of generation for the early 1980s is our proposed 414,000-kilowatt combined cycle unit at the Potrero Power Plant in San Francisco, for which site approval was obtained in 1978.

Our application for site approval

Pieces of generating machinery are moved into a vast underground cavern at the 1.1 million kilowatt Helms Pumped Storage hydroelectric project on the Kings River.



for another combined cycle power plant—a two-unit 1.6 million-kilowatt facility at Pittsburg in Contra Costa County—was scheduled for a decision by the California Energy Commission early in 1980.

The latter project is planned as a contingency resource, to be used if other planned resources are delayed or load growth is greater than anticipated.

A federal license and state construction approvals have been received for our 140,000-kilowatt Kerckhoff No. 2 underground hydro plant on the San Joaquin River. Site preparation is underway and construction is about to begin. Completion is scheduled for late 1983.

Four small hydro plants—Coleman, Inskip, South and Volta built between 1901 and 1910 along

Battle Creek in Shasta and Tehama counties—have been returned to service after reconstruction increased their total capacity by about 15 percent to approximately 35,000 kilowatts.

A fifth and entirely new plant, Volta No. 2, soon will be under construction. Its 1,000-kilowatt capacity reflects our intention to develop small hydroelectric facilities wherever possible. Several more small plants are in various stages of planning.

Cogeneration and Solid Waste
Efforts to engage in cooperative projects with a variety of industries to utilize waste heat and fuel sources to generate electricity continued at an accelerated pace during 1979.

As a result, we are actively pursuing 31 of these cogeneration projects, involving oil fields and

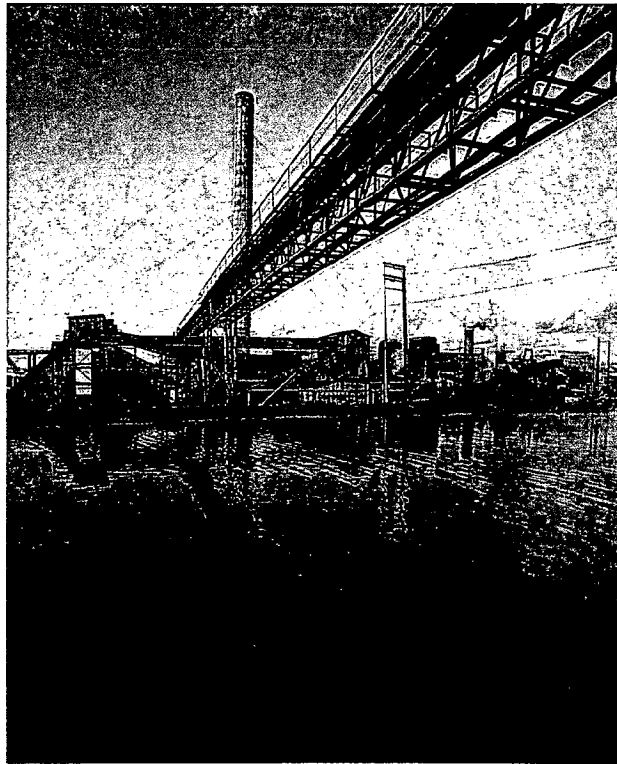
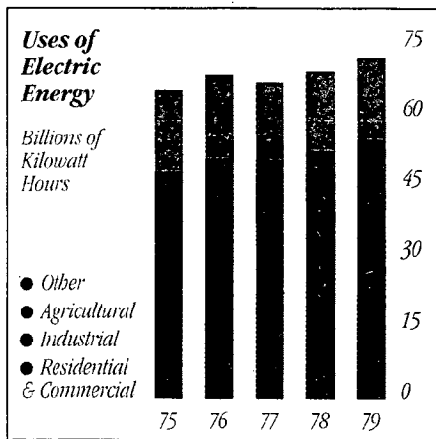
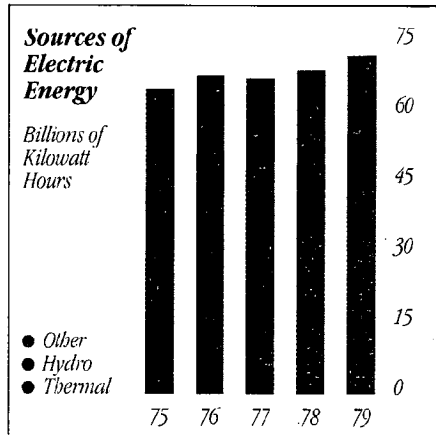
refineries, chemical plants, lumber mills and forest product companies, among others.

The Company's resource plan contemplates the development of nearly 800,000 kilowatts of cogeneration capacity by 1985 and about one million kilowatts by 1990. These quantities are not upper limits. If additional cogeneration becomes available, it will also be included in the resource plan.

Coal

The California Energy Commission in August approved two of the four inland sites included in our Notice of Intention to build a two-unit 1.6 million-kilowatt coal-fired generating plant.

From the two we have selected a site near Collinsville in Solano County to be called Montezuma, after a range of nearby hills. We plan



Making use of electricity generated by lumber mills and other large industries is typical of PG&E's long involvement with cogeneration.

to file an Application for Certification with the Energy Commission in the summer of 1980 to obtain authorization to build the facility.

The Company in November filed an application with the CPUC to participate in the construction and operation of six new coal-fired units at two sites in Utah and Nevada. PG&E's share of the plants, scheduled for operation in phases from 1985 through 1989, would be more than one million kilowatts.

Gas Operations

Canadian Gas

PG&E is the nation's largest customer for Canadian natural gas. We are actively seeking to extend export permits for this gas that begin to expire in the mid 1980s.

It was welcome news, therefore, that the Canadian government in

December extended the terms of certain licenses for exports of gas to the U.S., including deliveries to Alberta and Southern Gas Co. Ltd., a PG&E subsidiary.

While the volume of gas with respect to Alberta and Southern was small, an improved outlook for Canadian gas gives us optimism that our supply from that source will be prolonged at current levels.

Liquefied Natural Gas (LNG)

Approvals were granted by the Economic Regulatory Administration (ERA) and the Federal Energy Regulatory Commission (FERC) for the Pacific Indonesia and Pacific Alaska LNG projects during 1979. PG&E and Pacific Lighting Corporation are partners in these projects and will equally share in the 900 million cubic feet of gas per day to be delivered to the proposed receiving

terminal at Little Cojo Bay near Point Conception.

Subject to the outcome of court appeals of the ERA and FERC decisions and final rulings by the CPUC, delivery of LNG from Indonesia and Alaska could start in the mid 1980s.

Rocky Mountain Gas

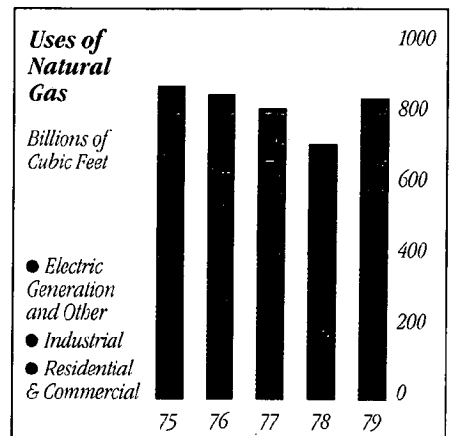
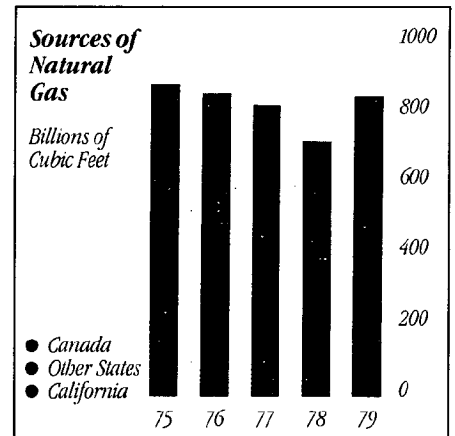
Since 1971, PG&E through its subsidiaries has obtained substantial gas exploration rights in Rocky Mountain areas generally believed to hold significant gas reserves.

Access to gas discovered in these areas was assured when our subsidiary, Natural Gas Corporation of California (NGC), reached agreements with other pipeline companies operating in the region to exchange and transport up to 100 million cubic feet a day of gas to California by the mid 1980s.

At the same time, PG&E's sub-



Dispatchers direct the flow of gas from underground storage and pipelines to more than two and a half million customers.



subsidiary, Pacific Gas Transmission Company (PGT), is seeking regulatory approval from the FERC to build its own 700-mile pipeline. This project would initially deliver 300 million cubic feet a day from the central Rockies to California. Its capacity could be expanded to 700 million cubic feet a day as additional gas from the region becomes available.

Alaskan Gas

About 10 percent of the Company's gas supply in the mid 1980s—about 225 million cubic feet a day—is programmed to come from the North Slope of Alaska through a proposed 4,800-mile pipeline.

A consortium of seven gas pipeline and utility companies, including PG&E, are working with gas producers and government agencies to conclude a private financing

plan for this project.

Meanwhile, the FERC in January 1980 approved construction of the first 160 miles of the so-called Western Leg of this pipeline, to be built by PGT. This pre-built section will be used initially to bring surplus Canadian gas to Southern California if appropriate regulatory action is taken by the U.S. and Canada.

Southwest/Mexican Gas

Higher prices for "new gas" authorized by the federal Natural Gas Policy Act have resulted in increased exploration and development in the Southwest. El Paso Natural Gas Company, the source of our Southwest gas (about 37 percent of our current supply), is also one of six U.S. companies now importing gas from Mexico.

