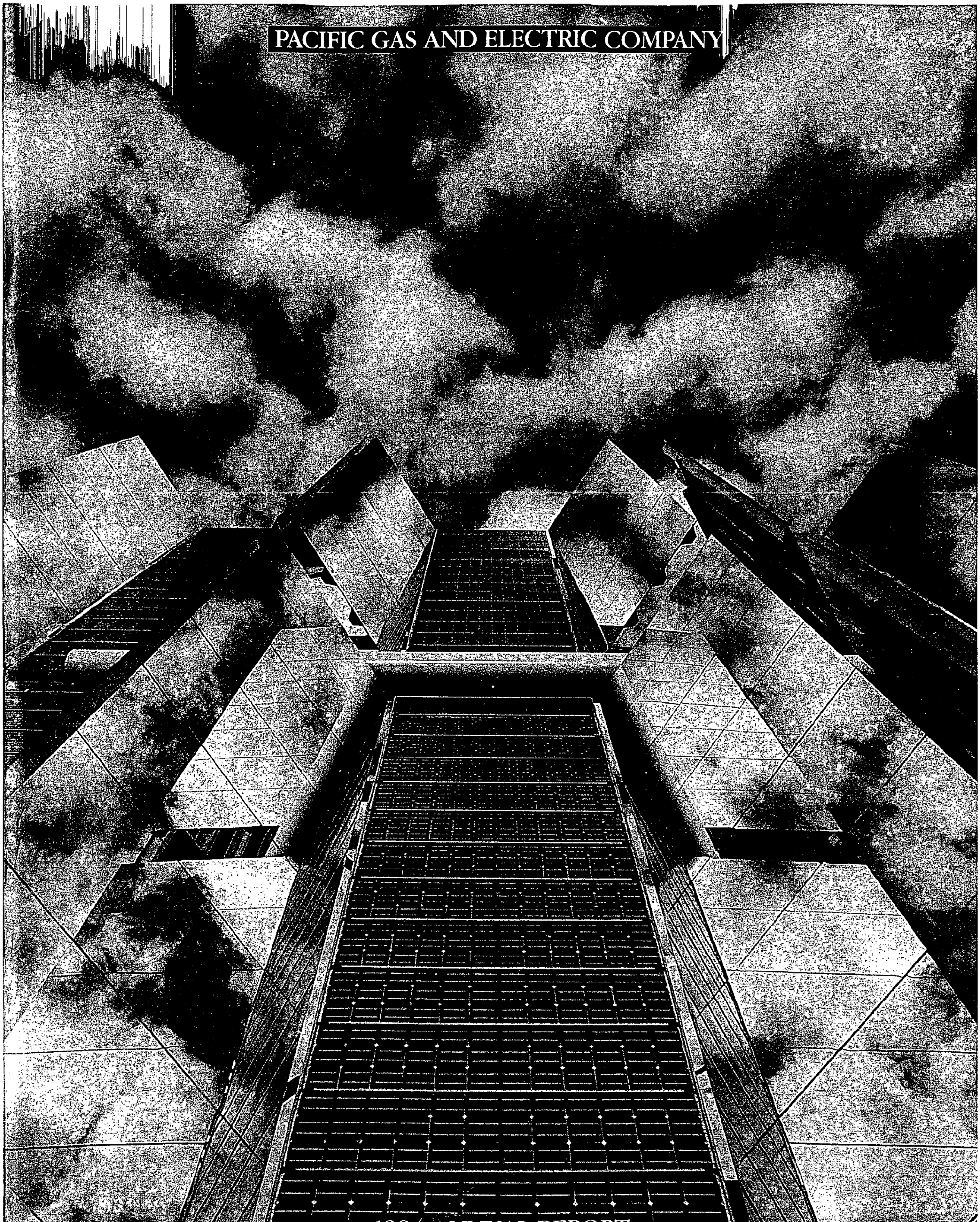
PACIFIC GAS AND ELECTRIC COMPANY



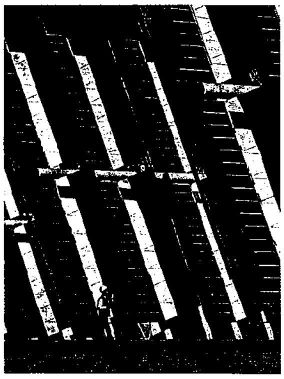
1984 ANNUAL REPORT

CONTENTS

COVER

Solar power is a field in which PG&E is a national leader. The nation's first commercial photovoltaic power plant (which produces electricity directly from sunlight) is already producing power for our customers from its first units. This plant, panels of which are shown on the cover and to the right, was developed by ARCO Solar Inc. on the sunny Carrisa Plains in central California. The plant currently has 6,000 kilowatts operational, and is being expanded.

PG&E has contracts to buy power from nine other solar projects capable of producing 36,500 kilowatts. We are



researching and testing several types of photovoltaic cells and installing new solar monitoring stations, with the objective of bringing costs down and increasing reliability.

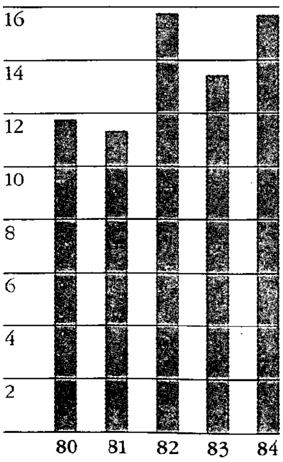
We are also researching three new solar thermal technologies, which capture the sun's energy in the form of heat.

HIGHLIGHTS
Pacific Gas and Electric Company

	1984	1983	% Change
Operating Revenues	$ 7,829,703,000	$ 6,646,699,000	18
Operating Income	$ 1,103,388,000	$ 959,872,000	15
Net Income	$ 974,892,000	$ 787,967,000	24
Earnings Available for Common Stock	$ 810,576,000	$ 628,143,000	29
Return on Common Stock Equity	15.7%	13.4%	17
Earnings Per Common Share	$2.62	$2.15	22
Dividends Declared Per Common Share	$1.69	$1.58	7
Total Assets	$17,327,133,000	$14,721,533,000	18
Funds Used for Construction	$ 2,084,697,000	$ 1,932,525,000	8
Sales of Electricity to Customers (KWH)	63,333,794,000	60,011,045,000	6
Sales of Gas to Customers (MCF)	430,578,000	433,253,000	(1)
Total Customers	6,710,000	6,551,000	2
Number of Stockholders	404,650	408,216	(1)
Number of Employees	28,400	27,300	4

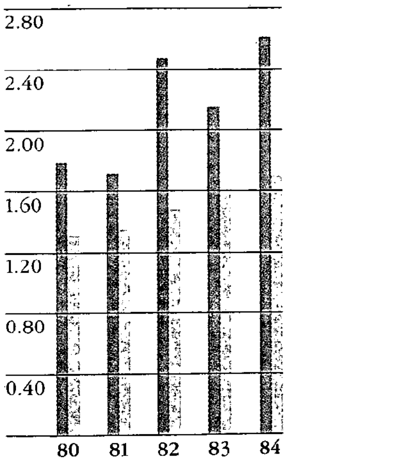
RETURN ON COMMON STOCK EQUITY

PERCENTAGE



EARNINGS AND DIVIDENDS PER SHARE

DOLLARS PER SHARE



Material Redacted

GTR0052170

LETTER TO STOCKHOLDERS

By virtually every measure, PG&E ended the year 1984 a stronger company than when the year began.

We grew in financial strength, productivity and ability to serve our customers efficiently. We made progress in bringing the two largest individual projects in the company's history to reality. We negotiated favorable gas supply contracts, resulting in lower prices for our customers. And we continued to develop a range of electric generating sources, conservation and load management programs and customer service options unparalleled in the industry.

Our 1984 gains built upon similar progress the previous two years. They stem from a commitment to corporate goals established in 1981, a time when low rates and rising costs combined to drive our earnings downward.

One major goal was to hold expenditures to levels authorized in our rates by the California Public Utilities Commission. We have done so.

Financial Results

As a result, for the past three years we have earned substantially the full return on investment in utility operations authorized by the commission. This represents a level of earnings not achieved in the previous 15 years.

For 1984, earnings per share were $2.62, a substantial improvement over the $2.15 recorded in 1983, when earnings were depressed by more nonrecurring accounting adjustments than were experienced in 1984.

In May, recognizing the continuing strong trend of earnings on utility operations, your board of directors increased the common stock dividend 7.5 percent to its current annual rate of $1.72.

The steady improvement in our financial condition takes us closer to our goal of reacquiring our double-A debt rating, and achieving a market price for our common stock in excess of book value. This will lower our costs of financing and benefit both our stockholders and customers.

Major Additions To Generation

Another major goal now nearing realization is the completion of the Diablo Canyon Nuclear Power Plant. In August 1984 the Nuclear Regulatory Commission granted a full-power operating license for Diablo Canyon Unit 1. Opponents of the plant appealed that action and obtained a temporary court stay of the license until arguments on their appeal could be heard. On October 31, one day after hearing the arguments, the court lifted the stay and permitted the license to be issued. The court upheld the licensing in a final decision December 31.

Operational testing of Unit 1 began in November and is expected to be finished in time to permit full commercial operation by about the end of the first quarter of 1985.

We expect Unit 2 to be licensed soon and placed in commercial operation about six months after Unit 1.

The Diablo Canyon plant will provide a safe, reliable, low-cost source of electricity for years to come. It will reduce our need to use expensive oil or gas fuels and our need to purchase expensive power from other suppliers. The plant will save our customers about $5 billion over the cost of power from other sources in just the first 10 years of its operation. Savings will be even greater in subsequent years.

Our 1.2-million-kilowatt Helms Pumped Storage Project was also completed in 1984. Helms came on line during the summer in time to help PG&E meet record electric demand.

With these new facilities on line, we will have completed the major additions to our generating capacity for at least the next decade.

Future Sources Of Electricity

During 1984 we continued our aggressive efforts to obtain new electric energy supplies from alternative energy projects. These projects include geothermal resources; renewable resources such as hydro, wind, biomass and solar; and cogeneration. Together with our plants using oil, gas, and nuclear energy, these projects give us an array of electric generating facilities unique in the utility industry for diversity–as highlighted in the photographs in this report.

Alternative energy sources serve both financial and operational objectives at PG&E. Such projects are generally small, have short lead times, require modest up-front capital outlays and can be placed in the rate base quickly to produce earnings. Often they can be financed by others who will contract to sell the power to PG&E, thus saving the use of PG&E's capital.

New generating sources planned for the next 20 years consist mainly of alternative energy projects. Substantial purchases of economical power from other areas are also planned. Toward this end, we are active participants with other entities in an effort to build a third extra-high-voltage AC transmission line to the Pacific Northwest.

Other Programs

During 1984, we added substantially to our conservation, load management, marketing and customer service programs. These are unequalled in our industry. They provide our customers with a wide choice of services, help keep our rates low, and are well received by our customers.

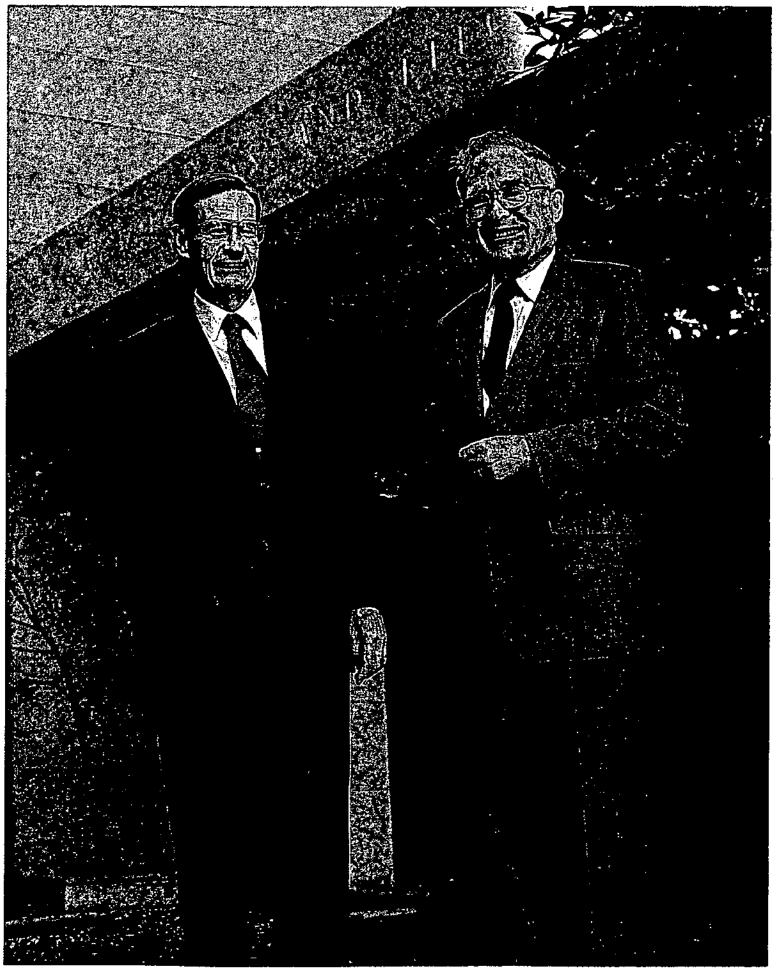
Our plans for the next 20 years call for moderating the growth in electric energy usage by continued emphasis on conservation and load management. Both are cost-effective ways to benefit customers and stockholders by stretching existing lower-cost energy supplies and lessening the need to develop costlier new ones.

The year 1984 also brought major progress in our ongoing efforts to cut costs without sacrificing quality of service. We launched major new programs to increase employee productivity and to maximize use of existing energy supply facilities.

Negotiation Of Lower Gas Prices

By driving hard bargains with our U.S. and Canadian suppliers, we have lowered the costs of our gas supplies and increased our ability to choose among competing sources. Lowered gas costs saved our customers about $250 million in their gas rates during 1984 and will permit further savings of about $180 million in 1985. These decreases keep our average gas rates more than 10 percent lower than they otherwise would be.

We are rebuilding our industrial gas marketing forces to meet the competition from other fuels for industrial sales. These steps strengthen PG&E's position for the fast-paced, competitive fuels market we face for at least the rest of the decade.



Frederick W. Mielke, Jr. (left) and Barton W. Shackelford.

Superb Efforts Of Employees

All of these accomplishments result from the superb efforts of our employees. The 28,400 men and women of PG&E are the true strength of this company.

Their dedication to service and to the achievement of excellence in every field of operation is the reason we have made such important progress. Without motivated employees, the best of plans are worthless.

Our employees show their dedication not only in their regular work, but also in their many charitable and community activities. We have detailed some of those activities, and related activities of the company, in a special section on Community Activities later in this report.

Frederick W. Mielke, Jr.

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

Barton W. Shackelford

Barton W. Shackelford
President

February 8, 1985

DIVERSE ENERGY SOURCES

The words and pictures that follow detail the highlights of last year, outline key plans for the future and show graphically our diversity of energy sources - a diversity that provides maximum flexibility to meet changing conditions and helps us meet our goal of energy services at reasonable rates for customers and a fair return for stockholders.

REVIEW OF OPERATIONS

UTILITY OPERATIONS

The hot, dry summer of 1984 contributed to record electric sales and marked an end to two record years of hydroelectric generation.

The company sold about 63 billion kilowatthours of electricity in 1984, topping the previous record year, 1981, and surpassing 1983 sales by about 6 percent. The increase over 1983 is due in roughly equal parts to the weather and the rapidly expanding economy of PG&E's service territory.

A return to more normal precipitation meant a drop in our hydroelectric output. In the record years of 1982 and 1983, hydro generation of 130 and 151 percent of normal, respectively, helped lower fuel-related electric rates by about $1.6 billion. In 1984, rates rose as hydro power had to be replaced by more expensive power from plants burning fossil fuel.

July 13, the hottest day of the extended summer heat wave, produced record demand for electricity of 16,225,000 kilowatts in PG&E's service area. With the new Helms Pumped Storage Project, placed in service scarcely two weeks before, adding more than 1,000,000 kilowatts, the company was able to meet the demand without triggering statewide energy emergency plans. Every other source of electric energy at PG&E's command, including wind, solar, biomass, geothermal, cogeneration and small hydro units, as well as the big fossil-fuel plants, helped meet our customers' needs.

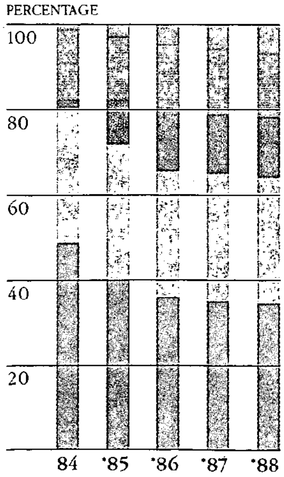
Gas Sales Decline Halted

Sales of gas were 431 billion cubic feet for 1984, down less than one percent from 1983, virtually halting the steady decline in gas sales since 1979. Gas sales had dropped 10 percent, for example, between 1982 and 1983.

Gas sales had been declining as gas prices, until recently, had gone up and major customers shifted to lower-priced fuels.

The turnaround in gas sales was the result of lower prices, an aggressive marketing program,

SOURCES OF ELECTRIC SYSTEM GENERATING CAPABILITY



□ FOSSIL
□ HYDRO
□ NUCLEAR
□ GEOTHERMAL
□ IMPORTS
□ COGEN, WIND, SOLAR
*Projected

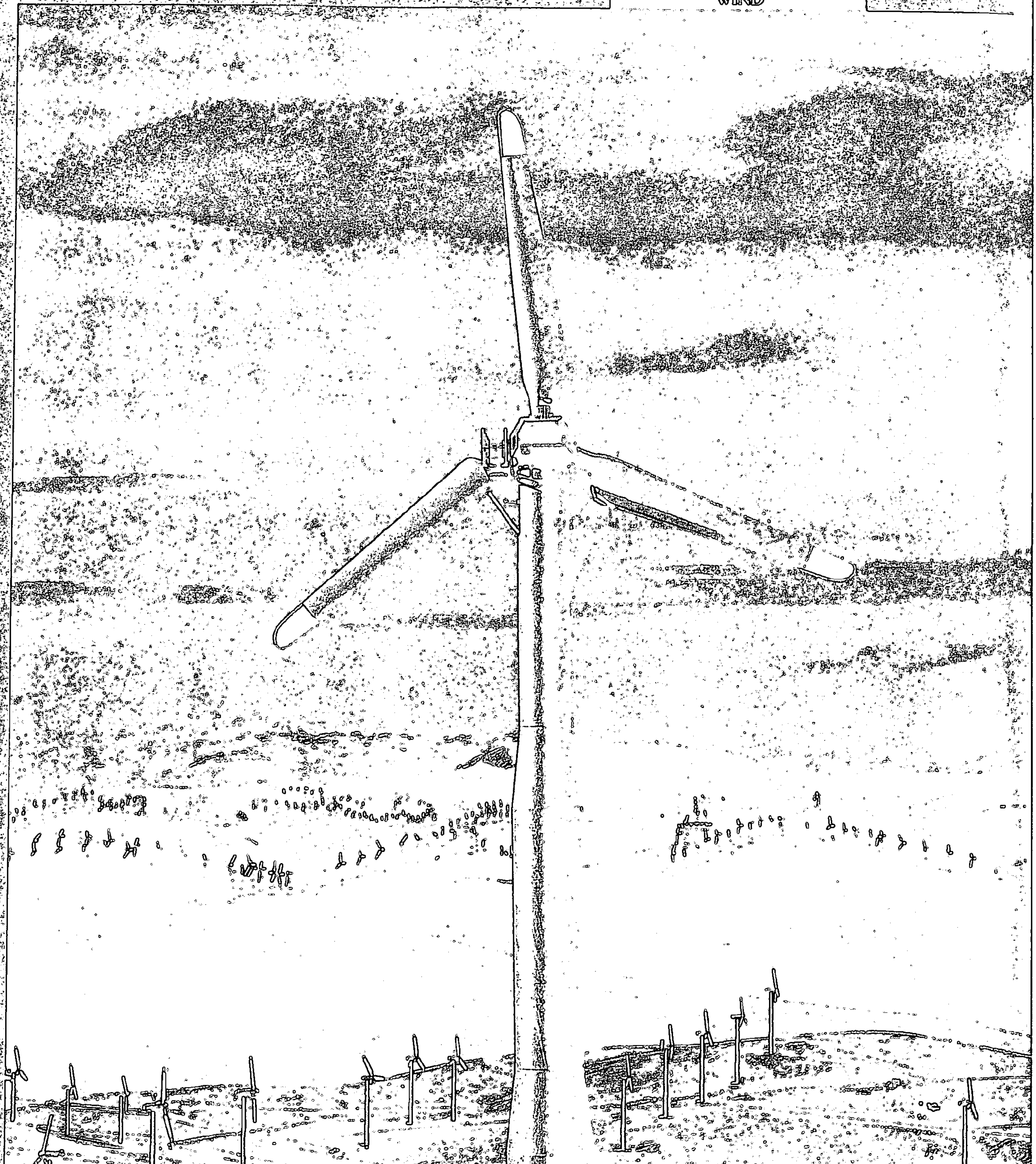
Hydroelectric plants are a major strength of PG&E's electric system. Our 66 conventional powerhouses and one pumped storage facility make up the largest investor-owned hydropower system in the U.S.

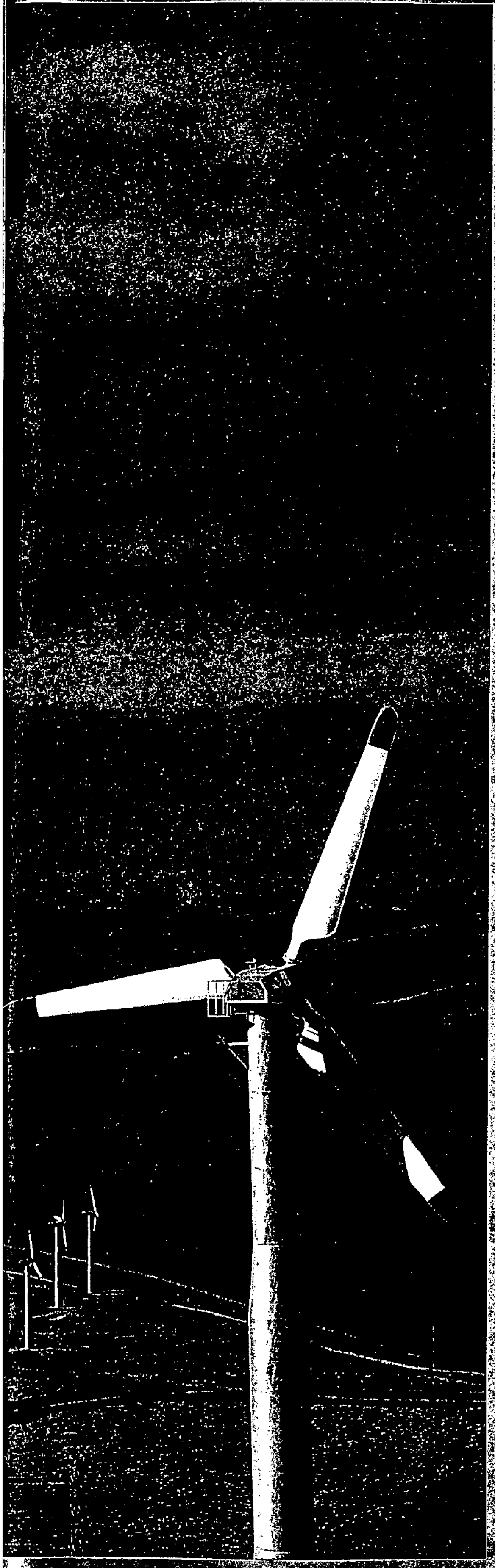
About 30 percent of our generating capacity comes from hydropower. In addition to the power produced by our own hydro plants, PG&E buys billions of kilowatthours of hydropower from other utilities, much of it produced in the Pacific Northwest.

Several of our hydro plants have been built entirely underground, helping to preserve the natural beauty of their surroundings. Our recently completed Kerckhoff 2 plant won an achievement award from the American Society of Civil Engineers.

Another "hidden power plant" is the Helms Pumped Storage Project, our newest hydropower project.

Helms quickly proved its worth during a heat wave that hit California in July 1984. Helms' electric output allowed PG&E to maintain adequate power reserves. Shown at right is a PG&E plant on the Pit River in Northern California.





colder weather and an expanding economy. The new marketing strategy, which includes rates tailored to individual industrial customer needs, helped retain and recover more than $60 million in industrial gas sales.

The creation in September 1984 of a marketing department will aid these efforts. This group, PG&E's first formal marketing organization since the early 1970s, seeks to recapture industrial gas load and to find new market niches. It will also create strategies for off-peak electric sales. Increased gas and electric sales help to hold down rates by spreading the fixed costs of operating the system over a larger volume of sales.

The marketing effort will concentrate on increased sales that do not require building expensive new facilities.

Conservation Programs Grow

This renewed emphasis on marketing is not an attempt merely to sell more gas and electricity – today's customers cannot (and should not) be talked into using energy they do not need. It is an attempt to be responsive to the customer's individual needs, meet the competition of other fuels and keep rates as low as possible by lowering operating costs per unit of sales.

Conservation benefits the customer through bills lower than they otherwise would be; the company benefits from reduced demand. We estimate that conservation will allow us to avoid $5 to $7 billion in outlays for new capacity that would otherwise be needed in the next decade.

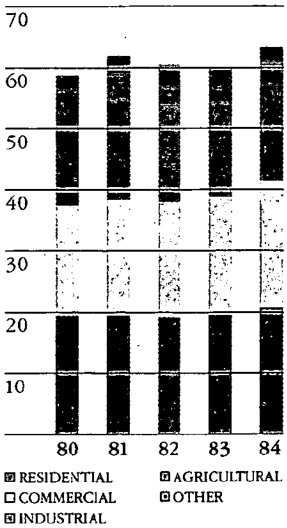
It costs up to 7 times as much to produce a kilowatthour from a new energy source as it does to save a kilowatthour through PG&E conservation programs.

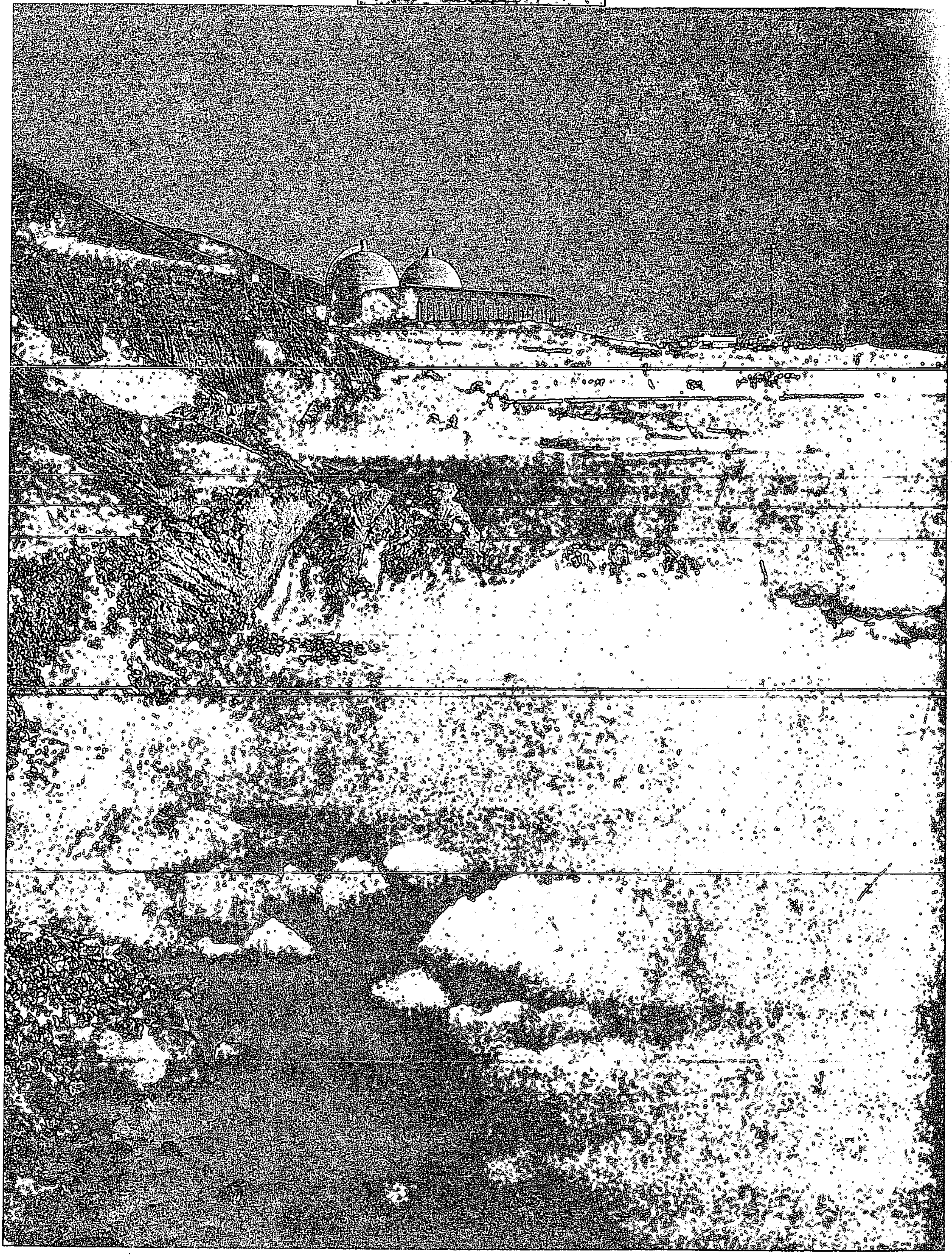
PG&E offers customers a diversity of conservation, load management and bill payment options unequalled by any other utility. More than 800 PG&E employees work exclusively in

More wind-generated electricity is used by PG&E than by any other utility in the world. In the 12 months ended September 30, 1984, PG&E bought 109 million kilowatthours of wind power, almost a four-fold increase over 1983.

In addition to working with large wind farm developers, PG&E helps homeowners or small firms that want to install small wind turbines. PG&E also owns and operates a large experimental wind turbine of its own in Solano County. Shown at left are turbines at Altamont Pass, the largest wind farm complex in the world.

USES OF ELECTRIC ENERGY
KWH (IN BILLIONS)





conservation and load management. The company administers 25 conservation and load management programs.

Under the Zero Interest Program (ZIP) we have loaned more than $200 million interest-free to customers who weatherized their homes.

PG&E's Great Energy Rebate program provided $22.5 million in rebates to commercial and industrial customers for conservation improvements during 1984, and earned awards for innovation from the state and federal governments.

CASHBACK, our new residential rebate program, will provide $9 million over 18 months to customers who install basic conservation devices.

Productivity Increases

Increases in employee productivity and the efficiency of electric and gas delivery systems helped significantly to keep expenditures within the limits set by the California Public Utilities Commission.

As the company completes the Diablo Canyon nuclear plant and reduces expenditures for new generating capacity, more capital becomes available to improve gas and electric transmission and distribution facilities.

A 20-year, $1.6 billion project is planned to upgrade our gas system. Older gas lines will be replaced, and storage and distribution facilities will be improved.

Already under way are a 10-year $750 million program to upgrade our electric distribution and transmission system, and a three-year $96 million program to improve telecommunications.

One approach to increasing efficiency has been expanded use of computers. Among many other applications, hand-held computers for meter reading will be in use systemwide by 1986, lowering the cost of processing meter readings into billings.

Many other productivity programs add up to savings of tens of millions of dollars.

Reorganizing To Improve Service

At year-end, six new geographical regions were formed to replace the company's 13 divisions.

If current tests are successful, new "service units" will be the basic organizational units to provide customer service. Support for these units will come from the six regional offices.

The aim is to provide stronger, more efficient decentralized customer service.

FACILITIES AND ELECTRIC RESOURCES DEVELOPMENT

In 1984 PG&E made giant strides toward putting into place the electric resources to meet our customers' needs for the remainder of the century.

Commercial operation of the Helms Pumped Storage Project and start-up of Unit 1 of the Diablo Canyon Nuclear Power Plant were major achievements.

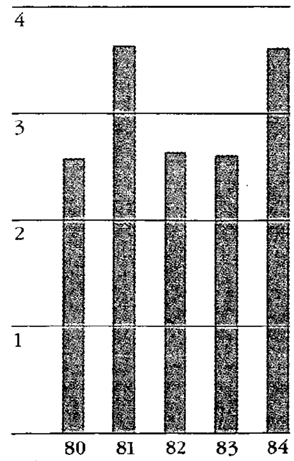
After completing a series of exhaustive low-power tests, and following final approval from the Nuclear Regulatory Commission, Unit 1 of the Diablo Canyon Nuclear Power Plant began generating electricity for PG&E customers in late 1984. Unit 1 is scheduled to complete its tests and reach full power about the end of the first quarter of 1985. Unit 2 is scheduled to follow about six months later.

Diablo Canyon, shown at left, will play a vital role in meeting the energy needs of the people of Northern and Central California. It will help conserve natural resources. And over its lifetime it will help keep electric rates lower than they otherwise would have had to be.

Diablo Canyon will be able to generate more than two million kilowatts of electricity when both units are on line. Each year it will save the equivalent of about 20 million barrels of irreplaceable fossil fuels that would have to be burned to generate that much electricity in a conventional power plant.

Getting both units of Diablo Canyon on line-generating power and operating at the highest level of safety-has long been a major goal. It is now nearing achievement.

COST OF ELECTRIC PRODUCTION
CENTS PER KWH



Material Redacted

GTR0052178

Helms and Diablo Canyon (with Unit 2 planned to be in operation late in 1985) will add more than 3,000,000 kilowatts to a mix of generating facilities already second to none in diversity of technology and fuel sources.

Our latest 20-year forecast shows the peak electric load in PG&E's service area increasing from about 16,000,000 kilowatts in 1984 to about 22,000,000 kilowatts in the year 2004. This reflects load reductions from the company's industry-leading conservation programs and our customers' other conservation efforts. Without them, we estimate demand in 2004 would be about 28,000,000 kilowatts.

Resource Preservation Key Goal

A key element in our resource plan and a key corporate goal is to preserve currently available resources.

The company continues to face a threat posed by a number of municipal utilities that seek to take over nine of our hydroelectric plants as their federal licenses come up for renewal. PG&E built and has made many improvements in these projects. We have amply demonstrated that we can operate them reliably and efficiently. Our continued operation of them will benefit many more consumers than their operation by any challenger for the licenses. We are vigorously opposing these unfair takeover attempts and expect to prevail.

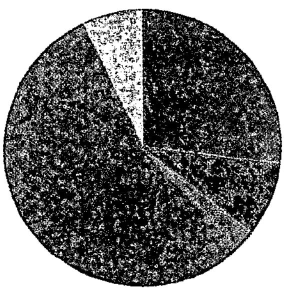
We are also working to extend the service lives of 3,375,000 kilowatts of generating capacity in fossil plants that would otherwise be retired over the next few decades.

PG&E Leads In Alternative Energy

The company leads the nation in the use of alternative resources, such as geothermal, cogeneration, wind power, small hydro, biomass, fuel cells and photovoltaic solar.

We are continuing to develop The Geysers, the largest geothermal complex in the world.

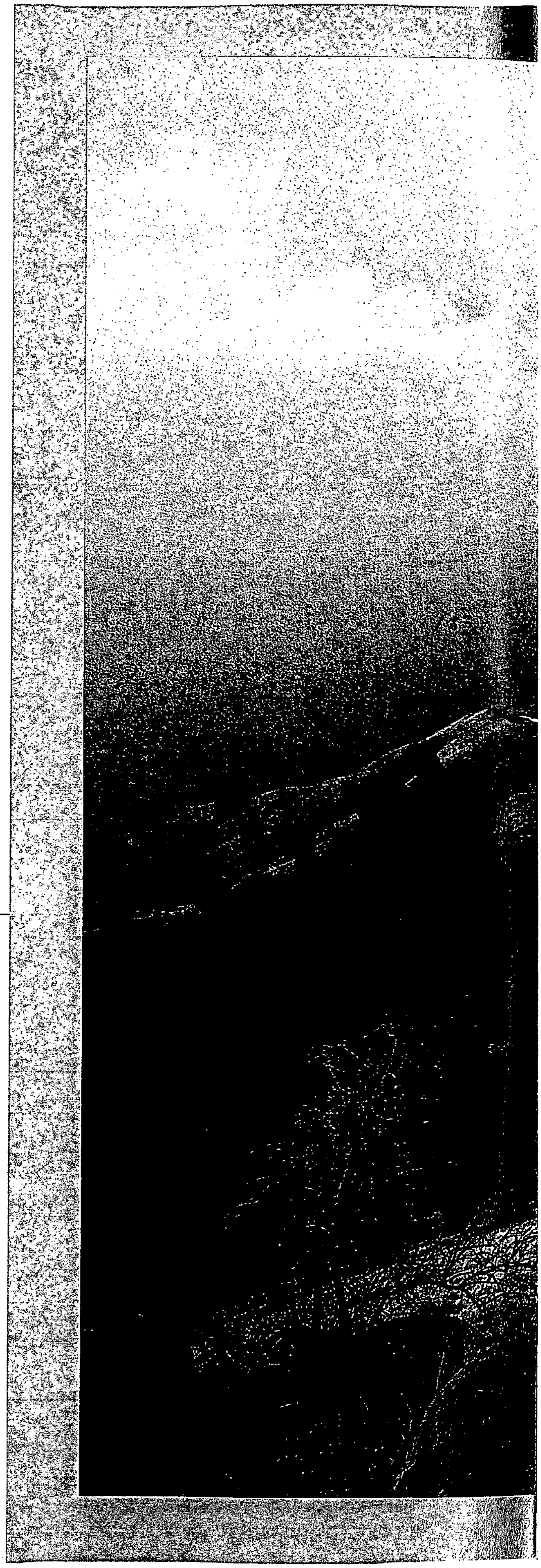
NEW ELECTRIC GENERATING CAPABILITY PROJECTED 1985-1988

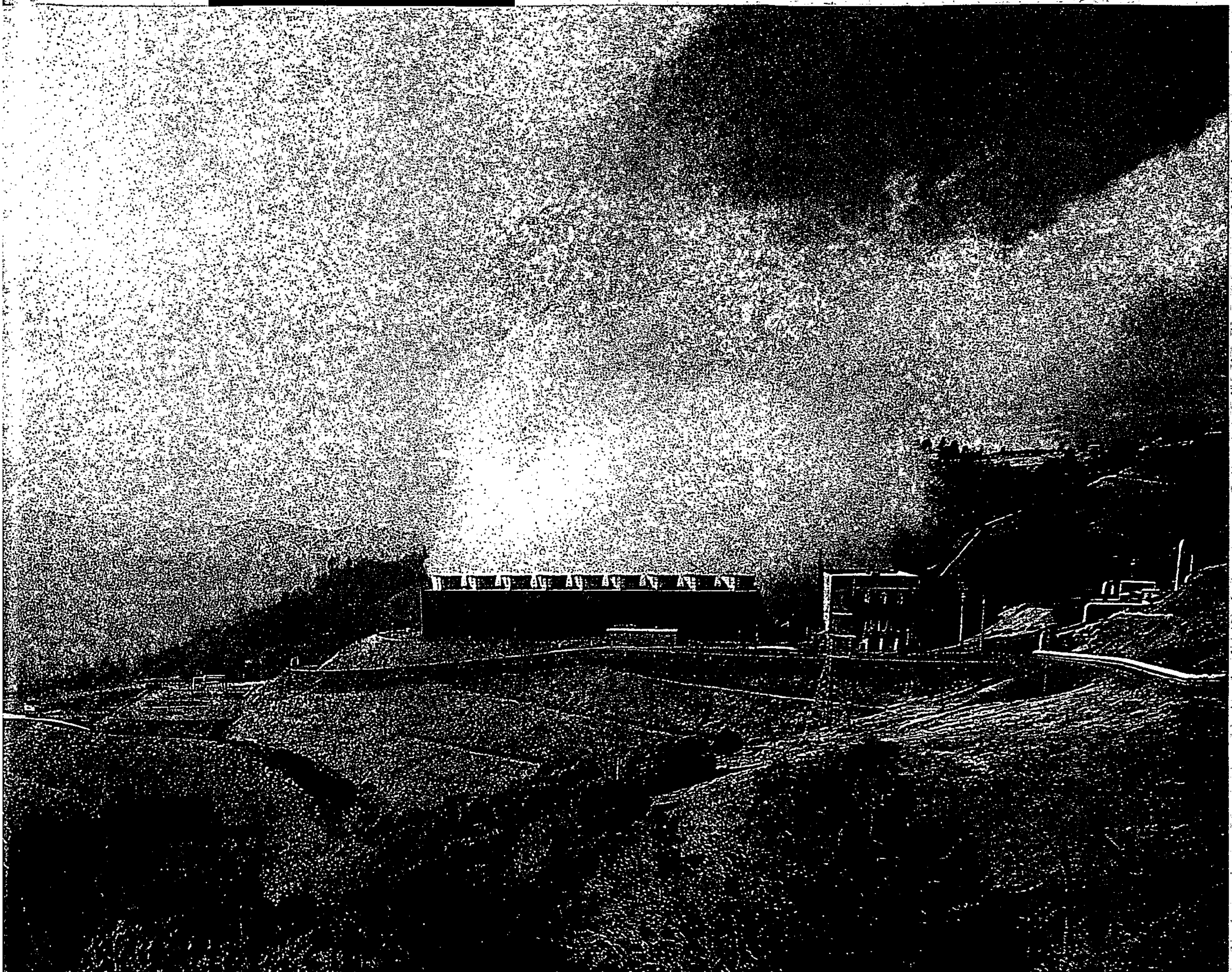


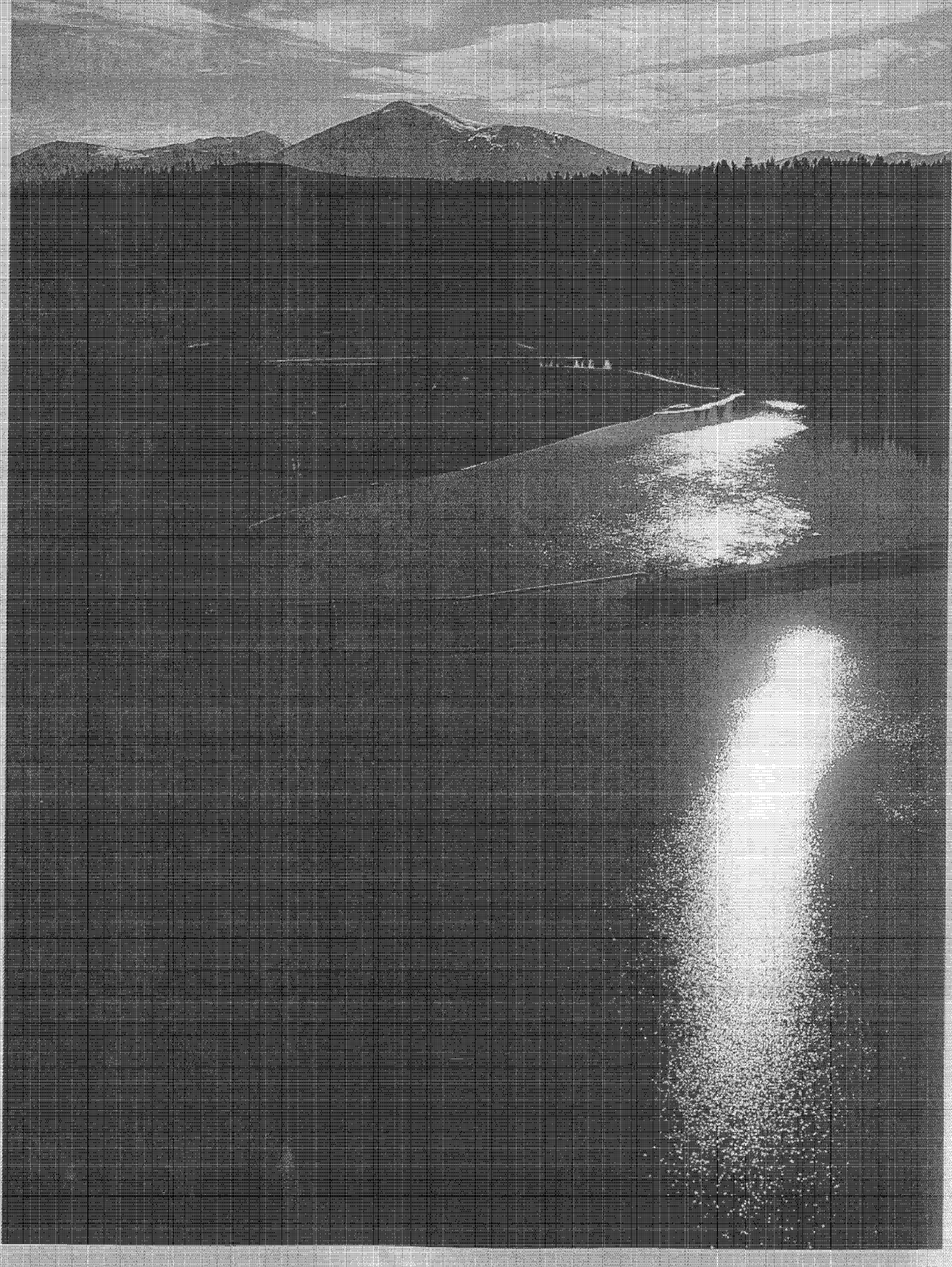
COGEN, WIND, SOLAR · NUCLEAR · GEOTHERMAL · HYDRO · FOSSIL

Natural steam from deep within the earth powers The Geysers, located 90 miles north of San Francisco. Shown at right is one of PG&E's power plants there. PG&E's 1,135,090 kilowatts of capacity at The Geysers is the world's largest geothermal complex.