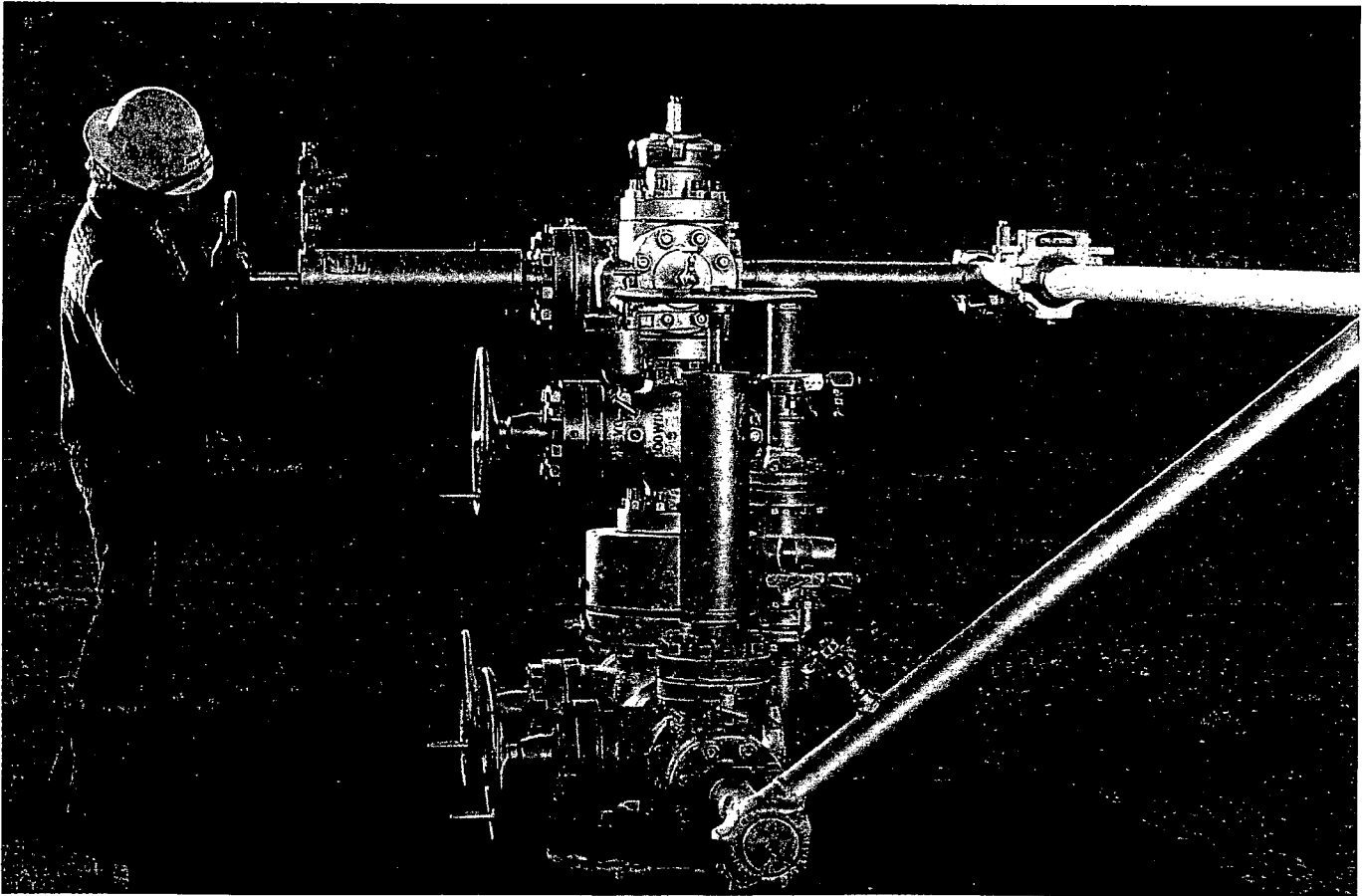
While initial deliveries of Mexican

gas beginning in January of 1980 represent only a modest share of gas reaching PG&E customers, we anticipate that gas from this source may become an important, additional supply during the 1980s.

Gas Research

Over the long term, new supplies of gas must come from new technologies. PG&E, through its support of cooperative industry research, is helping to shape a future where coal and biomass can be converted to substitute natural gas, (SNG).

Our own pilot programs include a garbage-to-gas demonstration project at a sanitary landfill operated by the City of Mountain View, and a partnership venture with the Southern California Gas Company, where we are producing methane gas from cattle manure at a feedlot in the Imperial Valley.



When complete, our Los Medanos underground storage field will hold 14 billion cubic feet of gas.

Other processes now under study include recovering methane from sewage and from agricultural and food processing wastes.

Our Employees

There were 26,877 men and women employed by the Company at the close of 1979. A net increase of 432 during the year reflected not only the increasing complexity of our business and growing regulatory requirements, but the need to serve a continually growing population and ever-expanding business, industrial and agricultural activity throughout our service area.

About 18,000 employees are represented by the International Brotherhood of Electrical Workers (AFL-CIO) and 2,000 by the Engineers and Scientists of California.

Advancement of minority and women employees in all job categories and organizational units,



Teleprocessors slash the time it takes customer service employees to handle requests for information or service.

along with promotions to supervisory and management positions, continued its upward trend.

At year's end, minority employees on the payroll represented 24.4 percent of the total employment. This compares with a 22.8 percent minority working-age population in our service area.

A 22.7 percent increase in the number of women in professional and management positions occurred during 1979. Many have started technical careers in engineering, while others serve in areas such as customer relations, accounting, computer operations and law.

A wide range of formal and informal training programs helps employees keep pace with technological and other changes taking place in our industry.

Executive Changes

Retirement of the Company's two most senior officers in June 1979 and the retirement in February 1980 of four directors under an age-in-service policy established several years ago by the Board, has brought new leadership and a number of management changes to PG&E.

Directors elected Frederick W. Mielke, Jr. chairman of the board and chief executive officer. Barton W. Shackelford became president and chief operating officer. Both had been executive vice presidents and directors. They replaced John F. Bonner, who retired as president and chief executive officer, and Richard H. Peterson, who retired as chairman of the board. Both Mr. Bonner and Mr. Peterson continue as directors.

The board in February 1980 elected Lewis S. Eaton, Robert B. Hoover, Leslie L. Luttgens and Wilson C. Riles directors. All had been elected in 1979 to serve as advisory directors. They replaced the four retired directors: Ransom M. Cook, James M. Hait, Leon S. Peters and Porter Sesnon whose combined service on the Board totaled 69 years.

With great sorrow, we report the death in December of J. Dean Worthington, executive vice presi-

dent, whose service with the Company approached 40 years. Mr. Worthington, together with Messrs. Mielke, Shackelford and Executive Vice Presidents Stanley T. Skinner and John A. Sproul, comprised the Company's newly-formed management committee.

Ellis B. Langley, Jr., formerly vice president-division operations, who in March was promoted to senior vice president-operations, has assumed Mr. Worthington's place on the management committee. He has overall responsibility for the Company's electric, gas, customer and division operations.

Other executive changes during 1979 saw Joseph Y. DeYoung, vice president-customer operations, succeed Mr. Langley as vice president-division operations. John S. Cooper, manager of PG&E's energy conservation and services department, was elected vice president-customer operations succeeding Mr. DeYoung. Richard A. Clarke, assistant general counsel, was elected vice president and assistant to the chairman. George A. Maneatis, manager of computer systems and services, was elected vice president with continued responsibility in that area.

Malcolm H. Furbush was elected vice president and general counsel, effective October 1. He succeeded John C. Morrissey, who retired after 27 years with the Company.

Mason Willrich, former director of international relations for the Rockefeller Foundation, was elected to a newly created position of vice president-corporate planning, effective November 1.

Donald A. Brand, vice president-general construction, was elected vice-president-engineering effective on April 1, 1980. He will succeed Ferdinand F. Mautz, who reaches retirement age at that time after 44 years with the Company. G. Stanley Bates, manager of civil-hydro construction, has been elected to succeed Mr. Brand as vice president-general construction.

We believe the new executive structure and appointments provide a strong organization for the years ahead.

Departmental Organization

Electric Operations

Managers:
W. H. Barr, Steam Generation
E. C. Buchholz, Transmission and Distribution
D. H. Colwell, System Protection
T. R. Ferry, Communications
W. A. Flowers, Hydro Generation
E. F. Kaprielian, Power Control
J. D. Shiffer, Nuclear Generation
J. N. Ylarraz, Substations

Gas Operations

Managers:
P. C. Heilmann, Gas Utilization
C. A. Miller, Pipe Line Operations
I. C. Odom, Gas System Planning
F. J. Parsons, Gas Control
W. E. Ross, Natural Gas Production
J. B. Stoutamore, Gas Distribution
C. J. Tateosian, Gas System Design

Gas Supply

Managers:
D. E. Fissell, Exploration, Pacific Region
J. K. A. Harral, Gas Resources
J. M. Kunz, Gas Procurement
D. L. McLeod, Gas Purchase

LNG Companies

K. L. C. Dorking, Vice President and General Manager

Coal Supply

J. C. Osmond, Manager

Engineering

Chiefs:
G. H. Aster, Design-Drafting
R. V. Bettinger, Civil Engineer
J. R. Herrera, Electrical Engineer
D. V. Kelly, Mechanical and Nuclear Engineer
J. J. McCann, Engineering Services
J. V. Rocca, Engineering Quality Control
J. O. Schuyler, Nuclear Projects Engineer

Customer Operations

Managers:
R. M. Mertz, Energy Conservation and Services
J. G. O'Neill, Customer Services
J. M. Stearns, Commercial

Geysers Project

R. P. Wischow, Manager

Internal Auditing

E. C. Suess, Manager

Planning and Research

Chiefs:
R. F. Cayot, Engineering Research
E. E. Hall, Generation Planning Engineer
H. M. Howe, Siting Engineer
H. R. Perry, Transmission 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
N. D. Hennings, Plant Accounting
R. E. Palmer, Property Tax
E. M. Schroeder, Customer Accounting