Geothermal energy provides about 10 percent of the power sold to PG&E customers. By 1988, PG&E plans to have 20 units at The Geysers capable of generating 1,500,000 kilowatts.







Over the next two decades we expect to add about 1,000,000 kilowatts of geothermal power and more than 2,500,000 kilowatts of other alternative resources. Much of the latter will be developed, with our encouragement, by independent producers who will sell the output to PG&E under contract.

Our plans also include increased reliance on low-cost power purchases from other areas. Plans are under way to strengthen regional interconnections with a third extra-high-voltage AC transmission line to the Pacific Northwest by 1990.

More Capacity Needed

Even with all planned additions and purchases, our forecast shows about 3,000,000 kilowatts of additional capacity needed by the turn of the century for which no projects are yet planned.

Possible sources include increased conservation, more purchases of power from others and accelerated development of alternative resources.

Ultimately more major baseload generating resources will probably be required. We will be examining new technological, regulatory and financial approaches to fairly apportion the risks and benefits of such projects among our customers and investors.

FUELS AND GAS RESOURCES DEVELOPMENT

Natural gas continues to be the company's largest and most important basic energy source. We sell it to 3 million customers and burn it to generate 51 percent of our electricity.

PG&E is taking advantage of the current gas surplus to aggressively negotiate contracts with lower prices and greater freedom to choose among suppliers. Thus we minimize costs without jeopardizing the security of future supplies.

The most significant events during 1984 involved the price and supply of Canadian gas.

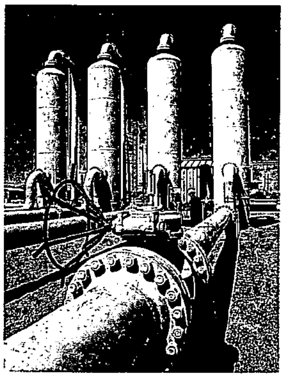
Canada adopted a new pricing policy based on buyer-seller negotiation in place of government determination. Through vigorous negotiations, PG&E reduced dramatically–from about $4.40 per million Btu to about $3.63–the cost of Canadian gas under existing contracts. PG&E also negotiated contract changes that give greater freedom to choose among Canadian and other suppliers, based on price.

Also in 1984, U.S. and Canadian governments authorized extending the company's Canadian gas imports at current levels into 1990. Continued imports at declining levels are authorized until the import permits expire in 1993. Well

Natural gas supplies available to PG&E are ample to meet current demands, and contracts with both Canadian and American producers ensure dependable supplies into the future.

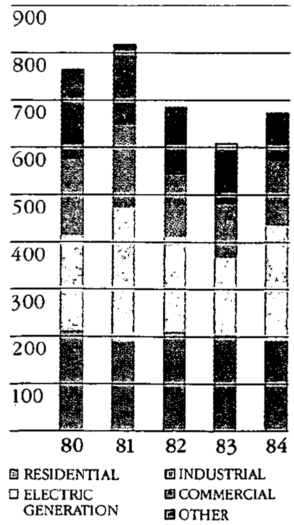
About 40 percent of the gas supply available to PG&E comes from fields in Alberta, Canada, transported to California from the U.S.-Canadian border by Pacific Gas Transmission Company, a PG&E subsidiary.

El Paso Natural Gas Company provides another 40 percent of PG&E's available supply. Most of the rest comes from California, with a small percentage from Rocky Mountain producers including Natural Gas Corporation of California, an exploration and production subsidiary of PG&E.



Aggressive negotiations by PG&E with competing Canadian and U.S. suppliers have resulted in lower prices and other favorable terms. Lower prices help the company in its aggressive gas marketing program. Shown at left, the Alberta-California pipeline crosses a mountain lake in Northern California. Above, scrubbers remove impurities from gas before delivery to customers.

USES OF NATURAL GAS
CUBIC FEET (IN BILLIONS)



before the expiration date, PG&E will seek further extension of the permits.

PG&E has also obtained lower prices from domestic suppliers. Lower Canadian and domestic costs have allowed us to propose substantial gas rate reductions for our customers. This should help PG&E meet price competition from other fuels and regain lost industrial sales.

The company has developed a new rate to compete in a very large potential market, steaming operations for enhanced oil recovery. One major sale of up to 55 million cubic feet per day has been made, and others are expected.

Gas Supplies For The Future

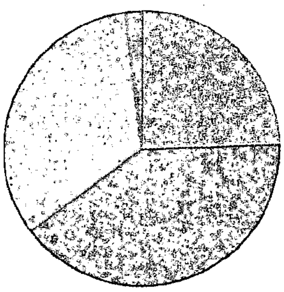
Although current gas supplies are plentiful, the company is keeping open at minimal cost several options for the future. These include the Alaska Natural Gas Transportation System, a pipeline to bring Alaskan North Slope gas to the lower 48 states, and liquefied natural gas (LNG) projects to bring gas from Indonesia and South Alaska to California.

The company and its partner, Pacific Lighting Company, are holding an LNG terminal site in Santa Barbara County for future use whenever LNG supplies are needed. In a rate action involving payment for the LNG site, the California Public Utilities Commission has directed that the partners decide within three years whether to undertake an LNG project.

Nuclear Fuels

PG&E has bought on favorable terms enough nuclear fuel to supply Diablo Canyon through 1992. We are maintaining inventories of uranium concentrates at least cost by loaning out amounts not now needed. All of PG&E's uranium and nuclear fuel inventories for Diablo Canyon are now being financed under sale/leaseback agreements. The company has also taken steps to allow it to continue to secure low-cost nuclear fuel enrichment services.

GAS SOURCES 1984



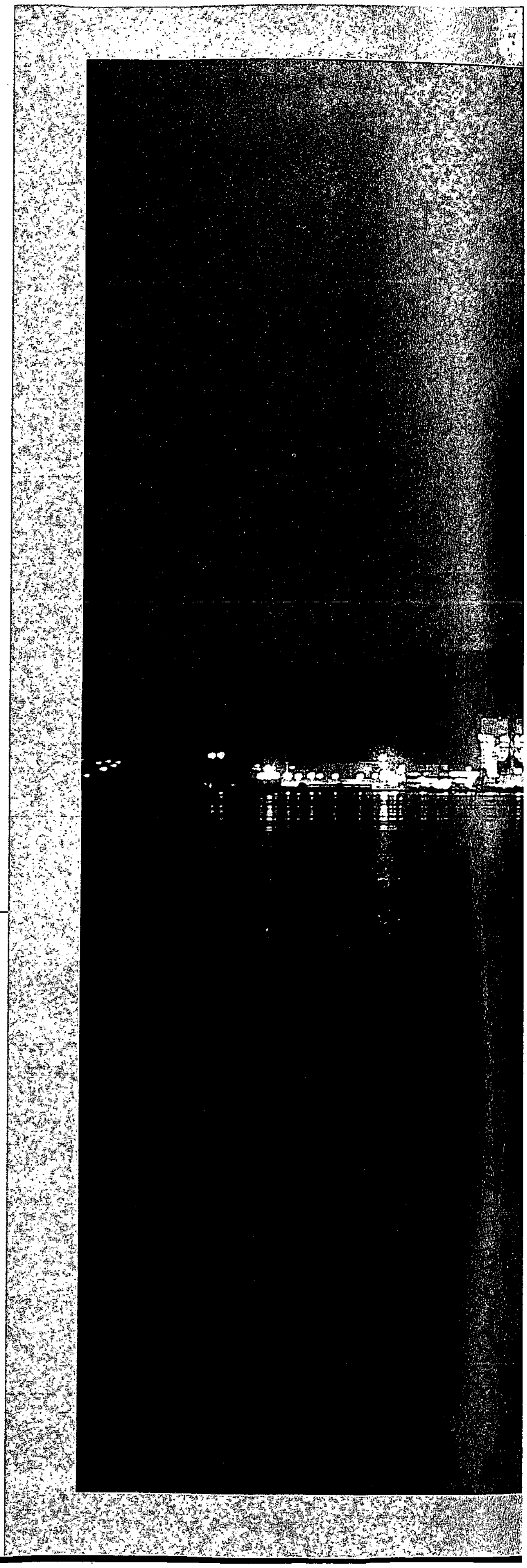
Our fossil-fuel generating plants are the workhorses of our system.

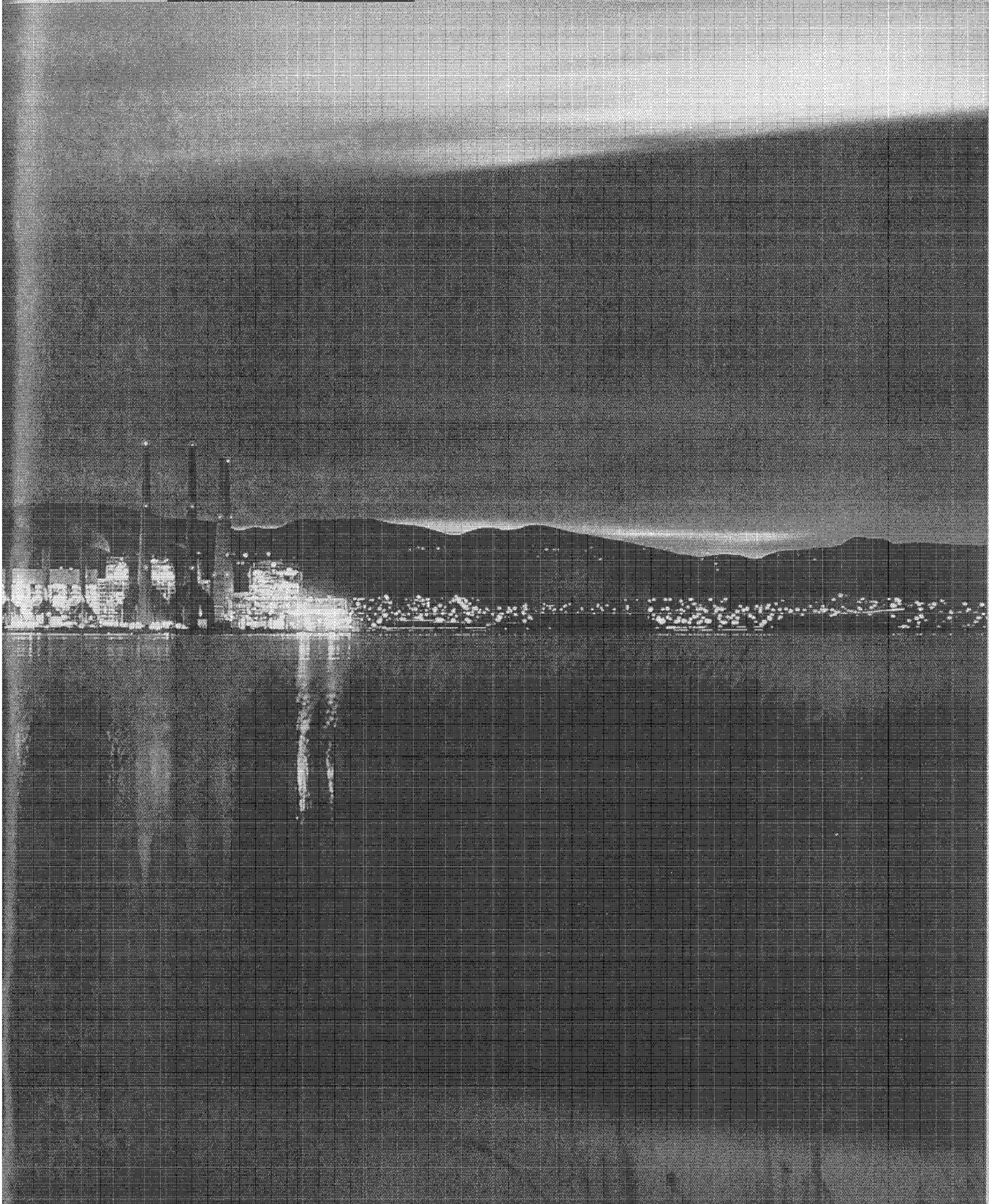
Forty-two percent of our available capacity comes from 12 fossil-fueled plants, capable of burning natural gas or oil.

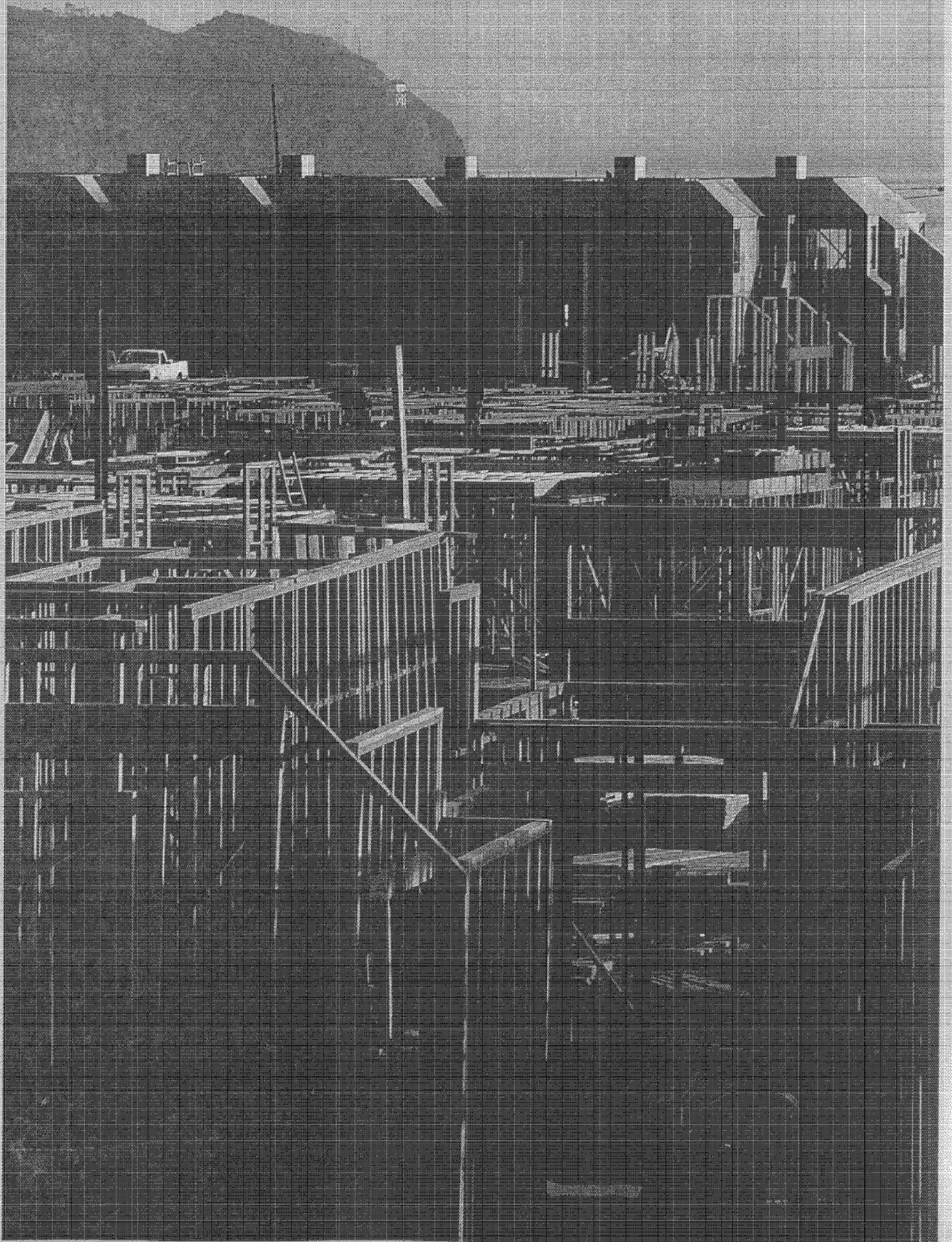
The company pioneered many innovations as we brought these plants into service during a period of rapidly increasing electric demand.

For example, our Pittsburg plant, shown at right, was one of the first in the nation with a fully automated, computer-based control system.

We also led the way in the use of sophisticated, computer-controlled fuel delivery systems for oil and gas.







FINANCE AND RATES

For the third consecutive year, the portion of total earnings due to utility operations in 1984 was close to the level authorized by the California Public Utilities Commission (CPUC).

Compared with the $2.15 earned in 1983, earnings per share for 1984 were $2.62. This achievement stems from rigorous cost controls and a comprehensive budgeting system which funds current utility operations at levels commensurate with revenues resulting from rates authorized in general rate cases.

The company's financing program for 1984 totaled $1.3 billion. This included a $400 million bond issue in October, then the largest public sale of debt ever made by any electric or gas utility.

The issue contained another PG&E innovation. One $250 million 33-year bond series of the dual-series issue offered a one-time option to the bondholders to have the company redeem the bonds at face value in 1995, before the 2017 maturity date.

PG&E used the same put-option concept in a $75 million Eurobond offering in November.

In December 1984, PG&E became the first U.S. public utility to enter the Euroyen market. The 20-billion yen offering (equivalent to approximately 81 million U.S. dollars) not only opened a new capital market to the company, but was achieved at a lower cost than was available in the U.S.

These offerings continue PG&E's program of innovation, designed to raise capital in different markets and in the most cost-effective way.

The company's dividend reinvestment program and savings fund for company employees raised $232 million of new common equity funds.

Rate Action

There were a number of rate changes throughout the year. The most significant was a $623 million net increase in electric rates effective August 12 to recover higher costs resulting from reduced hydroelectric generation.

In late 1984 the CPUC authorized a net reduction in PG&E's gas rates of $197 million and an increase in electric rates of $267.6 million.

The key reason for the gas rate reduction is a projected decrease in costs from gas suppliers, offset in part by higher non-fuel expenses.

The electric rate increase primarily will offset higher costs in 1985 of non-fuel-related expenses such as labor, materials and financing costs. Some of the non-fuel cost offsets on both gas and electricity are subject to possible refund after hearings, scheduled for March 1985.

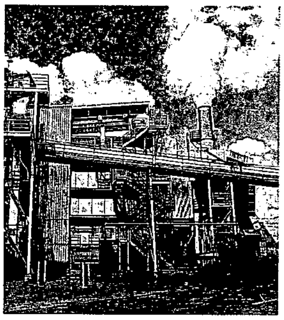
Rate proceedings for the Diablo Canyon Nuclear Power Plant will soon commence before the CPUC, seeking cost recovery separately for the two units.

The company offers the widest array of conservation programs of any utility in America. PG&E also leads the nation in the use of electricity generated from cogeneration, solid waste and biomass.

Our conservation programs reach virtually every customer group. The programs encourage developers of projects like the one at left in Tiburon, Marin County, to build homes to higher standards of energy efficiency.

The value of the energy conserved by customers participating in our conservation and load management programs is $120 million a year.

Cogeneration is the process whereby otherwise wasted energy used in industrial

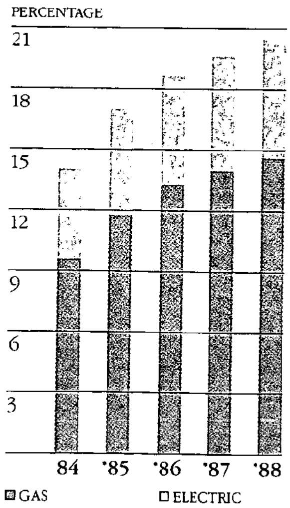


processes is captured and used to produce electricity, which PG&E buys and feeds into our system.

PG&E has contracted to buy over 2,500,000 kilowatts of electricity produced through cogeneration, from plants such as the one shown above.

PG&E also has contracted for about 760,000 kilowatts of electricity generated through burning solid waste and biomass.

REDUCTION IN RESIDENTIAL SALES DUE TO ENERGY CONSERVATION



*Projected

Material Redacted GTR0052186

COMMUNITY ACTIVITIES

Helping senior citizens, providing free weatherization for the needy, tutoring educationally deprived youngsters, supporting charitable fund drives - off the job as well as on, PG&E as a company and employees as individuals do their share to enhance the quality of life in the communities we serve.

PG&E AND THE COMMUNITY

Our presence is felt throughout the 94,000 square miles we serve. PG&E's gas and power lines are the veins and arteries of the economy, bringing the energy that maintains the industry and sustains the lifestyles of our customers. But PG&E is much more than this.

Along with the franchise we have been granted to provide such service goes a responsibility we feel deeply: the need to do our share in enhancing the quality of life in the communities we serve. And community service is also good business.

The company late in 1984 placed all social programs under Vice President-Community Relations Joseph Y. DeYoung, a 44-year veteran of PG&E, with a career-long commitment to community service. His primary responsibility will be coordinating and expanding current programs and developing new ones with an eye to all communities and constituencies served by the company.

Consumer Advisory Panel members (l. to r.) Jesus Armenta, Rosalie A. Fimbel and Ann Harrison discuss recommendations to PG&E.

Consumers Advise Company

One of the steps PG&E has taken toward listening and responding to the needs of the community has been the creation of the Consumer Advisory Panel. PG&E's customers have many good ideas for improving residential energy services, questions about how the company works and interest in its policies. The panel is one of the ways the company encourages two-way communications on these issues.

The panel, originally consisting of 18 members, was started as a pilot project in 1982. The members are recommended by community groups or local government throughout PG&E's service territory, with a balance of ethnic background, age groups and income levels representative of our customers.

The panel makes its own rules and sets up its own committees. When members find a problem, they recommend a solution–directly to PG&E senior management.

The panel focuses mainly on issues of concern to residential customers: the cost of energy, meter reading and billing practices, credit and collection policies, shutoff policies, conservation services, PG&E information and customer assistance programs.

Thus far, the Consumer Advisory Panel has made 34 recommendations. None has been rejected; action has been taken on most and is pending on the rest.

One of the panel's recommendations was that it be made a permanent part of the company's Community Relations Department. It was. Another was that local panels be formed to tackle local problems. Fifteen local panels were formed; more are planned. Examples of other recommendations that were accepted are: clearly identify meter readers with ID and a uniform and waive credit deposits for handicapped customers.

Employees Volunteer

PG&E employees are an asset to every community in which they live and work, whether it's a lineman in Merced coaching Little League baseball, or a General Office attorney providing free legal services to a senior citizens' center.

PG&E employee John Anderson serves as volunteer maintenance man and guide at a lighthouse on the Mendocino coast.

The company actively encourages such community volunteer work. We have loaned executives to the United Way, Bay Area Black United Fund, the San Francisco Mayor's Summer Youth Program and the State Volunteer Program.

In recognition of the service of PG&Eers who have been active volunteers for at least a year in approved non-profit groups, the company contributes $100 per group to help fund activities.

The company makes its meeting rooms and facilities available for functions such as health fairs and blood drives; PG&E's Charitable Contributions Program also offers financial assistance to non-profit organizations.

The company made about $2.7 million in donations in 1984, and plans to raise that to $3 million in 1985. Two-thirds of corporate contributions go for health and human services, to such organizations as the United Way, hospitals, senior citizens' aid groups and individual charities. About 20 percent goes to educational institutions, 10 percent to civic activities such as minority organizations and the remainder goes to support culture and the arts.

All of these costs are borne by the company's shareholders. None are borne by ratepayers. PG&E hopes to expand donations programs as the company continues to grow in financial strength.

Active In Education

One of PG&E's most active areas of community involvement is education.

One example is the PG&E-supported program of volunteer tutors for San Francisco schools.

The company has several scholarship programs. One of them offers 17 four-year scholarships of $4,000 and 34 one-year scholarships of $1,000 each year. Each of the 170 finalists in the scholarship competition receives 10 shares of PG&E stock.

A career scholarship program offers monetary awards plus summer employment to those pursuing careers related to the utility industry.

A new Community College program will start up in June 1985, offering 23 $300 scholarships and 12 weeks' summer employment.

PG&E has one of the largest energy education programs of any utility in the country.

The company in 1984 gave 95 workshops for 11,000 educators on energy and the environment, many offered for college credit. The curricula were written not by the company but by educators.

In addition to these and other instructional programs, PG&E provided in 1984 20 grants of $5,000 each for studies in conservation and renewable energy sources that directly involved professors and students at community colleges.

Financial Aid To Customers

The company's REACH program, administered by The Salvation Army, provides help for customers who have exhausted all other sources of funds and still cannot pay their energy bills.

In 1984, $1,466,115 was raised and 17,015 families were assisted in paying their PG&E or other home energy bills. Under this program, the company matches dollar-for-dollar all contributions to REACH up to $1.5 million, providing a total of nearly $3 million. Customers are encouraged to contribute to REACH by means of inserts in their PG&E bills. Last year 44,502 customers contributed.

Alice Scott of San Francisco is one of many PG&E employees who volunteer to help young people as tutors.

PG&E also offers its HELP program to provide free weatherization for low-income consumers, as well as providing weatherization help to communities. Most notable in 1984 was the weatherization of 159 of the 177 homes in Stirling City, California.

PG&E employees Jill Egbert, Ed Duane work on a list of low-income customers to be referred to the company's HELP program for free weatherization.

The company maintains many facilities and performs research dedicated to environmental protection. Examples include a marine biology lab at the Diablo Canyon Nuclear Power Plant, fish hatcheries and fish ladders and a Bald Eagle research project in the Pit River area.

Our involvement in community life has been an important part of our overall activities, and will continue to be. We live and work in the communities we serve and want to do our share to enhance the life of those communities.

FINANCIAL SECTION CONTENTS

SELECTED FINANCIAL INFORMATION

Pacific Gas and Electric Company

	1984	1983	1982	1981	1980
	In Thousands (except percentage and per share information)				
Operating Revenues	$ 7,829,703	$ 6,646,699	$ 6,785,095	$ 6,194,575	$ 5,258,899
Operating Income	$ 1,103,388	$ 959,872	$ 913,244	$ 647,209	$ 573,147
Net Income	$ 974,892	$ 787,967	$ 810,178	$ 564,606	$ 524,770
Earnings Per Common Share	$2.62	$2.15	$2.46	$1.71	$1.80
Dividends Declared Per Common Share	$1.69	$1.58	$1.47	$1.36	$1.30
Book Value Per Common Share at Year-end	$17.18	$16.39	$15.88	$15.15	$14.97
Market Price Per Common Share at Year-end	$16 3/8	$14 7/8	$14 1/16	$10 1/2	$10 1/4
Dividend Payout Ratio	64.5%	73.5%	59.7%	79.8%	72.2%
Total Assets at Year-end	$17,327,133	$14,721,533	$13,635,318	$12,366,659	$11,295,203
Long-term Debt, Preferred Stock, and Capital Lease Obligations at Year-end	$ 8,223,968	$ 7,055,825	$ 6,509,648	$ 5,849,705	$ 5,464,531

The above table displays data which are discussed in the Management's Discussion and Analysis of Consolidated Financial Condition and Results of Operations.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF CONSOLIDATED FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Pacific Gas and Electric Company

Results of Operations

Earnings per share of the Company in 1984 were $2.62, as compared to $2.15 in 1983 and $2.46 in 1982. The 1984 earnings are equivalent to a 15.66% corporate return on weighted average common equity.

	1982	1983	1984
	In Thousands		
Earnings Available for Common Stock	$657,624	$628,143	$810,576
Weighted Average Common Shares Outstanding	268,018	292,107	309,367

The corporate return for both 1984 and 1983 was reduced because certain costs (primarily financing charges) associated with deferred or abandoned energy projects were disallowed by the California Public Utilities Commission (CPUC).

The major disallowance pertained to a deferred liquefied natural gas (LNG) project. In 1984, the CPUC permitted recovery in rates of all the direct costs of the project, but disallowed approximately $46.6 million in financing costs. This resulted in a charge against 1984 earnings of 15¢ per share. A reserve against some financing costs had already been established in 1983, prior to the CPUC decision, which reduced earnings by $58.8 million or 20¢ per share in 1983.

A reserve against the Company's investments in the Alaskan natural gas pipeline project was increased by $10.4 million in 1984, reducing earnings per share by 1¢. The reserve was established in 1983 for $45 million, which decreased earnings per share by 9¢ in 1983.

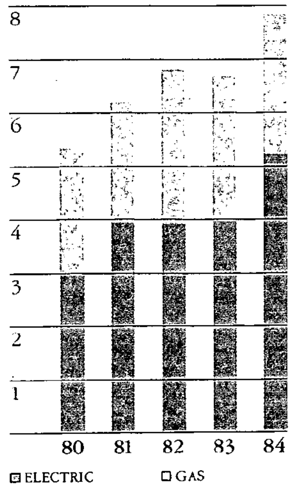
Earnings in 1983 were further reduced by the write-off of $70 million of project costs denied rate recovery by the CPUC. This charge decreased earnings per share that year by 24¢. These reductions were partially offset by an $18.1 million net gain from the sale of coal properties, which included the write-off of the related Montezuma power plant feasibility studies. This net gain increased earnings per share by 9¢ in 1983.

In 1984, the CPUC reversed its decision on the coal properties net gain, requiring a refund to ratepayers. This decision resulted in a reduction of 3¢ per share in 1984.

Earnings Per Share Impact of Reserves and Write-Offs:	1983	1984
LNG project reserves	$(.20)	$(.15)
Alaska Pipeline project reserve	(.09)	(.01)
Other project costs write-off	(.24)	(.03)
Net gain from coal sale	.09	(.03)
	$(.44)	$(.22)

Net income for 1984 increased to $975 million from $788 million in 1983 and $810 million in 1982. Net income in 1984 increased from 1983 mainly because there were fewer project cost disallowances and lower reserves against investments in the projects referred to above. Revenues increased in part because of higher base rates adopted by the CPUC in the 1984 general rate case.

CONSOLIDATED OPERATING REVENUES
DOLLARS (IN BILLIONS)



Basic utility operations remain sound due to several factors. General rate increases

Material Redacted

GTR0052190

of $427 million in 1984, $202 million in 1983 and $834 million in 1982 were authorized by the CPUC. These rate increases, in combination with management's rigorous cost controls, have strengthened the ongoing operations of the Company.

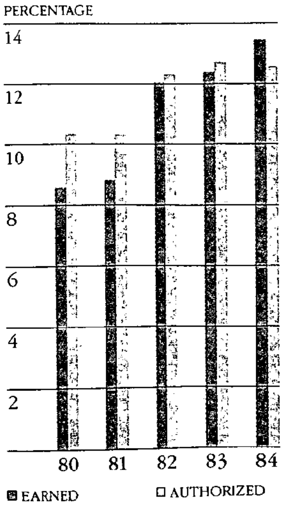
Balancing accounts authorized by the CPUC also contribute to the Company's earnings stability. Energy-cost balancing accounts recover costs for gas, fuels used to generate electricity, and the cost of purchased power. A $623 million annualized net revenue increase was granted by the CPUC in August 1984 for electric energy costs. The increase will recover higher costs caused by a return to normal hydroelectric conditions after a two-year period of heavy rainfall. A $262 million net revenue decrease was granted in December 1984 to reflect lower natural gas costs from suppliers.

The Company also has sales-fluctuation balancing accounts. These accounts minimize the impact on earnings of electric and gas sales fluctuations. Rates billed to customers are determined by the CPUC based on an estimated sales volume. Any differences between revenues calculated using these estimates and revenues billed on actual volumes are accumulated in the balancing accounts and equalized through subsequent upward or downward rate adjustments.

The CPUC also has authorized an attrition rate adjustment (ARA). The ARA was designed to offset the effects on earnings of increased financial and operational expenses incurred in the years between general rate cases. In December 1984, the CPUC granted a $141 million and a $44 million increase effective January 1985 in electric and gas revenues, respectively, under the ARA. These increases are subject to refund pending additional reasonableness hearings.

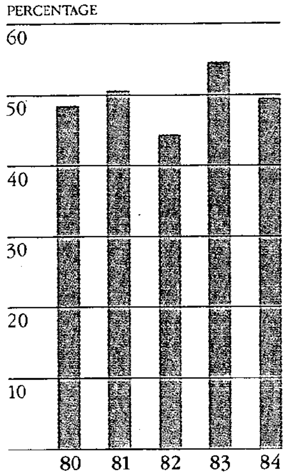
All of these ratemaking procedures, coupled with management's commitment to operate within the revenue and expense limitations of general rate decisions, have contributed to the soundness of the utility operations, as shown by the rate of return earned on utility investment. In each of the past three years, the Company has earned a high percentage of the authorized rate of return on utility investment.

RETURN ON UTILITY RATE BASE



The allowance for equity and borrowed funds used during construction (AFUDC) and other noncash items represent a significant portion of net income. The amount of AFUDC has increased significantly in recent years due to the size of the Company's construction program. AFUDC increases net income but does not contribute to cash flows until construction is completed and the project is placed in service and included in utility rate base. With the recent completion of the Helms Pumped Storage Project (Helms) and the receipt of the full-power license for the Diablo Canyon Nuclear Power Plant (Diablo) Unit 1, the Company expects AFUDC to decrease significantly and cash flows to increase in the coming years. For 1984, AFUDC represented 49.3% of net income, down from 54.5% in the prior year.

AFUDC AS A PERCENTAGE OF NET INCOME



It is expected that inflation will continue to affect the Company's operations. As noted above, the attrition rate mechanism has been developed to reduce the impact of inflation in the years between general rate cases. This provision for timely and adequate rate relief contributes to the Company's financial stability in an inflationary economy. The Company has prepared certain required information relating to inflation and changing prices in accordance with Financial Accounting Standards Board Statement (SFAS) No. 33, as amended by SFAS No. 82. Such information is contained on pages 40 and 41.

Liquidity and Capital Resources

The Company's capital requirements stem from the need to construct facilities to meet anticipated demand for electric and gas service, to replace worn-out facilities, and to comply with pollution control regulations. The CPUC's policy is not to permit inclusion of construction work in progress (CWIP) costs or a return on such costs in current rates. Only when construction is completed and the project is placed in service and included in utility rate base can it contribute to the Company's cash flows. In recent years, two major projects have been included in CWIP–Helms and Diablo.

In June 1984, the Company placed in service the Helms hydroelectric project, transferring $911 million out of CWIP to utility plant. This plant had been under construction for a number of years and commercial operation was delayed due to a water conduit rupture in 1982 and various start-up problems.

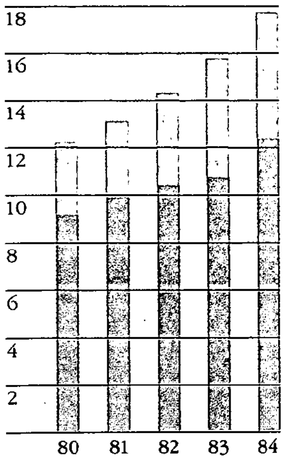
In July 1984, the CPUC established an interim rate procedure for the $738 million cost of the Helms plant prior to the conduit rupture. This procedure does not affect cash flow at this time, but permits the costs of owning and operating the plant to be accumulated in a balancing account pending the CPUC's decision on prudency of the pre-rupture construction costs. The post-rupture costs will be reviewed by the CPUC in a subsequent proceeding after the Company has concluded all claims and litigation pertaining to those costs.

The Company's Diablo Canyon Nuclear Power Plant is still under construction. The full-power license for Diablo Unit 1 was approved by the Nuclear Regulatory Commission in August 1984. A stay of the license by the U.S. Court of Appeals was lifted on October 31, 1984, and the license was received on November 2, 1984. Assuming no other legal challenges or unusual problems in start-up, Unit 1 could reach commercial operation about the end of the first quarter of 1985. Unit 2 is expected to be operational about six months later. The inclusion of Unit 1 and, later, Unit 2 in rate base would significantly improve the Company's cash flow. The two units comprised 87% and 75% of CWIP at December 31, 1984 and 1983, respectively.

The CPUC has provided a procedure to treat large projects such as Diablo as special rate cases when they become operational. Each unit will be handled in a separate rate case when it begins commercial operation.

In June 1984, PG&E requested a rate increase to recover the costs of owning, operating and eventually decommissioning Diablo Unit 1. In addition, PG&E requested a balancing account to track the difference between adopted and recorded expenses other than maintenance and direct operating expenses. The balance in this account would be amortized and recovered in rates one year after Unit 1 begins commercial operation. Rate revisions associated with the balancing account would occur annually until such time as the cost of Unit 1 was included in base rates.

CWIP AND PLANT IN SERVICE
DOLLARS (IN BILLIONS)



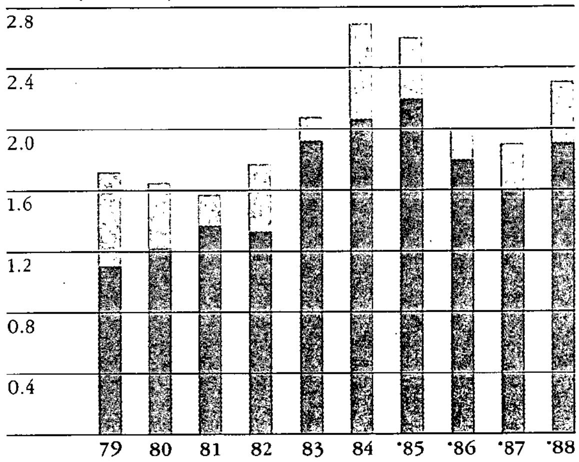
□ PLANT IN SERVICE □ CWIP

In January 1985, the CPUC public staff agreed, subject to CPUC approval, to establish a balancing account when Unit 1 becomes operational, which will not change customer rates until a CPUC decision on interim rates. The balancing account will offset the cost of fuel savings against the costs of owning, operating and maintaining Unit 1.

The uncertainties surrounding ultimate rate treatment of Diablo are discussed more fully in Note 10 to the financial statements.

Future construction expenditures are anticipated to be mainly for smaller projects with a short construction period. Capital will still be required, but the carrying costs of such construction (AFUDC) should be much less. The Company also plans to minimize its capital requirements by signing long-term purchase contracts for energy from projects developed by others and by continuing to develop conservation programs. Projected construction expenditures in 1985 include the above smaller projects and certain projects previously delayed pending commercial operation of Diablo.

CAPITAL REQUIREMENTS
DOLLARS (IN BILLIONS)



□ CONSTRUCTION □ OTHER
*Projected

The Company will also require capital to meet maturing debt and preferred stock issues.

	1984	1985	1986
		In Millions	
Funds Used for Construction Projects	$2,085	$2,200*	$1,800*
*Projected			
Maturing Debt and Preferred Stock (including Debt and Preferred Stock Sinking Fund Requirements)	$ 135	$ 250	$ 132

Capital is supplied by a combination of internally generated funds and external financings. External funds from the issuance of common stock and debt were the source of 47% of the Company's capital requirements for the year ended December 31, 1984. As major construction projects are placed in utility rate base and begin to generate cash, the Company's reliance on external financing should decrease.

	1982	1983	1984
		In Millions	
Proceeds from Financing:			
Common Stock	$ 326	$244	$ 232
Preferred Stock	114	74	–
Long-term Debt	696	568	1,035
Total Proceeds	$1,136	$886	$1,267

Material Redacted

GTR0052192

Important sources of common stock financing are public offerings and the Company's dividend reinvestment and employee savings fund plans. Long-term debt and preferred stock have been sold in the United States through public and private offerings. The Company also obtains capital in the European financial markets.

At December 31, 1984, the Company's common stock was selling at $16.38 per share, 80¢ below the book value of $17.18 per share. Sales of common stock at prices below book value may be necessary in the future, as has been the case in recent years, to provide capital for planned construction and other projects.

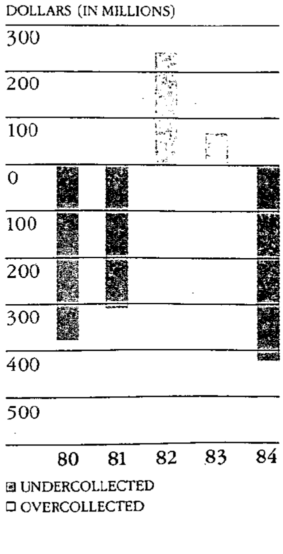
The Company's bond indenture permits the issuance of first mortgage bonds up to the amount approved by the Company's Board of Directors. At December 31, 1984, the Company had $5.8 billion outstanding in such mortgage bonds and may issue up to an additional $2.2 billion subject to indenture provisions as to earnings coverage and property available as collateral. Each financing must also be approved by the CPUC prior to issuance.