Law

R. Ohlbach, Associate General Counsel
Assistant General Counsel:
C. T. Van Deusen
P. A. Crane, Jr.
H. J. LaPlante
J. B. Gibson
A. L. Hillman, Jr.
C. W. Thissell
D. E. Gibson

Computer Systems and Services

Managers:
R. W. Barbey, Information Systems
H. N. Liu, Computer Systems Technology
A. W. Simila, Computer Operations
G. M. Rueger, Engineering Computer Applications

Stock Transfer

L. H. Gunter, Manager

Insurance

W. P. Noone, 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
I. W. Bonbright, Industrial Relations
R. H. Cunningham, Personnel Relations
J. W. Page, Land

General Construction

Managers:
R. S. Bain, Station Construction
G. S. Bates, Civil-Hydro Construction
L. C. Beanland, General Construction Personnel
W. Funabiki, Gas Construction
R. F. Irons, General Construction Services
W. M. Stubblefield, Line Construction

Safety, Health and Claims

B. P. Sadler, Manager

Materials

R. P. Benton, Manager

Public Relations

Managers:
D. J. Baxter, Public Information
G. N. Horne, Special Projects
R. H. Miller, Advertising
R. L. Sawyer, Public Activities

Governmental Relations

R. B. Dewey, Assistant to the Chairman of the Board
J. E. Koehn, Manager, Governmental and Public Affairs
G. A. Blanc, Manager, Agency Relations
J. H. Fraser, Executive Representative

President's Office

W. H. Wallace, Assistant to the President

Division Managers

Coast Valleys

F. C. Marks, Salinas

Colgate

J. L. Kirkegaard, Marysville

De Sabla

R. D. Mullikin, Chico

Drum

R. E. Metzker, Auburn

East Bay

G. F. Clifton, Jr., Oakland

Humboldt

R. C. Atkins, Eureka

North Bay

R. A. Draeger, San Rafael

Sacramento

S. E. Howatt, Sacramento

San Francisco

J. A. Fairchild, San Francisco

San Joaquin

G. N. Radford, Fresno

San Jose

V. H. Lind, San Jose

Shasta

R. J. LaRue, Jr., Red Bluff

Stockton

C. R. Martin, Stockton

Financial Section

Quarterly Common Stock Prices and Declared Dividends

December 31, 1979 and 1978

	1979				1978			
	4th	3rd	2nd	1st	4th	3rd	2nd	1st
High	\$23 ⁷ / ₈	\$24 ¹ / ₄	\$24 ¹ / ₈	\$25 ¹ / ₈	\$24 ¹ / ₂	\$24 ⁷ / ₈	\$24 ³ / ₄	\$24 ¹ / ₂
Low	21 ⁵ / ₈	22 ³ / ₈	21 ⁵ / ₈	22 ¹ / ₈	21 ³ / ₄	22 ³ / ₄	23 ¹ / ₈	23
Dividend	61¢	61¢	58¢	58¢	54¢	54¢	54¢	54¢

Consolidated Lines of Business

For the Five Years Ended December 31, 1979

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

	Operating Revenues		Operating Income	
	Electric	Gas	Electric	Gas
1975	55%	45%	71%	29%
1976	60%	40%	72%	28%
1977	65%	35%	74%	26%
1978	59%	41%	79%	21%
1979	56%	44%	75%	25%

Consolidated Summary of Operations

For the Five Years Ended December 31, 1979

	In Thousands				
	(Except per share amounts)				
	1979	1978*	1977*	1976*	1975*
Operating Revenues					
Electric	\$2,463,845	\$2,096,933	\$2,355,133	\$1,820,948	\$1,293,551
Gas	1,908,375	1,472,440	1,274,397	1,227,598	1,046,874
Total	4,372,220	3,569,373	3,629,530	3,048,546	2,340,425
Operating Expenses					
Operation					
Cost of Electric Energy	1,231,169	912,873	1,184,991	873,220	477,546
Cost of Gas Sold	1,405,516	1,045,978	930,024	843,944	689,770
Transmission and Distribution	213,226	188,956	185,893	175,862	154,535
Other	405,341	324,554	294,019	258,414	224,525
Total	3,255,252	2,472,361	2,594,927	2,151,440	1,546,376
Maintenance	132,577	124,378	112,427	98,006	92,757
Depreciation	250,864	230,617	218,209	208,660	187,867
Gas Exploration	13,050	4,631	1,841	1,461	5,984
Taxes on Income	100,071	133,264	81,715	22,316	15,943
Property and Other Taxes	104,503	136,034	160,979	145,256	130,930
Total	3,856,317	3,101,285	3,170,098	2,627,139	1,979,857
Operating Income	515,903	468,088	459,432	421,407	360,568
Other Income and Income Deductions					
Allowance for Equity Funds					
Used During Construction	159,669	125,625	84,852	62,936	51,033
Other—Net	53,582	43,211	42,231	35,065	34,742
Total	213,251	168,836	127,083	98,001	85,775
Income Before Interest Charges	729,154	636,924	586,515	519,408	446,343
Interest Charges					
Interest on Mortgage Bonds	279,912	255,296	240,428	219,667	206,223
Short-term Interest	26,137	11,201	16,170	16,911	9,654
Less Allowance for Borrowed Funds					
Used During Construction	(35,129)	(30,024)	(25,760)	(18,635)	(19,465)
Total	270,920	236,473	230,838	217,943	196,412
Net Income	458,234	400,451	355,677	301,465	249,931
Preferred Dividend Requirements	92,291	83,337	73,903	63,685	48,301
Earnings Available for Common	\$ 365,943	\$ 317,114	\$ 281,774	\$ 237,780	\$ 201,630
Average Common Shares Outstanding	103,225	99,580	89,728	82,138	76,265
Earnings Per Common Share	\$3.55	\$3.18	\$3.14	\$2.89	\$2.64
Dividends Declared Per Common Share	\$2.38	\$2.16	\$2.00	\$1.88	\$1.88

*Restated for consolidation with subsidiaries and for an accounting change of a consolidated subsidiary (see Management Discussion and Analysis of Consolidated Summary of Operations—Earnings).

Management Discussion and Analysis of the Consolidated Summary of Operations

Summary

The Company's improving earnings for the past four years resulted principally from regulatory procedures implemented by the California Public Utilities Commission (CPUC) which have substantially reduced regulatory lag.

These procedures include a plan adopted in 1977 to process general rate cases (which address all costs other than those handled through "balancing accounts") within twelve months of the filing of an application. Also, a series of balancing accounts have been established which insure the recovery of electric fuel and purchased power costs, gas purchase costs, and costs associated with fluctuations in gas sales.

The improvement in earnings for 1979 resulted primarily from a general rate increase granted by the CPUC in September 1978 and the adoption by the CPUC in May 1978 of a gas rate relief mechanism, which adjusts gas rates through one of the balancing accounts to reflect variations in volume of gas sold. These rate provisions were not in effect for the full year of 1978, but were for all of 1979.

The earned return on common equity improved to 11.5% in 1979, up from the 10.9% level experienced in 1978 and closer to the 12.83% level found fair and reasonable by the CPUC for the years 1978 and 1979.

The Company's latest general rate decision, which became effective January 1, 1980, established higher rates to recover the forecasted 1980 costs and to enable the Company to earn a return on common equity averaging 13.5% over the two year period of 1980-81. Additional information about the Company's rate increases can be found in the "Finance and Rates" section on Page 12.

Operating Revenues

Operating revenues for 1979 were \$4.4 billion, an increase of \$803 million or 22% from 1978. Electric revenues contributed 56% of the total, and gas revenue 44%. The following table sets forth the amounts by which the Company's electric and gas revenues during each of the last four years increased or decreased from the preceding years, together with estimated changes attributable to the major factors.

	Year Ended December 31			
	1979	1978	1977	1976
Electric Revenues	In Millions			
Rate Changes				
Cost of Energy	\$(354.4)	\$ 21.8	\$630.7	\$ 52.3
General	4.2	67.0	88.7	146.8
Sales Volume and Other Changes	147.4	(28.6)	53.9	79.2
Subtotal	(202.8)	60.2	773.3	278.3
Balancing Accounts Changes	569.7	(318.4)	(239.1)	249.1
Net Increase	\$ 366.9	\$(258.2)	\$534.2	\$527.4
Gas Revenues				
Rate Changes				
Cost of Gas Purchased	\$ 183.0	\$ 54.6	\$138.6	\$166.9
General	106.2	22.8	28.8	49.7
Sales Volume and Other Changes	164.3	(92.8)	(65.5)	(71.5)
Subtotal	453.5	(15.4)	101.9	145.1
Balancing Accounts Changes	(17.6)	213.4	(55.1)	35.6
Net Increase	\$ 435.9	\$ 198.0	\$ 46.8	\$180.7

() Denotes decrease

Operating Expenses

The costs of purchased gas and the costs of producing electric energy have continued to increase dramatically in recent years. The Company has had to continue its use of expensive low-sulfur fuel oil to generate electric

power because of the limited supply of natural gas for use as boiler fuel.

The following table shows fuel oil burned, power purchased and natural gas delivered, with the average prices of natural gas and fuel oil.