The Company's short-term debt is issued for interim financing of the construction program and any unrecovered balances in the balancing accounts. This debt is primarily commercial paper supported by bank lines of credit. This additional funding facility gives the Company flexibility to meet all capital needs and to schedule long-term debt issuances.

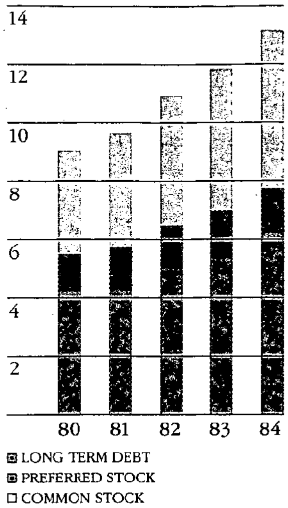
	1982	1983	1984
	In Millions		
Net Short-term Borrowing (Investment) at Year-end	$ (13)	$295	$416
Lines of Credit Maintained at Year-end	$671	$607	$611

The regulatory balancing accounts authorized by the CPUC also affect cash flows. When revenues are overcollected, as was the case in 1983, the Company uses the funds until they are refunded with interest. When revenues are undercollected, as has been the case in 1984, the Company must borrow funds until the revenues, plus interest, are received.

BALANCING ACCOUNTS AT END OF YEAR
DOLLARS (IN MILLIONS)



CAPITALIZATION
DOLLARS (IN BILLIONS)



Management believes a balanced capital structure helps provide the financial flexibility to maintain good credit ratings and access to capital markets at reasonable rates.

In funding its total capital requirements, PG&E seeks to maintain capitalization ratios comparable with those in the most recent general rate case (GRC) decision. This objective was met in 1984 and 1983. The 1984 GRC capitalization ratios compared to the ratios at December 31, 1984 and comparable amounts for 1983 were:

	1982/ 1983 GRC	Dec. 31, 1983	1984 GRC	Dec. 31, 1984
Common Stock	41%	41%	42%	40%
Preferred Stock	14	14	14	13
Long-term Debt	45	45	44	47
	100%	100%	100%	100%

Funding requirements are also helped by adequate and timely rate increases. These increases meet operational requirements and permit external financings of construction at a reasonable cost. In recent years, the CPUC has allowed such increases. As noted above, it is uncertain what will happen with the Company's Diablo rate requests.

The Company continually reviews the means of achieving its two main financial goals—a quality double-A debt rating and a common stock market price in excess of book value. To help meet these objectives, we have developed a rigorous cost control plan, a budget system, and an employee incentive plan to hold expenditures within the levels adopted by the CPUC. The recent developments in the Helms and Diablo projects indicate significant progress toward their inclusion in rate base, a key factor in the Company's financial health. The successful completion of these objectives will be instrumental in achieving our goals.

 GTR0052193

STATEMENTS OF CONSOLIDATED INCOME
Pacific Gas and Electric Company

For the Years Ended December 31,	1984	1983	1982
	In Thousands (except per share amounts)		
Operating Revenues			
Electric	$5,158,165	$3,905,814	$3,848,602
Gas	2,671,538	2,740,885	2,936,493
Total Operating Revenues	7,829,703	6,646,699	6,785,095
Operating Expenses			
Operation			
Cost of Electric Energy	2,098,473	1,449,203	1,502,181
Cost of Gas Sold	1,823,218	1,842,571	2,109,355
Transmission	130,340	140,437	137,683
Distribution	171,907	177,798	148,164
Customer Accounts and Services	317,125	251,636	218,493
Administrative and General	510,015	439,436	379,741
Other	118,000	21,811	73,855
Total Operation	5,169,078	4,322,892	4,569,472
Maintenance	287,882	250,478	224,352
Depreciation	445,690	391,105	370,997
Gas Exploration	48,977	41,493	27,946
Income Taxes	637,674	555,323	567,250
Property and Other Taxes	137,014	125,536	111,834
Total Operating Expenses	6,726,315	5,686,827	5,871,851
Operating Income	1,103,388	959,872	913,244
Other Income and (Income Deductions)			
Allowance for Equity Funds Used During Construction	365,625	338,706	286,052
Interest Income	59,771	71,287	60,730
Minority Interest in Net Income of Subsidiary Companies	(14,123)	(12,552)	(14,653)
Reserve–Construction Projects	(59,137)	(103,858)	–
Disallowed Project Costs	(16,653)	(70,220)	–
Other–Net	101,446	101,428	60,871
Total Other Income and (Income Deductions)	436,929	324,791	393,000
Income Before Interest Expense	1,540,317	1,284,663	1,306,244
Interest Expense			
Interest on Long-term Debt	609,086	525,456	454,976
Other Interest Charges	70,960	62,201	113,114
Less Allowance for Borrowed Funds Used During Construction	(114,621)	(90,961)	(72,024)
Total Interest Expense	565,425	496,696	496,066
Net Income	974,892	787,967	810,178
Preferred Dividend Requirements	164,316	159,824	152,554
Earnings Available for Common Stock	$ 810,576	$ 628,143	$ 657,624
Weighted Average Common Shares Outstanding	309,367	292,107	268,018
Earnings Per Common Share	$2.62	$2.15	$2.46
Dividends Declared Per Common Share	$1.69	$1.58	$1.47

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

CONSOLIDATED BALANCE SHEETS
Pacific Gas and Electric Company

December 31,	1984	1983*
	In Thousands	
Assets		
Plant in Service (at original cost)		
Electric	$ 9,373,162	$ 8,085,779
Gas	2,813,970	2,663,245
Total Plant in Service	12,187,132	10,749,024
Accumulated Depreciation	(4,314,088)	(3,934,247)
Net Plant in Service	7,873,044	6,814,777
Construction Work in Progress	5,471,744	5,038,646
Nuclear Fuel and Other Capital Leases	450,417	–
Gas Exploration Costs	262,672	261,256
Advances to Gas Producers	356,220	283,078
Construction Funds Held by Trustee	29,041	49,909
Investments		
LNG Partnerships	1,310	141,814
Alberta Natural Gas Company Ltd	42,703	39,280
ANGUS Chemical Company	28,979	24,166
Other Investments	16,291	11,178
Total Investments	89,283	216,438
Customer Conservation Loans Receivable (net of current portion $43,070,000 in 1984; $32,638,000 in 1983)	98,632	91,495
Current Assets		
Cash	3,220	4,480
Short-term Investments (at cost which approximates market)	75,526	75,499
Accounts Receivable		
Customers	705,197	533,553
Other	331,141	169,936
Allowance for Uncollectible Accounts	(10,970)	(11,446)
Regulatory Balancing Accounts Receivable	415,783	–
Deferred Income Taxes–Current Portion	–	70,738
Inventories (at average cost)		
Fuel Oil	290,431	315,963
Gas Stored Underground	309,091	326,193
Materials and Supplies	126,431	119,847
Prepayments	18,605	21,978
Total Current Assets	2,264,455	1,626,741
Deferred Charges		
Project Costs Pending Regulatory Action	116,790	113,623
Unamortized Project Costs	121,837	90,067
Workers' Compensation and Disability Claims Recoverable	76,000	68,000
Unamortized Debt Expense	15,100	15,209
Other–Net	101,898	52,294
Total Deferred Charges	431,625	339,193
Total Assets	$17,327,133	$14,721,533

*Changed to conform to 1984 presentation.

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

December 31,	1984	1983*
	In Thousands	
Capitalization and Liabilities		
Capitalization		
Common Stock	$ 1,584,542	$ 1,502,456
Additional Paid-in Capital	1,518,963	1,368,853
Reinvested Earnings	2,340,041	2,054,953
Common Stock Equity	5,443,546	4,926,262
Preferred Stock Without Mandatory Redemption Provision	1,427,451	1,427,451
Preferred Stock With Mandatory Redemption Provision	260,000	260,000
Long-term Debt	6,143,070	5,368,374
Total Capitalization	13,274,067	11,982,087
Customer Conservation Loans Funding	114,300	97,000
Other Noncurrent Liabilities		
Capital Lease Obligations	393,447	–
Customer Advances for Construction	117,163	104,685
Workers' Compensation and Disability Claims	76,000	68,000
Other	18,431	25,708
Total Other Noncurrent Liabilities	605,041	198,393
Current Liabilities		
Short-term Borrowings	491,225	370,818
Accounts Payable–Trade Creditors	613,664	479,527
Accounts Payable–Other	190,929	174,786
Regulatory Balancing Accounts Payable	–	68,087
Accrued Taxes	33,846	79,069
Deferred Income Taxes–Current Portion	196,894	–
Long-term Debt–Current Portion	242,796	107,915
Capital Lease Obligations–Current Portion	59,651	–
Interest Payable	85,490	75,067
Dividends Payable	136,172	121,252
Amounts Due Customers	89,213	61,689
Other	99,362	117,597
Total Current Liabilities	2,239,242	1,655,807
Deferred Credits		
Deferred Investment Tax Credits	399,449	310,755
Deferred Income Taxes	434,840	286,018
Unamortized Gain on Reacquired Debt	76,377	86,012
Other	82,104	13,584
Total Deferred Credits	992,770	696,369
Minority Interest in Subsidiary Companies	101,713	91,877
Contingencies (Note 10)		
Total Capitalization and Liabilities	$17,327,133	$14,721,533

STATEMENTS OF CONSOLIDATED FUNDS USED FOR CONSTRUCTION

Pacific Gas and Electric Company

For the Years Ended December 31,	1984	1983*	1982*
	In Thousands		
Funds From Operations			
Net Income	$ 974,892	$ 787,967	$ 810,178
Nonfund Items in Net Income			
Depreciation (including charges to other accounts)	451,149	396,601	376,185
Allowance for Equity Funds Used During Construction	(365,625)	(338,706)	(286,052)
Deferred Taxes	147,687	60,055	56,888
Reserve–Construction Projects	59,137	103,858	–
Disallowed Project Costs	16,653	70,220	–
Other–Net	124,027	145,276	17,006
Funds From Operations	1,407,920	1,225,271	974,205
Regulatory Balancing Accounts	(483,870)	(174,289)	545,792
Deferred Taxes Related to Regulatory Balancing Accounts	247,885	89,208	(279,358)
Net Operational Funds	1,171,935	1,140,190	1,240,639
Funds From Financing			
Common Stock Sold	232,196	244,205	325,454
Preferred Stock Sold	–	74,135	113,840
Long-term Debt Issued	1,034,908	567,770	696,233
Construction Funds Held by Trustee	20,868	19,932	(23,038)
Net Short-term Borrowings (Investments)	120,380	308,758	(926,710)
Funds From Financing	1,408,352	1,214,800	185,779
Funds From Changes in			
Accrued Taxes	(45,223)	(234,377)	296,270
Accounts Receivable	(322,417)	68,078	(97,052)
Accounts Payable	150,280	(297)	16,801
Other Working Capital[(a)]	32,681	60,900	131,657
Fuel Oil and Natural Gas Inventories	42,634	128,850	(31,242)
Other–Net	104,573	(58,918)	44,535
Customer Conservation Loans Funded	17,300	72,000	25,000
Sale of Coal Properties (net of $52,720,000 estimated taxes)	–	–	94,076
Total Other Funds	(20,172)	36,236	480,045
Total Funds Provided	2,560,115	2,391,226	1,906,463
Funds Used for Other Than Construction			
Long-term Debt Matured	(77,424)	(72,734)	(223,847)
Long-term Debt Purchased for Sinking Fund (at cost)	(57,117)	(45,619)	(44,725)
Dividends on Preferred and Common Stock	(688,933)	(620,580)	(545,963)
Conservation Loans to Customers	(17,569)	(58,474)	(43,414)
Total Funds Used for Other Than Construction	(841,043)	(797,407)	(857,949)
Construction Expenditures	1,719,072	1,593,819	1,048,514
Allowance for Equity Funds Used During Construction	365,625	338,706	286,052
Total Funds Used for Construction	$2,084,697	$1,932,525	$1,334,566

(a) Other Working Capital excludes changes in current portions of: long-term debt, 1984, $134,881,000; 1983, ($4,173,000); 1982, ($115,688,000); conservation loans to customers, 1984, ($10,432,000); 1983, ($16,638,000); 1982, ($8,885,000); and capital lease obligations, 1984, $59,651,000.

*Changed to conform to 1984 presentation.

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

STATEMENTS OF CONSOLIDATED COMMON STOCK EQUITY AND PREFERRED STOCK

Pacific Gas and Electric Company

	Common Stock	Additional Paid-in Capital	Reinvested Earnings	Common Stock Equity	Preferred Stock Without Mandatory Redemption Provision	Preferred Stock With Mandatory Redemption Provision
	In Thousands					
Balance, December 31, 1981	$1,295,524	$1,003,151	$1,625,996	$3,924,671	$1,352,451	$150,000
Net Income for 1982			810,178	810,178		
Preferred Stock Sold (3,350,000 shares)		3,840		3,840	75,000	35,000
Common Stock Sold (25,420,124 shares)	127,101	198,353		325,454		
Cash Dividends Declared						
Preferred Stock			(149,522)	(149,522)		
Common Stock			(396,441)	(396,441)		
Foreign Currency Translation Adjustment			(1,755)	(1,755)		
Balance, December 31, 1982	1,422,625	1,205,344	1,888,456	4,516,425	1,427,451	185,000
Net Income for 1983			787,967	787,967		
Preferred Stock Sold (750,000 shares)		(865)		(865)		75,000
Common Stock Sold (15,966,194 shares)	79,831	164,374		244,205		
Cash Dividends Declared						
Preferred Stock			(158,851)	(158,851)		
Common Stock			(461,729)	(461,729)		
Foreign Currency Translation Adjustment			(890)	(890)		
Balance, December 31, 1983	1,502,456	1,368,853	2,054,953	4,926,262	1,427,451	260,000
Net Income for 1984			974,892	974,892		
Common Stock Sold (16,417,292 shares)	82,086	150,110		232,196		
Cash Dividends Declared						
Preferred Stock			(164,316)	(164,316)		
Common Stock			(524,617)	(524,617)		
Foreign Currency Translation Adjustment			(871)	(871)		
Balance, December 31, 1984	$1,584,542	$1,518,963	$2,340,041	$5,443,546	$1,427,451	$260,000

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

STATEMENTS OF CONSOLIDATED CAPITALIZATION
Pacific Gas and Electric Company

December 31,	1984		1983*	
	In Thousands (except percentages)			
Common Stock, Par Value $5 Per Share (authorized 400,000,000 shares, issued and outstanding at December 31, 1984: 316,908,448; 1983: 300,491,156)	$ 1,584,542		$ 1,502,456	
Additional Paid-in Capital	1,518,963		1,368,853	
Reinvested Earnings	2,340,041		2,054,953	
Common Stock Equity	5,443,546	40%	4,926,262	41%
Preferred Stock Without Mandatory Redemption Provision				
Par Value $25 Per Share (authorized 75,000,000 shares)				
Nonredeemable				
5% to 6%–5,785,000 shares outstanding	144,621		144,621	
Redeemable				
4.36% to 8.2%–17,225,000 shares outstanding	430,629		430,629	
9% to 10.46%–21,088,000 shares outstanding	527,201		527,201	
12.8% to 17.38%–13,000,000 shares outstanding	325,000		325,000	
	1,427,451		1,427,451	
Preferred Stock With Mandatory Redemption Provision Par Value $100 Per Share (authorized 10,000,000 shares) 9% to 14.75%–2,600,000 shares outstanding	260,000		260,000	
Total Preferred Stock	1,687,451	13%	1,687,451	14%
Pacific Gas and Electric Company				
First and Refunding Mortgage Bonds				
Maturity / Interest Rates				
1984-1989 3.125% to 9.5%	313,186		363,681	
1990-2011 4.25% to 7.75%	1,171,655		1,171,655	
1990-2011 8.0% to 9.375%	1,261,184		1,261,184	
2006-2022 9.625% to 12.875%	1,455,440		1,211,792	
1992-2017 13.0% to 16.25%	1,601,301		997,969	
Principal Amounts Outstanding	5,802,766		5,006,281	
Unamortized Discount Net of Premium	(42,306)		(35,735)	
Total Mortgage Bonds	5,760,460		4,970,546	
PG&E Debentures, 7%, due 1994	81,250		–	
Other Long-term Debt	48,714		18,794	
Total PG&E Long-term Debt	5,890,424		4,989,340	
Pacific Gas and Electric Finance Company N.V.				
Guaranteed Debentures, 12% to 16%, due 1988-1991	335,000		335,000	
Unamortized Discount	(384)		(491)	
Total PG&E Finance N.V. Long-term Debt	334,616		334,509	
Pacific Gas Transmission Company				
Mortgage Bonds, 5.25% and 8%, due 1986-1990	16,229		22,398	
Unamortized Discount	(19)		(26)	
Subordinated Debentures, 5.5%, retired in 1984	–		187	
Bank Term Loan	84,100		104,400	
Total PGT Long-term Debt	100,310		126,959	
Natural Gas Corporation of California Other Long-term Debt	60,516		25,481	
Total Long-term Debt of PG&E and Subsidiaries	6,385,866	47%	5,476,289	45%
Less: Long-term Debt–Current Portion				
PG&E	218,313		83,100	
Subsidiary Companies	24,483		24,815	
Total Long-term Debt–Current Portion	242,796		107,915	
Long-term Debt in Total Capitalization	6,143,070		5,368,374	
Total Capitalization	$13,274,067		$11,982,087	

*Changed to conform to 1984 presentation.

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

SCHEDULES OF CONSOLIDATED SEGMENT INFORMATION

Pacific Gas and Electric Company

For the Years Ended December 31,	Electric	Gas	Intersegment Eliminations	Total
	In Thousands			
1984				
Operating Revenues	$ 5,158,165	$ 2,671,538		$ 7,829,703
Intersegment Sales[a]	6,763	1,379,486	$(1,386,249)	–
Total Operating Revenues	5,164,928	4,051,024	(1,386,249)	7,829,703
Depreciation	310,638	135,052	–	445,690
Income Taxes[b]	444,475	193,199	–	637,674
Other Operating Expenses[b]	3,629,670	3,399,530	(1,386,249)	5,642,951
Total Operating Expenses	4,384,783	3,727,781	(1,386,249)	6,726,315
Operating Income	$ 780,145	$ 323,243	$ –	$ 1,103,388
Funds Used for Construction[c]	$ 1,796,074	$ 288,623		$ 2,084,697
Net Plant in Service and Construction Work in Progress[c]	$11,638,589	$ 1,706,199		$13,344,788
Other Identifiable Assets	$ 1,715,551	$ 1,794,760		3,510,311
Corporate Assets				472,034
Total Assets				$17,327,133
1983				
Operating Revenues	$ 3,905,814	$ 2,740,885		$ 6,646,699
Intersegment Sales[a]	5,760	960,650	$ (966,410)	–
Total Operating Revenues	3,911,574	3,701,535	(966,410)	6,646,699
Depreciation	264,010	127,095	–	391,105
Income Taxes[b]	374,364	180,959	–	555,323
Other Operating Expenses[b]	2,605,985	3,100,824	(966,410)	4,740,399
Total Operating Expenses	3,244,359	3,408,878	(966,410)	5,686,827
Operating Income	$ 667,215	$ 292,657	$ –	$ 959,872
Funds Used for Construction[c]	$ 1,668,966	$ 263,559		$ 1,932,525
Net Plant in Service and Construction Work in Progress[c]	$10,250,347	$ 1,603,076		$11,853,423
Other Identifiable Assets	$ 1,173,280	$ 1,334,701		2,507,981
Corporate Assets				360,129
Total Assets				$14,721,533
1982				
Operating Revenues	$ 3,848,602	$ 2,936,493		$ 6,785,095
Intersegment Sales[a]	6,032	1,072,727	$(1,078,759)	–
Total Operating Revenues	3,854,634	4,009,220	(1,078,759)	6,785,095
Depreciation	248,801	122,196	–	370,997
Income Taxes[b]	396,477	170,773	–	567,250
Other Operating Expenses[b]	2,580,240	3,432,123	(1,078,759)	4,933,604
Total Operating Expenses	3,225,518	3,725,092	(1,078,759)	5,871,851
Operating Income	$ 629,116	$ 284,128	$ –	$ 913,244
Funds Used for Construction[c]	$ 1,031,718	$ 302,848		$ 1,334,566
Net Plant in Service and Construction Work in Progress[c]	$ 9,072,983	$ 1,621,298		$10,694,281
Other Identifiable Assets	$ 1,232,026	$ 1,305,838		2,537,864
Corporate Assets				403,173
Total Assets				$13,635,318

(a) Intersegment Electric and Gas Sales are accounted for at tariff rates prescribed by the CPUC.
(b) Income Taxes and general corporate expenses are allocated in accordance with the FERC Uniform System of Accounts and requirements of the CPUC.
(c) Includes allocation of Common Utility Plant.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Pacific Gas and Electric Company

For the Years Ended December 31, 1984, 1983, and 1982

Note 1: Summary of Significant Accounting Policies

Accounting Records

The accounting records of Pacific Gas and Electric Company (PG&E) 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).

Principles of Consolidation

The consolidated financial statements include the accounts of PG&E and its wholly-owned and majority-owned subsidiaries (the Company) for all periods presented. All significant intercompany transactions and accounts have been eliminated in consolidation.

PG&E's major subsidiaries are Pacific Gas Transmission Company (PGT), a 50.2%-owned company which transports and sells natural gas outside California; Pacific Gas and Electric Finance Company N.V. (Finance), which was organized in the Netherlands Antilles to borrow funds outside the United States and to lend such funds to PG&E and its subsidiary companies; Alberta and Southern Gas Co. Ltd. (A&S), whose principal functions are purchasing gas in Canada and arranging for its transportation to the U.S. border; Natural Gas Corporation of California (NGC), which is a natural gas exploration and production company; and Pacific Conservation Services Company, which provides loans to PG&E residential customers for installation of conservation and weatherization measures. Other subsidiaries include PGandE Gas Supply Company, which was formed in 1984 as a gas exploration company; JWP Land Company, which acquires, develops, and otherwise holds real property; and Standard Pacific Gas Line Inc., which transports natural gas within California.

Subsidiaries of PG&E engaged in projects currently in deferred status include Calaska Energy Company, a member of the partnership to construct the Alaskan portion of the Alaska Natural Gas Transportation System for the transportation of natural gas from Alaska to the continental United States; and Alaska California LNG Company, Pacific Gas LNG Terminal Company, Pacific Gas Marine Company, and Pacific Indonesia LNG Company, which were formed in connection with the Company's project to import liquefied natural gas from Alaska and Indonesia.

Alberta Natural Gas Company Ltd (ANG) is the largest subsidiary of PGT. ANG owns and operates a pipeline which transports natural gas for A&S through Canada to the border. In addition, ANG owns and operates an extraction plant near Cochrane, Alberta, which removes hydrocarbons from the gas stream. ANG and PGT own ANGUS Chemical Company (ANGUS), which is engaged in the production and sale of nitroparaffins. ANGUS is currently involved in a joint venture construction project of a chemicals plant located in Ireland.

NGC Production Company, whose principal function is the production of oil and gas, was formed in 1984 as a wholly-owned subsidiary of NGC.

The investments in ANG and ANGUS, which are less than 50%-owned subsidiaries, are accounted for in accordance with the equity method of accounting.

Revenues

Revenues consist of billings to customers and changes in regulatory 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 regulatory balancing accounts for electric energy costs and sales, and gas costs and sales. Operating revenues include changes in these regulatory balancing accounts. These changes represent amounts authorized by the CPUC to be recovered from or repaid to customers. The effect of using these regulatory balancing accounts is that changes in sales and cost of sales of electric energy and gas do not significantly affect the Company's earnings.

Utility Plant

The costs of additions to plant in service and replacements of retirement units of property are capitalized. Until an addition is placed in service, the costs are accumulated in Construction Work in Progress. Costs include labor, material and similar items and indirect charges for such items as engineering, supervision, and transportation. Costs also include allowance for funds used during construction (AFUDC), at rates calculated in conformity with FERC pronouncements, for the imputed cost of equity investment and a net after-tax amount for borrowed funds. The equity component of AFUDC is included in other income and the borrowed funds component, net of federal and state income taxes, is recorded as a reduction of interest charges. Costs of depreciable units of plant retired are eliminated from plant in service 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 income statements as maintenance.

Depreciation

For financial statement purposes, depreciation of plant in service is computed using a straight-line remaining life method at rates based on the estimated useful lives of properties. For federal income tax purposes, depreciation is generally computed using the most liberalized methods allowed by the Internal Revenue Code.

Income Taxes

PG&E and its 80% or more owned subsidiaries file a consolidated federal income tax return. Income taxes are allocated, for financial reporting purposes, to PG&E and its subsidiaries on a separate return basis.

Income tax expense includes the tax liability generated from the year's operations plus deferred taxes on most major timing differences between financial and income tax reporting to the extent permitted for ratemaking purposes. These timing differences include balancing account revenues, property taxes charged to major projects under construction, gas exploration costs, property depreciation under the Accelerated Cost Recovery System (ACRS), and interest on nuclear fuel financing. Deferred taxes are also provided for the benefits recognized for Investment Tax Credits (ITC).

Although the tax effect of most major timing differences is deferred, the tax effect of certain deductions is recorded when paid. These include overhead costs capitalized, removal costs, and state depreciation.

Because the recognition of most tax deferrals was allowed only recently, timing differences exist for which deferred taxes were not provided and, therefore, have not yet been recovered through rates. At December 31, 1984, the cumulative net amount of timing differences for which deferred income taxes have not been provided is approximately $1,900,000,000 for federal purposes and approximately $1,700,000,000 for state purposes; the tax effects of which are expected to be recovered in future rates.

Debt Premium, Discount, and Related Expenses

Long-term debt 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 mortgage bonds to satisfy sinking fund requirements is amortized over the remaining life of the respective issues. The federal income tax on such gain is recognized over the life of the remaining property, and the loss is recognized currently.

Gas Exploration Costs

The majority of gas exploration costs are capitalized under a modified "full-cost" method of accounting to reflect cost recovery procedures authorized by the CPUC. Unsuccessful project costs, current operating costs and the financing costs of the gas exploration program are recovered through gas exploration development balancing account procedures and, therefore, do not affect the Company's income. However, the successful efforts method of accounting is used to determine the profits and losses on certain operations not accorded the balancing account procedure by the CPUC.

The CPUC has ordered an investigation to determine whether or not to continue the gas exploration development balancing account procedure beyond August 1985.

Workers' Compensation and Disability Claims

Beginning in 1983, the liability for future workers' compensation and disability claims has been recorded in noncurrent liabilities in accordance with Statement of Financial Accounting Standards No. 71. The corresponding amount to be recovered through future rates is shown as a deferred charge.

Nonearning Assets

There are certain project costs which are being amortized over a period set by the CPUC as well as project costs that are pending regulatory action. These costs are not in rate base and, therefore, they are not earning a return on PG&E's investment. These projects are discussed further in Note 10.

Note 2: Preferred Stock

The nonredeemable Preferred Stock Without Mandatory Redemption Provision (issued at $25 par) consists of a 5%, a 5.5%, and a 6% series, which are entitled to annual dividends per share of $1.25, $1.37, and $1.50, respectively.

The redeemable Preferred Stock Without Mandatory Redemption Provision (issued at $25 par) is subject to redemption, in whole or in part, solely 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. Per share information is as follows:

Series	Annual Dividend	Redemption Price
4.36% to 8.2%	$1.09 to $2.05	$25.75 to $28.75
9% to 10.46%	$2.25 to $2.615	$26.50 to $30.10
12.8% to 17.38%	$3.20 to $4.345	$30.70 to $31.85

The Preferred Stock With Mandatory Redemption Provision (issued at $100 par) consists of a 9%, a 10.17%, and a 14.75% series. Each series is entitled to a sinking fund providing for the retirement of outstanding stock at $100 per share plus accrued dividends. The combined aggregate amount of redemption requirements, excluding any accrued dividends, for each of the years 1985 through 1987, is $7,500,000, and for 1988 and 1989 is $9,250,000 and $14,372,500, respectively.

In addition to retirements through the sinking fund, the 9% series, the 14.75% series, and after August 14, 1993, the 10.17% series, may be redeemed at the option of PG&E at $100 per share plus accrued dividends and a redemption premium. At December 31, 1984, the redemption premium for the 9% series and the 14.75% series was $7.125 per share and $14.75 per share, respectively.

Dividends on preferred stock are cumulative. All shares of the preferred stock rank equally with regard to preference in dividend and liquidation rights, except that shares of different classes or series thereof may differ as to the amounts of dividends or liquidation payments to which they are entitled. Upon liquidation or dissolution of PG&E, holders of the preferred stock would be entitled to receive an amount equal to the par value of such shares plus all accumulated and unpaid dividends thereon.

Note 3: Long-term Debt

The First and Refunding Mortgage Bonds of PG&E are issued in series, bear annual interest from 3.375% to 16.25%, and mature from February 15, 1985 to June 1, 2022. 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 $8,000,000,000. The Board of Directors of PG&E may, from time to time, increase the amount authorized. All real properties and substantially all personal properties are subject to the lien of the indenture. Stock representing PG&E's investments in subsidiaries is pledged as collateral for PG&E bonds.

PG&E is required, according to provisions of the First and Refunding Mortgage, to make semi-annual sinking fund payments on February 1 and August 1 of each year for the retirement of the bonds of PG&E equal to 1/2 of 1% of the aggregate bonded indebtedness outstanding on the preceding November 30 and May 31, respectively. Bonds of any series may be used to satisfy this requirement. In addition, holders of a $250,000,000 issue maturing on November 1, 2017 have an option to redeem their bonds on June 1, 1995.

On December 20, 1984, PG&E issued 7% Debentures in the amount of 20,000,000,000 yen to mature in 1994. To protect the Company from future fluctuations in the exchange rate, principal and interest payments due in yen are fully hedged by a currency exchange agreement that secures the exchange rate over the term of the debentures resulting in an effective interest rate of approximately 12%. The transaction results in a liability of PG&E of $81,250,000.

PG&E also issued $75,000,000 in Debentures at 12% on January 9, 1985, maturing in 2000. These Debentures are subject to redemption at PG&E's option at any time on or after January 9, 1997. Additionally, they are subject to redemption at the option of the holder on January 9, 1992.

Finance's Guaranteed Debentures, which are unsecured and unsubordinated obligations of Finance, do not have sinking fund requirements and are unconditionally guaranteed by PG&E. The Debentures are subject to redemption, at specified redemption prices, during specified periods at Finance's option.

The First Mortgage Pipeline Bonds of PGT are issued in series, bear annual interest of 5.25% and 8% and mature in 1986 and 1990, respectively. Substantially all of PGT's real properties (except for oil and gas production properties) and certain personal properties are subject to the lien of the mortgage. Long-term gas purchase, gas sale, and gas transportation contracts are also pledged as collateral.

PGT's First Mortgage Pipeline Bonds, 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 5.5% subordinated debentures which were due in February of 1986, were retired in August 1984.

PGT's bank term loan is to be repaid in four annual payments through 1988. The effective interest rate on the amount outstanding at December 31, 1984 was 11.00%. This interest rate is subject to redetermination in accordance with the terms of the credit agreement.

NGC maintains a $25,000,000 revolving line of credit that is convertible, on July 12, 1985, into a term loan requiring repayment in equal quarterly installments from August 1, 1985 through May 1, 1990. The interest rate on the line of credit is based on the prime interest rate or the certificate of deposit rate at the option of NGC. At December 31, 1984, the full $25,000,000 was outstanding at an effective interest rate of 11.00%.

NGC also has a $35,000,000 note with fixed interest rates ranging from 14.57% to 15.07%. The note is secured by selected gas producing properties and is due in quarterly installments through November 1, 1994.

For the years 1985 through 1989, the Company's combined aggregate amount of debt maturing and sinking fund requirements, as of December 31, 1984 are $242,796,000; $124,527,000; $107,546,000; $184,079,000; and $249,908,000, respectively.

Note 4: Short-term Borrowings

PG&E maintains lines of credit with various banks, principally to support the sale of commercial paper. On December 31, 1984, these lines of credit totaled $530,000,000. At no time during the year were the lines of credit used for direct bank borrowings. The usual maturity for commercial paper is 10 to 90 days.

A&S maintains a $35,000,000 (Canadian) line of credit with a bank to support the sale of commercial paper for take-or-pay payments on gas contracts. On December 31, 1984, this line of credit was unused.

A&S also maintains lines of credit with four banks totaling $24,000,000 (Canadian) for operations. The outstanding balance on December 31, 1984, translated into U.S. dollars was $161,000.

PGT maintains lines of credit with eight banks for direct borrowings or to support the sale of commercial paper. These lines of credit total $25,000,000. At no time during the year were the lines of credit used for direct bank borrowings.

PG&E also has an agreement with Pacific Energy Trust (PET) which permits borrowing of an amount up to the difference between $450,000,000 and PET's investment in nuclear fuel with a maximum of $180,000,000. As of December 31, 1984, PG&E had no outstanding borrowings with respect to this agreement.

The Company compensates banks for lines of credit and other banking services by fee payments.

Short-term borrowings and interest rates thereon were as follows:

December 31,	1984	1983
	In Thousands (except percentages)	
Balance of Short-term Borrowings		
Commerical Paper	$491,064	$363,105
Bank Loans	$ 161	$ 7,713
Weighted Average Interest		
Commercial Paper	10.0%	9.9%
Bank Loans	12.3%	11.0%

Note 5: Customer Conservation Loan Program

PG&E continues to offer Zero Interest Program (ZIP) loans to residential customers. These interest-free loans can be used for installation of several conservation measures and require repayment over 50 or 100 months.

Pacific Conservation Services Company (PCSC) was formed as a wholly-owned PG&E subsidiary to assume responsibility for the customer conservation loan program. Operational expenses and debt service expenses are recovered through the Conservation Financing Adjustment (CFA) tariffs, proceeds of which are collected by PG&E and transferred to PCSC. PCSC has contracted with PG&E to obtain the administrative services needed to acquire and process the customer conservation loans.

These loans are funded by a revolving line of credit with 11 banks. The line of credit, which is not guaranteed by PG&E, permits PCSC to borrow at any time through 1985 up to the lesser of $150,000,000 or 80% of customer conservation loans outstanding at its choice of a floating rate determined in accordance with the agreement or a fixed rate based on average Certificate of Deposit or Eurodollar rates. PCSC must pay a commitment fee on the unused portion of the commitment equal to 1/2 of 1% on the first $50,000,000 not used and 1/4 of 1% thereafter. Borrowings under the agreement mature on December 31, 1994. The agreement has various covenants and conditions, including the continuing existence of the CFA tariff. On December 31, 1984, the balance outstanding was $114,300,000 at an average interest rate of 11.1%.

Note 6: Income Taxes

Income before tax expense for the years 1984, 1983, and 1982 was $1,519,673,000, $1,271,784,000, and $1,292,201,000, respectively.

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

	1984	1983	1982
	In Thousands		
Included in operating expenses	$637,674	$555,323	$567,250
Included in other income	(92,893)	(71,506)	(85,227)
Total	$544,781	$483,817	$482,023

The detail of income tax expense (credit) is:

	1984	1983	1982
	In Thousands		
Current			
Federal	$ (12,644)	$ 57,691	$438,068
State and other	52,277	93,396	146,968
Deferred			
Changes in regulatory balancing accounts			
Federal	201,392	72,476	(226,962)
State	46,493	16,732	(52,396)
ACRS	114,469	35,684	25,783
Investment tax credits			
Major construction projects	64,504	135,568	16,508
Other construction projects	44,294	36,984	42,147
Utilized against deferred taxes	–	–	87,483
Amortization of deferred ITC	(20,104)	(16,540)	(13,943)
Nuclear Fuel Financing			
Federal	16,740	38,822	–
State	3,865	8,962	–
Gas Exploration			
Federal	(109)	(7,316)	17,198
State and other	(66)	(1,654)	3,970
Ad Valorem Taxes			
Federal	15,129	16,139	12,330
State	3,493	3,726	2,846
Other-net	15,048	(6,853)	(17,977)
Total	$544,781	$483,817	$482,023

The differences between the statutory federal income tax rate of 46% and the Company's effective tax rate are reconciled as follows:

	1984	1983	1982
Federal income tax rate	46.0%	46.0%	46.0%
Increases (reductions) resulting from:			
Allowance for equity and borrowed funds used during construction	(14.5)	(15.5)	(12.7)
Investment tax credits	(2.0)	(1.4)	(1.7)
State income tax (net of federal benefit)	3.7	5.3	4.3
Book depreciation in excess of tax depreciation	4.1	3.3	2.5
Overhead construction costs	(1.8)	(1.6)	(1.4)
Disallowed project costs	0.1	2.5	–
Property taxes	(0.5)	(0.2)	(0.4)
Property removal expenses	(0.4)	(0.5)	(0.6)
Reserve for investment in LNG	1.4	2.1	–
Other-net	(0.2)	(2.0)	1.3
Effective tax rate	35.9%	38.0%	37.3%

Note 7: Retirement Plan and Post Retirement Benefits

Retirement Plan

The Company provides a retirement plan covering substantially all employees. The cost of this plan is charged to expense and utility plant and was $89,000,000, $74,000,000 and $66,000,000 for 1984, 1983, and 1982, respectively. These amounts include amortization of past service cost. Costs of the retirement plan are accrued in accordance with an actuarial cost method (entry age normal method). The Company makes contributions to the plan equal to the amounts accrued for pension expense. A comparison of accumulated plan benefits and plan net assets for the Company's defined benefit plans is presented here:

January 1,	1984	1983
	In Thousands	
Actuarial present value of accumulated plan benefits:		
Vested	$1,290,000	$1,114,000
Nonvested	90,000	106,000
Total actuarial present value of accumulated plan benefits	$1,380,000	$1,220,000
Net assets available for benefits	$1,401,000	$1,211,000

The assumed rate of return used in determining the actuarial present value of accumulated plan benefits was 7% in 1984 and 1983. The actuarial present values are based on historic pay as prescribed by the Financial Accounting Standards Board.

Life Insurance

Life insurance benefits for substantially all retired employees are provided by the Company. The Group Life Insurance benefit is available to all retirees. This benefit is provided through an insurance company whose premiums are based on total claims paid in the prior year. The Post Retirement Life Insurance Plan, which is available to certain management employees, uses the same actuarial methods and assumptions as the Retirement Plan. The annual contribution is equal to the normal cost plus the amortization of the unfunded actuarial liability. The cost of providing both the Group Life and the Post Retirement Life benefits is charged to expense and utility plant and totaled $3,800,000, $3,400,000 and $3,100,000 for 1984, 1983, and 1982, respectively.

Medical Benefits

The Company also provides certain medical benefits for substantially all retired employees. The benefits are provided or administered by medical care providers whose costs are based on benefits paid during the year. The cost of providing these benefits for retirees is not separable from the cost of providing the benefits for the active employees. The medical costs and the number of retired and active employees are summarized as follows:

Medical Benefits	1984	1983	1982
Medical Costs	$67,000,000	$63,000,000	$61,000,000
Retired Employees	6,800	6,400	6,000
Active Employees	28,700	27,500	27,300

The cost of medical benefits for the Company is charged to expense and utility plant.

Note 8: Leases

Nuclear Fuel

PG&E leases nuclear fuel from PET for use at the Diablo Canyon Nuclear Power Plant (Diablo). Two capital leases, with substantially the same terms, were entered into with PET in order to meet Diablo's fuel requirements. The first lease, signed in 1981, expires in the year 2030; the second lease, signed in 1984, expires in the year 1989.

PET's total investment in nuclear fuel is limited to $600,000,000 (see Note 4 for short-term borrowing information related to these leases). If the nuclear fuel leases are terminated, PG&E is obligated to reimburse PET for all costs of ownership related to the nuclear fuel.

These leases provide for the ownership of the spent nuclear fuel by PG&E. A contract has been entered into with the United States Department of Energy for the disposal of the spent nuclear fuel.

Diablo Unit 1 began generating electric energy into the system in November 1984. As a result, PG&E became obligated to start making the lease payments to PET for the nuclear fuel in Diablo Unit 1.

The lease payments are based upon the cost of the nuclear fuel burned plus the daily finance charges on PET's in-core net investment during the period. The daily finance charges relating to the in-core fuel will be paid even when Diablo is not producing electric energy.

During pre-commercial operation, lease payments are capitalized as part of the cost of the plant. Capitalized lease payments totaled $3,897,000 in 1984, of which $1,568,000 was for interest charges. Since the lease payments are based in part upon actual fuel usage, substantial variations may occur in the annual amount of these payments. After commercial operation begins, lease payments and spent nuclear fuel disposal costs will be recovered through balancing account procedures.

These leases have been recorded on the balance sheet as an asset in the line item, "Nuclear Fuel and Other Capital Leases." The related noncurrent obligation has been recorded as "Capital Lease Obligations" in the "Other Noncurrent Liabilities" section. As of December 31, 1984 the asset balance was as follows:

Nuclear Fuel	$439,722,000
Less: Accumulated Amortization	2,230,000
Net (in Nuclear Fuel and Other Capital Leases)	$437,492,000

Other Leases

The Company has entered into various arrangements to lease real property and equipment. The leases are accounted for as operating and capital leases in accordance with Statements of Financial Accounting Standards Nos. 13 and 71. The annual lease expenses are not significant.

Note 9: Commitments

Funds to be used for construction for the year 1985, including AFUDC, are estimated at $2.2 billion.

The Company through its gas purchasing subsidiary, A&S, is required to make take-or-pay payments to Canadian natural gas producers if it does not take a certain contractual quantity of natural gas during a contract year. During 1981, the Company negotiated a reduction in take-or-pay liability under its contracts with Canadian gas producers. In 1982, gas purchase contracts covering a substantial portion of the Company's Canadian gas supply were further amended to extend the reduction in take-or-pay liability through June 30, 1984. In connection with revised gas export/import arrangements that became effective on November 1, 1984, the Company is negotiating for additional take-or-pay reductions in the contracts with the Canadian producers. PG&E has executed guarantees to assume liabilities not to exceed $350,000,000 on certain promissory notes and a standby bank line of credit of A&S to cover A&S's take-or-pay payments. The contracts with the Canadian producers permit make-up of the prepaid gas and also provide for reimbursement by the producers of take-or-pay payments if make-up of the gas prior to the expiration of the contracts is not possible.

Note 10: Contingencies

Nuclear Insurance

PG&E is a member of Nuclear Mutual Limited (NML) and Nuclear Electric Insurance Limited (NEIL), which were 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, PG&E may be subject to an assessment if losses exceed premiums, reserves and other NML or NEIL resources. As of December 31, 1984 the maximum assessment is approximately $50,700,000.