	Year Ended December 31				
	1979	1978	1977	1976	1975
Fuel Oil Burned (Thousands of Barrels)	26,156	28,824	35,928	27,652	11,622
Average Cost Per Barrel of Fuel Oil Burned	\$18.27	\$15.49	\$14.26	\$14.86	\$14.90
Power Purchased (Thousands of Dollars)	\$158,166	\$142,942	\$235,528	\$147,455	\$106,469
Power Purchased (Millions of KWH)	11,538	15,018	9,792	13,112	16,287
Natural Gas Delivered (Thousands of MCF)	938,465	762,760	881,129	955,332	961,673
Average Cost of Gas Delivered (Per MCF)	\$2.03	\$1.70	\$1.47	\$1.16	\$.89

Transmission and Distribution costs for gas and electricity increased \$24,000,000 or 13% in 1979, and \$21,000,000 or 14% in 1976, largely due to the higher price of natural gas used in gas compressor stations, and increased labor costs in both electric and gas distribution expense.

Other operating expenses continue to increase principally as a result of the general inflationary trend. The following table sets forth the amounts by which other operating expenses during the last four years increased or decreased from preceding years, together with estimated changes attributable to the major factors.

	Year Ended December 31			
	1979	1978	1977	1976
Conservation and Customer Expenses	\$21.1	\$10.9	\$ 2.2	\$ 7.8
Administrative and General Expenses				
Employee Wages and Benefits	18.7	8.9	20.3	6.5
City and County Franchise Taxes	7.2	.9	4.8	2.1
Miscellaneous Other A&G Expenses	14.3	6.6	4.0	5.6
Hydrogen Sulfide Abatement at Geysers	7.1	—	—	—
Fuel Oil Transportation and Storage	—	—	—	8.5
Miscellaneous Operation Expenses	12.4	3.2	4.3	3.4
Total	\$80.8	\$30.5	\$35.6	\$33.9

Maintenance expense in 1978 and 1977, primarily the costs of maintaining electric production and distribution facilities, increased \$12,000,000 and \$14,000,000, respectively.

The implementation of the Jarvis-Gann Initiative, which limited property taxes, has resulted in a property tax reduction in 1979 and 1978 of \$35,000,000 and \$28,000,000, respectively. Payroll taxes for 1979 increased \$4,000,000.

A discussion of the factors that contributed to variations in income tax expense can be found in Note 4 of the Notes to the Consolidated 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 construction of Units 1 and 2 of the Company's Diablo Canyon nuclear generating plant. The amount of ADC recorded in 1979, which is applicable to construction planned for completion in 1980, 1981 and 1982 is \$12,000,000, \$138,000,000 and \$1,000,000, respectively. Substantially, all of the ADC applicable to jobs planned for completion in 1980 and 1981 represents ADC for the two nuclear units at Diablo Canyon.

The increase in other-net for 1979 was due to an increase in gain on disposition of property and higher

interest income due to the interest that has been allowed by the CPUC on the balancing accounts.

Interest Charges and Preferred Dividend Requirements

The increased interest on mortgage bonds and preferred dividend requirements over 1978 are a reflection of the issuance of more long-term debt and preferred stock at higher rates to finance the ongoing construction program. Short-term interest in 1979 increased approximately \$15,000,000, due to the increase in commercial paper outstanding.

Earnings

For the years 1975-1978 earnings available for common and earnings per common share have been restated from amounts previously reported to reflect an accounting change by a consolidated subsidiary (See Note 1). The decreases by years were:

Year	Earnings Available for Common	Earnings per Common Share
1978	\$(1,133,000)	\$(.02)
1977	\$ (621,000)	\$(.01)
1976	\$ (519,000)	\$(.01)
1975	\$(1,648,000)	\$(.03)

Consolidated Comparative Statistics

For the Eleven Years Ended December 31, 1979

	1979	1978	1977	1976
Per Common Share				
Earnings	\$ 3.55	\$ 3.18	\$ 3.14	\$ 2.89
Dividends Declared	\$ 2.38	\$ 2.16	\$ 2.00	\$ 1.88
Dividend Payout Ratio	67.1%	67.8%	63.7%	64.9%
Book Value (end of year)	\$29.83	\$29.69	\$28.72	\$28.10
Market Price-High	25 ¹ / ₈	24 ⁷ / ₈	25 ¹ / ₂	24 ¹ / ₈
Market Price-Low	21 ⁵ / ₈	21 ³ / ₄	22 ¹ / ₄	20
Market Price-Close	23	22 ¹ / ₄	24	23 ¹ / ₈
Capital Expenditures (Thousands)				
Electric Department	\$ 943,911	\$718,572	\$599,126	\$518,398
Gas Department	205,397	140,541	122,198	131,864
Total	\$1,149,308	\$859,113	\$721,324	\$650,262
Electric Statistics "				
Net System Output (Millions of KWH)	70,355	67,669	65,428	66,416
Net System Output-Percent				
Hydroelectric Plants	16.8%	19.9%	9.2%	12.2%
Thermal Electric Plants	59.1	49.5	72.4	62.0
Other Producers	24.1	30.6	18.4	25.8
Total	100.0%	100.0%	100.0%	100.0%
System Capacity-KW (at annual peak)				
Hydroelectric Plants (adverse conditions)	2,360,000	2,350,900	2,350,900	2,419,900
Thermal Electric Plants	8,612,000	8,294,000	8,294,000	8,261,000
Other Producers (adverse conditions)	4,112,900*	2,791,100	3,302,900	3,743,400
Total	15,084,900	13,436,000	13,947,800	14,424,300
Net System Peak Demand-KW	13,215,200	12,970,600	12,191,800	12,245,800
Average Annual Residential Consumption-KWH	6,811	6,553	6,408	6,509
Total Customers (end of year)	3,365,950	3,270,302	3,179,362	3,087,300
Customers Per Mile of Distribution Line	38.9	38.5	38.1	37.7
Gas Statistics "				
Gas Purchased (Thousands of MCF)	829,361	699,594	800,950	836,333
Source of Gas Purchased-Percent				
From California	17.1%	16.7%	16.4%	16.8%
From Other States	37.4	35.4	37.0	38.2
From Canada	45.5	47.9	46.6	45.0
Total	100.0%	100.0%	100.0%	100.0%
Average Cost of Gas Purchased-MCF				
From California	173.6¢	159.4¢	112.1¢	96.1¢
From Other States (at Calif.-Ariz. border)	179.1	135.1	110.0	83.0
From Canada	278.6	239.9	218.0	192.1
Average	223.4¢	189.3¢	160.7¢	134.2¢
Peak Day Sendout-MCF	3,398,281	3,243,552	3,186,229	3,348,909
Average Annual Residential Consumption-MCF	90.4	86.9	90.5	100.8
Total Customers (end of year)	2,805,471	2,738,767	2,674,890	2,611,551
Customers Per Mile of Distribution Main	97.2	97.4	97.2	96.8

*Includes 1,240,000 KW of short-term firm capacity purchased from other utilities located outside the Company's service area.

1975	1974	1973	1972	1971	1970	1969
\$ 2.64	\$ 3.24	\$ 3.21	\$ 3.01	\$ 2.75	\$ 2.47	\$ 2.58
\$ 1.88	\$ 1.88	\$ 1.78	\$ 1.72	\$ 1.64	\$ 1.50	\$ 1.50
71.1%	58.0%	55.4%	57.2%	59.7%	60.9%	58.2%
\$27.65	\$28.14	\$27.78	\$26.35	\$24.91	\$23.66	\$22.79
23½	24⅞	32⅝	33⅜	36⅜	35	39½
18⅛	17	21½	26⅜	28⅜	22½	29½
20¾	20⅛	22⅞	32⅝	32⅜	34⅝	32¾
\$540,790	\$536,931	\$465,422	\$458,817	\$379,198	\$330,559	\$265,789
99,230	124,857	113,377	92,076	84,444	106,845	91,720
\$640,020	\$661,788	\$578,799	\$550,893	\$463,642	\$437,404	\$357,509
63,402	60,932	60,572	59,124	54,665	51,277	48,885
22.6%	25.6%	21.5%	19.8%	25.6%	26.9%	31.4%
43.6	38.1	53.4	52.7	46.5	48.6	45.2
33.8	36.3	25.1	27.5	27.9	24.5	23.4
100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
2,396,900	2,396,900	2,384,800	2,369,800	2,364,900	2,364,900	2,247,900
8,053,000	7,947,000	7,841,000	7,062,000	6,956,000	6,942,400	6,962,400
3,766,100	2,948,700	2,554,700	2,609,900	2,438,700	2,098,000	1,560,700
14,216,000	13,292,600	12,780,500	12,041,700	11,759,600	11,405,300	10,771,000
11,632,800	11,648,800	10,867,800	10,469,800	9,713,000	8,807,700	8,227,100
6,462	6,260	6,417	6,213	6,048	5,697	5,545
3,005,518	2,936,106	2,854,585	2,767,978	2,675,942	2,597,314	2,536,703
37.2	36.9	36.5	36.0	35.4	34.8	34.5
861,860	876,537	984,061	1,015,319	1,004,547	950,652	878,484
16.2%	16.8%	23.6%	23.5%	24.8%	25.2%	25.2%
41.4	43.7	38.4	40.3	41.2	43.7	45.3
42.4	39.5	38.0	36.2	34.0	31.1	29.5
100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
56.7¢	42.7¢	37.0¢	33.7¢	31.7¢	30.2¢	29.9¢
72.7	55.8	43.0	39.4	37.5	33.9	31.4
136.8	65.4	44.1	36.9	32.7	30.4	28.2
97.3¢	57.4¢	42.0¢	37.2¢	34.3¢	31.9¢	30.1¢
3,352,881	3,020,215	3,423,896	3,918,844	3,798,462	3,633,341	3,445,626
111.1	104.5	113.4	115.7	121.7	107.7	116.2
2,555,216	2,503,203	2,443,889	2,383,609	2,317,686	2,258,285	2,208,046
96.4	96.1	95.9	95.6	95.0	94.1	94.0