PG&E's public liability for claims resulting from any nuclear incident is limited to $620,000,000 under provisions of the Price-Anderson Act (Act). The coverage for this liability is provided by insurance, assessments and government indemnification under the Act. PG&E is subject to a retrospective assessment of up to $5,000,000 for each of its licensed reactors over 100,000 kw in the event there is a nuclear incident involving any of the nation's licensed reactors. There is a limitation of $10,000,000 in retrospective assessments in any one year. As of December 31, 1984, the Company had one reactor subject to this assessment.

Deferred and Abandoned Projects

PG&E, through a wholly-owned subsidiary, is a member of the partnership which plans to construct the Alaska Natural Gas Transportation System (ANGTS). ANGTS is a proposed overland pipeline system running from the Alaskan North Slope into the United States. Because of financing and gas market considerations, completion of this project has been deferred. As a result, in March 1983, PG&E provided a $40,000,000 before-tax reserve against its investment in the ANGTS project and continues to reserve against subsequent investments in the project.

PG&E's Liquefied Natural Gas (LNG) Project is a joint undertaking with Pacific Lighting Corporation for construction of facilities to import LNG. Construction work on the facilities was suspended in accordance with an October 1982 CPUC decision. PG&E applied to the CPUC for recovery of approximately $195,000,000 of its investment. Subsequently, the request was reduced by $57,000,000 to reflect a revised AFUDC rate. A reserve was established in June 1983 against the Company's investment in the LNG project to reflect this reduction.

In September 1984, the CPUC issued a final decision on the LNG Project. This decision allows the Company to recover $68,700,000 of direct costs in rates over a four-year period, beginning in 1985. These costs are included in deferred charges on the balance sheet. An additional $21,900,000 in tangible assets are to be sold. To the extent that the sale proceeds do not recover the booked costs, the decision also allows full recovery of the assets' recorded costs. If the sale proceeds exceed booked costs, the net gain will be allocated to the ratepayers. Neither the direct costs nor the tangible asset costs were allowed rate base treatment. The remaining AFUDC of $46,600,000 was disallowed and the Company accordingly increased the reserve against its investment in the LNG Project in September 1984.

In 1983, the CPUC denied recovery of AFUDC on certain feasibility study and RD&D project costs. The total disallowed was $53,700,000. The CPUC granted recovery of the direct costs over a four-year period beginning in 1984. These costs are included in deferred charges on the balance sheet. Rate base treatment of these costs was not allowed.

Project Costs Pending Regulatory Action

In 1983, PG&E elected to decommission the Humboldt Bay Nuclear Power Plant Unit No. 3

(Unit 3) and filed an application with the CPUC seeking capital recovery of its net investment of $84,000,000 in Unit 3 and of the estimated $8,800,000 to be incurred during 1984 and 1985 to place the unit into custodial safe storage. These costs are not currently included in rate base. Hearings on the application were held in April and October 1984. A decision is expected in mid-1985. The Company believes that all significant costs will be recovered through regulatory proceedings and that any unrecovered amount would not have a significant impact on its financial condition. The rate treatment of decommissioning costs and the method of rate recovery will be determined at a later date.

Beginning in 1980, PG&E, in partnership with Pacific Lighting Corporation, began development of an underground gas storage facility at Ten Section Field. Due to changes in gas supply and prices and the cost of development, the partners determined in 1983 that the facility was no longer needed and stopped work on the project. The property was sold in November 1984. In December 1984 the CPUC addressed the rate treatment of this property in our partner's general rate case. The CPUC disallowed all AFUDC on the project and allowed recovery of the remaining project costs over four years. The unamortized costs will not be included in rate base during that period. Based on that decision, PG&E in December 1984 wrote off $2,100,000 of AFUDC. The Company believes that it will recover substantially all of the remaining costs of $32,000,000 in its next general rate proceeding. These costs are not currently included in rate base.

Helms Pumped Storage Project

The Helms Pumped Storage Project (Helms), which was delayed due to a water conduit rupture in September 1982 and various start-up problems, became commercially operable on June 30, 1984 at a capitalized cost of $911,000,000. In July 1984, the CPUC established an interim rate procedure to allow PG&E to reflect in a balancing account the costs of owning, operating, and maintaining Helms prior to a decision by the CPUC on the reasonableness and prudence of $738,000,000 which was estimated to be the final cost prior to the conduit rupture. A decision is possible by mid-1985. Recovery of the increased costs due to the delay will be reviewed by the CPUC after PG&E has concluded claims and litigation connected with these costs. Although these costs related to the conduit rupture are included in utility plant, they are not in rate base. The Company believes that all significant costs will be recovered through rates or from third parties.

Subsequent to commercial operation, it was discovered that replacement is required for certain parts of the generator. Work is in progress and all units are expected to return to service by May 1985. Under terms of the interim rate procedure, PG&E may be required to reduce the balancing account when a unit is out of service for more than thirty days during the first two years of commercial operation. This could decrease the balancing account by $2,900,000 per month for each unit out of service during 1984 and $3,400,000 per month during 1985. The costs of the replacement work are being covered by the warranty agreement with the generator manufacturer.

Diablo Canyon Nuclear Power Plant

The Nuclear Regulatory Commission (NRC) on November 2, 1984 issued a full-power operating license for Diablo Canyon Nuclear Power Plant Unit No. 1 (Unit 1). Commercial operation is expected about the end of the first quarter of 1985 assuming a smooth power ascension program. At full power, Unit 1 will add 1.1 million kilowatts of capacity to the system.

In June 1984, PG&E applied to the CPUC for an increase in rates. In December 1984, the application was revised to request a rate increase of $747,100,000 to recover costs of owning, operating and eventually decommissioning Unit 1, and reductions in rates of $393,900,000 to reflect decreased energy costs, for a net increase of $353,200,000. However, PG&E requested that an interim rate procedure be provided from the date of commercial operation until the CPUC can review the prudency of total plant costs. Hearings on the interim rate request have been scheduled for March 1985.

On January 9, 1985, the CPUC public staff, which recently was created expressly to represent the consumer interests, recommended that electric rates be lowered by $170,000,000 when Unit 1 becomes fully operational. The CPUC public staff based this proposal on three factors: (1) its estimate of savings in fuel costs, (2) its recommendation that the Company not recover in interim rates $2.5 billion in potentially disputed construction costs (those costs incurred after 1976) and (3) its proposal to adopt an alternative ratemaking treatment involving deferred capital recovery.

On January 14, 1985, the Company and the CPUC public staff agreed, subject to CPUC approval, to establish a balancing account when Unit 1 becomes operational which will not change customer rates until a CPUC decision on interim rates. The balancing account will recognize that the facility will generate fuel savings and will begin to accumulate these savings to offset the costs of owning, operating and maintaining Unit 1. The account will be in effect until the CPUC completes hearings on the appropriate amount of interim rate relief to be in effect during the CPUC's review of the prudency of the costs of the plant.

In addition, the Company and the CPUC public staff agreed to the adoption of a target capacity factor on an interim basis whereby the Company's operating revenues would be penalized by an amount equal to one-half of the replacement power costs when Unit 1 operates at less than 55% of its capacity and be rewarded by an amount equal to one-half of the extra fuel costs saved when it operates with a capacity factor above 80%.

Unit 2 is nearing completion and PG&E has applied to the NRC for a full-power operating license. Commercial operation of Unit 2 is expected about six months after commercial operation of Unit 1.

As of December 31, 1984 total construction costs incurred at Diablo for Units 1 and 2 were $4,854,000,000 including $1,705,000,000 of AFUDC. AFUDC is currently being accrued on total plant investment at Diablo at approximately $36,000,000 per month. Accrual of AFUDC on Unit 1 will continue until commercial operation. With continuing accrual of AFUDC and other costs associated with regulatory approval, it was estimated at December 31, 1984 that investment in the plant will reach approximately $5.4 billion, based on the assumptions that Unit 1 becomes commercially operable in the first quarter of 1985 and Unit 2 in mid-1985. This figure represents approximately 31% of the Company's total assets as of December 31, 1984.

The Company believes that all costs for the Diablo plant, including AFUDC, should be allowed for ratemaking purposes and intends to pursue full recovery of all such costs. However, all investment in new facilities is subject to determination by the CPUC as to whether all such costs will be permitted to be placed in rate base and recovered in rates. Because the Diablo plant represents such a large portion of the Company's assets, a significant disallowance of costs for ratemaking purposes could have a significant effect on the Company's financial position. The Company is currently unable to predict whether any portion of the costs will be disallowed or whether any such disallowance would have a significant impact on its financial position or results of operations.

Litigation

On May 16, 1984, PG&E entered into an agreement with Chevron U.S.A. Inc. (Chevron) which provides for a long-term fuel oil arrangement requiring payments of $119,000,000. Payments made under this arrangement through 1984 totaled $79,800,000. This agreement settles a suit filed in October 1983 by Chevron, which alleged that PG&E had breached a low sulfur fuel oil supply contract by not purchasing minimum quantities of oil. In December 1984, the CPUC approved the settlement and authorized recovery of $108,000,000 of the costs through PG&E's balancing accounts. PG&E has requested a rehearing of this decision seeking to recover the remaining $11,000,000 of the settlement agreement.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

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

We have examined the consolidated balance sheets and statements of consolidated capitalization of Pacific Gas and Electric Company (a California corporation) and subsidiaries as of December 31, 1984 and 1983, and the related statements of consolidated income, funds used for construction, common stock equity and preferred stock, and the schedules of consolidated segment information for each of the three years in the period ended December 31, 1984. 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.

As discussed more fully in Note 10 to the financial statements, the Diablo Canyon Nuclear Power Plant has experienced continued significant delays and substantial cost increases. The Company is currently unable to predict whether any portion of the Diablo costs will be disallowed by the California Public Utilities Commission for ratemaking purposes, or whether any such disallowance would have a significant impact on its financial position and results of operations.

In our opinion, subject to the effects on the 1984 and 1983 financial statements of such adjustments, if any, as might have been required had the outcome of the uncertainties discussed in the preceding paragraph been known, the consolidated financial statements and schedules of consolidated segment information referred to above present fairly the financial position of Pacific Gas and Electric Company and subsidiaries as of December 31, 1984 and 1983 and the results of their operations and funds used for construction for each of the three years in the period ended December 31, 1984, in conformity with generally accepted accounting principles applied on a consistent basis.

ARTHUR ANDERSEN & CO.

San Francisco, California
February 8, 1985

Information Required by Statement of Financial Accounting Standards No. 33, as amended

Financial statements presented in accordance with generally accepted accounting principles traditionally reflect historical costs, which may not adequately measure the effects of inflation on a business enterprise. In an effort to provide information to assess the effects of inflation, the Financial Accounting Standards Board issued on an experimental basis in 1979, Statement No. 33, *Financial Reporting and Changing Prices* requiring certain disclosures. In November 1984, Statement No. 82, *Financial Reporting and Changing Prices: Elimination of Certain Disclosures,* amended the requirements to those set forth below.

The supplementary income statement shown below attempts to compare the Company's operating results as reported in the primary financial statements, which are expressed in historical dollars, with the results adjusted for changes in the specific prices of resources (current cost). As required, the only amounts adjusted in arriving at the net income amounts adjusted for current cost were net utility plant and depreciation expense. Depreciation expense in terms of current cost, a measure of the amount necessary to replace plant, is calculated by applying the Company's depreciation rates to an amount representing the cost of replacing the Company's utility plant at today's prices. For this purpose the Handy-Whitman Index of Public Utility Construction Costs was applied to historical cost of surviving plant. As prescribed by Statement No. 33, as amended, income taxes were not adjusted.

Also required is the disclosure of any purchasing power gain or loss on net monetary items. This gain or loss is based on the concept that an enterprise experiences a holding gain in times of inflation when its monetary liabilities (for utilities, primarily long-term debt) exceed its monetary assets (cash, receivables, etc.). Theoretically the gain will be realized when the liabilities are paid in the future with cheaper dollars.

The five-year summary recaps certain amounts from the supplementary income statements of the past five years and also shows required per share data.

The Company 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 Required by SFAS No. 33, as amended.

For the Year Ended December 31, 1984	Conventional Historical Cost	Current Cost
	In Thousands	
Operating Revenues	$7,830,000	C$7,830,000
Operation, Maintenance, and Other	6,409,000	6,409,000
Depreciation	446,000	1,074,000
Total	6,855,000	7,483,000
Income from continuing operations (excluding adjustment to net recoverable cost)	$ 975,000	C$ 347,000
Increase during the year in specific prices of utility plant*		C$ 416,000
Adjustment to net recoverable cost		610,000
Effect of increase in general price level		(902,000)
Excess of change in general price level over changes in specific prices after adjustment to net recoverable cost		124,000
Reduction of purchasing power loss through debt financing		297,000
Net		C$ 421,000

C$-Dollars having approximately the same purchasing power as the real dollar had in mid-1984.

*At December 31, 1984, current cost of utility plant (net of accumulated depreciation) and construction work in progress was C$23,186,000,000 while historical cost or net cost recoverable through depreciation was $13,345,000,000.

Five-Year Comparison of Selected Consolidated Financial Data Adjusted for Effects of Changing Prices Required By SFAS No. 33, as amended.

For the Years Ended December 31,	1984	1983	1982	1981	1980
	In Thousands (except per share amounts)				
Operating Revenues	C$7,830,000	C$6,913,000	C$7,328,000	C$7,062,000	C$6,626,000
Current Cost Information					
Income (loss) from continuing operations (excluding adjustment to net recoverable cost)	C$ 347,000	C$ 178,000	C$ 253,000	C$ 2,000	C$ (63,000)
Income (loss) per common share (after dividend requirements on preferred stock and excluding adjustment to net recoverable cost)	C$ .59	C$ .04	C$ .32	C$ (.59)	C$ (.87)
Excess of change in general price level over changes in specific prices after adjustment to net recoverable cost	C$ 124,000	C$ 173,000	C$ 73,000	C$ (211,000)	C$ (557,000)
Net assets at year-end at net recoverable cost	C$5,335,000	C$5,025,000	C$4,787,000	C$4,356,000	C$4,449,000
General Information					
Reduction of purchasing power loss through debt financing	C$ 297,000	C$ 271,000	C$ 324,000	C$ 548,000	C$ 827,000
Cash dividends declared per common share	C$ 1.69	C$ 1.64	C$ 1.59	C$ 1.55	C$ 1.64
Market price per common share at year-end	C$ 16.05	C$ 15.17	C$ 14.91	C$ 11.66	C$ 12.30
Average consumer price index Base year 1967-100	311.2	298.3	289.1	272.4	246.8

C$-Dollars having approximately the same purchasing power as the real dollar had in mid-1984.

Quarterly Consolidated Financial Data

Quarterly financial data for the four quarters of 1984 and 1983 are shown in the table below. Due to the seasonal nature of the utility business, operating revenues, operating income, and net income are not generated evenly by quarter during the year.

The Company's common stock is traded on the New York, Pacific, London, Amsterdam, Basel and Zürich Stock Exchanges. The approximate number of common stockholders of record as of December 31, 1984 was 271,000. Dividends are paid on a quarterly basis, and there are no material restrictions on the present or future ability to pay dividends.

	4th	3rd	2nd	1st
	In Thousands (except per share amounts)			
1984				
Operating Revenues	$2,105,060	$2,026,723	$1,813,300	$1,884,620
Operating Income	$ 283,755	$ 314,037	$ 247,436	$ 258,160
Net Income	$ 241,339	$ 232,384	$ 248,717	$ 252,452
Earnings Per Common Share	$ .63	$ .61	$ .68	$ .70
Dividends Declared Per Common Share	$ .43	$ .43	$ .43	$ .40
Common Stock Price Per Share				
High	$ 17¼	$ 15⅛	$ 14¼	$ 15⅛
Low	$ 14¼	$ 13¼	$ 12	$ 12⅜
1983				
Operating Revenues	$1,625,307	$1,646,408	$1,585,109	$1,789,875
Operating Income	$ 211,340	$ 276,260	$ 242,804	$ 229,468
Net Income	$ 164,299	$ 257,474	$ 171,159	$ 195,035
Earnings Per Common Share	$ .41	$ .74	$ .46	$ .54
Dividends Declared Per Common Share	$ .40	$ .40	$ .40	$ .38
Common Stock Price Per Share				
High	$ 16⅝	$ 15⅞	$ 16 7/16	$ 16 1/16
Low	$ 14⅝	$ 14½	$ 14 9/16	$ 13 15/16

PG&E COMPARATIVE STATISTICS (Unaudited)
Pacific Gas and Electric Company

For the Years Ended December 31,	1984	1983	1982	1981
Electric Statistics				
Net System Output (Millions of KWH)	76,180	71,614	71,333	72,829
Net System Output–Percent				
Hydroelectric Plants	18.8%	25.3%	21.9%	14.6%
Thermal Electric Plants	41.0	31.8	34.8	54.0
Other Producers	40.2	42.9	43.3	31.4
Total	100.0%	100.0%	100.0%	100.0%
System Capability–KW (at annual peak)				
Hydroelectric Plants (adverse conditions)	3,664,900	2,374,700	2,362,700	2,377,200
Thermal Electric Plants	8,924,700	8,923,000	8,675,000	8,847,000
Other Producers (adverse conditions)	3,296,900	3,466,800	3,245,100	5,621,300
Total	15,886,500	14,764,500	14,282,800	16,845,500
Net System Peak Demand–KW	14,224,600	13,243,100	12,214,600	13,680,100
Reserves Capacity Margin at Peak–Percent	6.2%	8.8%	9.6%	5.9%
Annual Load Factor–Percent	70.7%	61.7%	66.7%	60.8%
Average Annual Residential Consumption–KWH	6,557	6,386	6,252	6,489
Average Residential Revenue Per KWH	6.75¢	6.03¢	7.33¢	5.77¢
Average Annual Residential Bill	$442.88	$385.18	$458.46	$374.21
Total Customers (end of year)	3,686,179	3,594,124	3,545,923	3,515,099
Plant Investment Per Customer	$3,157	$2,847	$2,554	$2,310
Customers Per Mile of Distribution Line	38.3	39.4	39.1	39.2
Gas Statistics				
Gas Purchased for U.S. Operations (Thousands of MCF)	690,074	621,539	698,166	835,684
Source of Gas Purchased–Percent				
From California	24.0%	23.1%	18.2%	19.5%
From Other States	42.4	36.9	45.4	49.2
From Canada	33.6	40.0	36.4	31.3
Total	100.0%	100.0%	100.0%	100.0%
Average Cost of Gas Purchased Per MCF (U.S. Operations)				
From California	$3.60	$3.40	$3.09	$2.60
From Other States	$3.98	$4.02	$3.54	$2.57
From Canada	$4.21	$4.49	$5.14	$4.86
Average	$3.97	$4.07	$4.04	$3.29
Peak Day Sendout–MCF	3,205,000	3,025,371	3,133,028	3,143,546
Average Annual Residential Consumption–MCF	69.6	73.0	78.3	72.7
Average Residential Revenue Per MCF	$5.27	$4.84	$4.39	$3.91
Average Annual Residential Bill	$377.94	$353.42	$344.07	$284.20
Total Customers (end of year)	3,020,803	2,948,950	2,914,977	2,897,455
Plant Investment Per Customer	$500	$471	$474	$475
Customers Per Mile of Distribution Main	98.4	97.2	96.8	96.9
Miscellaneous Statistics				
Customers Served Per Employee	236	240	249	241
Depreciation and Amortization as a Percent of Average Depreciable Plant				
Electric	3.7%	3.5%	3.5%	3.3%
Gas	4.3%	4.2%	4.2%	3.5%
PG&E Composite (includes Common Utility Plant)	3.9%	3.7%	3.7%	3.4%

1980	1979	1978	1977	1976	1975	1974
69,962	70,339	67,669	65,428	66,416	63,078	60,932
19.0%	16.8%	19.9%	9.2%	12.2%	22.7%	25.6%
50.5	59.1	49.5	72.4	62.0	43.9	38.1
30.5	24.1	30.6	18.4	25.8	33.4	36.3
100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
2,354,600	2,360,000	2,350,900	2,350,900	2,419,900	2,396,900	2,396,900
8,754,000	8,612,000	8,294,000	8,294,000	8,261,000	8,053,000	7,947,000
3,971,000	4,112,900	2,791,100	3,302,900	3,743,400	3,766,100	2,948,700
15,079,600	15,084,900	13,436,000	13,947,800	14,424,300	14,216,000	13,292,600
13,440,400	13,215,200	12,970,600	12,191,800	12,245,800	11,632,800	11,648,800
9.0%	12.1%	8.4%	10.6%	5.0%	15.5%	13.0%
59.3%	60.8%	59.6%	61.3%	61.7%	62.2%	59.5%
6,535	6,811	6,553	6,408	6,509	6,462	6,260
5.16¢	3.54¢	3.93¢	3.81¢	3.02¢	2.81¢	2.62¢
$337.43	$240.88	$257.66	$243.86	$196.48	$181.51	$164.31
3,447,739	3,365,950	3,270,302	3,179,362	3,087,300	3,005,518	2,936,106
$2,199	$2,032	$1,869	$1,755	$1,666	$1,594	$1,496
39.1	38.9	38.5	38.1	37.7	37.2	36.9
781,643	843,381	711,052	817,745	852,935	876,721	888,193
16.0%	16.8%	16.4%	16.1%	16.5%	15.9%	16.6%
43.7	37.0	35.1	36.2	37.5	40.7	43.1
40.3	46.2	48.5	47.7	46.0	43.4	40.3
100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
$2.16	$1.74	$1.59	$1.12	$.96	$.57	$.43
$2.30	$1.79	$1.35	$1.10	$.83	$.73	$.56
$4.34	$2.61	$2.22	$2.00	$1.75	$1.23	$.55
$3.10	$2.16	$1.81	$1.53	$1.28	$.92	$.53
3,275,016	3,398,281	3,243,552	3,186,229	3,348,384	3,352,881	3,020,215
81.6	90.4	86.9	90.5	100.8	111.1	104.5
$3.70	$2.37	$1.97	$1.85	$1.71	$1.55	$1.19
$301.67	$214.17	$170.97	$167.45	$172.63	$172.37	$124.86
2,858,129	2,805,471	2,738,767	2,674,890	2,611,551	2,555,216	2,503,203
$467	$450	$441	$441	$439	$437	$431
97.0	97.2	97.4	97.2	96.8	96.4	96.1
229	230	228	230	232	223	207
3.3%	3.1%	3.0%	3.0%	3.0%	2.9%	2.9%
3.5%	3.1%	3.1%	3.1%	3.2%	2.8%	2.8%
3.4%	3.2%	3.1%	3.1%	3.1%	3.0%	3.0%