**Operating statistics are for PG&E only.

Consolidated Revenues and Sales

For the Years Ended December 31, 1979 and 1978

	In Thousands		Increase (Decrease)	
	1979	1978	Amount	Percent
Electric Department				
Revenues				
Residential	\$ 693,368	\$ 720,112	\$ (26,744)	(3.7)%
Commercial	752,359	852,265	(99,906)	(11.7)
Industrial (1000 Kw demand or over)	461,653	531,593	(69,940)	(13.2)
Agricultural Power	142,727	149,986	(7,259)	(4.8)
Public Street and Highway Lighting	30,491	34,179	(3,688)	(10.8)
Other Electric Utilities	67,740	69,855	(2,115)	(3.0)
Miscellaneous	50,111	43,584	6,527	15.0
Other	4,115	3,814	301	7.9
Regulatory Balancing Account Changes	261,281	(308,455)	569,736	—
Total	\$2,463,845	\$2,096,933	\$ 366,912	17.5%
Sales—KWH ⁽¹⁾				
Residential	19,605,541	18,314,721	1,290,820	7.0%
Commercial	17,891,820	17,166,973	724,847	4.2
Industrial (1000 Kw demand or over)	15,253,371	14,815,289	438,082	3.0
Agricultural Power	3,715,026	3,120,644	594,382	19.0
Public Street and Highway Lighting	455,445	485,725	(30,280)	(6.2)
Other Electric Utilities	2,807,249	2,232,563	574,686	25.7
Total Sales to Customers	59,728,452	56,135,915	3,592,537	6.4%
Gas Department				
Revenues				
Residential	\$ 555,017	\$ 432,865	\$ 122,152	28.2%
Commercial	406,497	346,229	60,268	17.4
Industrial	499,242	340,546	158,696	46.6
Other Gas Utilities	85,867	18,384	67,483	367.1
Miscellaneous	7,128	4,315	2,813	65.2
Regulatory Balancing Account Changes	176,354	193,960	(17,606)	(9.1)
Subsidiaries	178,270	136,141	42,129	30.9
Total	\$1,908,375	\$1,472,440	\$ 435,935	29.6%
Sales—MCF ⁽¹⁾				
Residential	234,295	220,076	14,219	6.5%
Commercial	143,707	144,162	(455)	(0.3)
Industrial	186,165	138,975	47,190	34.0
Other Gas Utilities	36,013	9,926	26,087	262.8
Total Sales to Customers	600,180	513,139	87,041	17.0
Company Use (electric generation)	216,062	125,636	90,426	72.0
Total	816,242	638,775	177,467	27.8%

(1) PG&E only.

Consolidated Statements of Income

For the Years Ended December 31, 1979 and 1978

	— In Thousands — (Except per share amounts)	
	1979	1978
Operating Revenues		
Electric	\$2,463,845	\$2,096,933
Gas	1,908,375	1,472,440
Total	4,372,220	3,569,373
Operating Expenses		
Operation		
Cost of Electric Energy	1,231,169	912,873
Cost of Gas Sold	1,405,516	1,045,978
Transmission	102,999	91,346
Distribution	110,227	97,610
Customer Accounts and Services	122,413	101,284
Administrative and General	226,016	184,975
Other	56,912	38,295
Total	3,255,252	2,472,361
Maintenance	132,577	124,378
Depreciation	250,864	230,617
Gas Exploration	13,050	4,631
Taxes on Income (Note 4)	100,071	133,264
Property and Other Taxes	104,503	136,034
Total	3,856,317	3,101,285
Operating Income	515,903	468,088
Other Income and Income Deductions		
Allowance for Equity Funds Used During Construction	159,669	125,625
Interest Income	36,016	22,736
Minority Interest in Net Income of Subsidiaries	(3,934)	(2,790)
Other—Net	21,500	23,265
Total	213,251	168,836
Income Before Interest Charges	729,154	636,924
Interest Charges		
Interest on Mortgage Bonds	279,912	255,296
Short-term Interest	26,137	11,201
Less Allowance for Borrowed Funds Used During Construction	(35,129)	(30,024)
Total	270,920	236,473
Net Income	\$ 458,234	\$ 400,451
Earnings Per Common Share	\$3.55	\$3.18
Dividends Declared Per Common Share	\$2.38	\$2.16

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

Consolidated Balance Sheets

December 31, 1979 and 1978

	In Thousands	
	1979	1978
Assets		
Utility Plant—At Original Cost		
Electric	\$ 6,346,657	\$ 5,963,193
Gas	2,112,778	2,024,185
Construction Work in Progress	2,565,813	2,034,218
Total Utility Plant	11,025,248	10,021,596
Accumulated Depreciation	2,793,716	2,577,055
Utility Plant—Net	8,231,532	7,444,541
Gas Exploration Costs	83,106	44,167
Advances to Gas Producers	103,493	81,536
Investment in LNG Partnership	117,459	89,740
Investment in Alaskan Northwest Partnership	23,718	4,475
Other	23,074	21,115
Current Assets		
Cash	2,888	23,923
Short-term Investments—at cost which approximates market	120,856	498
Accounts Receivable (less allowance for uncollectible accounts: 1979, \$6,122; 1978, \$5,161)	403,859	435,728
Regulatory Balancing Accounts	622,142	98,540
Materials and Supplies	71,188	54,461
Fuel Oil	207,317	154,405
Gas Stored Underground	166,552	162,090
Estimated Federal Income Tax Refund	76,000	—
Prepayments	15,544	37,231
Total Current Assets	1,686,346	966,876
Deferred Charges	42,035	12,710
Total Assets	\$10,310,763	\$ 8,665,160

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

	————— In Thousands —————	
	1979	1978
Capitalization and Liabilities		
Capitalization		
Common Stock—at par (Note 2)	\$ 1,136,275	\$1,008,793
Additional Paid-in Capital	812,802	664,337
Reinvested Earnings	1,440,179	1,322,303
Common Stock Equity	3,389,256	2,995,433
Preferred Stock—without mandatory redemption provision (Note 2)	1,102,451	1,102,451
Preferred Stock—redeemable with mandatory redemption provision (Note 2)	150,000	—
Long-term Debt (Note 3)	3,687,562	3,457,632
Total Capitalization	8,329,269	7,555,516
Current Liabilities		
Short-term Borrowings (Note 5)	695,631	69,639
Accounts Payable	440,209	343,421
Accrued Taxes Payable	221,563	226,008
Dividends Payable	69,273	54,442
Mortgage Bonds—current portion (Note 3)	52,015	76,905
Refunds Due Customers	71,939	222
Other	85,413	74,010
Total Current Liabilities	1,636,043	844,647
Deferred Credits		
Customer Advances for Construction	84,189	75,912
Deferred Investment Tax Credits	76,201	51,936
Deferred Income Taxes	28,944	8,259
Deferred Income Tax on Defense Facilities	28,647	31,590
Other	86,150	58,014
Total Deferred Credits	304,131	225,711
Minority Interest in Subsidiary Companies	41,320	39,286
Total Capitalization and Liabilities	\$10,310,763	\$8,665,160

Consolidated Statement of Changes in Financial Position

For The Years Ended December 31, 1979 and 1978

	— In Thousands —	
	1979	1978
Funds Provided		
Funds Derived from Operations		
Net Income	\$ 458,234	\$ 400,451
Non-fund Items in Net Income		
Depreciation (including charges to other accounts)	254,068	234,049
Allowance for Equity Funds Used During Construction	(159,669)	(125,625)
Other—Net	23,570	3,511
Total Funds Derived from Operations	576,203	512,386
Common Stock Sold—net proceeds	276,564	58,758
Preferred Stock Sold—net proceeds	149,383	132,429
Mortgage Bonds Sold—net proceeds	372,404	249,567
Other—Net	12,257	30,600
Total	\$1,386,811	\$ 983,740
Funds Applied		
Capital Expenditures	\$1,149,308	\$ 859,113
Allowance for Equity Funds Used During Construction	(159,669)	(125,625)
Funds Used for Capital Expenditures	989,639	733,488
Mortgage Bonds Purchased for Sinking Fund (at cost)	43,680	35,108
Matured Mortgage Bonds Retired	100,628	74,117
Dividends—preferred and common stock	340,358	296,856
Changes in Working Capital(a)	(87,494)	(155,829)
Total	\$1,386,811	\$ 983,740
(a) Changes in Working Capital:		
Short-term Investments	\$ 120,358	\$ (7,193)
Accounts Receivable	(31,869)	54,878
Regulatory Balancing Accounts	523,602	(122,256)
Fuel Oil	52,912	(94,556)
Gas Stored Underground	4,462	53,384
Estimated Federal Income Tax Refund	76,000	—
Short-term Borrowings	(625,992)	53,385
Accounts Payable	(96,788)	(48,219)
Accrued Taxes Payable	4,445	(46,873)
Refunds Due Customers	(71,717)	(12)
Other Changes in Working Capital [excluding changes in current portion of mortgage bonds due to bonds maturing in one year: 1979, \$15,568; 1978, (\$19,373)]	(42,907)	1,633
Total (decrease)	\$ (87,494)	\$ (155,829)

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

Consolidated Statements of Common Stock Equity and Preferred Stock

For the Years Ended December 31, 1979 and 1978

	—In Thousands—					
	Common Stock	Additional Paid in Capital	Reinvested Earnings	Common Stock Equity	Preferred Stock \$25 Par Value	Preferred Stock \$100 Par Value
Balance, January 1, 1978 (Note 1)	\$ 983,901	\$623,042	\$1,218,708	\$2,825,651	\$ 977,451	\$ —
Net Income—for year			400,451	400,451		
Preferred Stock Sold (5,000,000 Shares)		7,429		7,429	125,000	
Common Stock Sold (2,489,160 Shares)	24,892	33,866		58,758		
Dividends Declared—Cash:						
Preferred Stock			(81,196)	(81,196)		
Common Stock			(215,660)	(215,660)		
Balance, December 31, 1978	1,008,793	664,337	1,322,303	2,995,433	1,102,451	—
Net Income—for year			458,234	458,234		
Preferred Stock Sold (1,500,000 Shares)		(617)		(617)		150,000
Common Stock Sold (12,748,200 Shares)	127,482	149,082		276,564		
Dividends Declared—Cash:						
Preferred Stock			(90,041)	(90,041)		
Common Stock			(250,317)	(250,317)		
Balance, December 31, 1979	\$1,136,275	\$812,802	\$1,440,179	\$3,389,256	\$1,102,451	\$150,000

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

Opinion of Independent Certified Public Accountants

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

We have examined the consolidated balance sheets of Pacific Gas and Electric Company and its subsidiaries as of December 31, 1979 and 1978 and the related consolidated statements of income, changes in financial position, and common stock equity and preferred stock for the years then ended. Our examinations were 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, such financial statements present fairly the financial position of the Company and its subsidiaries at December 31, 1979 and 1978 and the results of their operations and the changes in their financial position for the years then ended in conformity with generally accepted accounting principles applied on a consistent basis, after restatement for the changes with which we concur, in consolidation policy and in the method of accounting for gas exploration costs as described in Note 1 to the financial statements.

Deloitte Haskins & Sells

San Francisco, California
February 15, 1980

Notes to Consolidated Financial Statements

For the Years Ended December 31, 1979 and 1978

Note 1 Summary of Significant Accounting Policies

Accounting Records

The accounting records of the Company are maintained in accordance with the Uniform System of Accounts prescribed by the Federal Energy Regulatory Commission (FERC) and adopted by the California Public Utilities Commission (CPUC).

Consolidation and Accounting Change

Prior to this report, investments in and income from subsidiaries were reported on the equity method of accounting. The Company's major subsidiaries are Pacific Gas Transmission Company (PGT) which transports and sells natural gas outside California and through its subsidiary explores for natural gas, Alberta and Southern Gas Co. Ltd. (A&S) whose principal functions are the acquisition of gas in Canada and arranging for its transportation to the United States border, and Natural Gas Corporation of California (NGC) which is a natural gas exploration and producing company. Beginning with this report, the consolidated financial statements include the accounts of the Company and its wholly owned and majority owned subsidiaries for all periods presented. In consolidation, all significant intercompany transactions and accounts have been eliminated.

The Securities and Exchange Commission (SEC) issued new requirements for accounting for gas exploration costs requiring that such costs be accounted for under either a revised "full cost" method or a "successful efforts" method. In accordance with the SEC requirements, earnings of PGT and its consolidated subsidiary, since the inception of its natural gas exploration program in 1971, were restated to reflect adoption of the "successful efforts" method of accounting. The change decreased consolidated net income by \$1,133,000 and earnings per share by two cents for the year ended December 31, 1978. Consolidated rein-

vested earnings at January 1, 1978 were reduced by \$5,636,000.

Revenues

Revenues consist of billings to customers and changes in balancing accounts. Billings to customers are included in revenues as meters are read on a cycle basis throughout each month. In accordance with orders of the CPUC, the Company has established balancing accounts for electric energy costs, gas costs, gas sales and property taxes. Operating revenues include changes in these balancing accounts. These changes represent amounts authorized by the CPUC to be recovered from or refunded to customers. The effect of using these balancing accounts is that changes in costs to the Company of electric energy, gas, property taxes and fluctuations in gas sales no longer affect the Company's earnings.

Depreciation

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 1979 and 1978.

Income Taxes

The CPUC requires that the Company include in net income the current tax differences arising from certain timing differences in connection with depreciation, allowance for funds used during construction (ADC) and other overhead costs of construction. For federal income tax purposes, depreciation is generally computed using the most liberalized methods allowed by the Internal Revenue Code. Investment tax credits are applied as a reduction of federal income tax through the use of a five-year moving average method (in accordance with a CPUC decision, a two-year moving average method will be used

commencing in 1980). Such tax differences are reflected in customer rates authorized by the CPUC. In computing book income taxes, changes in gas and electric balancing accounts are included to the same extent they are included in the Consolidated Statements of Income (See Note 4).

Bond Premium, Discount and Related Expenses

Bond issuance premium or discount and related expenses are amortized over the lives of the issues to which they pertain. The gain or loss on reacquisition of bonds to satisfy sinking fund requirements is amortized over the remaining life of the reacquired issues. The federal income tax on such gain is recognized over the life of the remaining property.

Retirement Plan

Retirement plan costs are accrued in accordance with an actuarial cost method (entry age normal method). At December 31, 1979, the value of retirement plan assets exceeded the estimated vested benefits of the plan.

Earnings Per Common Share

Earnings per common share are 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 in the period by the number of months in the period.

Utility Plant

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. Cost also includes ADC for the imputed cost of equity investment and a net after-tax amount

for borrowed funds. The equity component of ADC is included in other income and the net borrowed funds component is recorded as a reduction of interest charges. Costs of depreciable units of plant retired are eliminated from utility plant accounts and such costs plus removal expenses less salvage are charged to accumulated depreciation. Costs of repairing property and replacement of minor items of property are included in the Consolidated Statements of Income as maintenance.

Research and Development

Research and development (R&D) costs related to specific construction projects and a portion of general engineering research costs are capitalized. Other R&D costs are charged to expense as incurred.

Inventories

Inventories of materials and supplies, fuel oil and gas stored underground are stated at average cost.

**Note 2
Capital Stock**

Common stock outstanding at December 31, 1979 was:

	In Thousands		
	Shares Authorized	Shares	Outstanding-Held by Public Amount
Common, Par Value \$10 Per Share	200,000	113,628	\$1,136,275

The redeemable preferred stock (\$25 par) outstanding, with no mandatory redemption provision, is subject to redemption, in whole or in part, at the option of the Company upon payment of the redemption price plus accumulated and unpaid dividends to the date fixed for redemption. The redemption premium per share declines in accordance with terms of the specific issue. The involuntary liquidation preference of the preferred stock is par value (\$25) plus accrued dividends. The

preferred stock (\$25 par) outstanding at December 31, 1979 was:

	Redemption Price	Shares Authorized	In Thousands	
			Outstanding - Held by Public Shares	Amount
Preferred Cumulative Par Value \$25 Per Share				
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
Redeemable (no mandatory redemption provision)				
10.46% (\$2.615 a share)	\$30.10	3,500	3,500	87,500
10.28% (\$2.57 a share)	30.00	5,000	5,000	125,000
10.18% (\$2.545 a share)	30.00	4,000	4,000	100,000
9.48% (\$2.37 a share)	29.50	3,000	3,000	75,000
9.30% (\$2.325 a share)	29.80	4,000	4,000	100,000
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)	29.375	2,000	2,000	50,000
8.16% (\$2.04 a share)	28.875	3,000	3,000	75,000
8% (\$2.00 a share)	29.375	2,000	2,000	50,000
7.84% (\$1.96 a share)	29.00	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	-	30,871	-	-
Total Redeemable (no mandatory redemption provision)		69,215	38,313	957,830
Total Preferred Par Value \$25 Per Share		75,000	44,098	\$1,102,451

The redeemable preferred stock (\$100 par) outstanding, with a mandatory redemption provision, is subject to redemption, in whole or in part, at the option of the Company upon payment of the redemption price of \$100 per share plus a premium, plus accumulated and unpaid dividends to the date fixed for redemption. The redemption premium per share declines annually. This redeemable preferred stock is also subject to redemption through the operation of a sinking fund at the Sinking Fund Redemption Price of \$100 per share plus accumulated and unpaid dividends to the date fixed for redemption. For the purposes of the sinking fund the Company must set aside in cash, annually, commencing with November 15, 1985, and ending on November 15,

2004, an amount sufficient to redeem 75,000 shares at the Sinking Fund Redemption Price. This provision is cumulative. There are no redemption requirements for the years 1980 through 1984. In addition, the Company has the right, at its option, to redeem at the Sinking Fund Redemption Price, on November 15, 1985 and on any November 15 thereafter, not more than 75,000 additional shares. This right is not cumulative. Optional redemptions at the Sinking Fund Redemption Price are limited to an aggregate of 562,000 shares. The involuntary liquidation preference of this stock is par value (\$100) plus accrued dividends. The preferred stock (\$100 par) outstanding at December 31, 1979 was:

	Redemption Price	Shares Authorized	In Thousands	
			Outstanding - Held by Public Shares	Amount
Preferred Cumulative Par Value \$100 Per Share				
Redeemable (with mandatory redemption provision)				
9% (\$9.00 a share)	\$109.00	1,500	1,500	\$150,000
Unclassified in Series	-	8,500	-	-
Total Preferred Par Value \$100 Per Share		10,000	1,500	\$150,000

Note 3**Long-term Debt**

The First and Refunding Mortgage Bonds of PG&E are issued in series, bear annual interest from 2¾% to 10⅛% and mature from December 1, 1980 to August 1, 2012. Subject to indenture provisions as to earnings coverage 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.