CONSOLIDATED REVENUES AND SALES (Unaudited)

Pacific Gas and Electric Company

For the Years Ended December 31,	1984	1983	1982	1981
Electric Department				
Revenues				
Residential	$ 1,400,148	$ 1,192,997	$ 1,401,267	$ 1,128,851
Commercial	1,580,192	1,326,406	1,530,542	1,233,564
Industrial (1000 Kw demand or over)	1,105,750	914,786	1,078,493	860,577
Agricultural Power	239,644	157,528	235,164	241,221
Public Street and Highway Lighting	41,970	48,320	53,224	41,498
Other Electric Utilities	99,350	129,992	172,819	117,791
Miscellaneous	116,050	40,350	56,256	70,094
Other	7,113	7,890	8,008	7,313
Regulatory Balancing Accounts	567,948	87,545	(687,171)	204,964
Total	$ 5,158,165	$ 3,905,814	$ 3,848,602	$ 3,905,873
Sales–KWH				
Residential	20,730,060	19,778,553	19,107,415	19,575,283
Commercial	20,626,467	19,259,758	18,662,382	18,722,954
Industrial (1000 Kw demand or over)	16,108,571	14,986,722	15,843,646	16,401,293
Agricultural Power	3,309,155	2,304,205	2,922,541	3,890,088
Public Street and Highway Lighting	329,378	339,823	365,119	401,930
Other Electric Utilities	2,230,163	3,341,984	3,544,563	2,676,998
Total Sales to Customers	63,333,794	60,011,045	60,445,666	61,668,546
Gas Department				
Revenues				
Residential	$ 1,058,995	$ 972,150	$ 935,996	$ 764,468
Commercial	596,107	651,332	681,520	607,417
Industrial	732,875	648,832	712,341	794,786
Other Gas Utilities	37,410	39,202	52,589	158,433
Miscellaneous	3,686	5,469	8,835	2,290
Regulatory Balancing Accounts	(107,521)	91,820	149,817	(276,749)
Subsidiary Companies (U.S. and Canada)	349,986	332,080	395,395	238,057
Total	$ 2,671,538	$ 2,740,885	$ 2,936,493	$ 2,288,702
Sales–MCF				
Residential	195,092	200,774	213,031	195,631
Commercial	90,027	109,637	124,622	128,758
Industrial	137,178	114,310	132,789	171,769
Other Gas Utilities	8,281	8,532	12,021	35,135
Total Sales to Customers	430,578	433,253	482,463	531,293
Company Use (primarily electric generation)	242,985	170,773	201,219	280,990
By Subsidiary Companies (in U.S.)	205	254	227	179
Total	673,768	604,280	683,909	812,462

1980	1979	1978	1977	1976	1975	1974
	In Thousands					
$ 998,130	$ 693,368	$ 720,112	$ 661,502	$ 517,574	$ 465,818	$ 411,001
1,067,198	752,359	852,265	789,401	536,937	443,601	382,682
699,073	461,653	531,593	498,462	277,694	197,221	169,993
212,770	142,727	149,986	212,649	115,952	87,006	75,612
38,225	30,491	34,179	33,501	24,537	20,454	18,135
71,926	67,740	69,855	103,890	61,664	52,478	22,262
58,568	50,111	43,584	42,075	33,727	23,733	22,585
5,336	4,115	3,814	3,664	3,757	3,240	2,445
(223,385)	261,281	(308,455)	9,989	249,106	–	–
$ 2,927,841	$ 2,463,845	$ 2,096,933	$ 2,355,133	$ 1,820,948	$ 1,293,551	$ 1,104,715
19,329,190	19,605,541	18,314,721	17,383,011	17,147,610	16,582,796	15,658,439
18,283,154	17,891,820	17,166,973	16,771,232	17,162,248	16,571,989	15,746,918
14,801,260	15,253,371	14,815,289	14,354,359	14,258,149	12,811,653	12,618,192
3,540,022	3,715,026	3,120,644	5,113,726	4,601,147	3,781,864	3,581,124
431,564	455,445	485,725	491,558	465,387	448,046	427,982
1,906,465	2,807,249	2,232,563	3,957,141	2,925,285	2,590,095	2,229,291
58,291,655	59,728,452	56,135,915	58,071,027	56,559,826	52,786,443	50,261,946
$ 799,307	$ 555,017	$ 432,865	$ 414,087	$ 416,660	$ 407,181	$ 288,681
626,611	406,497	346,229	365,623	130,878	117,692	76,080
708,259	499,242	340,546	366,293	502,942	395,381	247,069
148,074	85,867	18,384	14,349	13,492	11,958	6,876
(6,560)	7,128	4,315	4,773	10,914	7,608	3,334
(133,807)	176,354	193,960	(19,477)	35,665	–	–
189,174	170,519	136,141	128,749	117,047	107,054	56,104
$ 2,331,058	$ 1,900,624	$ 1,472,440	$ 1,274,397	$ 1,227,598	$ 1,046,874	$ 678,144
216,184	234,295	220,076	223,732	243,258	262,363	241,664
146,827	143,707	144,162	163,828	74,718	83,244	74,756
161,060	186,165	138,975	162,529	284,261	315,799	346,548
34,821	36,013	9,926	7,810	8,716	9,459	8,581
558,892	600,180	513,139	557,899	610,953	670,865	671,549
202,964	216,062	125,636	217,272	194,949	159,135	123,194
151	134	119	12	–	–	–
762,007	816,376	638,894	775,183	805,902	830,000	794,743

DIRECTORS, OFFICERS AND REGIONAL MANAGERS

Board of Directors

John F. Bonner
Executive consultant and former President and Chief Executive Officer, Pacific Gas and Electric Company

Harry M. Conger
Chairman of the Board, President and Chief Executive Officer, Homestake Mining Company

Charles de Bretteville*
Former Chairman of the Board, The Bank of California, N.A.

Alfred W. Eames, Jr.
Former Chairman of the Board, and Chief Executive Officer, Del Monte Corporation (food products and related services)

Lewis S. Eaton
Chairman of the Board, Guarantee Financial Corporation of California (savings and loan holding company)

Robert B. Hoover
Chairman of the Board, The Pacific Lumber Company

L. W. Lane, Jr.
Chairman of the Board and Publisher, Lane Publishing Company (SUNSET Magazine)

Leslie L. Luttgens
San Francisco Bay Area community leader

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

Peter A. Magowan
Chairman of the Board and Chief Executive Officer, Safeway Stores, Inc.

Frederick W. Mielke, Jr.
Chairman of the Board and Chief Executive Officer, Pacific Gas and Electric Company

William F. Miller
President and Chief Executive Officer, SRI International (research and consulting)

Richard H. Peterson
Consultant and former Chairman of the Board, Pacific Gas and Electric Company

John B. M. Place
Former Chairman of the Board and Chief Executive Officer, Crocker National Corporation

Carl E. Reichardt**
Chairman of the Board, and Chief Executive Officer, Wells Fargo Bank, N.A., and Wells Fargo and Company

Wilson C. Riles
President, Wilson Riles and Associates, Inc. (educational development and consulting)

Barton W. Shackelford
President, Pacific Gas and Electric Company

John Lyons Sullivan
Rancher and Chairman Emeritus, California Canners and Growers

Advisory Director†

Ira Michael Heyman
Chancellor, University of California, Berkeley

Committees of the Board of Directors‡

Executive Committee
Within limits, may exercise powers and perform duties of the Board.

Frederick W. Mielke, Jr. (Chairman)
John F. Bonner
Alfred W. Eames, Jr.
L. W. Lane, Jr.
Richard B. Madden
Barton W. Shackelford

Audit Committee
Reviews financial statements and internal accounting and control procedures with independent public accountants.

Lewis S. Eaton (Chairman)
Harry M. Conger
William F. Miller
Wilson C. Riles
John Lyons Sullivan

Finance Committee
Recommends long-range financial policies and objectives and actions required to achieve those objectives.

Frederick W. Mielke, Jr. (Chairman)
Richard B. Madden
William F. Miller
John B. M. Place
Carl E. Reichardt
Barton W. Shackelford

Compensation and Management Development Committee
Recommends compensation and employee benefit policies and practices. Reviews planning for executive development and succession.

Robert B. Hoover (Chairman)
Leslie L. Luttgens
Richard B. Madden
Peter A. Magowan
John B. M. Place

Advisory Nominating Committee
Recommends candidates for nomination as directors.

Frederick W. Mielke, Jr. (Chairman)
Leslie L. Luttgens
Peter A. Magowan
Richard H. Peterson
John B. M. Place
John Lyons Sullivan

*Retired February 20, 1985
**Elected February 20, 1985
†Appointed in anticipation of election as a director when board vacancies occur
‡As of February 20, 1985

Officers

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

Barton W. Shackelford*
President

Richard A. Clarke*
Executive Vice President
and General Manager of
Utility Operations

George A. Maneatis*
Executive Vice President
Facilities and Electric
Resources Development

Stanley T. Skinner*
Executive Vice President
and Chief Financial Officer

John A. Sproul*
Executive Vice President
Fuels and Gas Resources
Development

John S. Cooper*
Senior Vice President
Personnel

Malcolm H. Furbush*
Senior Vice President
and General Counsel

Ellis B. Langley, Jr.*
Senior Vice President
Operations

Malcolm A. MacKillop*
Senior Vice President
Corporate Relations

Mason Willrich*
Senior Vice President
Corporate Planning

Donald A. Brand
Vice President
Engineering

George F. Clifton, Jr.
Vice President
Customer Operations

Nolan H. Daines
Vice President
Planning and Research

Joseph Y. DeYoung
Vice President
Community Relations

Richard A. Draeger
Vice President
General Services

Daniel E. Gibson
Vice President
Fuel Resources

Jess R. Herrera
Vice President
General Construction

Grant N. Horne
Vice President
Corporate
Communications

Elmer F. Kaprielian
Vice President
Electric Operations

John E. Koehn
Vice President
Governmental Relations

Gary E. Lavering
Vice President and
Comptroller

Howard M. McKinley
Vice President
Gas Operations

Robert Ohlbach
Vice President and
General Attorney

Stephen P. Reynolds
Vice President
Rates

James D. Shiffer
Vice President
Nuclear Power Generation

Gordon R. Smith
Vice President
Finance and Treasurer

John F. Taylor†
Vice President and
Corporate Secretary

William H. Wallace
Vice President
Computer Systems
and Services

Thomas W. High‡
Corporate Secretary

Alan W. Beringsmith
Assistant Treasurer

Paul Smith
Assistant Treasurer

David B. Allison
Assistant Secretary

Brian L. McGrath
Assistant Secretary

Regional Managers

East Bay Region
Floyd C. Marks
Oakland

Golden Gate Region
Owen H. Davis
San Francisco

Mission Trail Region
Grant N. Radford
San Jose

Redwood Region
James B. Stoutamore
San Rafael

Sacramento Valley Region
Robert J. LaRue, Jr.
Sacramento

San Joaquin Valley Region
C. Robert Martin
Fresno

*Member Management Committee
†Retired January 31, 1985
‡Effective February 1, 1985

STOCKHOLDER INFORMATION

Annual Meeting of Stockholders

The annual meeting of stockholders of Pacific Gas and Electric Company will be held at the Masonic Auditorium, 1111 California Street, San Francisco, California, on Wednesday, April 17, 1985 at 2 p.m. Stockholders are urged to attend; but if they cannot, their proxies should be mailed in. A proxy statement and form of proxy will be mailed to stockholders on or about March 1, 1985.

A report on the annual meeting will be included in PG&E's first quarter report and will be mailed to stockholders in early May.

10-K Report Available

A copy of the Company's 1984 Form 10-K Report to the Securities and Exchange Commission is available on request to the Corporate Secretary at the Company's office:
77 Beale Street,
San Francisco, CA 94106.

Dividend Payment Dates—1985

Common Stock

January 15
April 15
July 15
October 15

Preferred Stock

February 15
May 15
August 15
November 15

Stockholder Communications

To notify the Company of change of address, lost certificates, elimination of duplicate mailings, or to request transfer of stock to another name, please write to:

Stock Transfer Agent
Room 1580
77 Beale Street
San Francisco, CA 94106
(415) 972-2991

Please include your account number(s).

Duplicate Mailings

Sometimes stockholders receive duplicate mailings of annual and quarterly reports despite efforts to prevent them. This happens primarily because they own more than one class of security, or shares owned by one stockholder are held in different though similar names. For example, Robert A. Johnson may appear on one class of security, but R. A. Johnson or R. Allan Johnson on another. The Company is required by law to mail to each name on the stockholder list unless the stockholder asks that duplicates be eliminated. If a husband, wife and children each own stock in their own names, reports will be sent to each unless the Company receives a request to eliminate this duplication. Send labels or label information indicating which name you wish to keep on the list and which names should be deleted. This will not affect dividend or proxy mailings.

Stock Transfer Agent

Daniel T. Lamey
Pacific Gas and Electric Co.
77 Beale Street
San Francisco, CA 94106

Registrar of Stock

First Interstate Bank of California
405 Montgomery Street
San Francisco, CA 94104

Stock Exchange Listings

Pacific Gas and Electric Company's common stock is listed on the New York, Pacific, London, Basel, Zürich, and Amsterdam Stock Exchanges. The New York Stock Exchange symbol is "PCG"; however, it usually is listed in the newspapers under "PacGE."

The Company has 25 separate issues of preferred stock, most of which are listed on the American Stock Exchange and the Pacific Stock Exchange:

Issue	Symbol
First Preferred Stock, Cumulative, Par Value $25 per Share:	
Redeemable:	
17.38%	PGEpfF
16.24%	PGEpfZ
12.80%	PGEpfY
10.46%	PGEpfS
10.28%	PGEpfW
10.18%	PGEpfT
9.48%	PGEpfR
9.30%	PGEpfV
9.28%	PGEpfJ
9.00%	PGEpfL
8.20%	PGEpfP
8.16%	PGEpfK
8.00%	PGEpfO
7.84%	PGEpfM
5.00%	PGEpfD
5.00% Series A	PGEpfE
4.80%	PGEpfG
4.50%	PGEpfH
4.36%	PGEpfI
Non-Redeemable:	
6.00%	PGEpfA
5.50%	PGEpfB
5.00%	PGEpfC
$100 First Preferred Stock, Cumulative, Par Value $100 per Share	
Redeemable:	
14.75%	Unlisted
10.17%	Unlisted
9.00%	Unlisted

Dividend Reinvestment Plan

During 1984, the number of stockholders in the Company's Dividend Reinvestment and Common Stock Purchase Plan increased by more than 8,000 to 114,727. Dividends and cash invested through the Plan during the last 11 years by owners of some 53 million shares now total nearly $383 million. Through December 31, 1985, stockholders can defer reinvested dividends of up to $750 annually ($1,500 for a joint return) from income on their federal returns. A prospectus describing the Plan and an enrollment form are available by writing to the Stock Transfer Department, or by telephoning (415) 972-2033. This address and telephone number can be used for any stockholder communications involving dividends.

Questions and Comments

Stockholders who have questions about PG&E or information appearing in the annual or quarterly reports should contact Thomas W. High, Corporate Secretary, 77 Beale Street, Room 3212, San Francisco, CA 94106, (415) 972-2880.

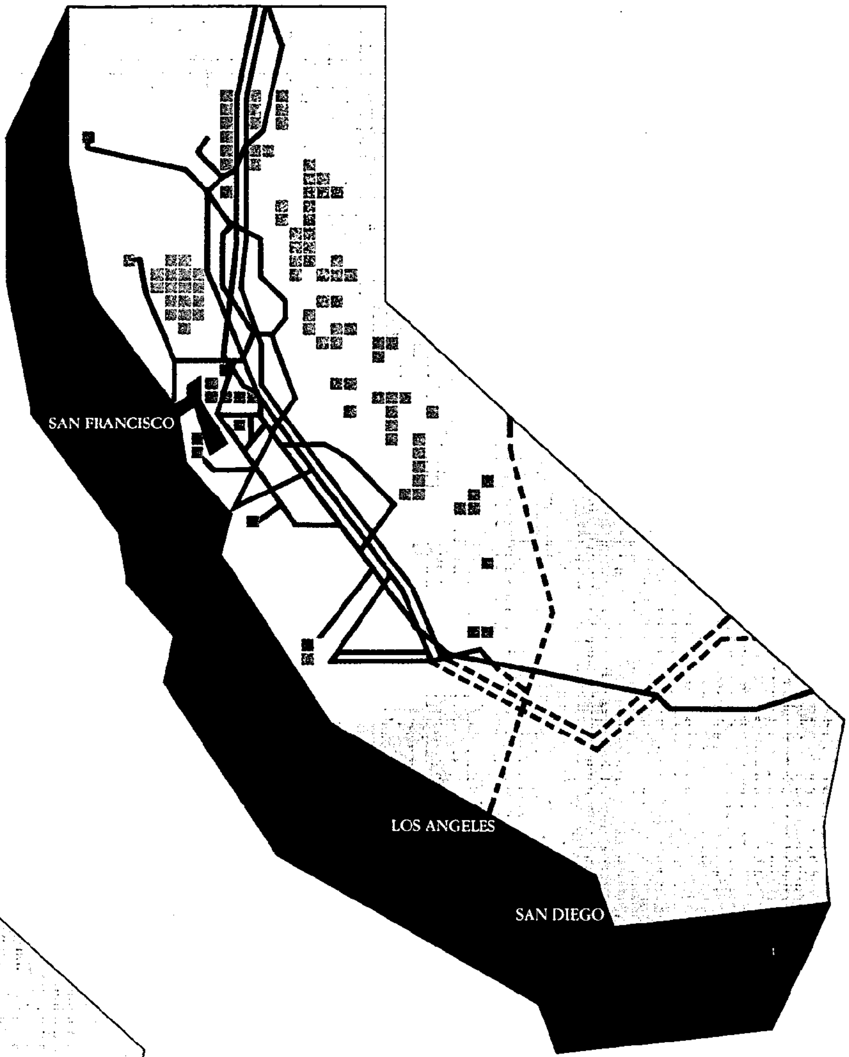
Representatives of the investment community should contact Gordon R. Smith, Vice President—Finance and Treasurer, 77 Beale Street, Room 833, San Francisco, CA 94106, (415) 972-2393.

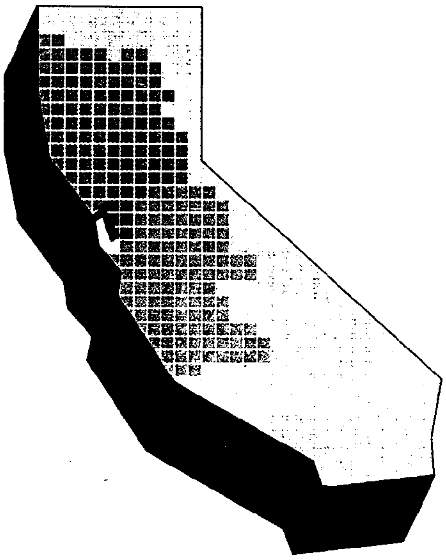
PG&E TODAY

PG&E is the nation's largest combined electric and gas utility. We provide electricity to nearly 3.7 million customers and natural gas to more than 3 million customers.

Our 94,000-square-mile service territory encompasses most of Northern and Central California–an area that includes 48 of the state's 58 counties with a population of more than 10 million people.

The region supports a diversified economy that includes aerospace and electronic manufacturing and research, food processing, petroleum refining and agriculture.





PG&E REGIONS

- ■ EAST BAY REGION (HEADQUARTERS–OAKLAND)
- □ GOLDEN GATE REGION (HEADQUARTERS–SAN FRANCISCO)
- ▨ MISSION TRAIL REGION (HEADQUARTERS–SAN JOSE)
- ▨ REDWOOD REGION (HEADQUARTERS–SAN RAFAEL)
- ▨ SACRAMENTO VALLEY REGION (HEADQUARTERS–SACRAMENTO)
- ▨ SAN JOAQUIN VALLEY REGION (HEADQUARTERS–FRESNO)

PG&E SERVICE AREA

ELECTRIC GENERATING PLANTS

- ▨ HYDRO
- ▨ FOSSIL
- □ GEOTHERMAL
- □ NUCLEAR
- ■ WIND
- □ SOLAR

ELECTRIC INTERTIE SYSTEMS

- — PG&E
- •• OTHER

GAS INTERTIE SYSTEMS

- — PG&E

Design: Jonson Pedersen Hinrichs & Shakery. Major photography: Harald Sund. Printing: George Rice & Sons.

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

Bulk Rate
U.S. Postage Paid
Pacific Gas and
Electric Company