The Company's securities representing investments in subsidiaries are pledged as collateral for the bonds. The mortgage bonds of Pacific Gas Transmission Company are issued in series, bear annual interest from 5¼% to 8% and mature from 1986 to 1990. All real properties and substantially all personal properties and long-term contracts for gas purchases, gas sales and gas transportation are subject to the lien of the mortgage. At December 31, 1979, long-term debt of the Company and its subsidiaries was:

Maturity	In Thousands			Total
	2-3 4% to 3-3 4%	4-1/4% to 6-7 8%	7-1/2% to 10-1 8%	
Pacific Gas and Electric Company				
Mortgage Bonds				
1980	\$ 51,405	\$ —	\$ —	\$ 51,405
1981	21,117	—	—	21,117
1982	63,750	—	150,000	213,750
1983	55,288	—	16,700	71,988
1984	51,389	—	16,700	68,089
1985-1994	41,748	253,936	279,100	574,784
1995-2004	—	475,634	821,934	1,297,568
2005-2012	—	—	1,396,870	1,396,870
Total Mortgage Bonds	\$284,697	\$729,570	\$2,681,304	3,695,571
Mortgage Bonds Included in Current Liabilities				(48,031)
Unamortized Discount Net of Premium				(19,079)
Mortgage Bonds Included in Capitalization				3,628,461
Pacific Gas Transmission Company				
Mortgage Bonds 5¼% Series, due January 1986				24,927
Mortgage Bonds 8% Series, due November 1990 (Net of Bonds Held in Treasury \$3,217,000)				19,341
Subordinated Debentures 5½%				480
Installment Obligations-Noninterest Bearing				77
Total Long-term Debt				44,825
Unamortized Discount, 8% Series				(61)
Current Portion Included in Current Liabilities				(3,984)
Long-term Debt Included in Capitalization				40,780
Alberta and Southern Gas Co. Ltd.				
Bank Loans-Canadian prime rate plus ½%, due 1981-1984				18,321
Total Long-term Debt of PG&E and Subsidiaries				\$3,687,562

PG&E 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 the Company of any series equal to 1/2 of one percent 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 1980 for bonds outstanding at December 31, 1979 are \$37,605,000. This amount, less treasury bonds of \$40,979,000 plus Series Q of \$51,405,000 maturing on December 1, 1980 is included in current liabilities.

PG&E's combined aggregate amount of bonds maturing and sinking fund requirements for the years 1980 through 1984, calculated on the basis of bonds outstanding at December 31, 1979, are \$89,010,000,

\$57,757,000, \$249,558,000, \$105,223,000 and \$100,275,000, respectively.

In January 1980, PG&E's First and Refunding Mortgage Bonds, Series 80A, 12¾%, in the principal amount of \$250,000,000 and due on February 1, 2013, were sold in a public offering.

PGT's First Mortgage Pipeline Bonds and subordinated debentures, which are solely the obligation of PGT, are subject to redemption, at specified redemption prices, through the operation of a sinking fund or in larger increments at PGT's option, depending upon the series and redemption date. The annual sinking fund requirement through 1985 is \$5,959,000; for 1986, \$4,006,000; thereafter through 1990, \$2,052,000. The debentures are subordinated in right of payment to mortgage debt and certain other indebtedness.

Note 4**Taxes on Income**

Taxes on income generally reflect amounts currently payable with the exception of investment tax credits, changes in balancing accounts and gas exploration costs. Through 1979 investment tax credits generally reduce federal income tax expense by the use of a five-year moving average (in accordance with a CPUC decision, a two-year moving average will be used commencing in 1980). Changes in electric and gas balancing accounts are not included in federal and state income tax returns until such changes are billed to customers. As a result, the Company expects a federal income tax refund of approximately \$76,000,000 for the year 1979 which represents the amount of prior years' taxes available for such refund. In addition, the Company will have available tax credits of approximately \$128,000,000 to reduce federal income tax payments for years after 1979. The net unbilled amount included in the balancing accounts at December 31, 1979 was approximately \$622,000,000 which will result in an additional tax payment of \$318,000,000 when billed (See Note 1).

The reasons for the differences between the reported income tax expense and the amount computed by applying the federal income tax rate of 46% for 1979 and 48% for 1978 to income before taxes are:

	1979	1978
	Percent of Pretax Income	Percent of Pretax Income
Computed provision	46.0%	48.0%
Increases (reductions) resulting from		
Investment tax credits	(7.0)	(5.8)
State tax on income	2.4	2.6
Allowance for borrowed and equity funds used during construction	(16.4)	(14.7)
Tax depreciation in excess of book depreciation	(2.0)	(4.1)
Other overhead construction costs	(3.3)	(3.4)
Repair allowance	(2.1)	(3.3)
Property taxes	(0.5)	3.0
Property removal expenses	(0.9)	(1.0)
Other - net	(0.2)	0.1
Total	16.0%	21.4%

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

	1979	1978
	In Thousands	
Included in operating expenses	\$100,071	\$133,264
Included in other income	(12,778)	(24,444)
Total	\$ 87,293	\$108,820

The components of income tax expense (credit) are:

	1979	1978
	In Thousands	
Current		
Federal	\$(76,000)	\$108,951
State	-	41,249
Canadian	121	234
Deferred		
Tax related to changes in regulatory balancing accounts		
Federal	100,349	(40,207)
State	20,818	(15,773)
Investment tax credit		
Federal	24,265	17,348
Amortization of deferred taxes on defense facilities		
Federal	(2,694)	(2,694)
State	(251)	(251)
Other deferred		
Federal	16,303	(334)
State	3,812	130
Canadian	570	167
Total	\$ 87,293	\$108,820

Note 5**Compensating Balances and Short-term Borrowing Arrangements**

The Company and its subsidiaries maintain lines of credit with eighteen banks, which, at December 31, 1979, totaled \$629,495,000. Lines of credit are maintained to support the sale of commercial paper, and at no time during the year were the lines of credit used for direct bank borrowings.

The Company and its subsidiaries compensate banks for lines of credit and other banking services by fee payments or by maintaining cash balances. The cash balances maintained at the banks are not legally restricted.

As of December 31, 1979 and December 31, 1978, there were \$682,773,000 and \$69,639,000 of the Company's and its subsidiaries' commercial paper outstanding at average interest rates of 13.6% and 10.2%, respectively. The maximum amount of commercial paper outstanding at any month-end during the year ended December 31, 1979 was \$682,773,000.

During the years 1979 and 1978, the approximate weighted average interest rates for commercial paper were 12.1% and 8.0%, respectively, and the approximate average commercial paper outstanding was \$208,641,000 and \$57,629,000, 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.

On January 15, 1980, PG&E received \$255,000,000 of short-term interim financing which was arranged by Bankers Trust Company at their floating prime rate of interest.

Note 6**Commitments and Other Matters**

Capital expenditures for the year 1980 are estimated at \$1,269,000,000.

Total research and development costs incurred during the years 1979 and 1978 were approximately

\$76,000,000 and \$60,000,000, of which \$60,000,000 and \$47,000,000 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 \$77,702,000 and \$70,986,000 for the years 1979 and 1978.

The Company is a member of Nuclear Mutual Limited (NML), established by the utility industry to provide insurance coverage against property damage to members' nuclear generating facilities whether

under construction or in operation. In the event of property damage to a nuclear plant of a member utility, the Company could be subject to a maximum assessment of approximately \$19,000,000 in the event losses exceed premiums, reserves and other NML resources.

With CPUC authorization, the Company has executed guarantees to assume liabilities, not to exceed \$200,000,000 in aggregate principal amount, with respect to promissory notes and a standby bank line of credit required to fund take-or-pay payments to gas producers by A & S.

Note 7

Segment Information

Consolidated segment information for 1979 and 1978 follows:

	In Thousands			
	Electric	Gas	Intersegment Eliminations	Total
1979				
Operating Revenues	\$2,463,845	\$1,908,375		\$ 4,372,220
Intersegment Sales(A)	3,440	556,354	\$(559,794)	-
Total Operating Revenues	2,467,285	2,464,729	(559,794)	4,372,220
Depreciation	183,995	66,869		250,864
Income Taxes(B)	63,168	36,903		100,071
Other Operating Expenses(B)	1,834,935	2,230,241	(559,794)	3,505,382
Total Operating Expenses	2,082,098	2,334,013	(559,794)	3,856,317
Operating Income	\$ 385,187	\$ 130,716	\$ -	\$ 515,903
Capital Expenditures(C)	\$ 943,911	\$ 205,397		\$ 1,149,308
Utility Assets(C)	\$5,257,874	\$2,487,076		\$ 7,744,950
Construction Work in Progress(C)	2,521,809	44,004		2,565,813
Total Assets	\$7,779,683	\$2,531,080		\$10,310,763
1978				
Operating Revenues	\$2,096,933	\$1,472,440		\$ 3,569,373
Intersegment Sales(A)	3,774	305,088	\$(308,862)	-
Total Operating Revenues	2,100,707	1,777,528	(308,862)	3,569,373
Depreciation	167,014	63,603		230,617
Income Taxes(B)	104,346	28,918		133,264
Other Operating Expenses(B)	1,461,448	1,584,818	(308,862)	2,737,404
Total Operating Expenses	1,732,808	1,677,339	(308,862)	3,101,285
Operating Income	\$ 367,899	\$ 100,189	\$ -	\$ 468,088
Capital Expenditures(C)	\$ 718,572	\$ 140,541		\$ 859,113
Utility Assets(C)	\$4,605,656	\$2,025,286		\$ 6,630,942
Construction Work in Progress(C)	2,008,144	26,074		2,034,218
Total Assets	\$6,613,800	\$2,051,360		\$ 8,665,160

(A) Intersegment sales for 1979 and 1978 represent 23% and 17%, respectively, of Total Gas Revenues and less than 1% of Total Electric Revenues. Intersegment Electric and Gas Sales are accounted for at tariff rates prescribed by the CPUC.

(B) Income taxes and general corporate expenses are allocated to departments in accordance with the Uniform System of Accounts and requirements of the CPUC.

(C) Includes allocation of Common Utility Plant.

Note 8

Quarterly Financial Data

(unaudited)

Consolidated operating revenues, operating income, net income and earnings per common share for the four quarters of 1979 and 1978 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.

	In Thousands			Earnings Per Common Share
	Operating Revenues	Operating Income	Net Income	
December 31, 1979	\$1,244,469	\$117,006	\$101,264	\$.71
September 30, 1979	\$1,093,159	\$140,538	\$123,312	\$.98
June 30, 1979	\$ 980,513	\$129,540	\$118,000	\$.94
March 31, 1979	\$1,054,079	\$128,819	\$115,658	\$.92
December 31, 1978	\$1,071,808	\$130,521	\$117,727	\$.95
September 30, 1978	\$ 874,058	\$130,440	\$115,795	\$.94
June 30, 1978	\$ 768,537	\$108,953	\$ 89,170	\$.70
March 31, 1978	\$ 854,970	\$ 98,174	\$ 77,758	\$.60

For the quarter ended December 31, 1978, net income and earnings per common share were decreased \$1,133,000 and two cents, respectively, from amounts previously reported to reflect restatement by a consolidated subsidiary (See Note 1).

Supplemental Information Required by Financial Accounting Standards Board Statement No. 33 (unaudited)

For many years the purchasing power of the dollar, measured by consumer and wholesale price indices, has declined each year. This decline in purchasing power of the dollar is commonly called "inflation."

Many complex theories have been proposed in an attempt to measure the impact of inflation on business, but no solution has emerged that commands general acceptance. In 1979 the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 33 requiring that certain supplemental financial information be furnished showing historical information converted to two bases—constant dollars and current cost—using specified techniques. Constant dollar amounts as reported herein

represent historical amounts converted to dollars having approximately the same purchasing power as the real dollar had in mid 1979 as measured by the Consumer Price Index for All Urban Consumers. Current cost amounts represent the price in constant dollars the Company would expect to pay for its assets if it could obtain them at today's prices.

Because regulation limits the recovery of inventory amounts to historical costs, the Company inventories are considered to have the same constant dollar and historical cost. Statement No. 33 requires that utility plant be repriced into constant dollars and that depreciation presented on both the constant dollar and current cost basis be calculated on the repriced amount. It was assumed that applying the Handy-Whitman Index of Public Utility Construction Costs for the Pacific Coast Division to historical cost of surviving plant would approximate current cost. The current year's provisions for depreciation on the constant dollar and current cost amounts of utility plant were determined by applying the Company's depreciation rates to the constant dollar and current costs.

As prescribed in Statement No. 33, income taxes were not adjusted.

PG&E has serious reservations as to whether the required supplemental financial information is appropriate for measuring the impact of inflation on a utility regulated, as PG&E is, on a cost-of-service basis. This information is presented solely because it is required to be presented. It should be clearly understood that the required information is complicated, difficult to understand and because of the permitted subjectivity inherent in developing this prescribed information unwarranted comparisons and inferences may result.

Consolidated Statement of Income from Continuing Operations Adjusted for Changing Prices As Required By FASB Statement No. 33

For the Year Ended December 31, 1979

	In Thousands		
	Conventional Historical Cost	Constant Dollar	Current Cost
Operating Revenues	\$4,372,000	C\$4,372,000	C\$4,372,000
Operation, Maintenance and Other	3,663,000	3,663,000	3,663,000
Depreciation	251,000	494,000	699,000
Total	3,914,000	4,157,000	4,362,000
Income from continuing operations (excluding reduction to net recoverable cost)	\$ 458,000	C\$ 215,000*	C\$ 10,000
Increase during the year in specific prices of property, plant and equipment**			C\$1,850,000
Reduction to net recoverable cost		C\$ (779,000)	(255,000)
Effect of increase in general price level			(2,169,000)
Excess of increase in general price level over increase in specific prices after reduction to net recoverable cost			(574,000)
Reduction of purchasing power loss through debt financing		634,000	634,000
Net		C\$ (145,000)	C\$ 60,000

C\$—Dollars having approximately the same purchasing power as the real dollar had in mid 1979.

*Including the reduction to net recoverable cost, the loss from continuing operations on a constant dollar basis would have been C\$564,000,000.

**At December 31, 1979, current cost of property, plant and equipment, net of accumulated depreciation was C\$17,759,000,000 while historical cost or net cost recoverable through depreciation was \$8,232,000,000.

Five-Year Comparison of Selected Supplementary Consolidated Financial Data Adjusted for Effects of Changing Prices As Required by FASB Statement No. 33

Years Ended December 31,	In Thousands (Except per share amounts)				
	1979	1978	1977	1976	1975
Operating Revenues	C\$4,372,000	C\$3,976,000	C\$4,352,000	C\$3,890,000	C\$3,159,000
Historical Cost Information Adjusted for General Inflation					
Income from continuing operations (excluding reduction to net recoverable cost)	C\$ 215,000				
Income per common share (after dividend requirements on preferred stock and excluding reduction to net recoverable cost)	C\$ 1.19				
Net assets at year-end at net recoverable cost	C\$3,189,000				
Current Cost Information					
Income from continuing operations (excluding reduction to net recoverable cost)	C\$ 10,000				
Loss per common share (after dividend requirements on preferred stock)	C\$ (.79)				
Excess of increase in general price level over increase in specific prices after reduction to net recoverable cost	C\$ (574,000)				
Net assets at year-end at net recoverable cost	C\$3,189,000				
General Information					
Reduction of purchasing power loss through debt financing	C\$ 634,000				
Cash dividends declared per common share	C\$ 2.38	C\$ 2.41	C\$ 2.40	C\$ 2.40	C\$ 2.54
Market price per common share at year-end	C\$ 21.64	C\$ 23.85	C\$ 28.06	C\$ 28.86	C\$ 27.14
C\$-Dollars having approximately the same purchasing power as the real dollar had in mid-1979.					
Average consumer price index Base year 1967=100	217.6	195.4	181.5	170.5	161.2

Directors and Officers

Directors

John F. Bonner

Former President and Chief Executive Officer, Pacific Gas and Electric Company

Ransom M. Cook*

Consultant, Systron-Donner Corporation (electronic equipment)

Richard P. Cooley^{1, 4}

Chairman of the Board and Chief Executive Officer, Wells Fargo Bank, N.A.

Charles de Bretteville^{3, 4}

Former Chairman of the Board, The Bank of California, N.A.

Myron Du Bain³

Chairman of the Board, President and Chief Executive Officer, Fireman's Fund Insurance Companies

Alfred W. Eames, Jr.^{1, 2}

Former Chairman of the Board, Del Monte Corporation (food products and related services)

Lewis S. Eaton²

Chairman of the Board and President, Guarantee Savings and Loan Association

James M. Hait*

Consultant, FMC Corporation (food machinery and chemicals)

Robert B. Hoover³

Chairman of the Board and Chief Executive Officer, The Pacific Lumber Company

Doris F. Leonard^{1, 4}

Secretary-Treasurer and Partner, Conservation Associates (park and land acquisition)

Leslie L. Luttgens³

Community Leader

Richard B. Madden²

Chairman of the Board and Chief Executive Officer, Potlatch Corporation (diversified forest products)

Frederick W. Mielke, Jr.^{1, 4}

Chairman of the Board and Chief Executive Officer, Pacific Gas and Electric Company

Mervin G. Morris³

Chairman Emeritus, Mervyn's (department stores)

Leon S. Peters*

President, Valley Foundry & Machine Works (manufacturer of winery equipment)

Richard H. Peterson

Former Chairman of the Board, Pacific Gas and Electric Company

Wilson C. Riles²

California State Superintendent of Public Instruction

Porter Sesnon*

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

Barton W. Shackelford¹

President and Chief Operating Officer, Pacific Gas and Electric Company

Emmett G. Solomon^{1, 4}

Former Chairman of the Board, Crocker National Bank

John Lyons Sullivan^{2, 4}

Rancher and Chairman Emeritus, California Canners and Growers (cooperative canner of fruits and vegetables)

¹ Member Executive Committee

² Member Audit Committee
Richard B. Madden, Chairman

³ Member Compensation Committee
Myron Du Bain, Chairman

⁴ Member Advisory Nominating Committee
Frederick W. Mielke, Jr., Chairman

*Retired from the Board in February 1980

Officers

Frederick W. Mielke, Jr.

Chairman of the Board and Chief Executive Officer

Barton W. Shackelford

President and Chief Operating Officer

Stanley T. Skinner

Executive Vice President

John A. Sproul

Executive Vice President

Ellis B. Langley, Jr.

Senior Vice President Operations

Donald A. Brand

Vice President General Construction

Howard P. Braun

Vice President Electric Operations

Robert W. Brooks

Vice President Gas Supply

Richard A. Clarke

Vice President and Assistant to the Chairman

John S. Cooper

Vice President Customer Operations

Nolan H. Daines

Vice President Planning and Research

Joseph Y. De Young

Vice President Division Operations

Malcolm H. Furbush

Vice President and General Counsel

William M. Gallavan

Vice President Rates and Valuation

Malcolm A. MacKillop

Vice President Governmental Relations

George A. Maneatis

Vice President Computer Systems and Services

Ferdinand F. Mautz

Vice President Engineering

Lawrence R. McDonnell

Vice President Public Relations

Howard M. McKinley

Vice President Gas Operations

Richard K. Miller

Vice President Personnel and General Services

Frank A. Peter

Vice President and Comptroller

Mason Willrich

Vice President Corporate Planning

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

Stockholders' Calendar

Schedule of Dividend
Payment Dates - 1980
Common Stock
January 15
April 15
July 15
October 15
Preferred Stock
February 15
May 15
August 15
November 15

Stock Exchange Listings

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

Annual Meeting

Proxies will be solicited
by the Board of Directors for
the annual meeting to be held
at the Masonic Auditorium,
1111 California Street,
San Francisco, California,
on Wednesday, April 16, 1980
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 10, 1980.

Stock Transfer Agent

L. H. Gunter
Office of the Company
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 1979
on Form 10-K**

A copy of the Company's
report for 1979 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